INTERNATIONAL BULLETIN

www.bndes.gov.br/conhecimento/publicacoes/catalogo/sinopse_intl.asp

No. 10 – September 2008

BIANNUAL PUBLICATION

Technical Staff: Ana Claudia Alem - Fabrício Catermol – Patrícia Zendron - Rodrigo Madeira
Support: Cecília Carvalho and Raphael Mendes

1) GLOBAL SCENARIO

TABLE OF CONTENTS

1.1 – What to expect for the next months?

The first semester of 2008 was marked by an extremely volatile economic environment, with periods of euphoria and distrust. This volatility was closely related to the expectations about the evolution of the real estate crisis in the United States of America, and to the potential slowdown in the largest economy of the world.

In the midst of the US crisis, the general raise of commodity prices contributed to spur this tension, as well as the volatility of the worldwide economy. This increase in the commodity prices has occurred since 2007, nonetheless, in the first semester of 2008, the prices increased even more. Food and oil prices stood out in this scenario, hitting record levels (Graph 1.1).

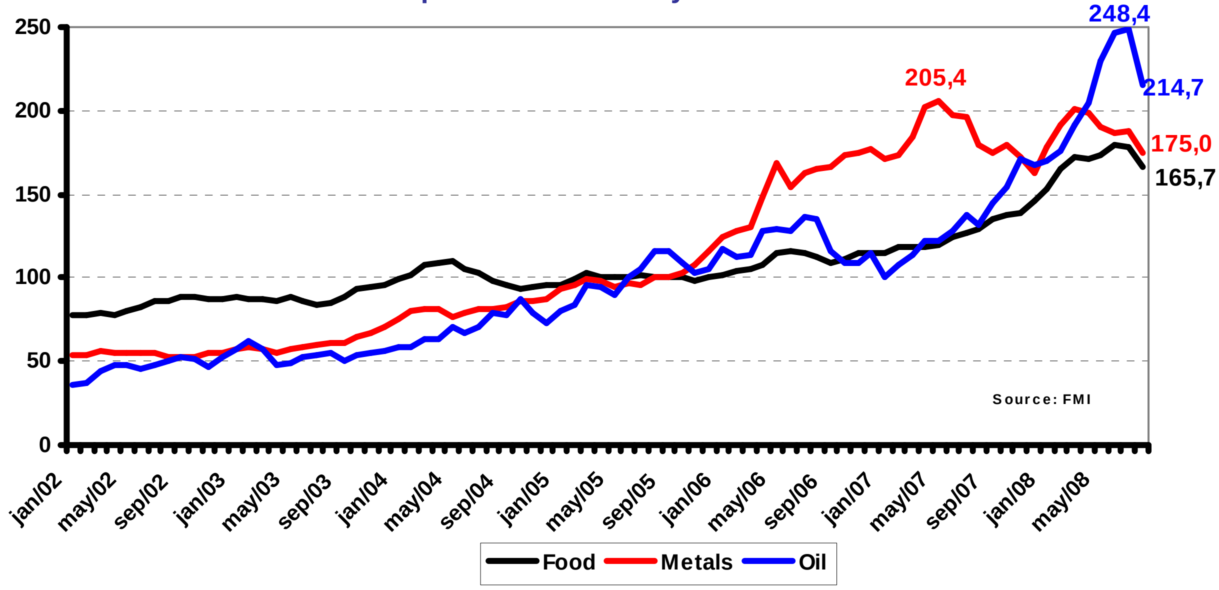
International Bulletin is a publication of sole responsibility of its authors and may not be deemed as the BNDES opinion.
Deadline: 10/01/2008

Email: sinopseinternacional@bndes.gov.br Tel.: 55 – 21 – 2172-7369

This scenario of instability caused significant losses to the worldwide stock exchanges, which had a pronounced strong decrease in the period, accumulating large depreciations in the year (Graph 1.2). However, from July, the commodity prices started to slow down, and even dropped.

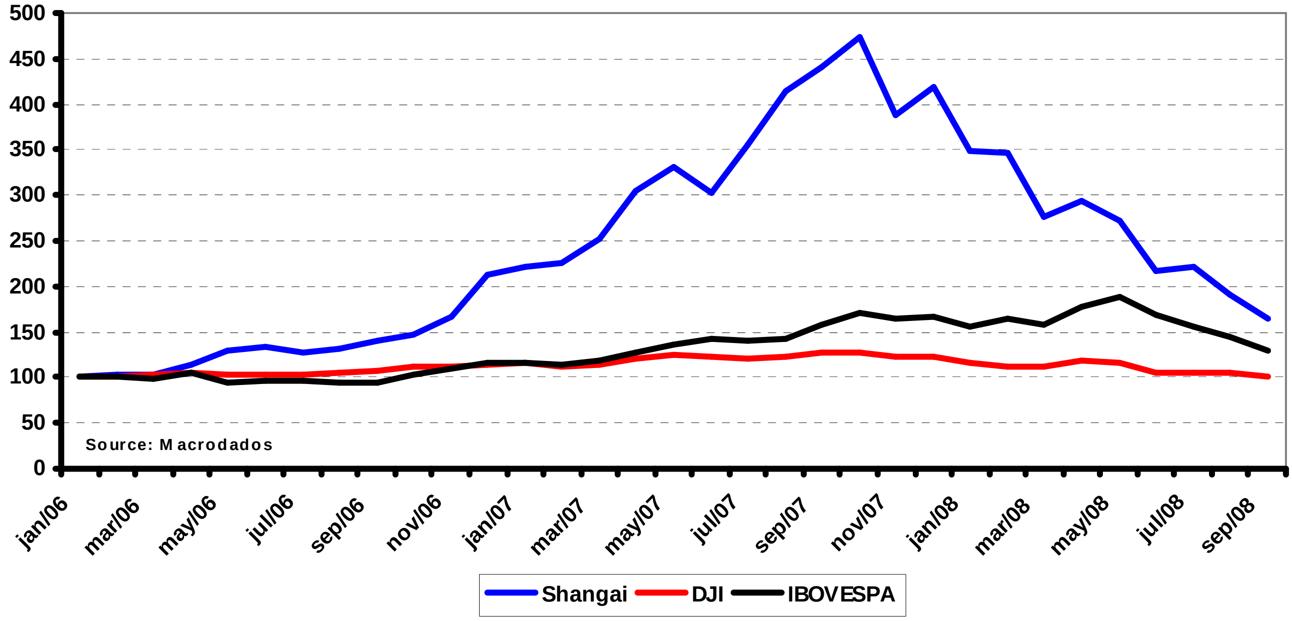
In the first half of the year, the commodity prices increase halted the US interest rates slowdown. The Fed, which had been cutting the interest rates since July 2007, aiming to stimulate the economy on the real estate crisis, interrupted the interest rates cuts to prevent potential inflation acceleration. (Graph 1.3)

Graph 1.1 - Commodity Prices Index

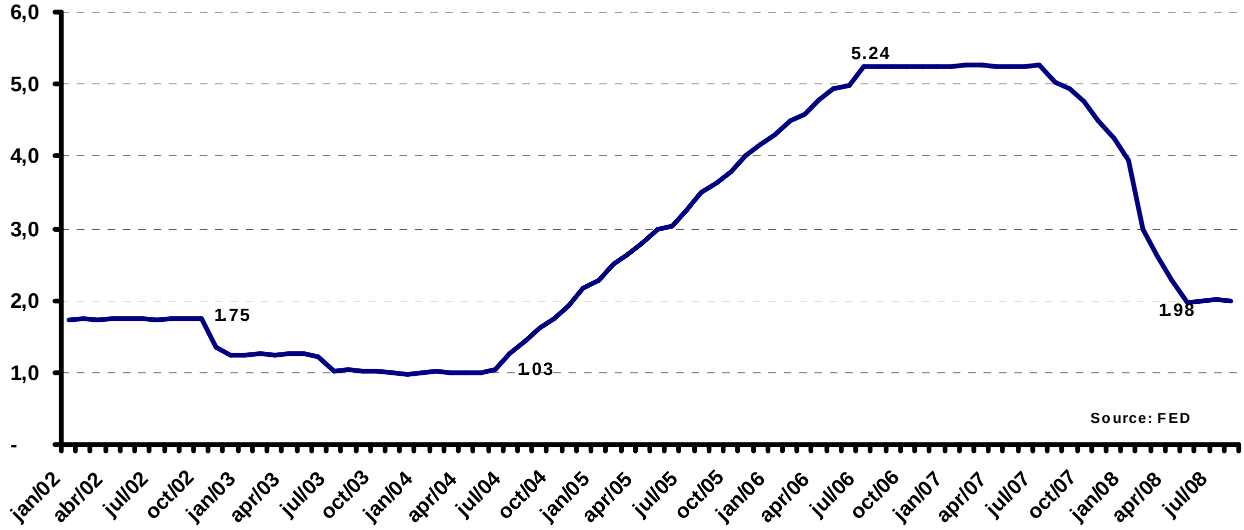


Along with the reduction of US interest rates since July, 2007, the US GDP surprised everybody, growing above the estimates in the second quarter. In spite of this, the international stock exchanges kept falling, what illustrated the investors aversion to risk in a scenario of bad expectations about the global economy.

Graph 1.2 – Stock Exchanges Index — Last Quote of the month (Jan/06 = 100)



Graph 1.3 –Average Interest rates of US Federal Funds (annualized) - %



On account of this scenario, IMF forecasts the world economy will slow down, growing only 3.7% in 2008, after expanding 4.9% in 2007. In 2008, the high growth rates of developing countries, such as China and India, will contribute to lessen the gradual decrease of global economy, even though such growth rates are smaller than the ones observed in 2007. For 2009, the growth of global GDP was estimated in 3.8% (Table 1.1).

About the consumer prices index, IMF estimates an inflation of 4.0% for the world economy in 2008, followed by a decrease of the price growth in 2009 (3.5%). Moreover, after the commodity prices increase in 2008, prices are expected to present a lesser growth — or even reduce — in the year to come.

For the next months, US government measures to lessen the financial crisis are expected to hit the spot, and eliminate the risk of a major international crisis.

Table 1.1 - Consumer Prices Index and GDP

	CPI					PIB			
				IMF Estimate				IMF Estimate	
	2006	2007	2008*	2008	2009	2006	2007	2008	2009
Germany	1.4	2.9	3.1	4.8	1.9	2.9	2.5	1.4	1.0
Argentina	9.8	8.5	9.0	9.0	9.0	8.5	8.7	7.0	4.5
Brazil	3.1	4.5	6.2	4.5	4.5	3.8	5.4	4.8	3.7
Chile	2.6	7.8	9.3	4.2	3.0	4.0	5.0	4.5	4.5
China	2.8	6.5	6.3	3.9	3.6	11.1	11.4	9.3	9.5
Korea	2.1	3.6	5.6	3.0	2.9	5.1	5.0	4.2	4.4
USA	2.5	4.1	5.4	2.0	2.1	2.9	2.2	0.5	0.6
France	1.7	2.8	3.2	2.5	1.7	2.0	1.9	1.4	1.2
India	6.7	5.5	8.3	4.6	3.9	9.7	9.2	7.9	8.0
Japan	0.3	0.7	2.3	0.6	1.3	2.4	2.1	1.4	1.5
Mexico	4.1	3.8	5.4	3.5	3.0	4.8	3.3	2.0	2.3
Peru	1.1	3.9	6.3	3.5	2.5	7.6	9.0	7.0	6.0
United Kingdom	3.0	2.1	4.7	2.2	2.1	2.9	3.1	1.6	1.6
Russia	9.0	11.9	14.7	10.0	7.0	7.4	8.1	6.8	6.3
Venezuela	17.0	22.5	33.6	29.0	33.0	10.3	8.4	5.8	3.5
Eurozone	1.9	3.1	4.0	2.2	1.7	2.8	2.6	1.4	1.2
WORLD	3.5	4.8		4.0	3.5	5.0	4.9	3.7	3.8

Source: Central Bank of Chile, Central Bank of Peru, Argentinean National Institute of Statistics and Census, Mexican National Institute of Statistics and Geography, Central Bank of Venezuela, Chinese National Statistics Agency, Central Bank of Korea, Ministry of Statistics and Implementation of India, Finance Ministry of Russia, OECD and IMF.

*Accumulated for 12 months until August (until July for China, India, Japan, Russia and Eurozone)

1.2 — The performance of the world economy in the first semester of 2008

With the US real estate crisis and the concern with the worldwide inflation, the level of world economic activity, notably in the developed countries, reduced. This decrease impacted the real economy in the first quarters of 2008. (Table 1.2)

Table 1.2 – Quarter growth as compared to the previous quarter (annualized - %)

	2007 T3	2007 T4	2008 T1	2008 T2
USA	4.8	-0.2	0.9	2.8
Japan	1,0	2.4	3.2	-3,0
Eurozone	2.5	1.4	2.9	-0.8
Germany	2.4	1.4	5.2	-2,0
France	2.7	1.5	1.6	-1.2
Italy	0.6	-1.7	2,0	-1.1
United Kingdom	2.3	2.2	1.1	0.2
Canada	2.3	0.8	-0.8	0.3
G7	3.2	0.6	1.8	0.8

Source: OECD

After two quarters of weak growth, the US economy surprised the analysts raising 2.8% above the estimate for the second quarter of 2008.

In the end of 2007 and begin of 2008 economy growth slowdown was caused by the American families consumption decrease (main engine of the US economic development) and due to the real estate market investments decrease.

According to data from Fed, the realty investments are diminishing since 2006, falling 25.1% in the first quarter of 2008. On view of that, they are the main responsible for the decrease in private investments, and, as a consequence, the low activity level.

In spite of another decrease in private investments in the second quarter of 2008, the more significant speed-up in the family consumption (from 0.9% to 1.2%), the increase in government investments and expenditures (from 1.9% to 3.9%) and export boosting (from 5.1% to 12.3%) led the US economy to a higher growth.

In the Eurozone, after the speed-up of the first quarter of 2008, the economy decreased in the second quarter. According to Eurostat, the growth in the first quarter of 2008 was an aftermath of the expansion of service, capital good production and construction sectors.

The retraction verified in the second quarter of 2008 was caused by the reduction in industry production, mainly in the durable consumer goods sector, as well as in the construction sector. As compared with the first quarter of 2008, the industry and the construction sector had a decrease in their activities of 0.6% and 3.5%, respectively.

In spite of the world economic crisis and the economic downturn verified in the Eurozone, the European Central Bank (ECB) held interest rates steady. Influenced by the commodity prices faster growth, ECB raised in 0.25 percentage points (p.p.) the Eurozone interest rate in July 2008, to 4.25%, showing greater concern with inflation.

In Japan, the second quarter of 2008 was marked by an extreme retraction in the economy, what increased the fear of a potential recession this year. A drop of 3.0% of GDP in the second quarter derived from a domestic and external demand overall decrease.

The family consumption stood out, with a decrease of 2.0% in relation to the first quarter. The exports, with shrinkage of 3.3%, also pointed out. In spite of the economic shrinkage undergone, the level of inflation increased. The consumer prices index, after having a rise of 0.5% in the last quarter of 2007, had increases of 1.0% and 1.5% in the first and second quarters of 2008.

After a growth of 9.5% in the fourth quarter of 2007, the Russian economy slowdown in the following two quarters, expanding 8.5% in the first quarter of 2008 and 7.5% in the second quarter of 2008.

According to data from the Institute of International Finance (IIF), the slowdown experienced in the first quarter of 2008 was driven by the investment growth lower pace, as well as of the government consumption. According to Russian analysts, the growth slowdown in the second quarter was influenced by the ruble valuation and by the low capital inflow.

In China, the economy grew 10.6% in the first quarter of 2008 (annualized and compared to the same period last year) and 10.1% in the second quarter.

Analysts explained the slowdown experienced in the first quarters of the year (provided that Chinese economy grew 11.4% in 2007) was due to a weaker export sector, which activities lost ground as a result of the world financial crisis, the internal market downturn, as well as of a severe earthquake that hit Sichuan Province in May. Analyzing the sectors, farming activity grew below the total economic expansion.

Indian GDP expanded 8.8% and 7.9% in the first and second quarters of 2008, respectively (as compared to the same quarter of the previous year), after growing 9% in the last accounting year. It is the first time in three years that the economy of India grows below 8% in a quarter.

The biggest downturn in the second quarter happened due to the slowdown in all sectors, except for the service and construction sectors. The construction sector experienced the most significant expansion: 11.4% as compared to the same quarter of the previous year. The tight monetary policy, which brought sequential increases in interest rates while aiming at controlling inflation, also influenced the lower growth in the second quarter.

After accelerating in all quarters of 2007, Argentinean GDP grew at smaller rates in 2008. In the first quarter this year, Argentinean economy grew 8.3% (annualized and as compared to the previous quarter) after 9.1% in the last quarter of 2007.

This slowdown was driven by the decrease in family consumption expansion (from 9.3% to 8.2%), in the government consumption (from 8.9% to 6.6%), as well as in exports (from 10.6% to 6.1%). Economy pace slackening was only lessened due to the Gross Fixed Capital Formation. After increasing in 15.2% in the last quarter of 2007, such capital formation expanded 20.3% in the first three months of 2008.

In the second quarter, Argentinean economy continued to slowdown, experiencing a growth of 7.5%. Private consumption slackened once more (from 8.2% to 7.5%), followed by an export shrinkage (from 6.1 to 1.8%) and an investment pace slowdown (from 20.3 to 12.4%). Only the government consumption sped up: from 6.6% to 8.5%.

In Chile, economy slowed in the first three months of 2008, followed by an increase of the growth pace in the second quarter. However, growth rates are below the ones achieved in the first quarters of 2007. Chilean GDP increased 3.3% and 4.3% (in relation to the same period a year earlier) in the first two quarters of the year, respectively. In the first two quarters of the previous year, the economy grew 6.2 per cent in both quarters.

The slowdown in the Chilean economy was driven by the reduction in exports and family consumption. Exports, after achieving an expansion of 9.1% and 10.6% in the first two quarters of 2007, grew 2.0% and -0.7% in the first two quarters of 2008.

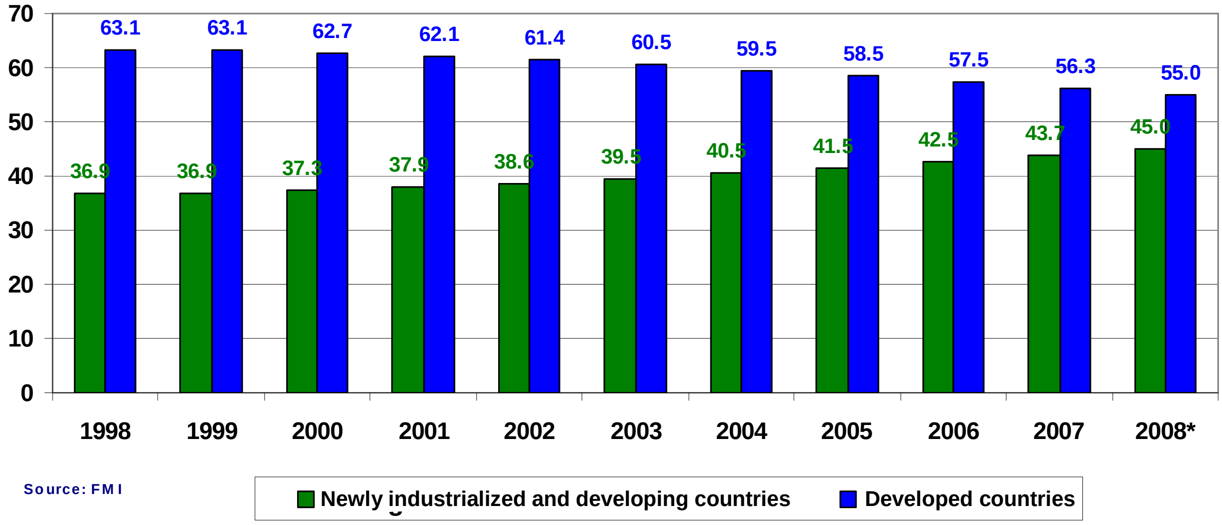
On the other hand, family consumption increased 5.4% and 5.9% during the first quarters of this year, after expanding 8.0% and 8.3% in the same quarters last year. Government consumption maintained the growth pace, and the Gross Fixed Capital Formation gained speed, thus preventing an even greater economic slowdown.

In Mexican economy, the growth rate slowed in the first two quarters of this year: 2.6% and 2.8%, after expanding 3.4% and 4.2% in the last quarters of 2007. The slowdown in the first quarter was led by lower growth rates of in all demand components: the government consumption, the gross fixed capital formation and exports growth rate declined all around 2 p.p..

In the second quarter, the growth acceleration of gross fixed capital formation — from 2.6% to 8.1% — helped speeding up growth, which was not as high as it could be due to the family consumption downturn — from 4.0% to 3.2%.

These countries quarterly results substantiate a long-run trend: the participation of newly industrialized and developing countries in worldwide GDP is growing (Graph 1.4). As the global financial crunch is strongly affecting the developed countries, it is likely we experience a major participation of newly industrialized and developing countries in the worldwide GDP in 2008.

Graph 1.4 - World GDP Composition



Source: FMI

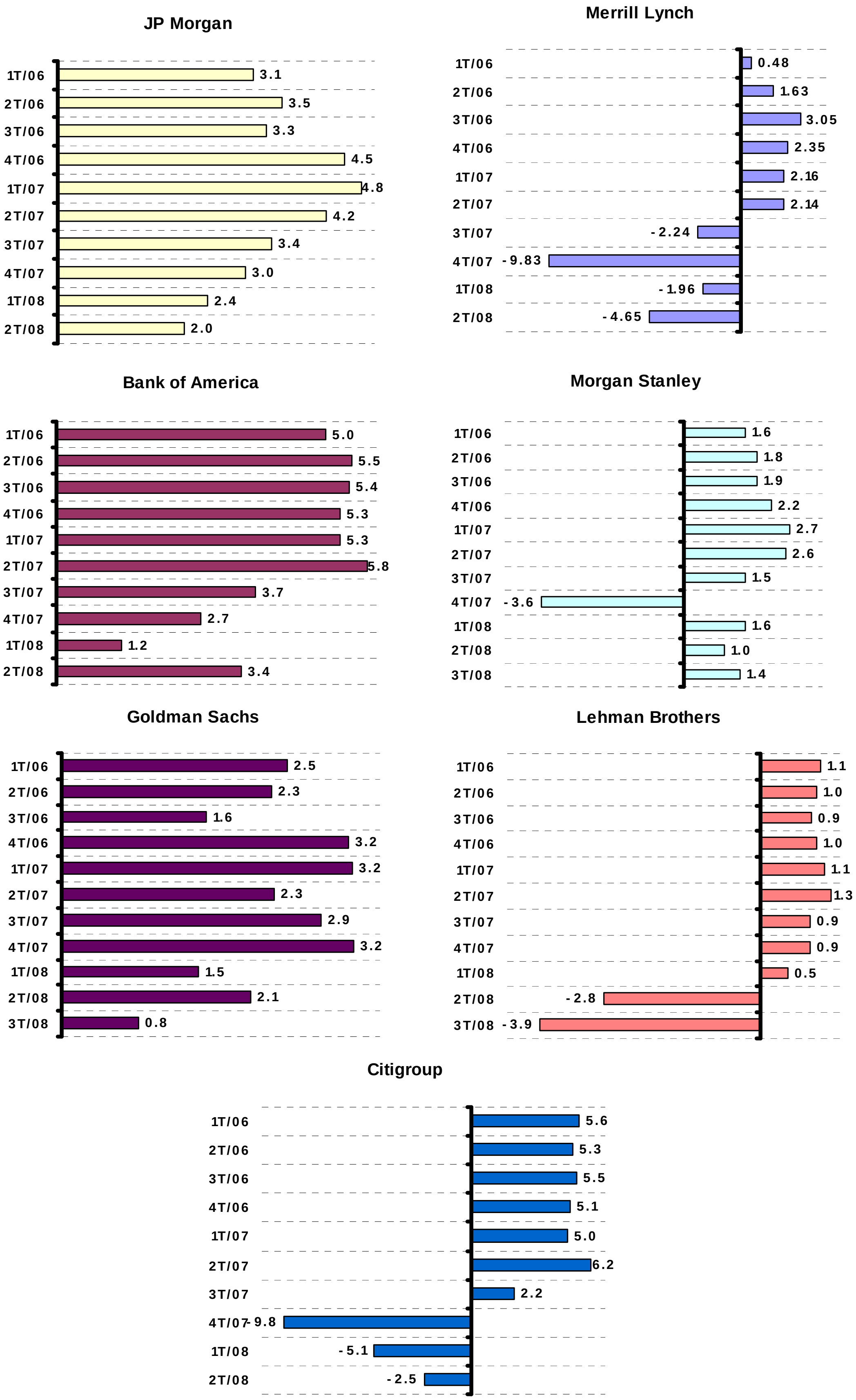
1.3 - Subprime crisis consequences

US government promoted several liquidity injections in the market since the real estate sector crisis started. Over and above these measures, other specific interventions were made as the problems linked to the crisis emerged.

With the possibility of economy slowdown, besides introducing sequential interest rate cuts, the government approved a package to stimulate the economy with different tax measures in the fist months this year. On the same vein, it also announced a plan for regulating the financial system.

Nonetheless, main US banks and mortgage financing agencies presented frustrating quarterly results. All banks reduced their net earnings, or even underwent losses in the quarters before the real estate crisis (Graph 1.5).

Graph 1.5 – Net Earnings of the main US banks (US$ billion)



These negative results of US banks led to an “artificial” consolidation of banking sector. The government directly interfered in the mortgage financing agencies and in the financial market

The first important acquisition movement in the banking sector occurred in March 2008. Even though FED granted an emergency bailout, one of the nation’s biggest investment banks, Bear Stearns was took over by JP Morgan for US$ 236 million (7% of the stock market value, before going bankrupt).

In July, two mortgage financing agencies - Fannie Mae and Freddie Mac – collapsed and the US government had to rescue them. It approved a rescue plan of around US$ 200 billion.

In September, the Bank of America reached an agreement for the Merrill Lynch buys out for US$ 50 million. The company had been seriously affected by the crisis. Still in September, Lehman Brothers, the fourth-largest US investment bank, faced serious problems and filed for bankruptcy protection. The British bank Barclays reached an agreement to buy the investment bank and capital markets operations for US$ 250 million, as well as the headquarters of Lehman Brothers in New York and New Jersey for US$ 1.5 billion.

In the same month, the AIG insurance company had serious risk of bankruptcy. If that had taken place, the turmoil would be immensely aggravated, once the insurance company bankruptcy would pose risk to the bank protection. Nevertheless, the US Treasury announced a rescue plan, undertaking to loan US$ 85 billion in exchange for 80% of the company control.

Aiming at preventing the crisis from worsening, on September 19th, Henry Paulson, the Secretary of US Treasury, announced the creation of a fund worth "hundreds of billions of dollars" in order to purchase high risk credits of the real estate market that were not being paid by the borrowers and, thus, bring confidence back to US financial markets.

On the following day, the US Congress sent a rescue plan bill in the amount of US$ 700 billion. This plan also proposed the US debt limit to rise to US$ 11.315 trillion.

On September 25th, the Washington Mutual was shut down by the US government, turning out the largest bank bankruptcy in the country’s history. The bank assets held by the institution were sold for US$ 1.9 billion to JPMorgan Chase.

These acquisitions and interventions of US government have been enough to prevent the crisis to worsen so far.

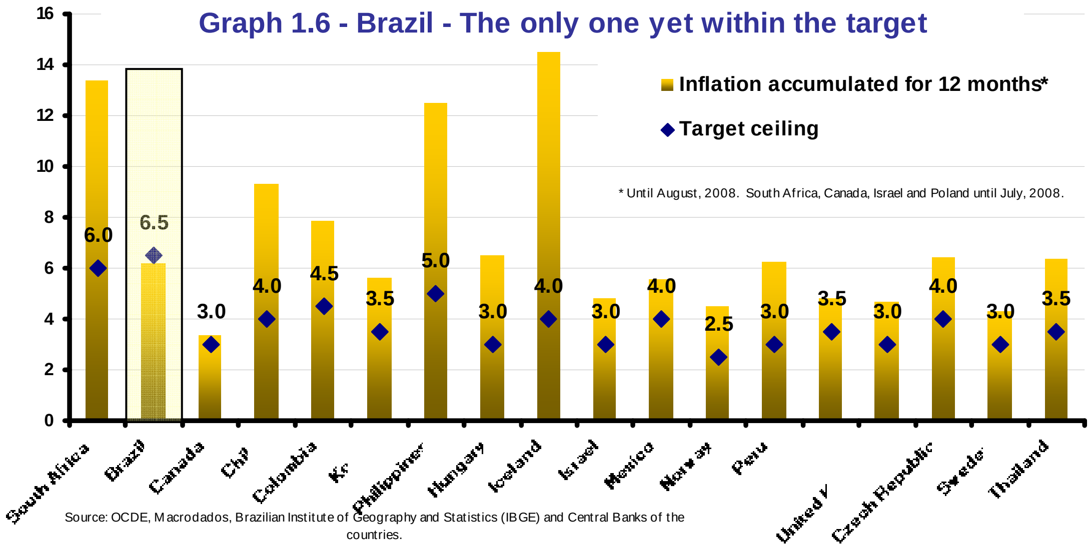
Acceleration of world inflation

Commodity prices increases caused an overall increase of the price level in several countries, in spite of the lower GDP growth in most countries.

This increase made the countries which adopted the inflation targeting regime surpass the target ceiling, taking into consideration the inflation accumulated in the last 12 months, except for Brazil (Graph 1.6).

Aiming at preventing inflation level to increase, most countries increased their interest rates. In Brazil, the reach of such increase was questioned by a several analysts as the inflation acceleration was not so sharp, and the interest rates increases could endanger the economic growth in the quarters to come, causing an unnecessary slowdown at a time in which the economy is upswinging.

Even with the interest rates rise and the global economy downturn in a scenario of crisis in the US, the cost-push inflation created an overall prices expansion.



2) BRAZILIAN FOREIGN TRADE

In the period from January to August, 2008, Brazilian foreign trade kept the strong growth trend. Exports amounted US$ 130.8 billion (+27.7% in the same period of 2007) and imports US$ 113.9 billion (+52.0%). Trade balance in the same period was of US$ 16.9 billion.

In the first semester of 2008, all categories of Brazilian exports hit historical records and growth rates of two digits: manufactured products (US$ 60.9 billion, + 13.2% as compared to 2007), semi-manufactured products (US$ 17.9 billion; +27.0%) and commodity products (US$ 48.5 billion; +49.8%) — Table 2.1.

Table 2.1
Exports in Brazil per Added factor and Main Products: From January to August, 2008 and 2007 (in US$ million FOB)

	2008	2007	Var. % 2008/07	Share % 2007
Commodity products	**48,505**	**32,382**	**49.8%**	**37,1%**
Iron Ore	10,128	6,892	47.0%	7.7%
Soybean grain	8,884	5,018	77.0%	6.8%
Crude Oil	8,773	5,066	73.2%	6.7%
Poultry	3,988	2,677	49.0%	3.0%
Other	16,732	12,729	31.4%	12.8%
Semi-manufactured products	**17,954**	**14,140**	**27.0%**	**13.7%**
Cellulose	2,645	1,954	35.4%	2.0%
Semi-manufact. Products of iron/steel	2,644	1,492	77.2%	2.0%
Raw Sugar	2,033	2,011	1.1%	1.6%
Cast Iron	1,942	1,168	66.3%	1.5%
Other	8,690	7,515	15.6%	6.6%
Manufactured Products	**60,942**	**53,841**	**13.2%**	**46.6%**
Airplanes	3,331	2,338	42.5%	2.5%
Passenger Automobiles	3,241	2,989	8.4%	2.5%
Auto parts	2,420	2,100	15.2%	1.8%
Fuel Oils	2,315	1,478	56.6%	1.8%
Engines for automobiles	1,918	1,669	15.0%	1.5%
Sending and receiving sets	1,668	1,560	7.0%	1.3%
Ethyl Alcohol*	1,474	1,031	43.0%	1.1%
Cargo vehicles	1,436	1,335	7.6%	1.1%
Electric engines and generators	1,395	1,052	32.6%	1.1%
Other	43,139	39,342	9.7%	33.0%
Special Operations	**3,442**	**2,070**	**66.3%**	**2.6%**
Total	**130,843**	**102,433**	**27.7%**	**100.0%**

* it includes the ethanol fuel

Source: MDIC/Secex

The group of manufactured products continued as the main leading products in Brazilian exports, representing 46.6% of the total amount for the period from January to August, 2008, in spite of scoring the lower growth rate among the added factor three categories. The airplane export sector (US$ 3.3 billion) remained the chief product among manufactured products, with significant growth in relation to the same period last year: 42.5%. Then, exports of passenger automobiles (US$ 3.2 billion) and auto parts (US$ 2.4 billion) stood out. The foreign sale of fuel oils (+56.6%) and ethyl alcohol (+43%), mainly due to the upswing in sales of ethanol fuel abroad, also had an expressive growth.

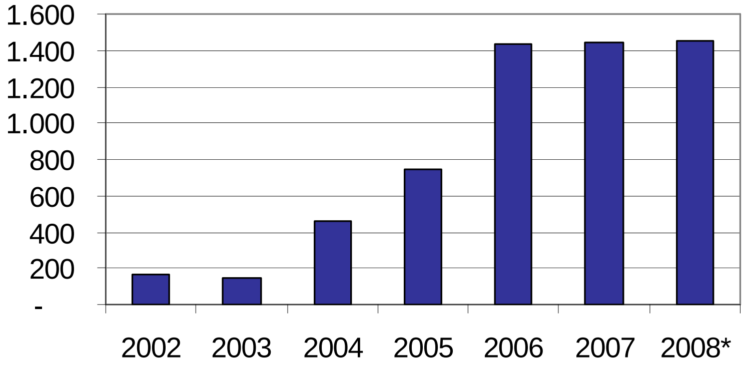
Among the main manufactured products, the only exports that dropped in comparison with 2007 were the iron or steel flat laminated products (-28.1%). Such a fall was triggered by the reduction of the amount departed. In August, the product prices were 65% above in the same month last year.

Ethanol exports rose 46% in the year

From January to August, 2008, Brazilian ethanol exports amounted to US$ 1,456 million, a value 46% above of the amount attained in the same period last year, which now represents sales above the total amount of 2007 — Graph 2.1. São Paulo is responsible for 71% of the total products exported by Brazil.

United States are the main destination of the Brazilian ethanol sales, being the destination of 1/3 (US$ 485 million) of the total in 2008. Other important places to were ethanol headed were Netherlands (US$ 362 million or 25% of the total), Jamaica (US$ 131 million; 9%) and El Salvador (US$ 107 million; 7%). Brazil exports the products to more than 40 countries in all continents.

Graph 2.1
Brazilian ethanol exports: 2002 to 2008
(in US$ million)



* January to August
Source: Produced by International Bulletin grounded on data from MDIC/Secex

In the semi-manufactured products segment, there was a small increment in the raw sugar exports (+1.1% compared to 2007). However, this result was compensated by significant increases in the sales of iron/steel semi-manufactured products (+77.2%), cast iron semi-manufactured products (+66.3%) and cellulose semi-manufactured products (+35.4%) that helped maintaining the total growth rate of the semi-manufactured category.

Commodity products scored the largest increases in the exports, as compared with 2007 figures. Three product groups (iron ore, crude oil, soybean grains and wheat) represented more than a half of the products guide lines, granted all of them had high growth in exports in 2008. The commodity products growth rate was almost twice as the total average of Brazilian exports in the first eight months of 2008.

Brazilian exports of crude oil reached US$ 8.7 billion from January to August, 2008, representing a growth of 73.2%, as compared to the same period last year. However, when it comes to the quantum exported, there was a decrease of 11.9% in sales of barrels in the same period. The increase in commodity prices in the international market was capital to the increment in the total revenue of the segment. Barrel price average in such period was of US$ 113.1, representing a growth of 73% as compared to 2007. In July, the barrel reached the maximum monthly average, an amount of US$ 147.3.

The increase of imports took place equally in all categories of use, that had a growth ranging from 40% to 50% in the period; except for the fuel and lubricant segment in which the growth rate was of 83.2%, as compared to 2007 (Table 2.2). This result was driven by the increase in expenditure in the purchase of oil and of its byproducts, especially due to the growth of the international prices of the commodity.

Table 2.2
Brazilian Imports per Category of Use: January to August, 2008 and 2007 (in US$ million FOB)

	2008	2007	Var. % 2008/07	Share % 2008
Capital Goods	23,476	15,666	49.9%	20.6%
Industrial machines	12,574	8,387	49.9%	11.0%
Other capital goods	10,902	7,279	49.8%	9.6%
Raw materials and intermediates	54,636	37,655	45.1%	47.9%
Consumer goods	14,161	9,810	44.3%	12.4%
Nondurable goods	6,196	4,919	25.9%	5.4%
Durable goods	7,965	4,891	62.9%	7.0%
Fuels and lubricants	21,676	11,835	83.2%	19.0%
Oil	12,134	6,978	73.9%	10.6%
Other	9,542	4,857	96.5%	8.4%
Total	**113,949**	**74,966**	**52.0%**	**100.0%**

In absolute values, the greater share in Brazilian imports laid on raw material and intermediate goods, which represented almost one half of the total products. These categories plus the purchase of fuels and lubricants reached 2/3 of the total products imported.

Nonetheless, ranking below the purchase of crude oil and fuel oils, the main category imported by Brazil was the consumer goods: passenger automobiles (US$ 3.4 billion from January to August, 2008), chiefly from Argentina (US$ 1.5 billion), Mexico (US$ 0.6 million) and South Korea (US$ 0.5 billion). Brazilian exports of passenger automobiles amounted to US$ 3.2 billion in the same period, representing a deficit of around US$ 400 million for the group of these products. Argentina was the main destination of Brazilian automobiles exports and amounted to US$ 1.8 billion, followed by Germany (US$ 0.6 billion) and Mexico (US$ 0.4 billion).

Brazilian exports grew in comparison with all country groups in the total amount from January to August, 2008, but, for all of them, the growth rate of imports was higher (Table 2.3).

The main destination of total Brazilian exports continued to be the United States of America (US$ 18.4 billion in 2008) presenting an expansion of 12.5% as compared to 2007, but its share declined from 16.0% to 14.1%. Brazilian exports of vehicle engines, shoes and auto parts underwent a sharp decline; such decreases were compensated by the increase of oil sales, what enable the prevention of reduction in the total Brazilian exports to such country. Brazilian imports coming from the United States of America grew almost thrice as compared to the amount exported, causing the decrease of US$ 2.4 billion in the trade balance of Brazil as compared to the last year.

Table 2.3
Export, Import and Balance of Brazil per Country Groups: January to August, 2008 and 2007
(in US$ millions FOB)

	Exports		Var. %	Imports		Var. %	Balance	
	2008	2007	2008/07	2008	2007	2008/07	2008	2007
European Union	31,251	25,141	24.3%	23,854	17,019	40.2%	7 ,397	8,122
Latin American Integration Association (LAIA)	28,441	22,943	24.0%	17,871	12,879	38.8%	10,569	10,064
Asia	24,990	16,488	51.6%	30,427	18,609	63.5%	(5,437)	(2,121)
USA*	18,398	16,357	12.5%	16,574	12,132	36.6%	1 ,824	4,225
Africa	6,527	5 ,568	17.2%	11,431	6,605	73.1 %	(4,904)	(1,037)
Middle East	5 ,026	4 ,311	16.6%	4,291	1,833	134.1%	735	2 ,478
Western Europe	3,875	2 ,656	45.9%	3,744	1,697	120.6%	131	9 59
Other	12,336	8,969	37.5%	5,757	4,192	37.3%	6 ,579	4,777
Total	**130,843**	**102,433**	**27.7%**	**113,949**	**74,966**	**52.0%**	**16,894**	**27,467**

Source: MDIC/Secex
* it includes Puerto Rico.

Sales to Argentina (US$ 12.1 billion), second main destination for Brazilian products, uprose in almost all main goods traditionally exported: automobiles, automobile parts, cell phones, freight vehicles, fuels, engines for vehicles, polymers, tractors and flat laminates.

LAIA countries represent the second main destination of Brazilian exports in 2008, ranking only one spot behind the European Union. The performance of Brazilian sales to Latin American countries was markedly influenced by the behavior of exports to Mercosur (US$ 14.8 billion), which grew 37.8% in relation to 2007, specially due to the Argentine market, which represents almost 50% of the total amount.

The export to Asian countries (US$ 24.9 billion) also stood out with an upswing of 51.6%, and for reaching US$ 25.0 billion in the first eight months of 2008. The leading Brazilian partner in this continent is China, to where Brazilian exports grew 67.7%, reaching the amount of US$ 11.9 billion in the period. China is currently the third country in the overall Brazilian exports destination. From January to August, 2008, the difference for the runner-up, Argentina, was below US$ 140 million. In 2009, it is estimated that China turns out to be the second leading Brazilian exports destination.

The main source of Brazilian imports is Asian countries, which represents US$ 30.4 billion, i.e., 26.7% of total purchases abroad of the country. China was responsible for nearly 2/5 of this amount, and, therefore, is the second leading source of imports from Brazil, only behind the United States. In relation to China, Brazilian deficit in 2007 (US$ 392 million from January to August) became more expressive in 2008 (US$ 885 million). Asian countries are the ones which showed the highest surplus for Brazil.

After Asia, the economic group formed by the African countries was the one which showed the highest surplus in relation to Brazil. Brazilian deficit in relation to African countries almost became fivefold in comparison with 2007, reaching US$ 4.9 billion in the first eight months of the current year. This outcome was spurred by the swell in oil and fertilizers import. Nigeria represents 40% in the share of imports from Africa, in which 98% are concentrated in the oil purchase. Brazilian imports from Angola increased almost 200% in comparison the previous year, also chiefly due to oil. Morocco was the third main origin of fertilizers purchases by Brazil, followed by Russia and United States.

Petroleum imports made by Brazil also broadened the trade with the Middle East countries, which showed the largest relative growth when compared to the previous year. Presently, the main oil import origins for Brazil are Nigeria (US$ 4.5 billion from January to August, 2008), Saudi Arabia (US$ 1.9 billion), Angola (US$ 1.9 billion), Algeria (US$ 1.5 billion) and Iraq (US$ 0.9 billion).

Time and cost for the foreign trade

OECD countries have the smaller time spent for exporting or importing. The number of days necessary for performing one of these activities is less than one half of the amount of days the other country groups take for the same activity, according to estimates of the World Bank. Sub-Saharan Africa countries show the worst indicators for time and cost for foreign trade activities (Table 2.4).

The cheapest container, both for export and import, was attained by East Asian countries. The country with lowest container cost for export is Malaysia (US$ 450), followed by Singapore (US$ 456) and China (US$ 460). In OECD countries, the lowest container cost was attained by Finland (US$ 495) and the highest one, by Belgium (US$ 1,619). In Brazil, the cost is of US$ 1,240, lower than the one in place in Mexico (US$ 1,472) and Argentina (US$ 1,480).

Table 2.4
Cost of container for export and import and performance time for such activities in 2008

Country Groups	Days for export	Cost for export (US$ per container)	Days for import	Cost for import (US$ per container)
OECD	10.7	1,069.1	11.4	1,132.7
Eastern Europe and Central Asia	29.7	1,649.1	31.7	1,822.2
East Asia and Pacific	23.3	902.3	24.5	948.5
South Asia	33.0	1,339.1	32.5	1,487.3
Middle East and North Africa	23.3	1,024.4	26.7	1,204.8
Sub-Saharian Africa	34.7	1,878.8	41.1	2,278.7
Latin America and Caribbean	19.7	1,229.8	22.3	1,384.3

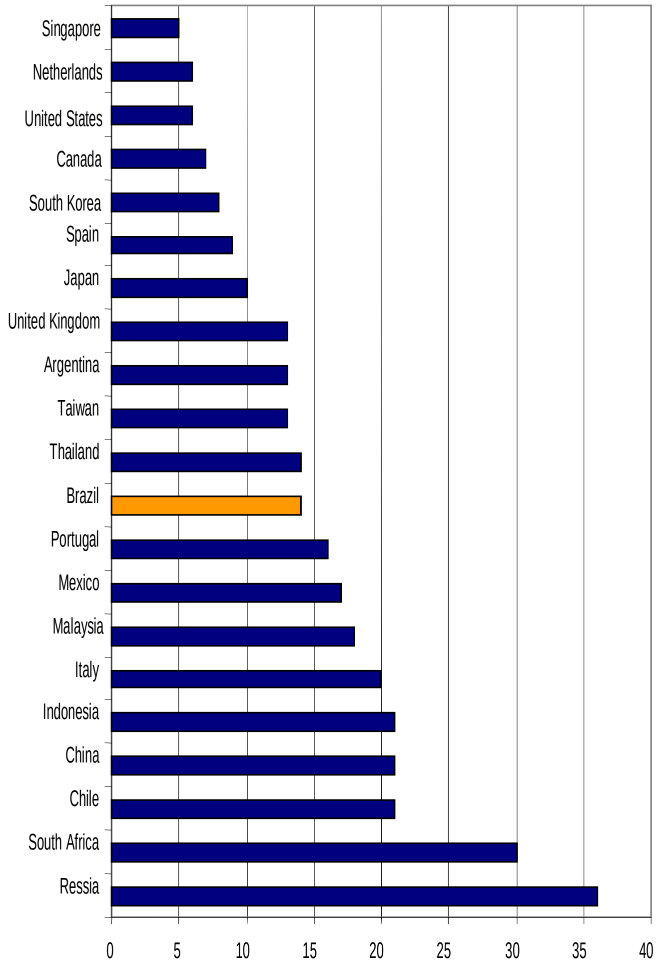
Source: World Bank, Doing Business 2008

The countries which spend the lowest time for exporting are Denmark, Estonia and Singapore, all of them taking only 5 days. The United States also delivered a period much lower for one export (6 days) – Graph 2.2.

In Brazil, the minimum time for performing a export is conjectured in 14 days, and 19 days for importing. The time necessary for exporting in Brazil is lower than the time spent by Portugal, India, Mexico and Malaysia, all of them ranging from 16 to 18 days, but higher than the time spent for Argentina (13 days). In Latin America, the countries with lower periods for performing a export are Dominican Republic and Panama (9 days).

In China, at least 21 days are necessary, but if the export is performed in Hong Kong, only 6 days. South Africa and Russia are the developing countries with the largest number of days to export: 30 and 36, respectively.

Graph 2.2
Days needed to perform an export: selected countries



Source: Produced by International Bulletin grounded on data of the World Bank, Doing Business 2009

SPECIAL MATTER

The State as an Investor: An outlook on Sovereign Funds

Rodrigo Luiz Sias de Azevedo[2]

Introduction

The creation of a Brazilian Sovereign Fund has been discussed and the model will be based on successful international experiences.

This article aims presenting sovereign funds, their goals and the conditions that make for their spread in the 2000's.

What are the Sovereign Wealth Funds

The sovereign wealth funds are State investment funds: with little need for immediate liquidity and relying on copious foreign exchange reserves, these States decided to "save" the reserve surplus applying them in financial assets other than the US treasury papers, which generates only little return.

Since late 2002, the world witnesses a cycle of sped-up growth spurred by the rapid growth in China and India and by the massive "twin deficit" undergone by the USA. This cycle led to inedited upswings in the prices of iron ore, steel, oil and food, benefiting the countries that produce these commodities; and hence attained marked commercial surpluses and to large foreign exchange reserves. Such reserves were allocated to the so-called sovereign wealth funds.

Overall, the sovereign funds are housed in countries with plenty of natural resources and in countries which practice pushy foreign exchange policies, with a high level of foreign exchange reserves invested in US treasury papers, and now they started investing in other assets to boost their profitability.

Table 1 showcases data grounded on risk/return analysis of the "stylized portfolios". The chief conclusion drawn, consistent with the theory, is that the foreign exchange reserves, the typical investments of the Central Banks, has a weak long-term return, what would foster countries with large reserves to invest in other type of portfolio.

[2] Economist of the Heavy Industry Department of the Industrial Area of BNDES and enrolled at PPGE-IE/UFRJ Masters Course. E-mail: rsias@bndes.gov.br. These opinions are a sole responsibility of the author and may not be deemed as the BNDES opinion.

Table 1: Investment Risk/Return Analysis (1946-2007)

Stylized Portfolio	Actual Average Return per year	Return annualized Standard Deviation	Probability of Actual Negative Return for 10-year portfolio
Central Banks Typical Portfolio	0.98%	1.24%	37%
Pension Funds Typical Portfolios	5.75%	12.45%	12.50%
Portfolio – USA Stock Index	7.11%	19.37	13.30%

Source: Summers (2007).

Currently, there are 58 sovereign funds spread in 40 countries (Table 2).

It is possible drawing the conclusion that the sovereign funds were on the "hype" in the 2000's, with more than 28 funds created, in 23 different countries.

There are several reasons supporting this record in the creation of sovereign funds in the 2000's: the high oil prices (and of the other commodities in general), the financial globalization and, lastly, the ongoing phase of unbalances in the global financial system, resulting in the dollar increasing weakness.

The dollar weakness derives from two movements: the excess of liquidity arising from the FED expansionary monetary policy and the so-called "twin deficits" underwent by the USA economy. Against the weak dollar and the low American interest rate, as well as relying on the strong Chinese demand, the liquidity holders seek for safety and profitability of the commodities, leading to skyrocketing prices, including the oil and other commodities negotiated in financial markets.

Within this scenario, commodity products exporters started to undergo dollar inflow, as much as by means of the balance of trade, and in the financial account, which cannot be sterilized by usual tools[3]. Sovereign funds creation was the solution to prevent a strong exchange rate appreciation. Still, Asian countries "eagerly" pursue surpluses in current transactions and, in a scenario of increasing growth in the tax costs for "sterilizing" such surpluses, the way out was found also in creating this type of fund.

The 58 sovereign funds already represent almost 50% of the world's foreign exchange reserves, estimated to be of US$ 7 trillion in the 1º semester of 2008.

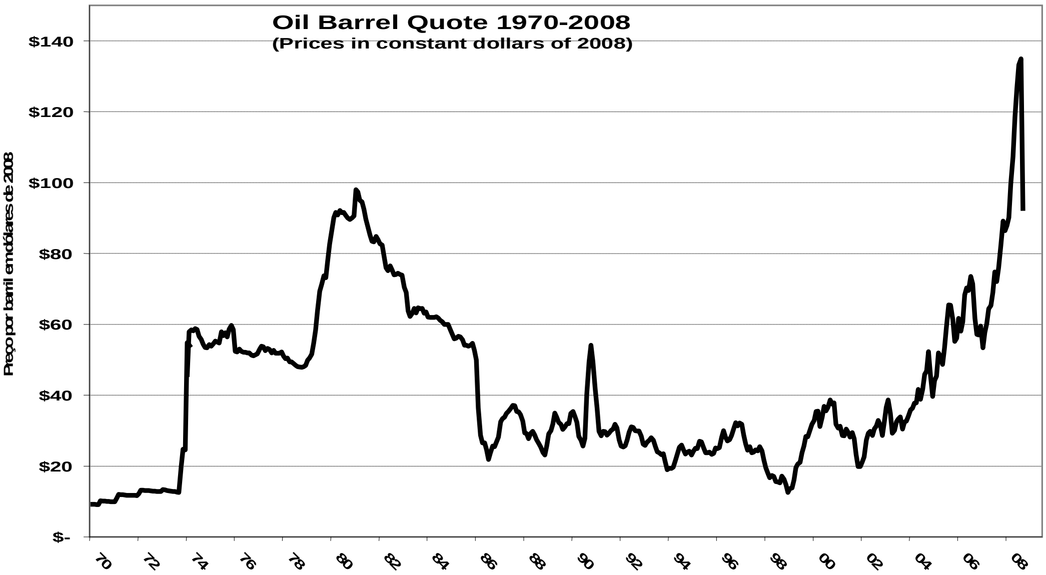
[3] "Sterilization" operation consists in the purchase of foreign currency and the sale of public securities with the purpose of preventing the monetary base to increase, and, in such vein, preventing change in the economy domestic liquidity. Such an operation is normally carried out by the monetary authority. It may represent massive tax costs.

Reasons for the Spread in the Number of Sovereign Funds

There are a number of reasons for the spread of Sovereign Funds, some of them are due to external factors to the country, whereas other are domestic ones.

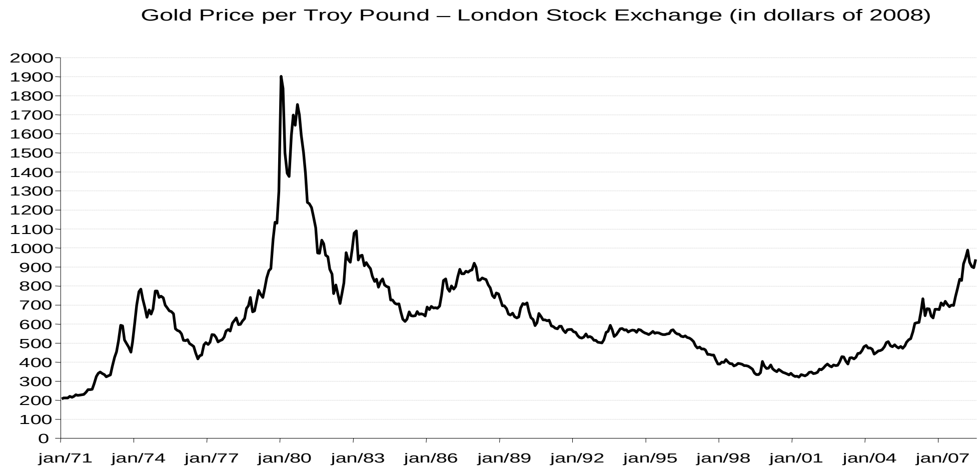
The main external cause lies with the conjuncture: since late 2002, the international scenario of marked increase in Asia, the prices favorable to the commodities exporters and the mega-deficits in current transactions of USA made for these countries to broaden their foreign exchange reserves. We can observe the favorable impact of the price by examining the path of 3 relevant commodities. Graphs below display the oil, gold and iron ore price floating to the current prices (in US$) of 2008:

Graph 1: Oil Barrel Quote (1970-2008)



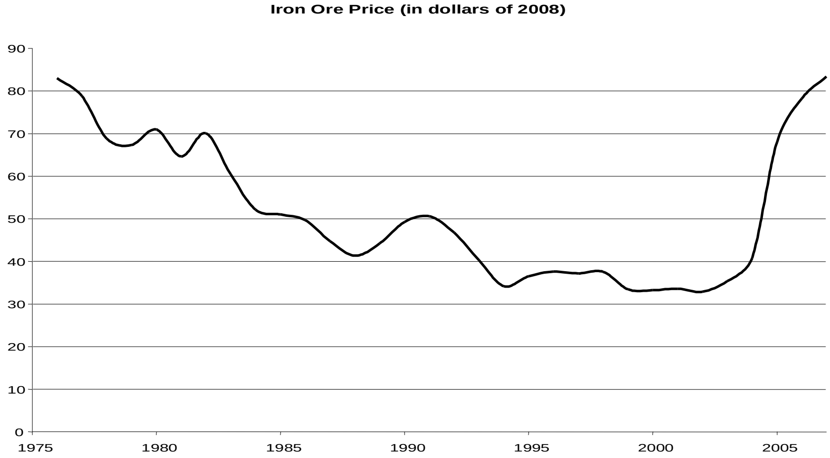
Source: Energy Information Agency – Produced by the Author

Graph 2: Gold Price (1971-2008)



Source: Data from Global Insight – Produced by the Author

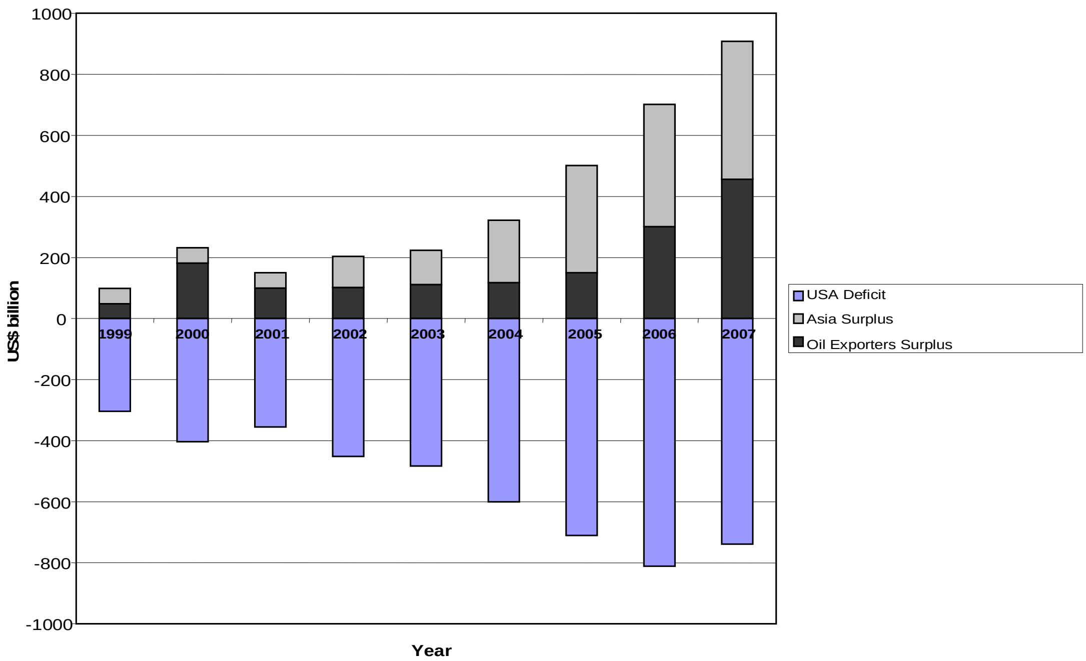
Graph 3: Iron Ore Price (1976-2007)



Source: CVRD, Wall Street Journal, US Steel and other steel producers. Produced by the Author

The Graph 4 shows the close correlation between the American deficits.

Graph 4: Balance of Global Current Transactions - In US$ billion (1999-2007)



Sources: FMI, JPMorgan and Deustche Bank. Produced by the Author

Grounded on a certain level of accumulation, the countries understood that they could apply their reserves in assets of lower liquidity and higher time-to-value, taking advantage of larger profitability odds. Thus, this boom in the number of sovereign funds was possible.

Other reasons are structural: the second reason is “inconvertibility” of certain currencies and the “original sin” within the world economic system. The third reason would be the phenomenon referred to as Self Insurance and the “Fear of Floating” that comes along with that, which led to a huge increase of the reserves, an aftermath of the exchange rate crises of the 90’s. The sovereign funds of the “Asian type” would derive from IMF adjustment programs, when the Asian crisis hatched.

The adjustment programs cause unemployment and marked decreases in the GDP, and absorbed the conspicuous principle of tax surplus in the countries affected. The fear of new crises, as an aftermath of the opening of a financial and capital account, transformed the Asian countries in “reserve accumulators”, deriving both from the higher nominal tax surpluses and of the depreciated foreign exchange rate.

The fourth reason is the upswinging “withdrawal of financial intermediation” as of the 80’s. While in the 70’s, the oil exporters used the banks of industrialized countries to invest, creating the “petrodollar market”; currently, they do it directly due to the movement of withdrawal of the financial intermediation.

It is possible to draw the conclusion that the current sovereign funds are part of the new generation of “players”, concerted with the hedge funds and the private equity funds. As a last resort, they signalize the adjustment of the National States to this huge volatility.

Domestically to each country, there are three major reasons: the first one is the ruling out of the “Dutch disease” hazards; the second is the diminishing of the “carry tax cost” of foreign exchange reserves, the third one is the need for investment diversification. Lastly, in some cases, the need for “income intergenerational transfer” may be pointed out.

These “domestic reasons” of the countries were the supports to the creation of a “classification” for the sovereign funds that, according to the IMF taxonomy, are of 5 types: the stabilization funds; the intergenerational savings funds; investment funds; development funds, as well as the reserve funds for contingencies.

The stabilization funds are those with chief focus on protecting the economy (and often the government budget) against a severe drop in commodities prices.

The intergenerational savings funds are those with main focus of converting non-renewable resources in a more diverse portfolio, so as richness may be transferred among generations.

Investment funds are those with the simple goal of diminishing the foreign exchange reserve carry costs, seeking an improved return by means of the diversification of their assets. Such modality is usually an aftermath of the phenomenon which IMF names as “persistent unbalance” of the world financial, monetary and commercial system: countries with high tax surpluses and/or surpluses in the balance of payments.

The development funds are those which goals are supply resource for social/economic projects or industrial policies to boost the country potential GDP.

Lastly, the reserve funds for contingencies are those which intent is to defray long-term tax liabilities, such as the ones arising out of social security. There is also a difference in the origin of resources for the sovereign funds, which may be of 3 types: export (production and sale) of non-renewable resources, tax revenues or foreign exchange reserves.

Table 2: Funds Assets, Origin of Resources and Classification (In US$ billion)

Table 2A - Europe

Country	Fund Name	Beginning	Official Assets/Estimate	Resources Origin	Fund Classification
Norway	Government Pension Fund - Global	1990	373	Oil	Intergenerational Savings
Russia	Stabilization Fund of the Russian Federation	2003-2004	157	Oil and Gas	Stabilization/Re serves
France	Pension Reserve Fund	2001	51	Tax Revenues	Reserves
Ireland	National Pensions Reserve Funds	2001	31	Tax Revenues	Reserves
Azerbaijan	State oil Fund - SOFAZ	1999	2	Oil	Stabilization/Intergenerational Savings
Norway	Government Petroleum Insurance Fund	1986	2.6	Oil	Intergenerational Savings

Table 2B – Americas

Country	Fund Name	Beginning	Official Assets/Estimate	Resources Origin	Fund Classification
USA	Alaska Permanet Reserve Fund Corporation	1976	40	Oil	Reserves
Venezuela	National Development Fund Fonden	2005	15 to 20	Oil	Development
Canada	Alberta Heritage Fund	1976-1978	17	Oil	Intergenerational Savings/ Development
USA	New Mexico State Investment Office Trust Funds	1958	15	Tax Revenues	Intergenerational Savings/ Reserves
Chile	Economic and Social Stabilization Fund	1985	16	Copper/Tax Revenues	Stabilization/Reserves
USA	Permanent Wyoming Mineral Trust Fund	1974	4	Ores	Intergenerational Savings
Mexico	Oil Stabilization Fund	2000	2	Oil	Stabilization
Trinidad and Tobago	Heritage and Stabilization Fund	2007	2	Oil and Gas	Stabilization/Intergenerational Savings/Reserves
Colombia	Oil Stabilization Fund	1995	2	Oil	Stabilization/Development
Chile	Chile Pension Reserves Fund	2007	1.4	Copper	Stabilization/Reserves
Venezuela	Investment Fund for Macroeconomic Stabilization	1998	0.8	Oil and Gas	Stabilization

Table 2C - Africa

Country	Fund Name	Beginning	Official Assets/Estimate	Resources Origin	Fund Classification
Algeria	Fonds de Régulation des Receittes	2004	44	Oil	Stabilization/Development
Nigeria	Excess Crude Account	2004	13	Oil	Intergenerational Savings/ Development
Botswana	Pula Fund	1993	6	Diamonds	Investment/Development
Gabon	Fund for Future Generations	1998	0.5	Oil	Intergenerational Savings/ Development
Uganda	Poverty Action Fund	1998	0,4	Tax Revenues	Development
Angola	Reserve Fund for Oil	2007	-	Oil	Intergenerational Savings/ Development
Mauritania	National Fund for Hydrocarbon Reserves	2006	0.3	Oil and Gas	Stabilization
Libya	Reserve Fund - Lybian Investment	1981	50	Oil and Gas	Investment/Stabilization Authority

Table 2D - Oceania

Country	Fund Name	Beginning	Official Assets/Estimate	Resources Origin	Fund Classification
Australia	Queensland Investment Corporation	1992	65	Foreign Exchange Revenues	Reserves
Australia	Victorian Funds Management Corporation	1994	36	Tax Revenues	Investment
Australia	Australian Government Future Fund	2004-2006	55	Tax Revenues	Intergenerational Savings/ Reserves
New Zealand	New Zealand Superannuation Fund	2001-2003	10	Tax Revenues	Reserves
East Timor	Timor-Lest Petroleum Fund	2005	2	Oil	Stabilization/Intergenerational Savings/Development

Kiribati	Revenue Equalisation Reserve Fund	1956	0.6	Phosphates	Intergenerational Savings
Papua New Guinea	Mineral resources Stabilisation Fund	1974	0.2	Ores	Stabilization

Table 2E - Asia

Country	Fund Name	Beginning	Official Assets/Estimate	Resources Origin	Fund Classification
Saudi Arabia	Saudi Arabia Monetary Authority	1952	327	Oil	Investment
Kuwait	Kuwait Investment Authority	1953	250/213 to 250	Oil	Stabilization/Intergeneration Savings
China	Central Hulin Investment Corporation	2007	200	Foreign Exchange Revenues	Investment
China	China Investment Company Ltda	2003	100	Foreign Exchange Revenues	Investment
Hong Kong (China)	Hong Kong Monetary Investment Portfolio	1998	140	Tax Revenues and Foreign Exchange Revenues	Investment/Stabilization (Monetary)
Singapore	Temasek Holdings	1974	160	Tax Revenues and Foreign Exchange Revenues	Investment
Qatar	Qatar Investment Authority	2000	60/40 to 60	Oil	Investment
Hong Kong (China)	Hong Kong Exchange Fund	1935	42	Tax Revenues and Foreign Exchange Revenues	Investment/Stabilization (Monetary)
Brunei	Brunei Investment Agency	1983	35	Oil	Investment
Malaysia	Khazanah NasionalBHD	1993	26	Tax Revenues	Investment
Saudi Arabia	Kingdom Holding Company	1980	25	Oil	Investment
Kazakhstan	Kasakhstan National Fund	2000	23	Oil	Stabilization/Intergenerational Savings
South Korea	Korea Investment Corporation	2006	20	Tax Revenues and Foreign Exchange Revenues	Investment
Taiwan	Taiwan National Stabilization Fund	2000	15	Tax Revenues	Stabilization for the Financial Markets
Saudi Arabia	Public Investment Fund	1973	10 to 15	Oil	Investment/Development
United Arab Emirates	Dubai Internatonal Capital	2004	13	Oil	Development
Iran	Foreign Exchange Reserve Fund	1999-2000	10 to 15	Oil	Stabilization
United Arab Emirates	Dubai Internatonal Financial Centre Investments - Mubadala	2002	10	Oil	Investment

Iraq	Development Fund for Iraq	2003	8	Oil	Development
Oman	State General Stabilization Fund	1980	6.2	Oil and Gas	Stabilization/Intergenerational Savings
United Arab Emirates	Istithmar World	2003	6	Fiscal	Investment
Vietnam	State Capital Investment Corporation	2005	2	Fiscal	Investment
United Arab Emirates	Emirates Investment Authority	2007	-	Fiscal	Stabilization/Investment
United Arab Emirates	Investment Corp of Dubai	2006	-	Oil	Investment/Development

Total	Funds	1935-2008	3724/3246 to 3848

Data Source: JPMorgan Research – Produced by the Author

The net worth amounted by the funds is astonishing, it even surpass the hedge funds (the most intimidating villains of the commodities futures markets), that accrued US$ 1.5 trillion, and the private equity funds, with a joint equity estimated to be of US$ 1 trillion. Even with this apparent hugeness, sovereign funds represent, as of yet, a small portion of the assets and wealth stocks of the world:

Table 3: World Sovereign Funds and Wealth Stocks

In US$ Trillion

	Gross Domestic Product (GDP)	Capitalization in the Stock Market	Debt Securities			Bank Assets	Stocks, Debt Securities and Bank Assets
			Public	Private	Total		
World	48.2	50.8	25.6	43.1	68.7	70.9	190.4
North America	14.5	21.3	6.9	21.1	28	12.1	61.4
Japan	4.4	4.8	6.8	2	8.8	6.4	20
European Union	13.6	13.1	7.7	15.5	23.2	36.6	72.9
EMC	14.1	11.7	3.9	2.2	6.1	11.3	29.1
Others	1.6	-	-	-	-	-	-
Total Sovereign Funds Wealth - Estimate							3.5 to 4.0

Source: FMI - Global Financial Stability Report, 2007

Final Considerations

The sovereign funds spread is a worldwide trend, especially in developing countries and/or countries with plenty of natural resources. Such expansion relies on the fact that the fund is a less “expensive” way of armoring against world financial unbalances.

On account of that, it may be pointed out that the sovereign funds are aftermath of the withdrawal of the financial intermediation in progress since the 70’s, as well as of the need for protection against the volatility characteristic of the “floating dollar” standard, which is substantiated as huge reserve accumulations, in the so-called self insurance.

References

ALLEN, M. and CARUANA, J. Sovereign Wealth Funds - A Work Agenda. International Monetary Fund, 2008.

FERNANDEZ, D. and ESCHWEILER, B. Sovereign Wealth Funds: A Bottom-up Primer. JPMorgan Research, Nova York, USA, 2008.

FMI, Global Financial Stability Report. Washington, October, 2007.

MATTOO, A. and SUBRAMANIAN, A. Currency Undervaluation and Sovereign Wealth Funds: A New Role for the World Trade Organization.Working Paper Series. Peterson Institute for International Economics. Washington, United States, 2008.

SUMMERS, L. Opportunities in an era of large and growing official wealth. In Sovereign Wealth Management. Central Banking Publications. England, London, 2007.