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1) WORLD SCENARIO

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1.1 – World economy perspectives for 2009

With the worsening of the world financial crisis as of September 2008, the IMF estimates the world GDP will range between -1.0% and -0.5% in 2009, and between 1.5% and 2.5% in 2010, losing pace in relation to growth in 2008, 3.2% (Table 1.1). Regarding consumer prices, the IMF predicts that the world economy will record a drop in inflation in 2009, followed by an acceleration of the price growth rate in 2010. Also, after the commodity price escalation in early 2008, estimates are that, in 2009, these prices will continue the downward trend which began in the second half of 2008.

2008's results confirm the increasing trend of emerging developing countries share in the world economy (Graph 1.1).

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Table 1.1 - IMF projections for the GDP growth (March 19, 2009) - %

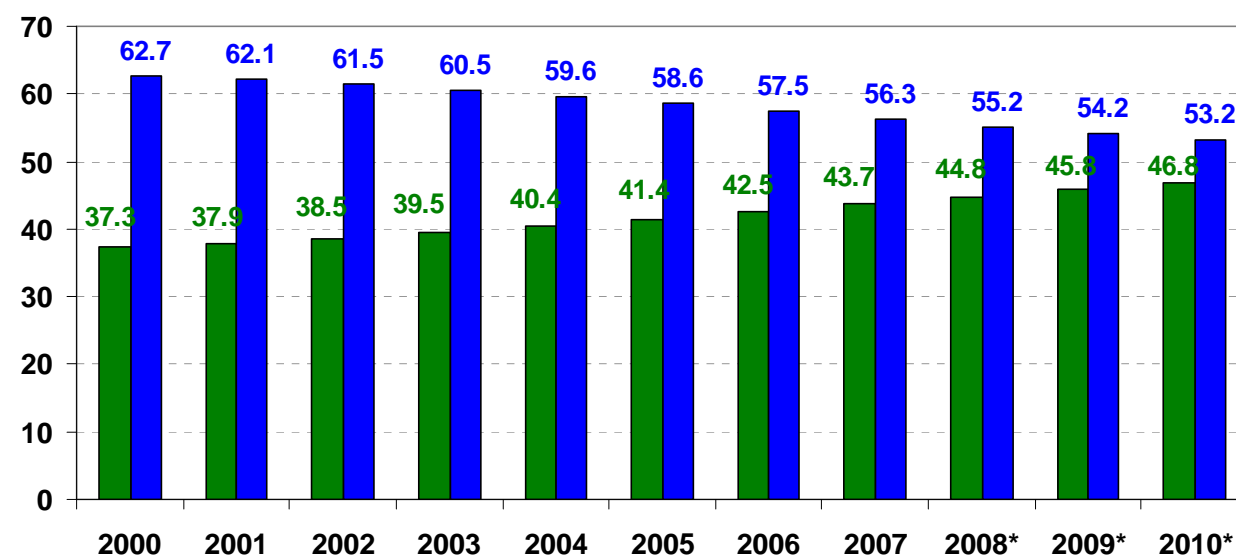
	2008	2009	2010
World	3.2	-0.5 a -1.0	1.5 a 2.5
Developed countries	0.8	-3.0 a -3.5	0.0 a 0.5
USA	1.1	-2.6	0.2
Eurozone	0.9	-3.2	0.1
Japan	-0.7	-5.8	-0.2
Emerging and developing	6.1	1.5 a 2.5	3.5 a 4.5

Source: IMF

As can be concluded from aforementioned data, developed countries were more significantly impacted by the economic crisis, presenting GDP variation rates lower than those in developing countries.

According to IMF projections, emerging and developing countries' share in the world GDP may reach almost 50% as soon as 2010.

Graph 1.1 - World GDP Composition



Source: IMF

■ Emerging and Developing Countries ■ Developed

1.2 – World economy development in the second half of 2008

After a second half marked by intense economic volatility and uncertainty, the indicators of the second half of 2008 confirm the strong deceleration of the international economy activity level.

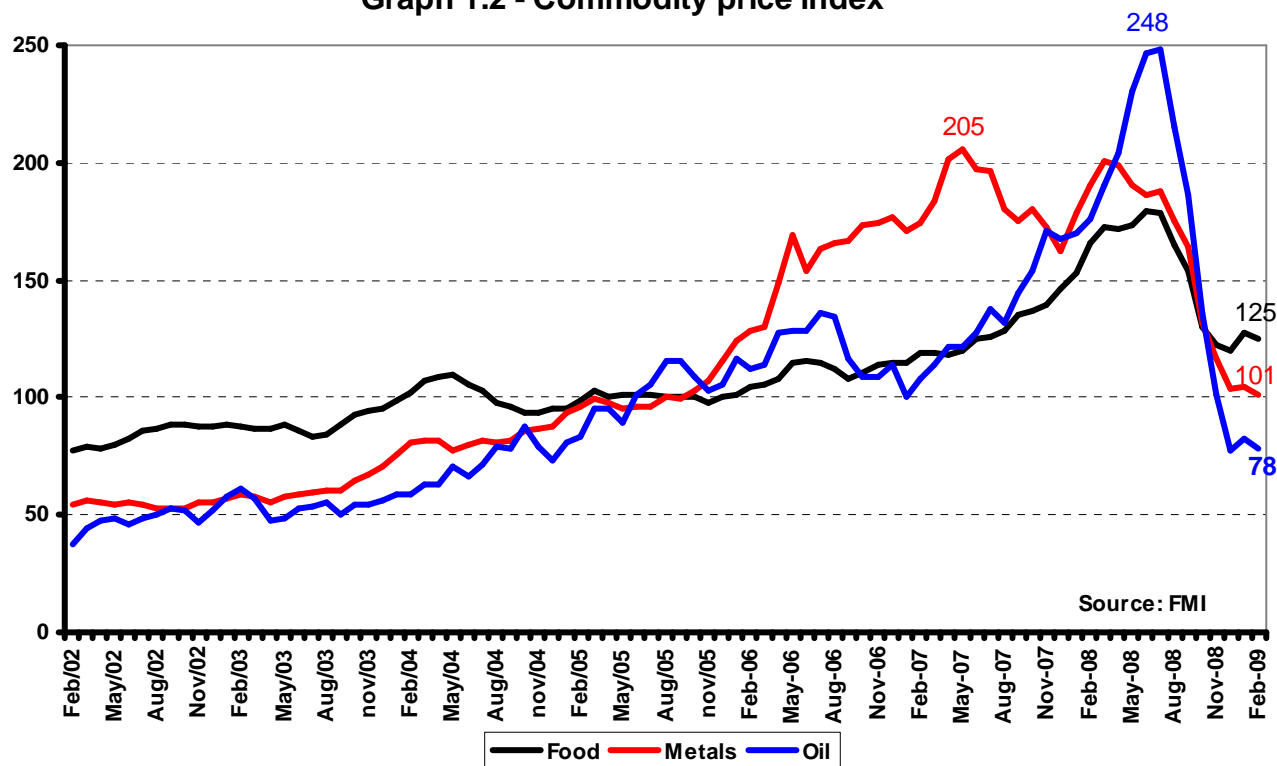
After Lehman Brothers, the US' fourth largest investment bank, went bankrupt in September 2008, pessimism concerning the world economy worsened, causing a remarkable cutback in credit and economic activity around the world.

Amidst the worsening of the economic crisis, there was strong deceleration of commodity prices, connected to the drop in world demand. (Graph 1.2)

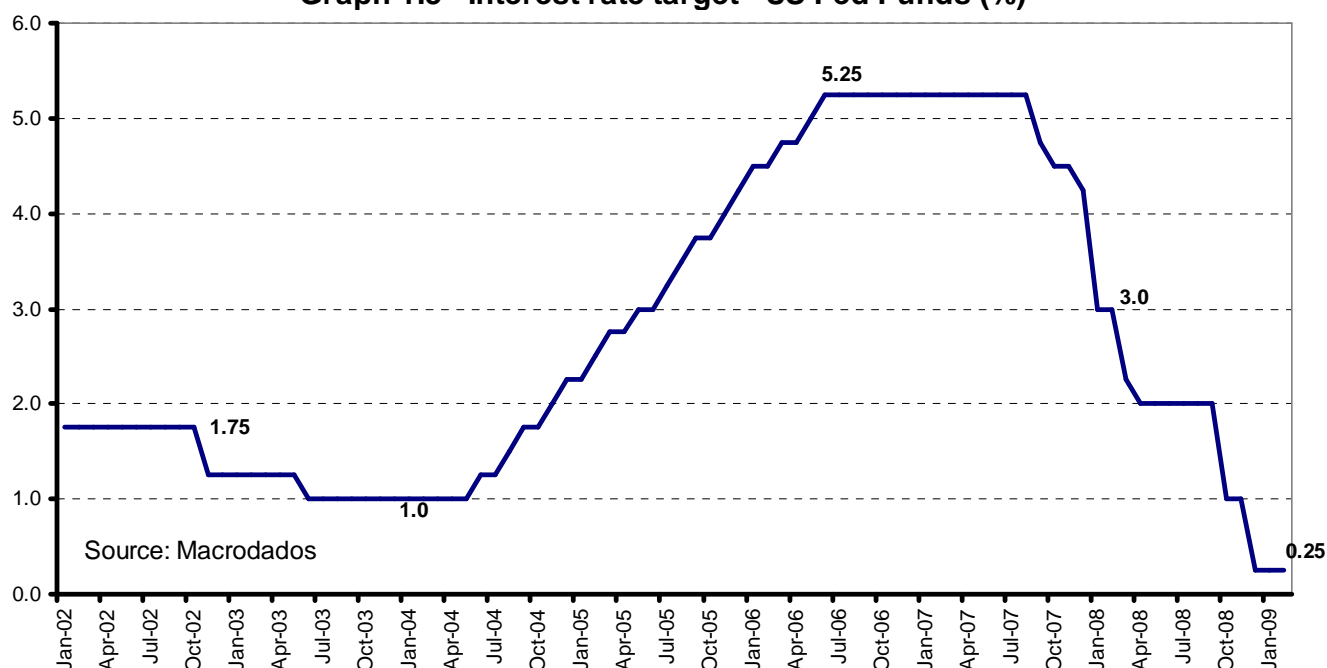
The heightened reduction in commodity prices in the second half of the year, amidst a significant reduction in US economic activity, led the FED to speed up the drop in the US' basic interest rate, which reached its lowest level in history (Graph 1.3).

The international stock exchanges, which were already undergoing a depreciation process, posted even sharper drops after the Lehman Brothers bankruptcy, intensifying the asset deflation process already underway since the beginning of the subprime crisis. (Graph 1.4)

Graph 1.2 - Commodity price index

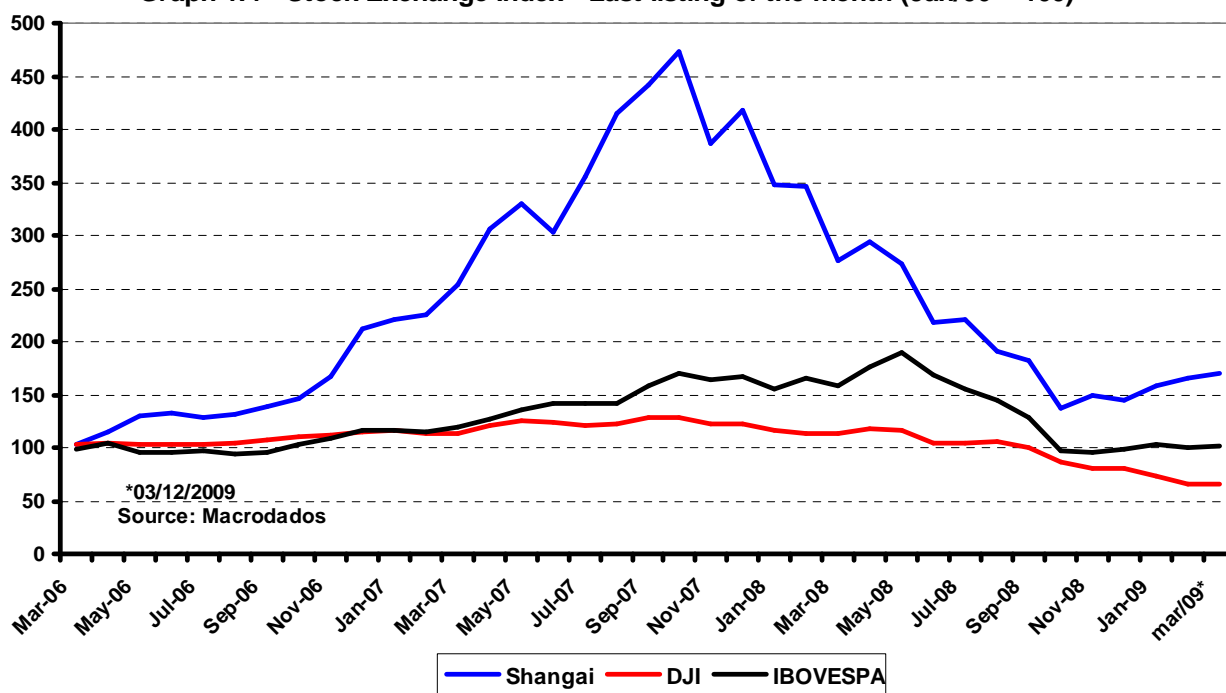


Graph 1.3 - Interest rate target - US Fed Funds (%)



The consecutive reductions in the basic interest rates were not capable of influencing the 4Q08 result, which recorded a more significant drop than in the third quarter in developed economies (Table 1.2).

Graph 1.4 - Stock Exchange Index - Last listing of the month (Jan/06 = 100)



In the US, in spite of the consecutive interest rate reductions as of July 2007, and heightened drops as of September 2008, the US GDP shrank in the third quarter, worsening the reduction in the fourth quarter, falling into technical recession, which consists of reduced economic activity for 2 consecutive quarters.

Table 1.2 - Quarter growth vs. the immediate previous quarter (%) - Seasonally Adjusted Rate

	1Q2008	2Q2008	3Q2008	4Q2008
USA	0.2	0.7	-0.1	-1.6
Japan	0.3	-1.2	-0.4	-3.2
Eurozone	0.7	-0.3	-0.2	-1.5
Germany	1.5	-0.5	-0.5	-2.1
France	0.4	-0.3	0.1	-1.2
Italy	0.3	-0.6	-0.7	-1.9
United Kingdom	0.4	0.0	-0.7	-1.5
Canada	-0.2	0.1	0.2	-0.8
G7	0.4	0.1	-0.3	-1.8

Source: OCDE

After a surprising second quarter, with an unexpected growth of 2.8% (annualized, deseasonalized and versus the immediate previous quarter) in the US GDP, the GDP variation rates over the third and fourth quarter reflected the effects of the worsening crisis, recording drops of 0.5% and 6.3%, respectively. According to Fed data, household consumption decreased 3.8% and 4.3% over the two last quarters of 2008. Investments and exports fell after a high in the 3Q08 to a heavy drop in the fourth quarter: from +0.4% to -23.0%, and from +3.0% to -23.6% respectively. Government expenditure did not lessen the GDP reduction, similar to what occurred in the third quarter, where such expenditure grew 5.8%. The increase was 1.3% in the fourth quarter, pointing to a strong deceleration in both consumption and government investment. This scenario led the US economy to grow 1.1% in 2008. In 2007, growth had reached 2.0%.

In the Eurozone, the third and fourth quarters confirmed the recession already foreseen in the 2Q08. According to Eurostat, after a 0.2% reduction (deseasonalized and versus the immediate previous quarter) in the second quarter, the Eurozone economy decelerated more, recording declines of 0.2% and 1.5% over the following quarters. In 2008, the Eurozone economy grew 0.8% versus a growth of 2.6% in 2007. In the fourth quarter, there was an overall drop in all segments in terms of demand, mainly in the gross formation of fixed capital (-2.7%) and in exports (-7.3%). Considering the sectorial point of view, industry underwent a drop of 5.4%.

In Japan, after a 2Q08 marked by a slowdown in the economy, the third quarter posted a less dramatic fall, followed by a large drop in the 4Q08's GDP. In the fourth quarter, the larger GDP reduction (3.2%) was due to the heightened decrease in industrial production (12.0%) and in the demand for machinery from the private sector (16.7%) plus the significant drop in exports (15.1%) and in the new construction sector (7.7%). Owing to this fact, Japan's GDP recorded a slump of 0.7% in 2008, after a growth of 2.4% in 2007.

The Russian economy, after a 7.5% growth in 2Q08 (versus the same quarter of 2007), slowed its expansion pace, dropping to 6.2% in the third quarter. According to analysts, the drop in oil prices was one of the main triggers of the deceleration. Estimates point to Russian growth of 2% in the 4Q08.

In China, after a growth of 10.1% in 2Q08 (versus the same quarter of the previous year), the economy decelerated resulting in an increase of 9.0% and 6.8% over the two last quarters. In 2008, the Chinese economy grew 9.0% after a growth of 13% in 2007. The deceleration verified over the last two quarters of the year was thanks to an intensified drop in the export sector, due to the worsening of the world crisis. In a sectorial point of view, agribusiness grew below the overall economy growth.

The Indian GDP grew 7.6% and 5.3% in the third and fourth quarters of 2008, respectively (versus the same quarter of the previous year), after a growth of 7.9% in the second quarter. The smaller expansion verified in the fourth quarter took place due to a drop in the manufacturing and farming sectors, and to a deceleration in the building, transport, tourism and trade sectors. In the 4Q08, there was also a noticeable increase in government consumption in the GDP, followed by a decrease in the share of the gross formation of fixed capital. Owing to this, the Indian economy grew 6.9% from April to December 2008. In the same period of 2007, growth had hit 9.0%. It is worth emphasizing that the business year ends on March 31 in India.

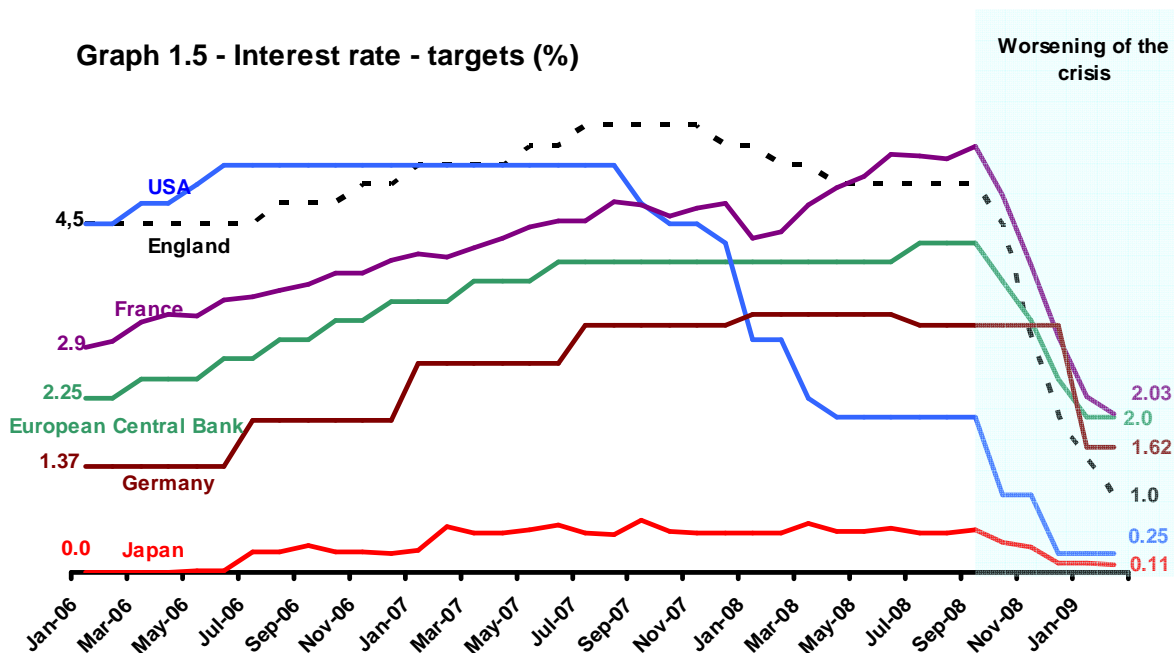
The Argentinean GDP continued in its path of deceleration over the last two quarters of 2008, after two reductions in the growth rate over the two first quarters. In the third quarter of this year, the Argentinean economy grew 6.9% (annualized and versus the immediate previous quarter), after a growth of 7.8% in the second quarter. In the fourth quarter, the Argentinean economy continued to decelerate, posting a growth of 4.9%. Private consumption showed another growth pace reduction (from 6.8% to 4.3%), followed by a decline in exports (from 12.2% to -11.3%) and a drop in investments (from 8.5% to -2.8%). Only government consumption recorded an increase: from 6.2% to 7.3%. In 2008, the Argentinean GDP grew 7.0%, after a growth of 8.7% in the previous year.

In Chile, growth rates remained stable in the 3Q08, followed by a strong deceleration of the pace of expansion in the fourth quarter. Over the last two quarters of 2008, the Chilean economy grew 4.6% and 0.2% (annualized and versus the immediate previous quarter). The deceleration verified in the Chilean economy in the 4Q08 was mainly due to the marked pace of reductions in exports, household consumption and in the gross formation of fixed capital. Achieving these results, the Chilean economy grew 3.2% in 2008. In 2007, the GDP had recorded a variation of 4.7%.

In the Mexican economy, the growth rate decelerated in the third quarter of this year: from 2.9% to 1.7% (in relation to the same quarter of the previous year). In the fourth quarter, the Mexican economy slipped (1.6%) owing to a generalized deceleration in all demand components. Household consumption fell 1.3%, and exports, 8.8%. The gross formation of fixed capital, after a growth of 8.1% in the third quarter of the year, grew 0.6% in the last quarter. Owing to this, the Mexican economy grew 1.3% in 2008, after an expansion of 3.3% in 2007.

1.3 – The countercyclical monetary and fiscal policies in combating the crisis

Due to the worsening of the international crisis, the central banks of several countries eased the monetary policy by means of consecutive reductions in the interest rate (Graph 1.5). On account of the fall in world demand, there was a higher concern about the economic activity level.



Source: Macrodados and Central Banks of the countries

With the same purpose as the policy for reducing interest rates, governments of several countries announced a number of packages to spur on credit, demand and strategic sectors. In its last report, the IMF issued a review on the types of packages adopted.

Table 1.3 - Economic policy measures taken by G-20, Spain and Holland					
Ranking in February 24, 2009					
	Current Status			Solution	
	Stabilize, increase or expand deposit insurances	Loan guarantees	Measures taken to increase liquidity	Recapitalization Plans	Plans to buy assets
South Africa			x		
Germany	x	x	x	x	x
Saudi Arabia	x	x	x		
Argentina			x		
Australia	x	x	x		x
Brazil			x		x
Canada		x	x		x
China			x		
South Korea		x	x	x	x
Spain	x	x	x		x
United States	x	x	x	x	x
France		x	x	x	
Holland	x	x	x	x	
India	x		x		
Indonesia	x		x		
Italy		x	x	x	
Japan			x	x	x
Mexico		x	x		
United Kingdom	x	x	x	x	x
Russia	x	x	x	x	x
Turkey			x		

Source: Reproduction of Global Economic Policies and Prospects, issued by the IMF, March 2009.

The several countercyclical measures adopted have not yet yielded the intended results. However, it is expected that the first signs of recovery in the activity level will appear in the second half of 2009.

Brazil and the struggle against the world crisis: are there reasons for optimism?

Needless to say that the international financial crisis has already had negative impacts on all the world's economies. The GDP data showed a remarkably-generalized reduction in the 4Q08 activity level. However, the negative effects do not have similar proportions in different countries. As updated projections of the IMF evince (Table 1.1), in general, developing and emerging countries are expected to present a smaller deceleration in GDP than the developed countries in 2009.

The fact is that Brazil stands out as an emerging country with a set of positive qualities that make it relatively more capable of resisting the negative effects of the international financial crisis on its economic performance.

Following are some of the advantages that Brazil has in resisting the crisis: i) the strength of its domestic market; ii) the existence of solid investment plans, mainly in infrastructure, marked by high return and low risk; iii) a strengthened banking system, solvent and organized by a transparent and efficient regulation; and iv) public banks capable of adopting a countercyclical attitude, expanding credit at a time when trust in the markets is in crisis.

Firstly, Brazil depends less on the external sector than other emerging and developing countries. Before the worsening of the international crisis, the strong Brazilian GDP growth was led by the domestic market, chiefly by household consumption and investment growth. It is worth highlighting that investment expansion occurred at an expressively faster pace than those of consumption and GDP: in the accumulated result for the 12-month period ending in the third quarter, investment recorded a growth of 17% versus an expansion of the household consumption and GDP of 6.7% and 6.3%, respectively. Even after the negative effects of the crisis, investments grew 13.8% in 2008, significantly above the increase of 5.4% and 5.1%, respectively, of household consumption and of the GDP. Public investments in the Growth Acceleration Program (PAC) and the new housing program that is expected to boost private investments in the building sector assure positive perspectives of the global level of the Gross Formation of Fixed Capital (FBCF) in 2009 and in the next years (Graph 1.6).

With regard to the credit market, different from the developed countries that are in the epicenter of the crisis, Brazil has a highly solvent banking industry whose strength reflects transparent and efficient regulation of the banking sector (Graph 1.7). Add to this, the existence of strengthened public banks, capable of expanding credit in a scenario of lacking trust. In spite of the worsening of the crisis as of September 2008, credit operations maintained a remarkable expansion. In the accumulated 12-month result ending February 2009, there was a 28% credit growth versus the same period in the previous year. The BNDES, the Bank of Brazil and Caixa Econômica Federal (Federal Economic Bank) has been helping to achieve such a result. The credit operations under the responsibility of the public banks evolved from 13.20% of the GDP in September 2008, to 15.4% in February 2009, which represented an increase of the share, in the total credit, from 34% to 37% in February 2009 (Graph 1.8). In terms of the growth rate, credit operations of the public banks recorded an increase of 15.9% in February 2009 in comparison to September 2008, whereas Brazilian private banks and foreign banks presented variations of 1.6% and 0.5%, respectively.

Even foreigners evaluate Brazil's scenario as positive, as may be seen in the indicators of sovereign risk and the amount of Foreign Direct Investments (FDI). The indicator EMBI+ shows a blatant distance between Brazil's country risk and the average rating of the emerging countries (Graph 1.9). With regard to the FDI, the inflow into Brazil set a new record in 2008, reaching US\$ 45 bil-

lion. Even though the Central Bank's projections point to a reduction in FDI to around US\$ 25 billion in 2009, Brazil is considered one of the main destinations for foreign investors (see Section on FDI perspectives). It is worth adding that the level of international reserves, amounting to US\$ 200 billion, also falls within historical thresholds, which ensures buffer-stock liquidity, capital in an international scenario of financial restriction.

Chart 1.6 - Investment Rate (% in GDP)

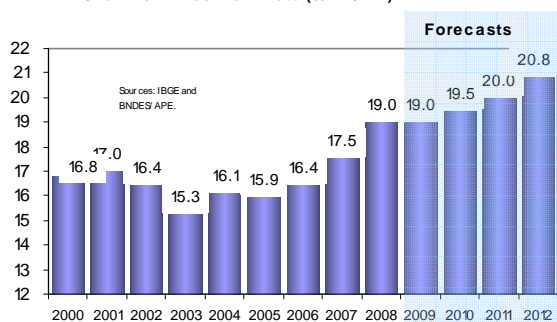
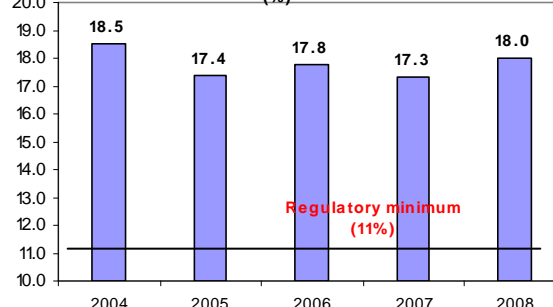
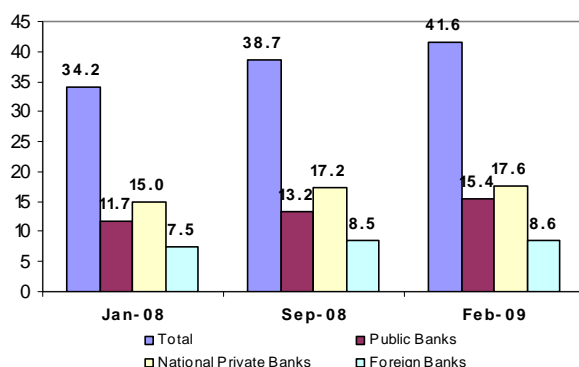


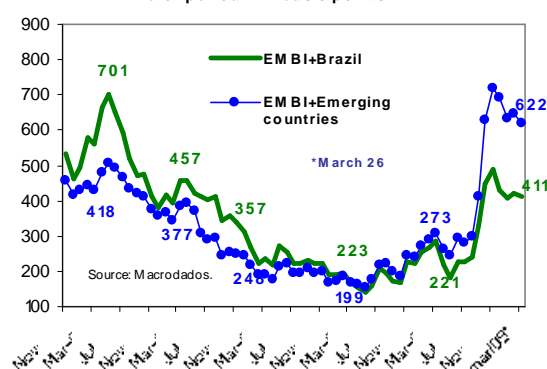
Chart 1.7 - Brazilian Banks: level of required capital (%)



Graph 1.8 - Credit operations (% of the GDP)



Graph 1.9- Evolution of the Country Risk (EMBI+)



2) FOREIGN DIRECT INVESTMENTS IN THE MOST RECENT PERIOD: DEVELOPING COUNTRIES INCREASED THEIR SHARE IN THE TOTAL INFLOW OF 2008

2.1 – Perspectives

According to a survey from the United Nations Conference on Trade and Development (UNCTAD), in view of the lack of financing sources (credit and profit) and of the perspective of global recession, many large transnational corporations, from several sectors, reviewed their global expansion plans and suspended or called off investments in new plants, and merger and acquisition projects. As a result, UNCTAD projects another drop in FDI in 2009; this time also affecting developing countries, where the impacts of the crisis on the capital inflow became apparant at a later time, mainly in the 4Q08.

In the medium term, nonetheless, the positive impacts already in place are expected to prevail, allowing the recovery of foreign direct investments. Among these factors, it is worth mentioning: good investment opportunities made possible by the reduction in the assets price and by the industrial restructurings, the economic stimulus packages launched by several countries in response to the crisis, the swift expansion of new production activities, such as those related to the environment and renewable energy sources, and the transnational companies' recovery capacity itself.

Emerging countries tend to be relatively more favored in the recovery process. The last prospects survey carried out by UNCTAD for FDI in the 2008-2010 period (World Investment Prospects Survey 2008-2010) confirmed the presence of four leaders (Brazil, India, Russia and China) among the five preferred destinations of foreign investors of the largest transnational companies in the world. It is worth noting that, in comparison with the previous survey, among the five preferred destinations, only Brazil, principally, and Russia, to a lower degree, recorded an increase in the number of survey participants that mentioned it [Brazil] (Table 2.1).

Table 2.1: Preferred FDI destinations for the next 3 years				
Countries	Data Collection for 2008-2010		Data Collection for 2007-2009	
	% of interviewees	Position in the ranking	% of interviewees	Position in the ranking
China	55	1st	56	1st
India	41	2nd	45	2nd
USA	33	3rd	38	3rd
Russia	28	4th	23	4th
Brazil	22	5th	14	5th
Vietnam	12	6th	13	6th
Germany	9	7th	7	8th
Indonesia	8	8th		
Australia	7	9th	10	7th
Canada	6	10th		
United Kingdom	6	10th	7	8th
Mexico	6	10th	10	7th
Poland			7	8th

Source: UNCTAD (2008). World Investment Prospects Survey 2008-2010

2.2 – 2008 Preliminary Income

In 2008, foreign direct investments in the world, according to UNCTAD estimates, amounted to US\$ 1.4 trillion and dropped 21.0% versus the previous year (Table 2.2). The drop, after four consecutive years of highs, reflects the strong impact of the financial crisis on developed countries, where company mergers and acquisitions between countries, the main trigger of FDI over the last years, decreased 32.5%.

Developing countries and economies in transition, which had been outside the epicenter of the crisis, still jointly recorded net inflows of FDI higher

than those of the previous year, although relative growth has been far more modest than in 2007. With these results, the developed countries' share in the global FDI inflow, although still major, dropped 10 percentage points, whereas that of developing countries grew from 27.3%, in 2007, to 35.7% last year. Cross-border mergers and acquisitions in developing countries also grew in 2008 at around 16%.

Among the developed countries, the United States continued as the major net inflow of FDI in 2008 (15.2% out of the total). The drop of 5.5% compared to 2007 was relatively modest in comparison with the average numbers of the region. The United Kingdom, where the drop was of 51.2%, was surpassed by France as the second place among the developed countries with the highest FDI.

Among the leading emerging countries (Brazil, India, Russia and China), India stood out with a growth of 59.6% of net FDI in 2008. In Brazil, according to estimates of the Central Bank, the growth was of 30.2% and led FDI to a historical record, of US\$ 45 billion. In Russia, the result was also positive, with an expansion of 17.5%. In China, where growth was comparatively more modest (10.7%), the FDI amount in 2008 stood for 6.4% of the total, a bit more than twice the Brazilian share.

Table 2.2: FDI net amount in 2007-2008 per region and the main grantees

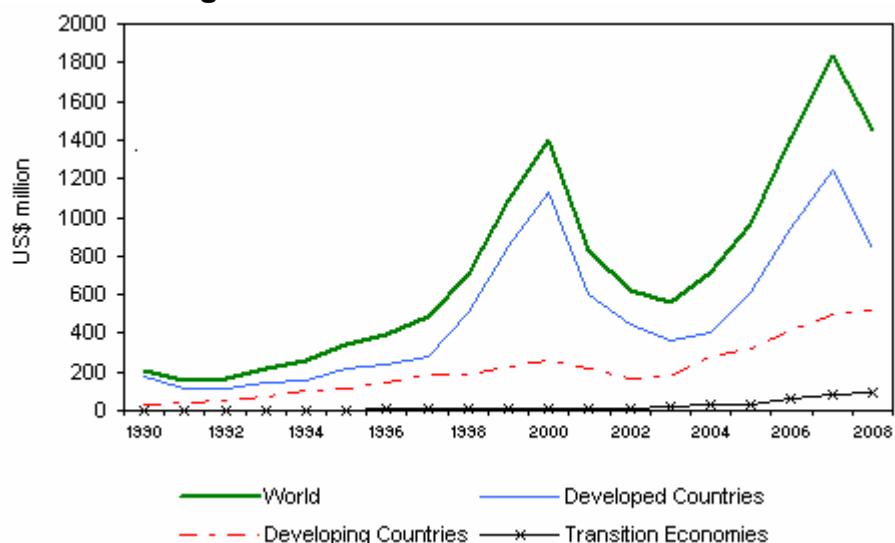
Region/Country	Amounts in US\$ billion		Growth rate %	Stake % 2008
	2007	2008*		
World	1,833.3	1,449.1	-21.0	100.0
Developed countries	1,247.6	840.1	-32.7	58.0
European Union	804.3	557.4	-30.7	38.5
France	158.0	114.3	-27.7	7.9
United Kingdom	224.0	109.4	-51.2	7.5
Spain	53.4	57.3	7.3	4.0
United States	232.8	220.0	-5.5	15.2
Japan	22.5	17.4	-22.7	1.2
Developing Countries	499.7	517.7	3.6	35.7
<i>Asia and Oceania</i>	320.5	313.5	-2.2	21.6
China	83.5	92.4	10.7	6.4
Hong Kong	59.9	60.7	1.3	4.2
India	23.0	36.7	59.6	2.5
Turkey	22.0	16.4	-25.5	1.1
Singapore	24.1	10.3	-57.3	0.7
<i>Latin America and the Caribbean</i>	126.3	142.3	12.7	9.8
Brazil	34.6	45.1	30.2	3.1
Mexico	24.7	20.7	-16.2	1.4
Chile	14.5	17.8	22.8	1.2
Colombia	9.0	10.9	21.1	0.8
Peru	5.3	7.4	39.6	0.5
Argentina	5.7	7.3	28.1	0.5
<i>Africa</i>	53.0	61.9	16.8	4.3
Transition Economies	85.9	91.3	6.3	6.3
Russia	52.5	61.7	17.5	4.3

Source: UNCTAD and BCB

2.3 – Aspects of the growth from 2003 to 2007

The drop in foreign direct investments in 2008 was preceded by an upward cycle which began in 2003 (Figure 2.1). From that year until 2007, according to statistics consolidated by UNCTAD, total foreign direct investment inflows evolved from US\$ 561 billion to the record level of US\$ 1.8 trillion, an increase of 227% in current amounts. In 2007, in spite of the financial and credit crisis, which began in the second half of the year, FDI grew 30% versus 2006.

Figure 2.1: 1990-2008 FDI inflows evolution



Source: UNCTAD

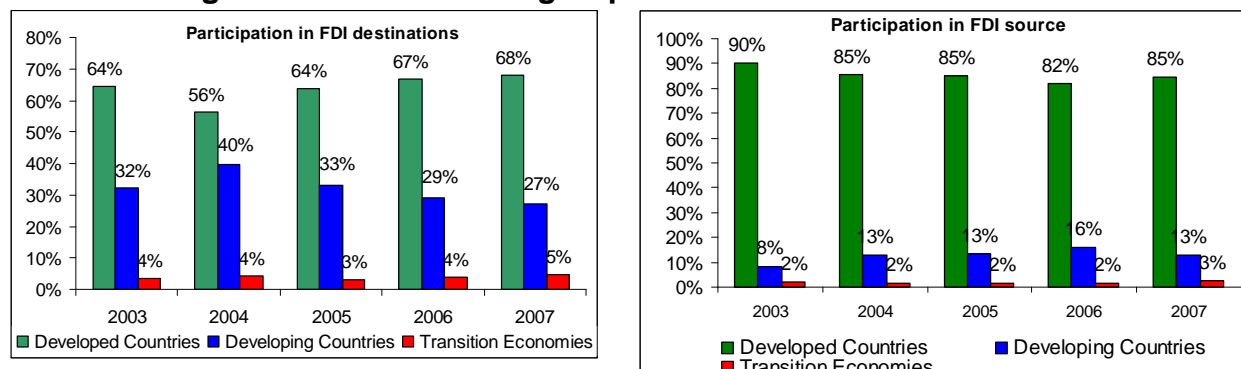
The fast economic growth and the good performance of transnational companies in the period are the main factors for the foreign investments' expansion. Profits of foreign branches of transnational companies evolved from around US\$ 200 billion in 2002 to more than US\$ 1 trillion in 2007 and contributed to the increase in reinvested profits, which stood for around 30% of the total FDI inflows in 2007.

The increase in cross-border mergers and acquisitions was another crucial aspect in FDI expansion over the last years. In 2007, the amount of these transactions reached US\$ 1.637 billion and was 21% higher than the previous record, in 2000. In 2003, 78 operations with amounts higher than US\$ 1 billion were carried out, totaling US\$ 184.2 billion; in 2007, there were 300 operations, which amassed US\$ 1.2 trillion.

All the main geographical regions posted record inflows of foreign direct investments in 2007. Nonetheless, FDI growth rates over the last years were higher in developed countries than in developing countries, reducing the latter's share in the total investment inflows during the period. On the other hand, as a consequence of companies' internationalization and of the expansion of the transnationals headquartered in those countries, developing countries gained importance as FDI source countries. The countries in transition increased their

share both as destination and as source of FDI over the 2003-2007 period (Figure 2.2).

Figure 2.2: Share of the group of countries in the FDI inflows



Source: UNCTAD

As a sector trend, a significant increase in FDI inflows to the primary sector was observed over the last years, which, in the UNCTAD report classification, includes the extraction industry (mining and oil). The sector's share in FDI inflows increased from 6.9% from the late 80s to 13.2% in the 2004-2006 period. The service sector continued amassing most foreign investment inflows and also gained a higher stake, increasing to 55.8%. In its turn, the processing industry's share has been on a downward trend since 1990, undergoing a drop of more than 10 percentage points to 22.9% of the total in the 2004-2006 period. This pattern was observed for both developed countries and developing countries. In 2007, there was an increase of around 86% of the mergers and acquisitions among countries in this sector versus an approximated growth of 1% in the primary sector and of 36% in the service sector.

A new aspect of FDI in the recent period was the appearance of sovereign funds as direct investors. These funds were formed by some governments as an accumulation of international reserves and are administered separately from the official reserves kept by the monetary authorities. Their current assets are estimated to amass around US\$ 5 trillion. Although some of these funds were created back in the 50s, only recently have they drawn attention for their participation in large mergers and acquisitions and for supplying a significant amount of funds to US and European financial institutions undergoing capital problems. Although the amounts invested by the funds in the form of FDI remained relatively low (only 0.2% of the total assets in 2007), the growth in the recent period was significant: of the US\$ 39 billion invested over the two last decades, US\$ 31 billion was invested in the last three years alone.

Transnational companies and infrastructure investments

One of the main aspects of the UNCTAD report on 2008 foreign investments was the role of the transnational companies in providing economic infrastructure. As infrastructure investment needs surpassed what the domestic resources, public or private, are capable of financing, especially in developing countries, the importance of these companies grew over the last two decades.

According to UNCTAD estimates, from 1990 to 2006, the foreign direct investments in infrastructure increased 31 times, to US\$ 786 billion in the world, and 29 times, to US\$ 199 billion in developing countries. The infrastructure share in the FDI world inventory reached almost 10% versus only 2% in 1990. With regard to inflows, the stake jumped from 1.8% to 8.4%, with a peak of 9.0% in 2000 (Table 2.3). In Latin America and in the Caribbean, this share reached 23.7%, as a result of privatization programs carried out in several countries of the region. There was significant growth in a number of sectors, although the highest growth was recorded by the electricity and telecommunication sectors, and the lowest, in the transport and sanitation sectors.

Table 2.3: % Infrastructure stake in FDI net inflow				
	1990	1995	2000	2006
World	1.8	3.4	9.0	8.4
Developed countries	1.5	2.5	9.0	8.3
Developing Countries	3.8	6.0	8.8	8.9
<i>Asia and Oceania</i>	1.4	3.9	4.4	6.0
<i>Latin America and the Carib</i>	7.4	11.8	23.7	20.1
<i>Africa</i>	1.3	6.0	9.3	10.4
Transition Economies	1.4	20.7	17.7	6.5

Source: UNCTAD, World Investment Report 2008

Transnational companies are the main suppliers of FDI in infrastructure, although the report also indicates the appearance of new players, such as institutional investors and sovereign funds. The companies in developed countries are leaders in investments. Nonetheless, one of the highlights in the period was the significant growth of the involvement of transnational companies from developing countries. In 2006, of the 100 largest infrastructure transnational companies of the world 22 were headquartered in developing countries or countries in transition, out of which 11 are in Asia.

The stake of the transnational companies in providing infrastructure assumes different shapes, from shareholding (as in privatizations, new projects and joint ventures) to merely providing service, to the several modalities of concessions. Besides regulation, the modality is characterized by scale, capital intensity and project complexity, as well as its regional extension, the companies' features and the involved level of risk. Based on the number of projects over the 1996-2006 period, UNCTAD estimates that 62% of foreign investments in infrastructure in the world were concessions, 16%, privatizations, 16% with new projects and only 6% under administration or leasing. The telecommunications sec-

tor stands out from the rest as 67% of the investments were under the scope of new projects.

3) BRAZILIAN FOREIGN TRADE

The international financial crisis had a strong impact on the world trade movement. IMF estimates indicate that world trade grew around 4% in 2008 and will shrink by 3% in 2009, after a growth of 7.2% in 2007. The reduction of the world demand and the lack of credit are expected to jeopardize production for exports, with effects particularly relevant to those emerging countries that maintained growth strategies grounded in current account surpluses. Some countries presented a drop of more than 30% in their exports over the last few months. The prices of the main exported commodities plunged dramatically; some of them fell to half their former prices when compared to the first months of the previous year. International credit lines saw their spreads multiplied by four if compared to the beginning of the previous year.

The reduction in trade was not only worth noting in the marked commodity price drop, but also in the fall in production and in the exported quantities in several industrial categories. Manufactured goods output in the world fell drastically in 4Q08, reaching a 15% decline in relation to the previous quarter, according to estimates of the Institute of International Finance (IIF).

In Brazil, the flow of trade over the first few months of 2009 was significantly lower than the same period in the previous year. As accrued in January-February, Brazilian exports reached US\$ 19.4 billion (-21.9% for the daily average versus the same period in the previous year) and imports, US\$ 18.1 billion (-21.6%). The trade balance as of year-end totaled US\$ 1.2 billion. After recording a deficit of US\$ 518 million in January, the first negative balance since March 2001, the Brazilian trade balance reached a surplus of US\$ 1.8 billion in February. The deficit in January was caused both by the drop in both prices and amounts of Brazilian exports.

The three categories of the aggregate factor presented a reduction in exports: manufactured goods (US\$ 9.0 billion; -30.5% versus the same period in the previous year), semi-manufactured goods (US\$ 3.0 billion; -20.9%) and basic goods (US\$ 7.0 billion; -4.8%). With regard to the stake, manufactured goods continued to be the main group in Brazilian exports, representing 46.2% of the total related to the amount accumulated in January-February 2009, in spite of presenting the highest reduction of the three aggregate factor categories.

The positive highlights in the semi-manufactured goods category was the raw sugar exports (US\$ 697 million; 98.0% versus the same bimonthly span of the previous year) and the crude aluminum exports (US\$ 234 million; +18.8%); in manufactured goods, the refined sugar exports (US\$ 311 million; +21.1%). All the other items of major importance to the portfolio of the two categories presented a drop in the period. In basic goods, the main exported item was iron

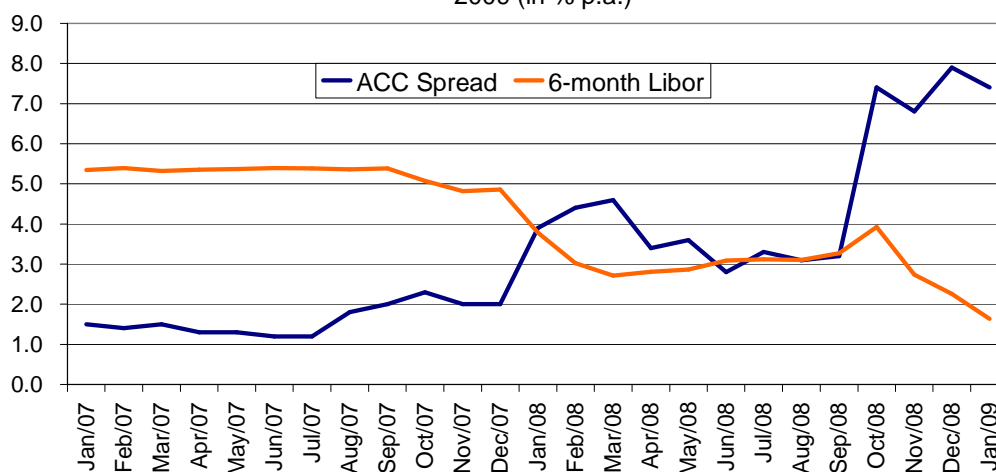
ore, responsible for 29% to the total sales and presenting a growth of 13% versus 2008. Other items with high exported amounts in the period were: crude oil (US\$ 829 million; -28.7% versus the previous year), poultry meat (US\$ 631 million; -17.2%), coffee beans (US\$ 583 million; +1.6%) and soy bean (US\$ 517 million; +24.4%).

In imports, there was also a reduction of all categories of goods: fuels and lubricants (-32.8% versus the same period of the previous year), raw materials and intermediate goods (-27.3%), capital goods (-10.6%) and consumer goods (-3.7%). In absolute amounts, the highest stake in Brazilian imports is represented by the raw materials and intermediate goods usage category that amasses almost half of the total portfolio (47.7%).

ACC at high and Libor at low

The cost of the Advance on Exchange Contracts (ACC) posted a significant high as of the last quarter of the previous year. In December 2008, the average spread of the ACC concessions reached 7.9% p.a. versus the average of 3.8% p.a. in the first half of the year. The average ACC spreads had already presented an increase since the beginning of that year (Graph 3.1), but the most significant turning point was the month of October, when the average spread jumped from 3.2% p.a. in the previous month to 7.4% p.a., immediately after the worsening of the international financial crisis.

Chart 3.1 - ACC Spread and 6-month LIBOR: January 2007 to January 2009 (in % p.a.)



Source: BCB and BNDES

In the same period, Libor recorded consecutive lows – 4 percentage points below the average of 2007. In January 2009, the average Libor rate considered for six-month operations was 1.6% p.a. The Libor value in 2009 dropped almost to half the value verified in the middle of the previous year. The Libor represents the cost of interbank interest rates in the London market, and its drop reflects the consecutive cuts in the basic interest rate of the Bank of

England. In the beginning of the year, the institution cut its basic rate from 2.0% to 1.5% p.a., the lowest level verified in its 314 years of business.

Whereas the spread increase in foreign financing, as is the ACC case, is due to the risk aversion of the financial credit institutions, the Libor drop reflects the attempt of the national governments to revive economic activity by cutting their basic rates.

The Brazilian flow of trade fell in relation to all economic blocks. Brazil presented a deficit with Asia and the US, and a surplus in relation to all other blocks (Table 3.1).

Brazilian exports in relation to economic blocks presented a growth only compared to Asia (+8.3%), and China (+23.3%) is a highlight. The other blocks presented a drop: Mercosur (-44.1%), the United States (-38.0%), Eastern Europe (-27.3%), Latin America and the Caribbean – that is, not including Mercosur (-26.4%) –, the European Union (-23.1%), the Middle East (-22.0%) and Africa (-6.5%).

Table 3.1
Brazilian Export, Import and Trade Balance per Geographic Region:
Jan.-Feb. 2009 and 2008 (in US\$ million FOB)

	Exports		Var. % 2009/08	Imports		Var. % 2009/08	Balance	
	2009	2008		2009	2008		2009	2008
Latin America and the Caribbean	4,418	7,075	-34.4	2,886	4,636	-34.6	1,532	2,439
- Mercosur	1,694	3,185	-44.1	1,573	2,568	-35.6	121	617
. Argentina	1,333	2,621	-46.5	1,274	2,273	-41.1	59	348
- Other Latin American Countries								
and the Caribbean	2,724	3,890	-26.4	1,313	2,068	-33.3	1,411	1,822
European Union	4,655	6,365	-23.1	3,919	5,371	-23.3	736	994
Asia	4,159	4,039	8.3	5,413	6,511	-12.6	-1,254	-2,472
. China	1,659	1,414	23.3	2,386	2,862	-12.4	-727	-1,448
US (1)	2,315	3,924	-38	3,544	3,603	3.4	-1,229	321
Africa	1,214	1,365	-6.5	860	1,741	-48.1	354	-376
Middle East	784	1,056	-22	402	843	-49.9	382	213
Eastern Europe	414	599	-27.3	208	654	-66.6	206	-55
Other Countries	1,411	1,654	-10.3	896	946	-0.5	515	708
TOTAL	19,370	26,077	-21.9	18,127	24,305	-21.6	1,243	1,772

Source: SECEX/MDIC

(1) including Puerto Rico.

Per supplying markets, only imports from the US (US\$ 3.5 billion; +3.4% in relation to the same period of the previous year) increased. The other blocks presented a drop: Eastern Europe (US\$ 208 million; -66.6%), the Middle East (US\$ 402 million; -49.9%), Africa (US\$ 860 million; -48.1%), Mercosur (US\$ 1.6 billion; -35.6%), Latin America and the Caribbean – that is, not including Merco-

sur (US\$ 1.3 billion; -33.3%) –, the European Union (US\$ 4.0 billion; -23.3%) and Asia (US\$ 5.4 billion; -12.6%).

WTO's Trade Policy Review confirms Brazil as Global Trader

In the second week of March 2009, the WTO published the Trade Policy Review (TPR) of Brazil. The report offers detailed information on the country's economy, the investment regime and trade policies, presenting specificities per sector. The conclusion of the report was favorable to Brazil, while highlighting the solidity of its macroeconomic policies and its capacity to benefit from the favorable world economic environment until the middle of the previous year, in spite of also pointing out the challenges the world crisis will also pose to the country.

With specific regard to the external sector, the TPR emphasizes that "Brazil is truly a global trader, with noteworthy diversification as to geographical distribution of its exports and imports." (p.11) The usual recommendations to enhance the opening of the economy and to reduce taxes are also included; however, there is no further criticism about Brazilian foreign trade policy.

The document is prepared for each member country on a regular basis. Japan's report was published before Brazil's; the next to be published in April will cover the countries of the European Community. The last report on Brazil had been prepared in 2004.

The reports are available on the website: www.wto.org

The deceleration of world trade as of the last months of the last year did not significantly impact the Brazilian trade balance income for the year-end. In 2008, Brazilian exports reached US\$ 197.9 billion (+23.2% in relation to 2007) and the imports, US\$ 173.2 billion (+43.6%). The trade balance in the period was US\$ 24.7 billion.

All the aggregate factor categories in Brazil's export portfolio reached historical records and growth rates above two figures in 2008: manufactured goods (US\$ 92.7 billion, +10.4 % versus 2007), semi-manufactured goods (US\$ 27.1 billion; +24.2%) and basic goods (US\$ 73.0 billion; +41.5%) (Table 3.2).

Table 3.2
Brazilian Exports of Value-Added Products and Main Export
Products: 2008 and 2007 (in US\$ million FOB)

	2008	2007	Var. % 2008/07	Stake % 2008
Commodities	73,028	51,596	41.5%	36.9%
Iron Ore	16,539	10,558	56.6%	8.4%
Soybean	10,592	6,709	57.9%	5.4%
Crude Oil	13,556	8,905	52.2%	6.8%
Chicken	5,822	4,217	38.1%	2.9%
Other	26,519	21,207	25.0%	13.4%
Semi-manufactured products	27,073	21,800	24.2%	13.7%
Pulp	3,901	3,012	29.5%	2.0%
Iron/steel semi-manufactured products	4,002	2,340	71.0%	2.0%
Raw Sugar	3,650	3,130	16.6%	1.8%
Cast Iron	3,145	1,867	68.5%	1.6%
Other	12,375	11,451	8.1%	6.3%
Manufactured	92,683	83,943	10.4%	46.8%
Airplanes	5,495	4,719	16.4%	2.8%
Passenger vehicles	4,916	4,653	5.7%	2.5%
Vehicle spare parts	3,510	3,186	10.2%	1.8%
Fuel oils	2,964	2,292	29.3%	1.5%
Vehicle engines	2,683	2,556	5.0%	1.4%
Transmitter/receiver devices	2,550	2,353	8.4%	1.3%
Ethyl Alcohol*	2,390	1,478	61.7%	1.2%
Cargo vehicles	2,176	2,054	5.9%	1.1%
Powered engines and generators	2,167	1,707	26.9%	1.1%
Others	65,999	60,652	8.8%	33.3%
Special Operations	5,159	3,311	55.8%	2.6%
Total	197,943	160,650	23.2%	100.0%

* including ethanol

Source: MDIC/Secex

The group of manufactured goods continued to be the main group of Brazilian exports, amassing 46.8% of the total in the period from January to December 2008, in spite of recording the lowest growth rates for the three aggregate factor categories. The aircraft export segment (US\$ 5.5 billion) remained stable as the main item in the manufactured goods portfolio. Following this, the exports of the passenger vehicles (US\$ 4.9 billion) and of auto parts (US\$ 3.5 billion) stood out. Foreign sales of ethanol (+61.7 %) also recorded remarkable growth.

Among the main manufactured goods, the only exports to record major drops in comparison with 2007 were those of frozen orange juice (-25.8%), mainly due to the amount (-20.2% in relation to 2007), but also to the price drop (-7%). Exports of flat iron or steel laminated products and refined sugar presented drops in amount, despite their price growing.

In the segment of semi-manufactured goods, there were significant increments in the sales of iron/steel products (+71.0%), cast iron (+68.5%) and

pulp (+29.5%), which together helped sustain the total growth rate of the semi-manufactured goods category.

In their turn, basic goods recorded the highest growth in exports versus 2007. Three groups of goods (iron ore, crude oil, grains and soybean bran) amassed more than half of the portfolio, and all of them presented a high growth in exports in 2008. The basic goods' growth rate was more than twice the total average of the Brazilian portfolio in 2008.

Exports of Brazilian oil and derivatives reached US\$ 23 billion last year, representing a growth of 43.7% versus the previous year. However, with regard to the exported quantities, a 1.3% reduction in barrel sales can be observed in this period. The increase of the average price of the commodity over the year in the international market was a capital factor for the increment of the segment's total income.

The increase of imports was steady in all categories, which presented a growth ranging between 40% and 60% over the period, considering, for these purposes, that the fuel and lubricants segment recorded the highest growth rate, 56.7% versus 2007 (Table 3.3). The increase in expenses to purchase fuel and lubricants is mainly due to the increase in the expenditure with oil and derivatives; specifically owing to a more accelerated increase in the international oil prices in the second four-month period of the year and the amount and price in the case of natural gas and fuel oils.

**Table 3.3: Brazilian Imports per Category of Use: 2008 and 2007
(in US\$ million FOB)**

	2008	2007	Var. % 2008/07	Stake % 2008
Capital Goods	35,929	25,125	43.0%	20.7%
Industrial machinery	18,827	13,367	40.8%	10.9%
Other capital goods	17,102	11,758	45.4%	9.9%
Raw material and intermediate goods	83,277	59,381	40.2%	48.1%
Non-durable	22,525	16,027	40.5%	13.0%
Durable goods	9,816	7,776	26.2%	5.7%
Non-durable goods	12,709	8,251	54.0%	7.3%
Fuels and lubricants	31,466	20,085	56.7%	18.2%
Oil	16,391	6,983	134.7%	9.5%
Others	15,075	13,102	15.1%	8.7%
Total	173,197	120,618	43.6%	100.0%

Source: MDIC/Secex

In absolute amounts, the highest stake in Brazilian imports is represented by the raw materials and intermediate goods category that amasses almost half of the total portfolio. Added to the purchase of fuels and lubricants, these categories reached 2/3 of the portfolio.

However, after the crude oil and fuel oil purchases, the main imported item by Brazil falls under consumer goods: passenger vehicles (US\$ 5.3 billion in 2008), mainly coming from Argentina (US\$ 2.4 billion), Mexico (US\$ 1.0 bil-

lion) and South Korea (US\$ 0.7 billion). Brazilian passenger vehicle exports amassed US\$ 4.9 billion in the same period, which represented a surplus of around US\$ 400 million in the group of these goods. The main destination of Brazilian motor vehicle exports was also Argentina (US\$ 2.6 billion), followed by Germany (US\$ 1.1 billion) and Mexico (US\$ 0.6 billion). It is worth emphasizing that Brazil's purchase of fertilizers (potassium chloride) presented a growth of 155.2%, with Canada (US\$ 1.2 billion) being the main source country.

Brazil's exports presented a growth in relation to all blocks in 2008, but the import growth rate was higher in all blocks (Table 3.4).

The main destination of the total Brazilian exports continued to be the United States (US\$ 27.6 billion in 2008). Sales expanded 9.2% versus 2007, but their share declined from 15.8% to 14.0%. There was sharp reduction in Brazilian exports of engines for vehicles, footwear and auto parts. These drops were offset by the increase in oil sales, which is responsible for the fact there was not a reduction in the total Brazilian exports to that country. Brazil's imports coming from the US grew more than three times in relation to the exported amount, which implied a reduction of US\$ 4.6 billion in the trade balance of Brazil in relation to the previous year.

Table 3.4: Brazilian Exports, Imports and Trade Balance per Geographic Blocs: 2008 and 2007 (in US\$ million FOB)

	Exports		Var. % 2008/07	Imports		Var. % 2008/07	Trade Balance	
	2008	2007		2008	2007		2008	2007
European Union	46,395	40,428	14.8%	36,192	26,734	35.4%	10,203	13,694
Latin American Integration Association (LAIA)	43,095	36,426	18.3%	27,491	20,563	33.7%	15,604	15,863
Asia	37,442	25,086	49.3%	47,125	30,723	53.4%	(9,683)	(5,637)
US*	27,648	25,314	9.2%	25,810	18,888	36.6%	1,838	6,426
Africa	10,170	8,578	18.6%	15,756	11,347	38.9%	(5,586)	(2,769)
Middle East	8,055	6,399	25.9%	6,232	3,205	94.4%	1,823	3,194
Eastern Europe	5,580	4,309	29.5%	5,338	2,766	93.0%	242	1,543
Other	19,558	14,108	38.6%	9,253	6,391	44.8%	10,305	7,717
Total	197,943	160,648	23.2%	173,197	120,617	43.6%	24,746	40,031

Source: MDIC/Secex

* including Puerto Rico.

In sales to Argentina (US\$ 17.6 billion), the second main destination of Brazilian goods, there was growth in virtually all the main items traditionally exported: motor vehicles, auto parts, cell phones, cargo vehicles, fuels, engines for vehicles, tractors and flat laminates. In relation to the previous year, there was an increase of 20.7%.

The ALADI countries represent the second main destination of Brazilian exports in 2008, only after the European Union. Brazilian sales performance to Latin American countries was strongly influenced by the behavior of exports to

Mercosur (US\$ 21.7 billion), which grew 23.8% versus 2007, especially due to the Argentinean market, which corresponds to almost 50% of the total amount.

Exports to Asian countries (US\$ 37.4 billion) also stood out while presenting a growth of 49.3%. Brazil's main partner on the Asian continent is China, where Brazilian exports grew 50.8%, totaling the amount of US\$ 16.4 billion in the period. China is the third country in the total portfolio of Brazilian exports.

The main source of Brazilian imports is in Asian countries, amounting to US\$ 47.1 billion, i. e., 27.2% of the total purchases from foreign countries. China was responsible for around 2/5 of this amount, being the second main source of Brazil's imports, only after the United States. With regard to China, the Brazilian deficit in 2007 (US\$ 1.9 million from January to December) became even more significant in 2008 (US\$ 3.6 million). Asian countries record the highest surplus with Brazil.

After Asia, the economic block comprised of the African countries recorded the highest surplus in relation to Brazil. The Brazilian deficit in relation to African countries multiplied by two in relation to 2007, reaching US\$ 5.6 billion as of 2008 year-end. This result was favored by the increment of oil and fertilizer imports. Nigeria represents 42.6% in the stake of imports of African origin, with 98.1% of them concentrated in oil purchases. Brazilian imports from Angola increased almost 200% in relation to last year, also principally due to oil purchases.

Brazil's oil imports also increased trade with Middle Eastern countries, which showed the highest relative growth in relation to the previous year. Currently, the main sources of oil imports to Brazil are Nigeria (US\$ 6.6 billion from January to December 2008), Saudi Arabia (US\$ 2.5 billion), Angola (US\$ 2.2 billion), Algeria (US\$ 1.7 billion) and Libya (US\$ 1.4 billion).

SPECIAL REPORT

The evolution of economic relations between China and the United States: highlights and implications for the present

Cecília Carvalho
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1 – Introduction

The year of 2008 seems to be marked as the end of an economic growth cycle that reached, one way or another, virtually every country. After financial turbulence substantiated by the reduction in asset prices, the bankruptcy of important financial institutions in the world and the depreciation of practically all the national currencies in relation to the US dollar and the yen, soon a fall in production indicators and unemployment increase can be noted.

In January 2009, the United States and China celebrated their 30th anniversary of diplomatic relations. Known as the “ping-pong diplomacy”, due to the use of the sport to restore the communication between the countries, the milestone of the policy to tighten the relationship between the United States and China was the 1972 visit of President Richard Nixon to China, which until then had been closed. Two years after the death of Mao Tse Tung, in 1979, the two countries established formal diplomatic relations.

The setbacks faced by both countries during the 70s, as well as the scenario of uncertainty that haunted the international system during the Cold War were the cornerstones that made possible the approximation between the US and China in those times.

The present text seeks to review the history of the approximation between China and the United States since the 70s, in an attempt to provide elements to understand the development strategy of that country and the productive and commercial relations existing between the countries. The dynamics of the relations between the two countries prove to be particularly relevant in a scenario of world economic crisis. This meltdown may be overcome counting on the fundamental role of these two countries.

2 – The approximation between the USA and China

With the effective establishment of relations between the US and China in 1972, an advance in the commercial exchange between these nations became evident (Table 1). Early in the 80s, with the growing amount of Chinese exports, the beginning of a US trade deficit with China emerged, amounting to US\$ 426 million in 1985. In 1995, the accumulated US deficit was around twenty-six times higher than that posted in 1985, presenting the total amount of

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US\$ 11.4 billion. The US trade deficit has presented significant increments since then, amounting to US\$ 266.3 billion in 2008 (Table 1).

Table 1: US - China Trade Balance			
Year	Exports	Imports	Trade Surplus
1975	304	159	145
1980	3,755	1,161	2,594
1985	3,796	4,222	-426
1990	4,807	16,261	-11,453
1995	11,748	48,506	-36,757
2000	16,252	107,615	-91,362
2005	41,835	259,829	-217,994
2008	71,412	337,745	-266,333

Source: Prepared by means of research of the data of the United Nations Commodity Trade Statistics Database (Comtrade) and the United States International Trade Commission

The explosive growth of Chinese exports, as well as the trade surplus accumulation with the US, was a crucial factor for the development of China (Medeiros, 2000, p. 320). In this vein, the new strategic alliance with the US played a decisive role in the success of the Chinese economy (Fiori, 2007, p.180). The country's development was built by a clear strategy of fostering exports, attracting foreign investment, as well as access to international finance (Medeiros, 2000, p. 337). This model, together with the strong presence of the government, allowed the creation of Special Economic Zones (SEZ) that, by spurring on exports and attracting FDI, favored the accumulation of international reserves².

By means of the SEZs, the Chinese started to sustain a continuous increase in the internal accumulation of capital and a fast incorporation of new technologies by spurring on the creation of joint ventures with foreign companies, a condition imposed by the special zones for the establishment of these foreign companies. China's position in the world economy improved substantially with a high domestic growth rate, FDI absorption and growth in exports (Tavares and Beluzzo, 2005, p.133). This development model enabled the accumulation and interchange of knowledge between companies, favoring the industrial and technological streamlining of China, while expanding the absorption of state-of-the-art technology and know-how.

² The SEZ's were located in China's coastal provinces. Their purpose was production earmarked exclusively for export and were important for learning advanced technologies. The SEZ's had tax incentives and exemption on imports of special machinery. See Prasad and Wei (2005) for an assessment of the importance of the capital inflows not coming from FDI or from the current account surplus of China's international reserves in the early 21st century.

Exports were an important component of the effective demand of the Chinese economy, presenting an extraordinary growth since the 70s. In 1985, the amount of exports was nearly five times higher than in 1975, reaching an amount of US\$ 25.6 billion. In 1995, exports coming from China already represented 3% of the world's exports. This share has presented significant increments since then (Table 2).

Currently, China is the second largest absorber of FDI after the US. From 1990 to 2000, the inflow of FDI in China totaled an average US\$ 30.1 billion, representing 6% of the world's share. In 2004, the inflow of FDI in China was more than twice that in 2000, presenting a total of US\$ 60.6 billion, and the country's world share increased to 8%.³

Table 2: Stake of China's Exports in World Exports: 1970 to 2007 (in US\$ million FOB)

Year	World Export	China Export	Part %
1970	317,000	2,514	0.8%
1975	877,000	6,019	0.7%
1980	2,034,000	19,704	1.0%
1985	1,954,000	25,632	1.3%
1990	3,449,000	62,091	1.8%
1995	5,164,000	148,779	2.9%
2000	6,454,000	249,203	3.9%
2005	10,482,000	761,953	7.3%
2007	13,898,000	1,217,776	8.8%

Source: Prepared by means of research of the data of the World Trade Organization (WTO).

These days, China stands out as a major receiver of US investments, presenting an inventory of US\$ 70 billion of investment from large US multinational companies. Owing to this, China reaches the position of forerunner among the developing countries in terms of transference of income to US companies (Medeiros, 2005, p. 171).

The US has been an important trade partner for China, receiving more than 20% of Chinese exports. Overall, the US is a larger importer of Chinese manufactured goods, whereas China imports from the US mainly capital foods, grains and other scarce inputs in its economy.

³ The segments corresponding to enterprises originated by foreign direct investment represent 20% of the Chinese GDP, amassing 50% of the Chinese exports and 60% of its imports, in spite of employing only 3% of the country's manpower. It is estimated that foreign direct investments contributed to 40% of the Chinese economic growth over the last few years (Whalley and Xin, 2006).

In 1980, reaching the status of Most Favored Nation (MFN), granted by the US to China, as well as the classification of the latter as a “developing nation”, the trade relations between these nations became even closer. This measure resulted in a 50% cut of the US rates to import Chinese textile goods and garments. As a consequence, China reached, in the beginning of the 1980s, the status of largest exporter of textile goods to the US, and the US became the second largest trade partner to China.

Currently, China is the main country with a surplus in relation to the United States. In 2008, the trade balance of China was US\$ 266.3 billion, an amount more than twice higher than the second country with a major surplus, Japan. China is the country with the highest trade surplus with the United States since 2000, when it surpassed Japan.

In spite of the growing importance of Chinese goods in the United States, as observed in Bown et al. (2006), protection measures against China had little influence in the income of the current account of the United States, which makes large purchases from other countries, both developing countries (for instance: textile goods and clothes) and developed countries (for instance: steel and auto parts). Currently, imports coming from China represent only 16% of the total US portfolio.

Considerations on the importance of Chinese exports to the US economy should not, nevertheless, cloud the peculiarity of the relations between the two countries; China presents characteristics that make it unique in the world scenario.

In addition to the large amount exported, China's import needs are also significant, which makes the country a “dual pole” in the world economy (Medeiros, 2000): as the main producer of manufactured goods with low prices and as a great market for the world production of machinery and equipment, technology industries and raw materials.⁴ To maintain its industrial development, China faces challenges such as the lack of fundamental raw materials for its advance.⁵ During the first half of the 70s, nearly 70% of the Chinese import portfolio was grounded on the purchase of grains, and the US was its main supplier. As of 1975, these imports reduced due to advances in domestic farming production. Together with oil and other commodities, the need to import machinery and equipment, as well as high-tech weapons, strongly presses towards

⁴ See Eichengreen and Tong (2007) with the same approach on China as a great exporter and representing a large consumer market at the same time, and the implication of this peculiarity in the effects of the inflows of foreign direct investment. The great inflows of direct investment to China did not necessarily mean, for other countries, a deviation of investment; rather, they contributed to increasing them in some cases. There was an increase of FDI in Asian countries that participate in the same world production chain as China, even though a contrary conclusion could be drawn when analyzing the cases of the OECD countries, which posted a drop in FDI inflows due to the growth of the Asian crisis.

⁵ The need for raw materials is pointed out by some authors as one of the reasons for the expansion of the Chinese presence in Africa, aiming at guaranteeing the supply of resources (mainly oil and gas) in a safer way than from the world market. See Besada, Wang and Walley (2008) for an assessment of the commercial flow and foreign direct investments between China and the African countries, as well as for the argument above.

the need for foreign currencies and magnifies the importance of the foreign market for the Chinese development.

Until the end of the 80s, the trade flow between China and the US was typically characterized by the export of textile goods, footwear and household electronic products from China to the US; and the export of machinery and equipment, food products, as well as technology from the US to China.

However, as of the 90s, the industrial development program created by the Chinese government, prioritizing the creation of joint ventures with foreign companies, favoring the accumulation of know-how by means of contact with and interchange of high-end foreign technologies, enabled the trend to diversify the Chinese export portfolio, which started to present an increment in exports of goods with higher technological content and added value. In 1995, exports of industrial inputs plus the export of machinery and equipment already represented more than 47% of the Chinese import portfolio. From 1985 to 1995, the machinery and equipment portfolio had an increment of US\$ 30.9 billion, reaching the total amount of US\$ 32.2 billion. There was also an extraordinary variation in the exports of machinery and equipment and of industrial inputs in the year of 2005 versus 1995, presenting, respectively, the increment of 1021% and 300%.

China's export portfolio is significantly more modern than that expected from a country with its income level. Government policies were capable of developing industries in segments of higher technological content, which would not to be developed without such policies.⁶

Nonetheless, the higher streamlining of the Chinese export portfolio does not necessarily imply in direct competition with US industry. The relations between the countries may continue to be supplemental. In spite of political and military issues⁷, based on a strictly commercial standpoint, the US industry may continue to benefit from the growing streamlining of Chinese exports, without representing a threat. Part of the source of the growing streamlining of Chinese exports has to do with the production control issue – in keeping projects and product specifications – and in specializing in the different segments of the same production chain. Once the stage of taking advantage of cheap manpower is overcome, in several cases Chinese plants produce components with high technological content on a large scale to be used locally or in other countries, but the control related to “what to do” continues in US, Japanese or European headquarters.

⁶ see Rodrik (2006) and Wang and Wei (2008).

⁷ Technological development is also linked to the R&D related to the military system, generating a growing concern on part of the US government segments. Similarly, the US is seen by the Chinese government as the main threat to the region's military security; see Medeiros (2008, p.263-269).

3 – Conclusion

The production relations between China and the US are old and now may be deemed as structural, i. e., of difficult change in a short time. The great flow of trade and the presence of US companies producing in China evince the strong bond between the countries. The relations between the two countries are much more than commercial in a strict sense. The possible price war feared on the international scenario, with the worsening of protectionism due to the world economic crisis, in spite of having clear effects, might be subject to limits in this case.

The unique development program promoted by the Chinese government has as cornerstones development incentives for the domestic economy in conjunction with the interaction of the international realm with the opening of the economy. The economic model developed by China, in conjunction with the strategic apparatus of the government, was grounded on the importance of exports and of FDI as a source of international reserves and accumulating know-how, providing means to enable the purchase of state-of-the-art machinery and technologies as a way to streamline the industrial sector of the country. Evolving with time, the model adopted allowed China to perform with more autonomy, becoming the main emerging economy in the international system.

The US had a fundamental stake in the initial development of the Chinese economy. With regard to the commercial relation established between the countries as of the 70s, and the opening of the Chinese economy to the West, the commercial flow between the countries expanded in a noteworthy way. Contact with the US was germane ever since it was deemed a major supplier of state-of-the-art technology and machinery in addition to making rich interchanges possible by allocating investments in the Chinese territory, which also favored the China's extraordinary increment of the accumulation of foreign currencies, crucial to the import of capital goods. The exchanges between the nations were also beneficial to both of them: the US had the advantage of importing cheap manufactured goods from China, whereas it obtained gains for the country's industrial streamlining by importing machinery and accumulating knowledge through joint ventures.

However, even though China is of noteworthy relevance to the current composition of the US' import portfolio and of its commercial deficit, it is not the only country to determine it. The US presented an expressive amount of purchases from Canada, Mexico, Japan and Germany, in addition to a large rate of countries with average stakes, but which altogether form almost half of its import portfolio. To change this characteristic that has endured for years, with origin in occurrences in the 70s and 80s, US industry should be subject to deep change, a scenario not too likely in the short run. There are no doubts that US companies continue to hold productive capacity, although confining production to the country's borders, employing local manpower, would require a significant, and even slow, adjustment process.

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