

Resource-rich Brazil and Japan's Response

An Opinion – Japan's Response

Securing a stable supply of resources is essential to maintaining and continuing the prosperity that Japan enjoys in the 21st century into the future. With an eye to the anticipated re-emergence of global-scale competition for resources upon the resolution of the financial crisis that has beset the globe since the fall of 2008, Japan urgently needs to “create a mutually beneficial relationship in a deeper and broader sense as equal partner with Brazil”, which is in recent times boldly seeking “external globalization, ” both in the public and private sector together.

While Brazil has the geographical disadvantage of being located as far from Japan as is possible on this earth, historically it has enjoyed a multi-layered economic relationship with Japan and also has ample ability to supply a variety of products including agricultural products, minerals and energy. Furthermore, in a global environment where heightened resource nationalism is not improbable, Brazil is a moderate resource-rich nation that places importance on the market.

The relationship with Brazil is one that should be positioned as pivotal in Japan's future external resources strategy.

As given in the title of the report, this research committee analyzed the current status of Brazil, focusing on the key word of “resource-rich nation” and investigated possible strategies for Japan's response in the future. There are numerous perspectives from which to view Japan's relationship with Brazil, a country that has a vast land area some 23 times that of Japan and a population approaching 200 million people, and similarly a number of angles from which to comment. These include the human aspect given that 2008 marked 100 years of Japanese migration to Brazil. Also not to be forgotten when considering the bilateral relationship are the Japanese-Brazilians who reside in Japan. On the commercial level, although not overly significant in numerical terms when compared with East Asian nations, history shows that the relationship between the two countries was rapidly re-established following World War II and spans a wide range of industries from agriculture to mining and services.

This report, however, provides the opinions of the research committee with the focus on “resource-rich Brazil” mindful of the dramatic time we have been experiencing since the 4th quarter of 2008 with the global financial crisis. In addition to the individual items investigated in each of the chapters of the paper, the content of the opinion has been extracted from overall investigation and discussion.

1. Brazil’s Ability to Deal with Crisis

Although the effects of the global financial crisis are unpredictable, at the time of compiling this report in May 2009 the measures adopted by Brazil have generally been appropriate and also leave something in reserve. This is the result of backing from the series of structural reforms implemented in line with economic liberalization since the early 1990s, particularly the Real Plan of 1994, the ensuing reform of the financial system, the fiscal responsibility law, liberalization of foreign exchange following the 1999 currency crisis, steadfast adherence to inflation targeting and other economic stabilization policies, and the burgeoning worldwide demand for resources since the beginning of the present century.

In addition to the fact that Brazil does not rely heavily on exports, that is, domestic consumption is relatively high, export markets are decentralized and its falling dependency on the U.S. market is one factor in Brazil’s resilience to crisis.

2. Two Driving Forces – Resource Exports and the Domestic Market

In addition to economic stabilization, the continuous increasing of the minimum wage as well as the purchasing power of the lower classes through poverty reduction measures during a total of 14 years of stable government under President Fernando Henrique Cardoso (hereafter Cardoso) and President Luis Inácio Lula da Silva (hereafter Lula) over 4 terms has borne fruit in the revitalization of the domestic consumer market. Economic growth between 2003 and 2008 was due to the twin driving forces of resource exports and the domestic market. Having the huge domestic market (Market Brazil) as an economic base is a strength that is absent from other resource-rich countries such as Australia, and has become a draw card for industry and capital from advanced nations and surrounding Latin American countries. As a result, Brazil has virtually a full complement of manufacturing industries.

3. The Brazilian Model for Development

Brazil has skillfully utilized the natural environment and special social characteristics that it has to heighten its presence on the world stage through technological innovation that can arguably be called the “Brazilian Model,” as typified by the development and production of dual-fuel cars that use both gasoline and ethanol and medium-sized passenger jets. In terms of resources, the dissemination of the bio-fuel

ethanol extracted from sugar cane and the development of deep-ocean oil fields several thousands of meters below sea level are also examples of the “Brazilian Model.”

4. A Leading Player in Resource Supply

Brazil is a resource-rich nation capable of supplying a wide range of commodities, from agricultural and livestock products such as soya beans and meats, to mineral resources like iron ore and aluminum, to energy such as ethanol and crude oil, and even has some supply capacity in reserve. Moreover, larger industrial complexes are taking shape within Brazil through the integration of these resource industries with processing industries. In the meantime, global supply chains that go beyond Brazil’s borders are being organized with the involvement of multinational corporations also that cover everything from development to production to sales, with Brazil intent on establishing and retaining a position as a leading player as a resource provider.

5. Public and Private Sectors United in External Globalization

Through resource related exports and business, the Lula administration is forging stronger ties not only with advanced countries, but also with emerging economies such as China and India, and with developing nations in Latin America and Africa, using this as one means of unfurling diplomacy to boost the nation’s economic and political influence. Major resource companies including Petrobras (oil), Vale (mining), Perdigão Sadia (chicken meat), JBS (beef) and Gerdau (iron manufacturing) have pushed ahead rapidly over the past few years with external globalization by gaining muscle through the acquisition of overseas rival companies and amalgamation with similar domestic corporations. Even since the onset of the global financial crisis, President Lula has visited India in October 2008 and China in May 2009 with a delegation of business people to further cement ties. It was the third time the President had visited these two countries in the six years or so since his inauguration.

6. A Moderate Resource-rich Nation

The administrations of Presidents Cardoso and Lula were both leftist, with the former based around the social democratic party Partido da Social Democracia Brasileira (PSDB) and the latter on the labor party Partido dos Trabalhadores (PT). Despite this, the policy stance on the resources front has been one of a “moderate resource-rich nation” with an emphasis on the market. Apart from Petrobras, of which the government is a majority shareholder, major public resource corporations have been privatized. Even if there were strengthened national management as a regulator and government impetus towards development and globalization in the future, there is currently little likelihood of heightened anti-foreign resource nationalism. As Venezuela, Bolivia and Ecuador show greater signs of resource nationalism with

the nationalization of companies in which foreign investment has been made, Brazil's importance as a stable regional power in South America grows.

With demand for resources expected to increase in the mid- to long-term, however, producing countries in general are gradually shifting towards resource nationalism, with a tendency to use resources as a means of diplomacy. On the other hand, international resource companies are trying to corral resources to ensure stable security. It is vital to always keep in mind that Brazil will be one of the settings for the fiercest struggles to secure resources.

7. Japan – Slow Off the Mark

The awareness and response of Japan to the changes in Brazil so far have been slow in comparison with Europe and America. Although there is recognition of Brazil as a resource supply base, there are no proactive and strategic efforts towards investing in resource development by Japan as there was in the 1960s and 1970s. Conversely, although Japan took the initiative with soya bean production in the Cerrado development in the central highlands of Brazil, which has been transformed into one of the world's foremost granaries, it is being outdone by American and European multinational corporations in terms of forming global supply chains and is merely standing idly by. This is also attributable to the view that arose during the period of price stability that continued until the early years of the 21st century that as long as Japan had financial clout commodities could be procured freely from the international market, and the subsequent waning of interest in resource producing areas. Without limitation to resource-related companies, Japanese industries have focused their observations solely on those fields of interest to themselves, while efforts within Brazil as a whole and the change in the presence of Brazil in terms of international politics and economics has tended to be overlooked.

8. Japan's Response in the Future

In Japan the phraseology that has hitherto characterized the relationship between Japan and Brazil is that it is a complementary relationship between "Brazil of abundant resources and labor" and "Japan of capital and technology." Even looking just at Brazil's management practices in recent years as an example, however, not only has this country become considerably globalized, but it has also developed its own strengths. The idea that Brazil is to "be taught" something will no longer have currency. As such, in order to prioritize the relationship with Brazil in Japan's external resource strategy, the following points should be heeded.

- Clearly position Brazil as a mutual benefit partner, not as an aid recipient

- Do away with the stereotypical notion that Central and South America is the backyard of the United States, get an overall grasp of Brazil's system of economic policy, diplomatic strategy and industrial strategy and investigate response policies for Japan and Japanese industry.
- Aim to create business affiliations with Brazilian industry keeping in mind the global stabilization of commodity supply and demand. Form cooperative partnerships mindful of the stagnation of demand in advanced nations, the Asia shift in resource trade due to increasing demand in China, India and other parts of East Asia, and resource development in Latin America, Africa and Oceania, etc.
- Taking into account the integration of resource industries and processing industries in Brazil to form larger industrial complexes, the urgent need to remove restrictions in terms of infrastructure and environmental aspects known as "Brazil costs", and the need for rectification of a range of disparities including the gap between rich and poor, create broad-based mutually complementary relationships with differing industries making the most of Japan's strength of "manufacturing" technology.
- In doing business in Brazil, do not adhere to the "from and to Japan" type of business that emphasizes the aspect of "between Japan and Brazil;" rather it is better to actively develop the "in and out" type of business that positions Brazil as the base. Japan's experience in the Asian market is of particular importance to Brazilian producers.
- With an awareness that the business environment in Brazil differs from that in Japan and East Asian countries, Japanese industry should strive to ensure thorough localization of management, prepare sufficient equity capital, become fully versed in local business customs, draw up a response to the risk of changes to economic policy and the legal system, and create an information network.
- Endeavor to boost the level of awareness of Brazil within Japan in order to demonstrate the overall power of Japan in its relationship with Brazil.

9. Consider Public Benefits, Regional Benefits and International Benefits

In many cases the development and production of resources takes place on a large scale, meaning that the burden on society, the region and the environment are also extremely large. Cooperation between the two countries must bear in mind the "negative" aspects of the resource industry and take care not to fall into vice in the pursuit of profit for their own company or nation. While the emerging nation of Brazil is enthusiastic for development and production, since democratization in 1985, the activities of non-government organizations (NGOs) and non-profit organizations (NPOs) have been heightening, as have

those of citizens' movements, with a high degree of sensitivity in the country to public benefits, regional benefits and international benefits.