

## Contemporary Perspectives and Trends in Russian–Brazilian Relations

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### Abstract

In the 21<sup>st</sup> century Russian–Brazilian relations have been strengthened both economically and politically. 2008 was a particularly successful year that provided the basis for wider developments, especially in trade; however, the global financial crisis has altered this trend to some extent. At the same time, the recent BRIC summits and high-level bilateral meetings have focused on the prospects for further cooperation and have encouraged Russian–Brazilian economic ties.

At present Brazil is one of Russia's main partners in Latin America. At the beginning of the 21<sup>st</sup> century, relations between the two countries entered into a new stage, with economic and political links significantly improved in comparison with previous decades.

Diplomatic ties between Russia and Brazil were established in 1828. However, until the 2000s, bilateral relations were characterized by an unsteady and weak dynamic. Only in 2001 did Russian–Brazilian trade exceed \$1 billion. However, greater diplomatic exchanges in the last decade have led to an increase in economic cooperation. In 2002, the then Brazilian president, Fernando Henrique Cardoso, visited Russia and two years later Vladimir Putin was the first Russian leader to visit Brazil. Following on from these reciprocal visits, the newly elected Brazilian president, Luiz Inácio Lula da Silva, visited Russia in 2005. These high-level diplomatic visits were followed by an enormous boost in bilateral trade, with a 70% increase during the course of 2005. In light of this growth in trade, commercial relations between the two countries have steadily increased, and 2008 became a year of great importance.

### Relations between Russia and Brazil in 2008

In 2008 Russian–Brazilian diplomatic relations marked their 180<sup>th</sup> anniversary. Moreover, during 2008 there was an evident spurt in bilateral trade between the two countries. For Russia, Brazil is its leading trade partner in Latin America. Indeed, 2008 was a very successful year for Russian exporters, with supply growth of 81% in comparison with 2007. However, Russian imports continued to be higher than exports, with the value of Brazilian exports to Russia more than double of Russian exports to Brazil: \$4.7 *contra* 2 billion. According to Russian official statistics, total Russian–Brazilian trade turnover in 2008 was \$6.7 billion, which is ten times higher than in 2000. While, according to Brazilian statistics, trade with Russia in 2008 amounted to \$7.98 billion. One of the most important reasons to explain this difference is the large role played by foreign

intermediaries in Russian–Brazilian trade, which causes challenges to bilateral relations.

In 2008, the Russian president Dmitry Medvedev visited Brazil following the APEC forum. The results of these meetings were two military agreements, a program of collaboration on the GLONASS monitoring network and an arrangement on the exemption of short-term visa requirements (which came into force on 7<sup>th</sup> June, 2010). During these meetings, the two countries set an objective of reaching \$10 billion bilateral turnover. The presidents of both countries stressed the similarity of their visions on international security issues and the significance of cooperation between BRIC (discussed below). Indeed, a final decision on establishing the organization of BRIC summits was approved at a high level meeting between Brazil, Russia, India and China, within the framework of the G8 summit in Japan in 2008.

Moreover, in the same year, Russia issued its “Foreign Policy Concept of the Russian Federation”, which stipulated that “Russia will seek to establish a strategic partnership with Brazil” as one of its primary goals in the Latin American region. Also during this period, the Kremlin launched the “Concept of Long-term Social and Economic Development of the Russian Federation till 2020”, specifying Russia's economic strategy in Latin America. It identified the main objectives as: to diversify exports with an enlarged share of high-tech products, to increase investments in the region, as well as the number of representative offices of Russian TNCs, and to develop collaboration with the regional integration blocs, primarily MERCOSUR and the Andean Community.

In examining these objectives, it is necessary to highlight that the leading Russian export to Brazil is fertilizers, while agricultural products make up the lion share of Brazilian exports to Russia. Brazil is the second most important market for Russian exports of fertilizers (after India) and Russia is the leading importer of Brazilian meat, as well as the second leading in sugar imports (also after India). Machinery and equipment has been on the periphery of bilateral trade: 0.6% of Russian exports and 9% of imports. Moreover, in 2008 Brazilian exports of high-tech products to Russia exceeded

that of Russian high-tech exports to Brazil and were of a wider scope. These developments in trade during 2008 seemed to set in place a long-term dynamic for Russian–Brazilian relations. However, the global economic crisis has changed the situation.

Russian and Brazilian investment in each other's countries is insignificant. Even during 2008, Brazil only invested about \$21.2 million in Russia and Russia invested even less in Brazil—about \$2.3 million. The most famous investment project in Russian–Brazilian relations is a joint venture by the Brazilian producer of chilled and frozen food “Sadia” and the Russian company “Miratorg” in Kaliningrad. From 2008, different perspectives for investment cooperation in the energy, automobile and aircraft industries were discussed, but at present collaboration has not progressed beyond negotiation. Hence, trade remains the primary, and indeed so far the only, aspect of economic relations between the two countries.

Taking this into account, 2008, on the one hand, represented a significant turn by Russia towards Latin America, with Brazil recognized as one of Russia's most important partners in the region. In trade, a significant spurt was achieved, and further economic collaboration was considered. At the same time, Russia launched several documents for developing its foreign economic strategy, including in Latin America, and Russian–Brazilian political links were increased. However, on the other hand, despite the increased cooperation of 2008, the overall dynamic from previous years was maintained, and one could argue that the improvement in Russia's relations with Brazil were simply the consequence of the general trends caused by Russia diversifying its foreign strategy and that the goals set for relations with Brazil were more declaratory than realized. Ultimately, it is too early to judge the significance of the achievements of 2008. In addition, the global financial crisis deeply affected both countries in 2009, creating several challenges, but also opportunities, for their burgeoning economic relationship.

### **Russian–Brazilian Economic Relations: Impact of the Global Crisis**

The global financial crisis led to a slump in the turnover from Russian–Brazilian trade, estimated by Russian official statistics as a decline of 32% (according to Brazilian statistics—53%) in 2009. Russian exports to Brazilian markets decreased by 47% (total Russian exports to Brazil: \$1.1 billion), imports from Brazil—by 25% (total Russian imports from Brazil: \$3.5 billion). This was expected in light of the general global crisis in which both countries suffered from the deterioration of commercial relations, with Russia in a more drastic sit-

uation because of the level of its economic dependence on oil and gas exports.

In 2009, 65.5% of Russian exports to Brazil consisted of fertilizers, 12%—metals, 11%—machinery and equipment. The crisis led to the development of high-tech exports from Russia and 2009 became the first year that Russian machinery exports to Brazil exceeded imports from Brazil. In this sector, the most in demand products were aircraft spare parts and equipment for power plants. Russian arms exports to Brazil were estimated to be \$18.3 million (1.7%). Brazilian exports to Russia were composed of agricultural goods (94%): meat, sugar, coffee and tobacco. The decline in exports from Brazil was the result of a slump in machinery deliveries of nearly 14 times (aircraft, tractors, etc.), while exports of several agricultural products (pork, coffee, tobacco) increased.

In addition, several projects by Brazilian companies, such as Embraer or Marcopolo, in Russia were suspended because of the global crisis. The previously mentioned Sadia withdrew from the Russian market. Russian investments in Brazil also declined. Thus, 2009 was a difficult year for bilateral economic relations, and therefore the objectives set by Russia for economic relations with Brazil appeared too ambitious, as were those of the Brazilian government. However, the crisis also gave the opportunity for Russia to extend its exports of machinery and equipment to Brazil, but whether this trend will continue is an open question.

Moreover, the recent financial and economic shock has created strong incentives to develop geopolitical collaboration between Russia and Brazil. The gap in global balance of power between developed and developing countries has been narrowed by the global crisis, with increased leverage for emerging countries.

### **BRIC Summits: Perspectives for Russian– Brazilian Relations**

The BRIC acronym was invented in 2003 by Goldman Sachs to highlight the economic potential of Brazil, Russia, India and China, but not to suggest any coordination of national policies or collaboration between these states. The first president to mention such a cooperative initiative was Luiz Inácio Lula da Silva, who at the beginning of his presidency stipulated that Brazil would search for new partners among similar countries. The first BRIC summit was held in Yekaterinburg, Russia in June 2009 and was followed by a second one in Brasilia, Brazil, in April 2010 (the third one is expected in China next year).

The global financial crisis has led to increased collaboration between emerging countries, creating the possibility to increase their role in the global economy.

At BRIC summits, Luiz Inácio Lula da Silva stressed that BRIC should become the key element of the new world order. Similarly, Dmitry Medvedev underlined the significance of BRIC for the development of global economic processes, as well as the necessity for cooperation between BRIC countries. These summits have certainly led to a strengthening of relations between Russia and Brazil.

However, it should be noted that for both Russia and Brazil, economic ties, including investments, with China and India are greater than with one another. In 2009, Brazil provided only 1% of Russia's overall trade (China—8.4%, India—1.6%) and the Russian share in Brazilian trade was 1.5% (Chinese—13%, Indian—2%). In this light, there is not a huge economic background for collaboration, but, from another point of view, there are no significant obstacles to it either.

Thus, the search for geopolitical coordination in BRIC has also led to the development of coordination in economic fields. During the second summit, a memorandum was signed to enhance cooperation between BRIC banks in order to support strategic and high-tech projects. Among these projects, the development of the energy sector and aircraft industry in Brazil was considered. Moreover, in the framework of the summit in Brasilia, the first business meeting BRIC–IBSA, which includes South Africa, was organized aimed at boosting economic ties between the five countries.

### **The Latest Development and Trends in Russian–Brazilian Relations**

The intensification in links between Russia and Brazil surrounding BRIC summits was accompanied by a recovery in mutual trade in 2010. From January–July, bilateral trade was \$3 billion (50% growth in relation to January–July 2009). Taking into account this trend, a further increase in commercial relations in the second half of 2010 is expected. Moreover, new investment and delivery projects appeared on the agenda following the visit of the Brazilian president to Russia in May 2010.

According to the declarations during this visit, the two countries intend to develop their relations in the line with the objectives stressed at the recent BRIC summit. Among the issues discussed were the building of power stations in Brazil, the setting up of an aircraft-production factory in Russia, space and nuclear cooperation and the opening of a Gazprom representative office in Brazil. Moreover, the recent proposal at the BRIC summit to use national currencies in mutual commercial transactions was also noted as an essential objective. The presidents reiterated the aim to develop trade turnover between the two countries to a level of \$10 billion a year; however, deadlines for achieving this aim were not mentioned. Furthermore, during the visit several notable documents were signed—a plan of activities for creating a strategic partnership between Russia and Brazil, a program of scientific cooperation for 2010–2012, and, above all, two agreements concerning military cooperation, an area which seems set to be developed significantly in upcoming years. Therefore, Russian–Brazilian relations are developing according to their own pace, but progress should not be overstated, because links between the two countries, while improving, can still not be considered as strong.

To assess the long-term direction of Russian–Brazilian relations, it is necessary to highlight some recent events. Firstly, it should be stressed that the new Brazilian president-elect, Dilma Rousseff, will continue the current Brazilian foreign policy course, and thus Russia can expect to further develop its links with Brazil along existing tracks. Secondly, the recent G20 meeting in Seoul indicates that, although the positions of BRIC countries are not similar on all issues, BRIC will increase its voting power in the IMF, and continue collaboration within the framework of its summits. As a result, it is likely that political, as well as economic ties, between Russia and Brazil will continue to develop and will be emphasized by both sides.

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