Brazil and China: A young marriage on the rocks

REUTERS, *Brasilia*

At least once a week during her young presidency, Dilma Rousseff has met with trusted advisers to try to solve an intractable problem -- China.

Only a few months ago, Brazil and China seemed destined to enjoy one of the defining alliances of the early 21st century -- two fast-growing emerging market economies seeking ever-greater opportunities for business together and standing side by side on key global issues such as trade negotiations.

It's not quite working out that way.

Rousseff's regular meetings are just one sign of how she is steering Brazil toward a more confrontational stance with China. She is trying to address what she sees as an increasingly lopsided relationship while also bringing Brazil's strategic alliances in line with her dream of turning it into a middle-class country by the end of the decade.

The core problem is a torrent of Chinese imports that has quintupled in size since 2005, with disastrous effects for Brazilian manufacturers and the well-paying, highly skilled jobs that Rousseff is so focused on creating.

While the weekly session of ministers and finance ministry officials is ostensibly about how to improve Brazil's competitiveness in global trade, "it's basically a China meeting," said one high-level official who takes part.

REUTERS
Brazil's President Luiz Inacio Lula da Silva (L) shakes hands with China's President Hu Jintao during a signing ceremony at the Great Hall of the People in Beijing on May 19, 2009.

"Relations between the two countries are not hostile," the official said. "But we are going to take measures to protect ourselves ... and push for a more equal relationship."

In the short term, senior government sources say that will mean more targeted tariffs on manufactured goods coming from China and tighter supervision by customs officials, as well as more anti-dumping complaints against Beijing.

New restrictions on foreign mining companies are also likely, officials say, reflecting concerns that China wants to consolidate its grip on Brazil's commodities wealth while offering insufficient access to its own market.

In a break from her predecessor, Luiz Inacio Lula da Silva, Rousseff will push for a stronger yuan currency and more access to the Chinese market for Brazilian companies like airplane maker Embraer when she visits China in April.

In the long run, Brazil and China are likely to retain relatively warm ties and continue to expand bilateral trade. Yet the shift evolving since Rousseff took office on Jan. 1 could affect everything from Brazil's relationship with the United States to the future of so-called "south-south" ties among emerging market countries.

"It's surprising that the relationship is changing so fast," said Mauricio Cardenas, director of the Latin America program at the Brookings Institution, a Washington think tank.

"Brazil is clearly seeking major changes ... That could have consequences for all of Latin America as many other countries, who are experiencing the same problems (with China), follow the example of Brazil," Cardenas said.

Redefining a relationship with China is easier said than done. Just as the United States has struggled to balance its demands for a stronger yuan against its desire for cheap Chinese imports and financing, Brazil must also untangle a web of dependence that has grown rapidly in the last decade.

Bilateral trade soared from just over $2 billion in 2000 to $56.2 billion in 2010. China has surpassed the United States as Brazil's main trading partner and was the biggest single source of foreign direct investment last year, at about $17 billion.

The robust trade growth helped Brazil's economy expand last year at its fastest pace in two decades. It also means that any efforts by Rousseff to pass new protectionist measures may be fruitless, said Qiu Xiaoqi, China's ambassador to Brazil.

"Trade between China and Brazil grew so fast because of a reciprocal need. When that need exists, nobody can get in the way," Qiu told Reuters in a rare interview.

Qiu, who prides himself on his Brazilian cultural knowledge and insisted on conducting the interview in Portuguese, attributed anti-China rumblings to "a minority" of officials on Rousseff's team. He also pointed out that Brazil had a large trade surplus with China last year -- about $5 billion.

A closer look, however, shows that it would have been a deficit if not for an extraordinary increase in the price of iron ore, which accounted for 40 percent of exports to China.

Brazilian exports to China as measured by weight -- thus, controlling for increases in commodities prices -- fell 3 percent in 2010, while Chinese imports rose 89 percent.

India faces unemployment bomb

AFP, *New Delhi*

Last week 100,000 jobseekers travelled to a small northern Indian town for a recruitment fair that ended in tragedy, revealing much about the limitations of the country's economic boom.

The crowd of mostly young men converged on the town of Bareilly in Uttar Pradesh crammed into all forms of transport, many of them travelling hours from states across the deeply impoverished plains of north India.

On offer was the chance of joining the Indo-Tibetan Border Police (ITBP). A paltry 416 jobs were available as washermen, barbers, water carriers and other lowly positions with a starting salary of 5,200 rupees ($115) a month.

This remarkable turnout for so few vacancies might have gone unreported except for violence when applicants grew frustrated with the registration process and a gruesome accident as the disappointed hordes headed home.

Returning on the roof of a train that had been filled far beyond its capacity, 18 men were killed when they failed to react in time to a low-hanging bridge.

The blame game that erupted afterwards highlighted problems common to most accidents in India. The railways said they had not been informed of the crowds, the police blamed the organisers for mismanagement.

Nobody enforced health and safety laws that prohibit travelling atop trains.

But the events in Bareilly send deeper signals about the Indian economy, social change and poverty and tell a different story from the 9.0 percent growth figures and hype about the country as a world economic power.

"Right now, the problem of unemployment has not fully appeared, but it's a bomb in a dormant state," said J. Manohar Rao, an author on development and professor of economics at the University of Hyderabad.

He describes a cocktail of steep food inflation of nearly 20 percent that is causing severe hardship in rural areas, a fast-growing young workforce and slow development of the indus-

Drive to unify euro economy as rescue roadmap set

AFP, *Brussels*

Germany and France launched a radical drive Friday to unify the debt-ridden eurozone economy, as eurozone leaders set out their roadmap towards finalising permanent rescue resources.

While plans to down wages provoked an immediate backlash at a European Union summit, a deal in principle to widen the scope of a permanent bailout fund, pending final approval of "concrete" measures in March, allowed the big two and the weakest eurozone states to find common ground.

In exchange for further aid to partner governments struggling to balance their books, Berlin and Paris want shared policy goals and restrictions imposed by all, which they say will make the eurozone a more competitive and efficient economy.

"We want to bring in a competitiveness pact and step by step bring about a more linear shared growth," German Chancellor Angela Merkel said alongside French President Nicolas Sarkozy.

Firm decisions are due to be taken on the size, shape and scope of the permanent stability mechanism at the 27-nation bloc's next summit on March 24 and 25.

Leaders will fix a "global response" to the debt crisis that saw bailouts for Greece and Ireland last year by that date, summit conclusions said.

A special eurozone summit will be staged beforehand to hammer out the details.

"There is a deal that there should be such a deal," Merkel said afterwards.

The pact plan had stirred opposition, with Belgian Prime Minister Yves Leterme attacking a call in the proposals for inflation-linked wage rises to be abolished.

"We will not allow our social model to be undone," Leterme said.

Luxembourg Prime Minister Jean-Claude Juncker, who leads the Eurogroup of finance ministers, also said: "I can't really detect a reason why abolishing the indexation of wages should improve the competitivity of my country or of the euro area."

AFP
Students check job information brochures as they attend a job fair in Tokyo on Saturday. Students graduating from colleges and universities have started the long process of looking for a job as the country's economy is mired in deflation and the government tries to recover after a credit downgrade by ratings agency Standard & Poor in January.

Dubai Aerospace cancels Boeing orders

AFP, *New York*

US aerospace giant Boeing said Friday that Dubai aircraft leasing firm Dubai Aerospace Enterprise canceled an order for 32 of its best-selling single-aisle 737 aircraft.

Boeing spokesman Doug Alder confirmed the name to AFP after Boeing first announced the cancellation without identifying the customer.

He said Dubai Aerospace Enterprise, an ambitious, mainly aircraft leasing business launched in February 2006 and partly owned by the crisis-strapped government of Dubai's investment arm, still has 56 orders on Boeing's books. DAE had ordered 35 737s, 15 747s and six 777s, he said.

Chicago-based Boeing has taken 32 new orders for 737s in the year to date: Alaska Airlines, 15 planes; the US Navy, six; one from a non-airline operator; and 10 more just revealed Thursday, from "unidentified customer(s)".

But according to Boeing's weekly update on changes in orders and deliveries for commercial aircraft, the DAE cancellation left orders for 737s so far this year at a net zero.

In the year to date, Boeing has also received orders for two of its long-haul 777s, from American Airlines.

Shares in Boeing closed 0.56 percent higher at $71.38 in New

Higher food prices here to stay

AFP, *Washington*

From McDonald's burgers in the United States to sugar in Bolivia and chilis in Indonesia, food prices across the globe are soaring.

But consumers and governments should brace themselves for even higher prices, experts warn, as demand in populous emerging economies will put pressure on supplies for years to come.

A "perfect storm" of bad weather, rapid growth in emerging economies -- with people eating more higher-value, resource-intense food -- and low interest rates has sent prices for a broad range of farm and non-farm commodities climbing often at double-digit rates: from wheat to corn, cotton to rubber, and oil to boot.

And while it resembles the sharp spike in food and oil prices of 2007-2008, analysts say the current trend is less speculative in nature and not likely to end with a price collapse, as it did two years ago.

"Things were quite different in 2008... You had price spikes, it was a couple of food grains," said Chris Delgado, an agriculture specialist at the World Bank.

"What is going on now is more broadbased... It's not led by grains."

And it's widespread, and feeding into political worries, not just in the Middle East.

In Indonesia, where even the price of chilis has soared, the government suspended import duties on key food items after inflation hit an annual rate of seven percent in January.

In Bolivia, sugar is being rationed despite a 64 percent price hike.

In the United States, much higher meat prices are forcing restaurants from fancy steak houses to McDonald's to hike their prices, even though the pocketbooks of consumers remain tight.

On Thursday, the UN Food and Agriculture Organization said food prices have reached their highest level since it began measuring them in 1990, and pointed to the political problems that can spark.

"Not only is there a risk, but there have already been riots in some parts of the world because of rising prices,"

AFP
Somali women and children wait to receive food at a local NGO in partnership with the world food program at the Dharkenley feeding centre, south of Mogadishu on January 31.

FOA chief Jacques Diouf said. There is little relief in sight, say experts.

"I think commodity prices are going to be trending higher," said Gerard Lyons, chief economist for Standard Chartered Bank.

"What's interesting is that even commodities that aren't heavily traded are rising in price. ... That suggests this is fundamental, not speculators," he told AFP.

The 2008 commodity spike was only a handful of food grains plus oil, and driven in large part by political decisions amounting to hoarding and heavy trader speculation.

This year the problem is more fundamental: prices are being driven by growing demand from huge emerging economies like China, India, Russia and Brazil that is unlikely to slacken until prices get much higher, say analysts.

The World Bank's Delgado said that supply shocks are exacerbating the price hikes: weather and policy moves that have cut grain supplies from Russia, Argentina and Australia, among others.

But the trend is rooted in the fundamentals of soaring demand, say economists.

"More and more people are moving up the scale of income, so they tend to have higher value food," said Nariman Behravesh, chief economist at IHS Global Insight.

Lyons said there is not much relief on the horizon because of the time it takes farmers to expand acreage and production.

"It takes a long time, two to three years, for new supply to come on stream," Lyons said.

"I think commodity prices are going to be trending higher."

Commodity traders are saying the same thing.

Last week Morgan Stanley commodities specialist Hussein Allidina said key items like corn, soybeans and wheat still face strong upward price pressure -- with corn possibly going up another 20 percent from the current level of $6.60 a bushel before demand weakens.

"We see record tightness across the agriculture complex and believe that higher prices will be necessary to ration demand and incentivize acreage," he said in a report.

Behravesh said he thinks the problem is mainly a short-term one, more like 2008, and have limited economic impact overall.

But policy-wise, he said governments don't have many tools to bring down the cost of food and other commodities, especially if they are import-dependent.

Aside from pushing up interest rates to slow growth, said Behravesh, "There's not much central bankers can do about food prices."