

# **Joint Statement on Strengthening Japan-Brazil Economic Relations**

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Japan-Brazil Economic Committee  
Nippon Keidanren  
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CNI

Since 1974 Nippon Keidanren and Brazil's National Confederation of Industry (Confederação Nacional da Indústria – CNI) have held meetings of the businesspeople in both countries and exchanged views on promoting economic exchange. At the eleventh meeting of the Japan-Brazil Economic Cooperation Committee held in Tokyo in May 2005, an agreement was reached to set up a joint research group to continue studying the use of a free trade agreement (or economic partnership agreement) as a means of strengthening the bilateral economic relationship.

Studies subsequently continued on both sides, and now a joint statement on our basic understanding has been prepared. It builds on the results of past researches on both sides:

- the May 2004 report “Request for Early Start of Intergovernmental Study of the Japan-Brazil Economic Partnership Agreement (EPA)” prepared by Nippon Keidanren,
- the July 2004 report “The role of a trade agreement in the economic relations between Brazil and Japan” prepared by the CNI, and the “Japan Initiative: An Integrated Action Plan for Trade and Investment Promotion,” released by the CNI in May 2005.

The body text of the statement describes the shared understanding of both sides, while the provisional estimation and remarks made by each side are attached as appendices.

Brazil is a member of Mercosur, and this joint statement, which takes into consideration the conclusion of an FTA between Japan and Mercosur in the future, touches on the importance of the improvement of business environment that further expands the economic relations between Japan and Brazil. It is also stressed that while an Mercosul-Japan FTA is not reached both parties should endeavour to put forward bilateral initiatives to strength the economic relationship. The following statement on the standpoint of each country's private sector, we hope, will come to effectively be reflected in actual policy implementation and will stimulate the development of bilateral ties.

## **I. Basic Understanding of the Bilateral Relationship**

Japan and Brazil have a history of exchange dating back to the establishment of diplomatic relations in 1895. It is noteworthy that some 1.4 million people of Japanese descent live in Brazil, and that some 300,000 Japanese-Brazilians are currently residing in

Japan. They constitute a priceless asset in strengthening bonds between the two countries. Such human ties have served as the foundation of the bilateral relationship over the past century.

The entry of Japanese companies into the Brazilian market began in earnest in the mid-1950s, when Brazil executed a major shift in its national development projects. During the 1960s and 1970s, the two countries implemented joint projects and achieved impressive results in steel, aluminum and other nonferrous metals, and agriculture.

After that, however, economic relations between the two countries became sluggish in both trade and investment. Brazil was struggling with massive external debts and hyper-inflation in the 1980s, and Japan went through a long period of economic stagnation in the 1990s. The share of exports to Japan in total Brazilian exports dropped from around 8% in the early 1990s to less than 3% after 2004, and the share of imports from Japan in total Brazilian imports declined from about 7% to 4%. As in the case of trade, the investment relationship has also been going through a long slump.

Now that the economies of both countries have enjoyed sustained growth in the twenty-first century, businesses in both countries have become keenly aware that the time has come to shake off the stagnation of the past two decades and revive a dynamic bilateral relationship.

Brazil is the largest economic and manufacturing power in Latin America, and has an abundance of such natural resources as iron ore, oil, and bauxite, and it is one of the world's largest producers of farm products like coffee beans, oranges, soybeans, corn, beef, and chicken. It continues to be important for resource-poor Japan to persistently develop its complementary trade relationship with Brazil, since it can import resources from Brazil and export manufactured products to it. However, if the companies of the two countries confine their activities within the trade structure pivoting on this "interindustry trade," the economic relationship will not fully flower.

Looking at Japan from Brazil, meanwhile, we find that exports to Japan have not reached a scale commensurate with Japan's market size and that Brazil's industrialization over the past 20 years has not come to be reflected in the structure of trade with Japan. From now on, efforts should be made to increase the share of "intraindustry trade" in high-value-added goods like finished and semimanufactured products, then, the structure of the bilateral trade will become wider and deeper.

The Asia-Pacific region is experiencing strong economic growth. Building stronger bonds with Japan is central to Brazil's interest to strengthen its relations with this region overall. Other than the trade, Brazil is planning large-scale infrastructure projects both domestically and also in cooperation with neighboring countries, with which it is constructing a transport network extending across the borders. There are possibilities for projects in the environmental field making use of the clean development mechanism (CDM). In addition, among the new fields are bioethanol (ethanol fuel), telecommunications, and tourism.

It is so important for the private sectors of both countries to continue to develop the potential of these fields towards further expanding bilateral economic relationship. It is expected to encourage Japanese firms to invest in Brazil, as well as to motivate Brazilian firms to invest in Japan.

## **II. Improvement of the Business Environment towards revitalizing Economic Relations**

As we look ahead over the next century, we can appreciate how vital it is to improve the business environment for the sake of reinvigorating the bilateral economic relationship. Towards the start of intergovernmental negotiations on a Japan-Mercosur FTA, setting up a framework of continuous talks, which aims at improving the business environment in both countries, will be crucial. This work can contribute to an expanded bilateral economic relationship and thereby stimulate interest in the realization of an FTA among public officials and businesspeople on both sides.

Most of the problem areas cited by Japanese companies in the Appendix-2, such as security, legal system, administrative procedure, taxation, infrastructure for distribution, and so forth, are also regarded by the CNI as priority policy tasks in strengthening the competitiveness of the Brazilian economy. They are not new issues, and they are of concern not merely to Japanese firms but also to all companies engaged in business in Brazil, domestic Brazilian firms included. By the same token, the problem points Brazilian companies have raised are not issues that affect them only; we should regard them as tasks that Japan needs to tackle in order to further expand its external economic relations.

We have strong expectations that the governments of Japan and Brazil will seriously take these remarks raised by the Japanese and Brazilian companies, and incorporate the content of them into the policy measures they implement for the sake of reforming inefficient and unreasonable systems and practices in both countries.

## **III. Increasing Trade and Investment: Scope for New Initiatives**

There are many ways to forge closer economic ties besides negotiating trade agreements. This starts with a better business environment, as mentioned above. More aggressive initiatives in promoting trade, technical cooperation, and attracting investment are all part of the menu. In respect to market access, there are questions where progress can be made in parallel to trade negotiations.

Implementing a Mercosul-Japan FTA can be an important instrument to promote recovering the dynamism in the bilateral trade and investment. Bearing this in mind, any difficulties that arise in launching such FTA negotiations should not lead to immobility in efforts to bring the two countries closer to one another. Revitalizing economic relations through trade and investment is the critical path towards strengthening the bilateral economic relations.

There are actions that should be developed in order to diversify exports and attract new flows of investments:

- long term and goal oriented actions of the export promotion agencies (public and private);
- investment opportunity studies, seminars, visits and exchange of information;
- work on issues that can be solved independently of an FTA, as identified in the appendixes 2 and 3.

#### **IV. The Importance of a Japan-Mercosur FTA**

Japan and Brazil should pay high attention to the effects of its trade negotiation strategies on their bilateral economic relationship. Trade agreements being negotiated by Japan and Brazil, with different countries and regions, could jeopardize its bilateral economic relations.

Japanese firms compete vigorously with Western firms in the manufacturing sector in the Mercosur market inclusive of Brazil. Brazilian firms are eager to open new markets, reduce barriers and attract partners. A free trade agreement between Japan and Mercosur represents one of the key tools for revitalizing economic relations between Japan and Brazil

Under these circumstances, negotiations are in progress to conclude an FTA between Mercosur and the European Union (EU). While the first proposal for the Free Trade Area of the Americas (FTAA) went back to the Summit of the Americas in 1994, its trends also bear watching.

A tariff gap with Japan on the order of 8%–15% would put Japanese companies at a disadvantage in terms of international competitions if the Mercosur-EU FTA or the FTAA were realized ahead of a Japan-Mercosur FTA. As a result, Japanese companies would lose price competitiveness, for instance, when they export finished goods from Japan to Brazil, and in the case of local production as well, importing parts and materials from Japan would be damaged.

Along with these handicaps in the area of tariffs, adverse effects extending beyond the manufacturing sector might be felt over the medium to long term, and they could hinder Japanese firms supplying services to local Japanese businesses. The situation of Japanese firms would become yet harsher and more disadvantaged if, for example, the Brazilian government were to restrict eligibility for placing bids for public-sector procurement to signatories of FTAs. In the Appendix-1, the influence to Japan, emphasizing on the trade with Brazil, has been examined when the Brazil-EU trade and the Brazil-US trade are liberalized in the light of realizations of an EU-Mercosur FTA and FTAA.

At the same time, as is pointed out in the Appendix-3, in its relations with Japan, Brazil is pressing for open access to the agricultural sector and the reduction or elimination of tariff and nontariff barriers to labor-intensive products, while Japan is expected to steadily take necessary measures for the structural reform, with consideration to its sensitive sectors, in order to establish genuinely and mutually beneficial economic relations between Japan and Brazil.

The chief purpose of a Japan-Mercosur FTA would be to avert such handicaps resulting from the lack of a free trade agreement. Even as Japan and Brazil each contemplates FTA/EPA negotiations with third countries and regions, preparations should begin for the kicking-off of the negotiations on a Japan-Mercosur FTA.

<Appendices>

- (1) Estimated Losses to Japanese Firms from Brazilian FTAs with the US and EU
- (2) Japanese Firms Identification of Areas for Improvement in the Business Environment in Brazil
- (3) Obstacles Identified by Brazilian Firms that should be Addressed to Expand Economic Relations with Japan