

BRAZIL AND RUSSIA: HOW TO IMPROVE THE ECONOMIC RELATIONSHIP BEYOND RESOURCE-BASED INDUSTRIES

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EXECUTIVE SUMMARY

Despite the great distance that keep them apart, Brazilian and Russian economies share some important commonalities. One is the key role played by natural resources. Another is the relative decline of the manufacturing sector over the last three decades, which was accompanied by the enlargement of the services sector. Both economies benefited from the commodities super cycle of the first decade of this century, but have exhibited disappointing performance in the 2010's.

Current trade pattern between Brazil and Russia is very poor, extremely concentrated in a few products in which the countries have clear revealed comparative advantage. Briefly, Brazil buys fertilizers and sells meat, coffee, and soybeans to Russia. Commerce of more sophisticated goods remains at very low levels. Trade in services between the two countries is also insignificant. This suggests that broadening the trade pattern would require considerable efforts to go beyond those few obvious products.

Brazilian economy is more closed to international trade than Russian Economy. Brazil applies higher average tariffs on capital goods, consumer goods and intermediate goods. The only exception is raw materials – in this case, Brazilian tariffs are slightly lower than Russian tariffs. Brazil and Russia present a more similar behavior when it comes to non-tariff measures, which are increasingly important in contemporary world. Both countries use this type of measure more often than (the average of) a group of 97 countries analyzed in the study. Regarding trade agreements, neither Brazil nor Russia seems to be great enthusiasts, as demonstrated by the relatively few deals signed by them, usually involving players scarcely relevant in global trade.

The weak relations between the two economies are also reflected in bilateral direct investment. According to Brazilian statistics, the stock of Brazilian investment in Russia was mere US\$ 6 million in 2019, while Russian investments in Brazil totaled US\$ 180 million.

Since the late 1990's, Brazil and Russia have been seeking to enhance their cooperation in several areas, including science, technology and innovation. Over the years, several documents were signed in order to improve the status of this relationship, which was labelled “strategic partnership” in 2002 and “technological alliance” in 2004.

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However, despite the good intentions, few initiatives thrived in the real world, the most remarkable being the participation of Brazilian institutions in the Russian satellite navigation system GLONASS.

The study closes with a small set of suggestions aimed at intensifying the economic relations between Brazil and Russia. These include: i) the negotiation of a partial trade agreement, focused on products in which the countries show greater potential of increasing exports to the partner, as identified in the study; ii) the negotiation of an Agreement on Cooperation and Facilitation of Investments (ACFI); iii) fostering joint R&D projects in areas in which both countries have recognized expertise, in basic research and/or in business enterprise R&D, including IT, biotechnology, nanotechnology, new materials, energy and defense industry; iv) the more effective use of existing cooperation mechanisms, especially the Brazilian-Russian High Level Cooperation Commission (CAN), as a way of strengthening the bilateral “strategic partnership”.