

Brazil Trade Liberalization (Preliminar Draft)

Country Study Case: UNCTAD Project

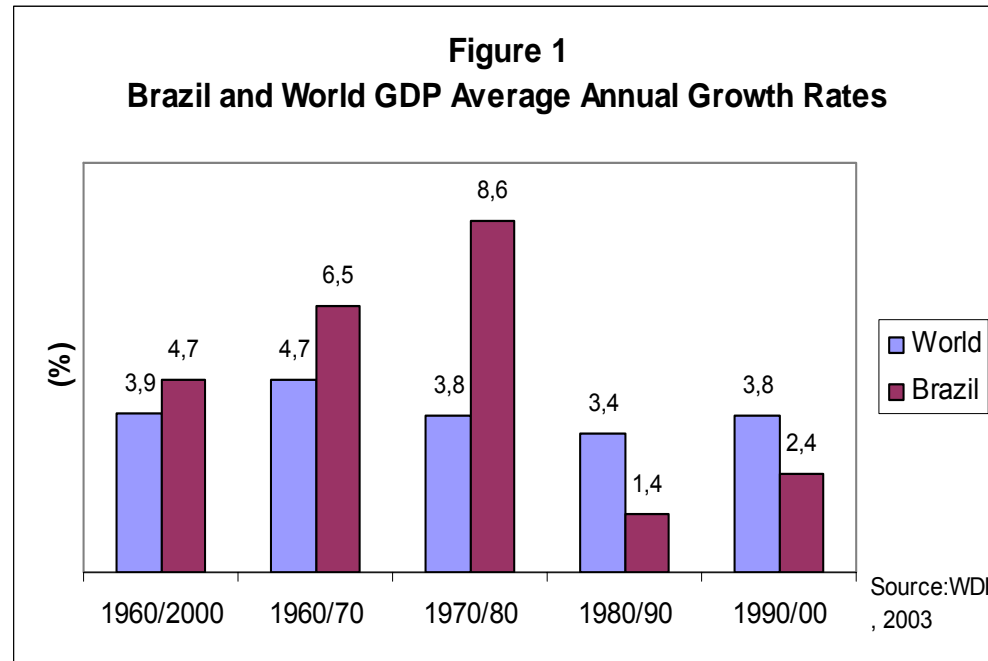
Lia Valls Pereira

FGV

UERJ

Introduction

- In the 1960s and 70s, Brazil displayed GDP growth rates superior to those of the rest of the world. After that, economic growth lost its impetus.
- Trade liberalization is amongst one of the main reforms of the 1990s. It is well known that there is no simple and direct link between trade liberalization and growth. However, the poor performance of the Brazilian economy in the 1990s has led many analysts to question the benefits of possible further commitments to an open trade regime.



Overview of the Country (1)

Figure 2: Population Growth: 1980/2001

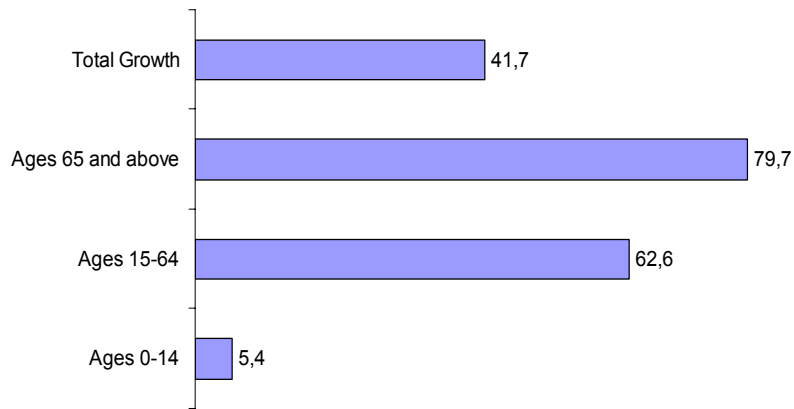
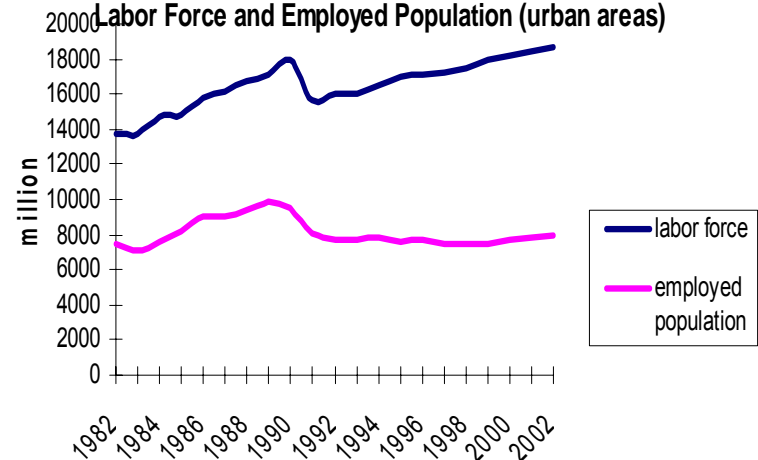


Figure 3

Labor Force and Employed Population (urban areas)

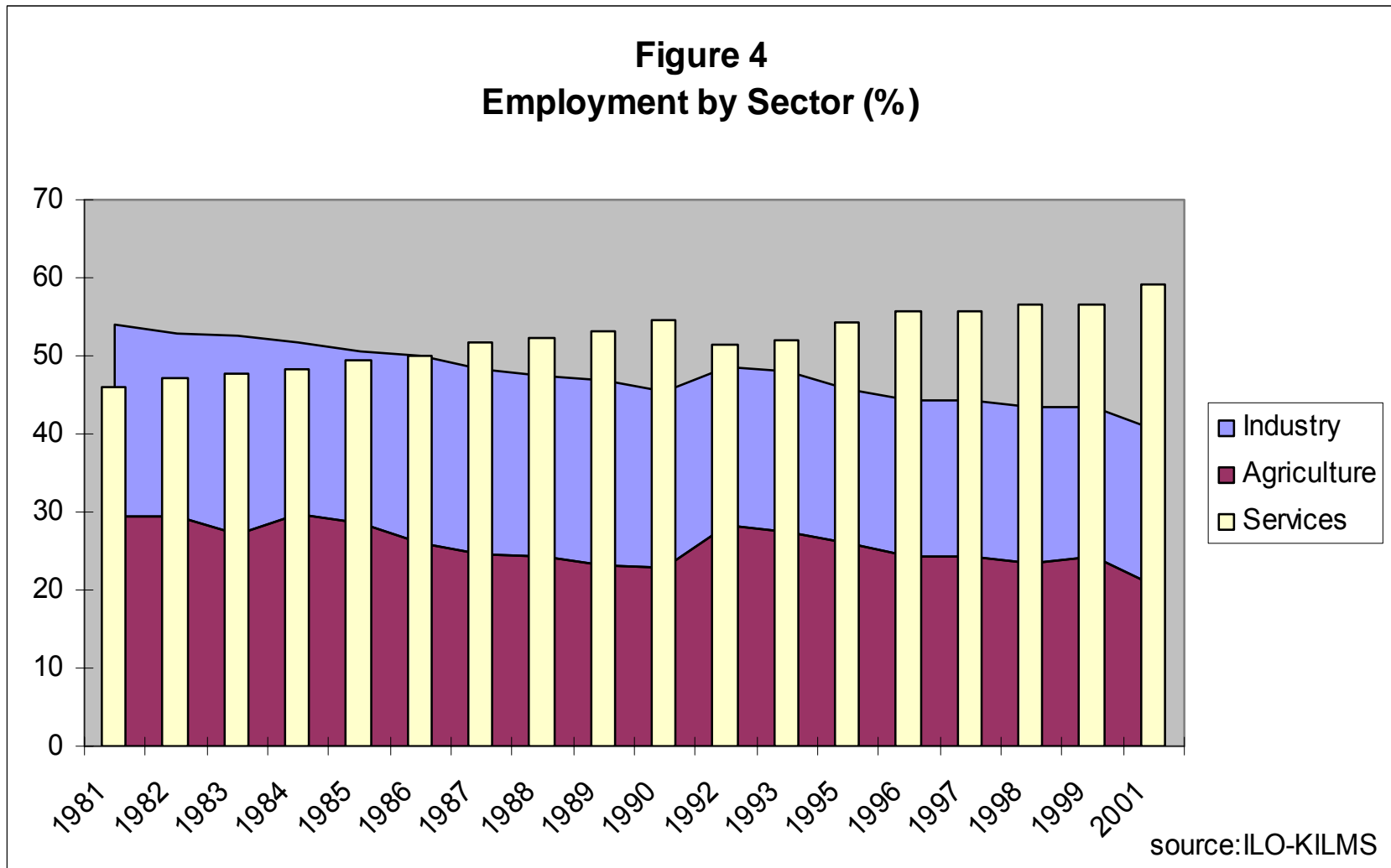


source: IBGE

data of December of each year

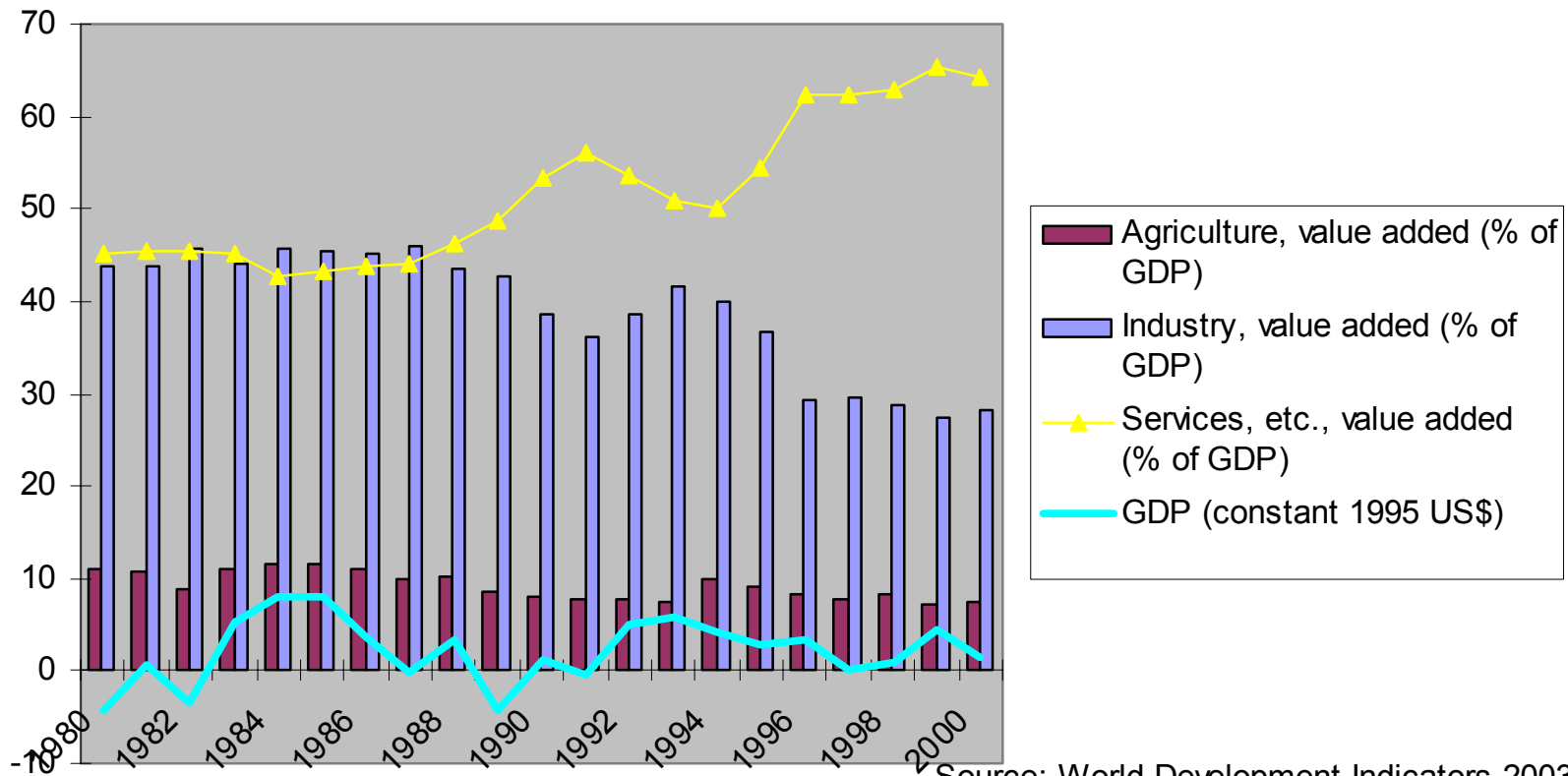
Overview of the Country (2)

Figure 4
Employment by Sector (%)



Overview of the Country (3)

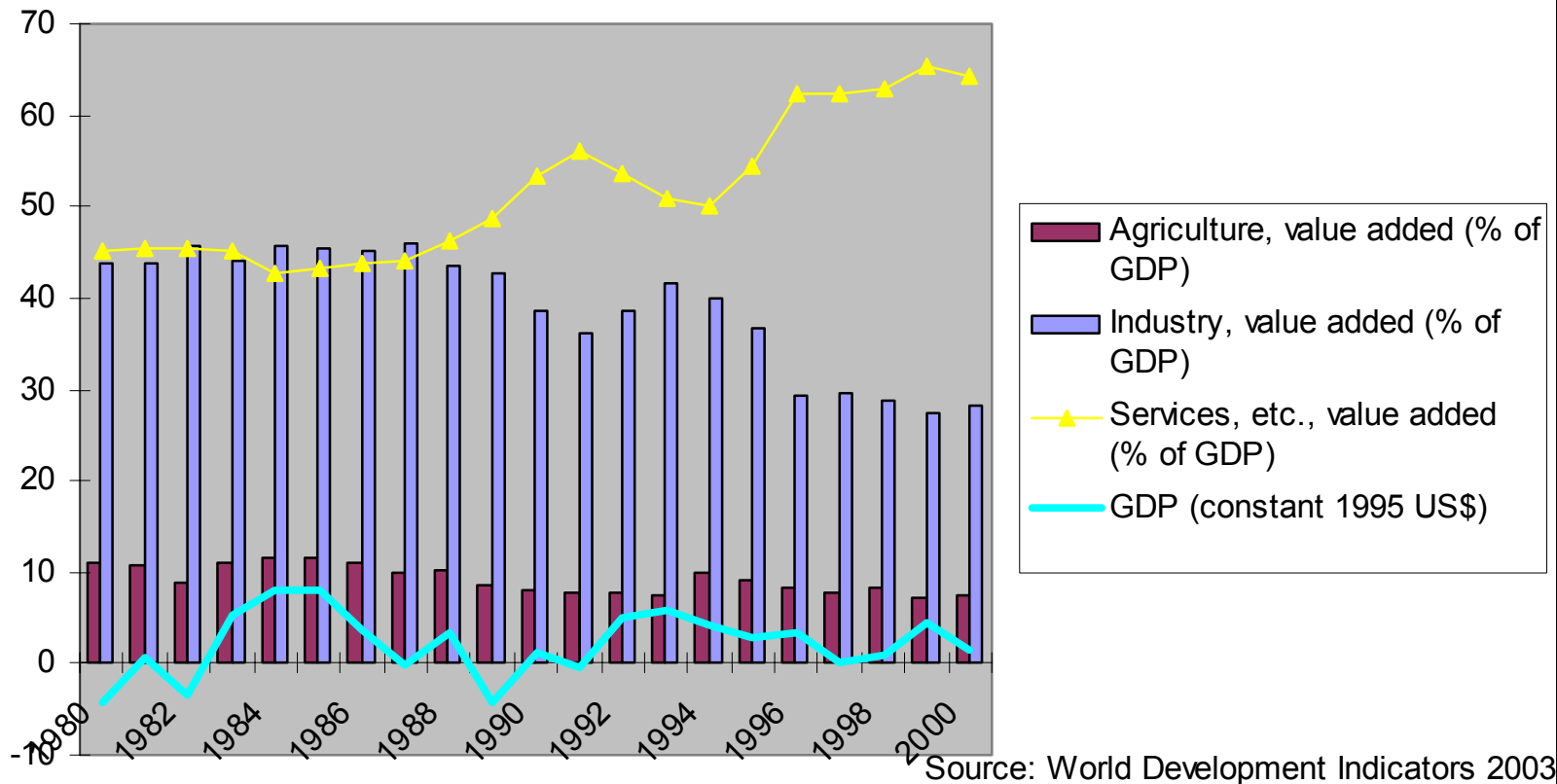
Figure 5: Product Sectorial Distribution and GDP Growth



Source: World Development Indicators 2003

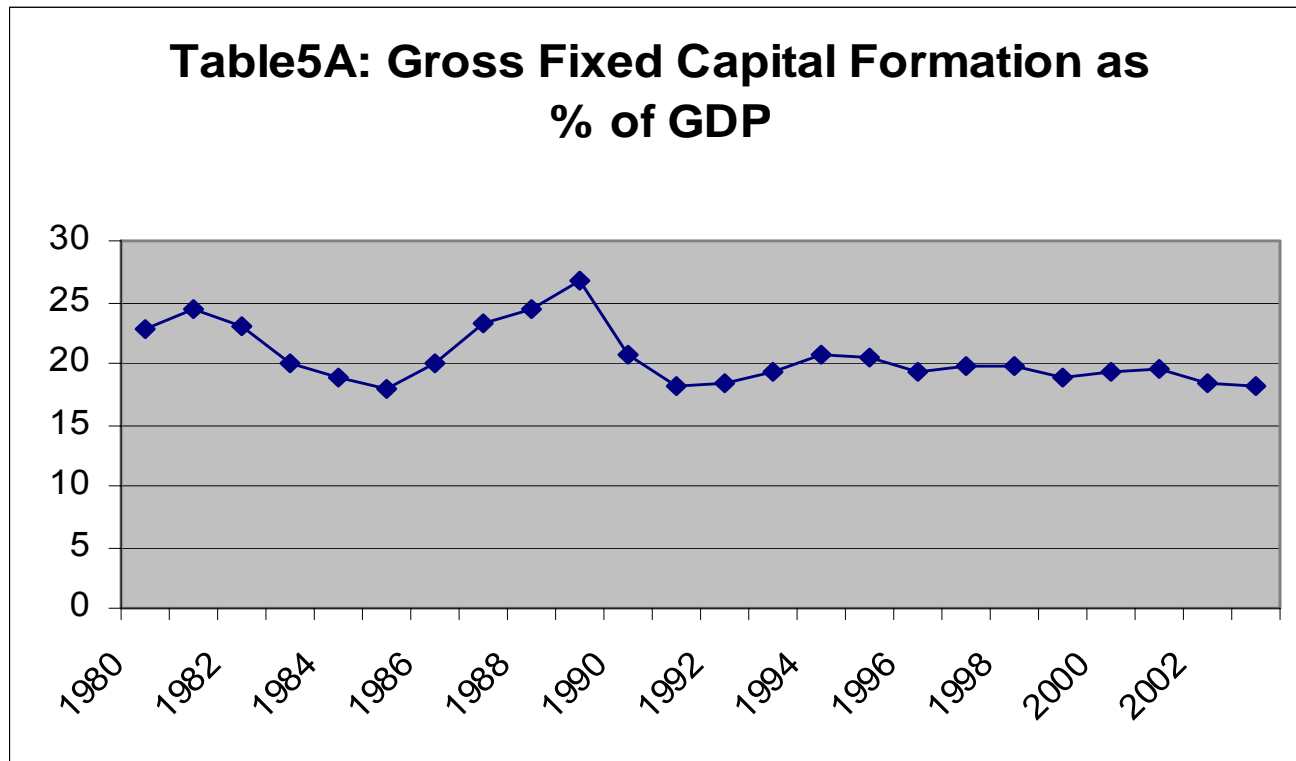
Overview of the Country (4)

Figure 5: Product Sectorial Distribution and GDP Growth



Source: World Development Indicators 2003

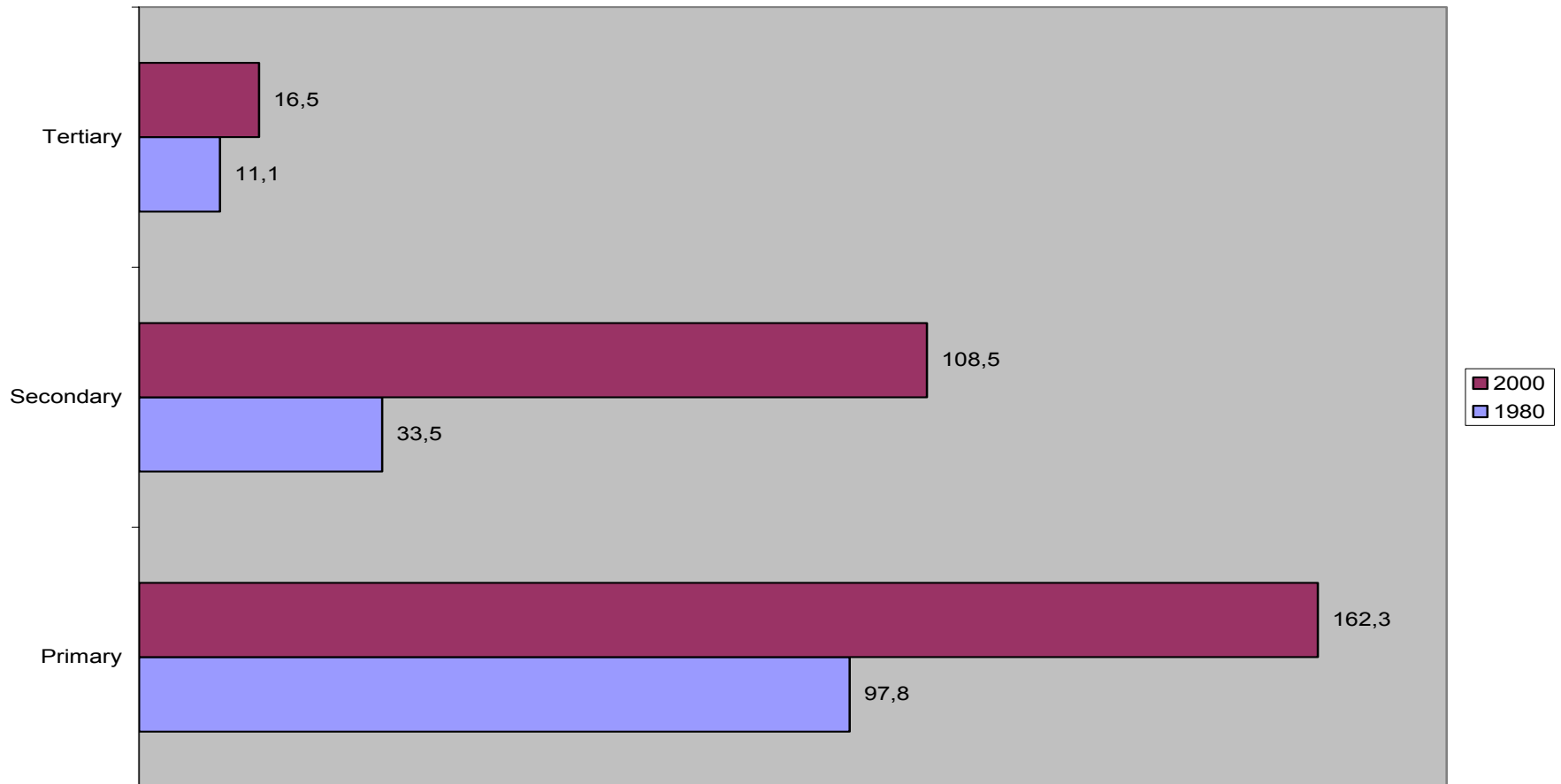
Overview of the Country (5)



Source: National Accounts

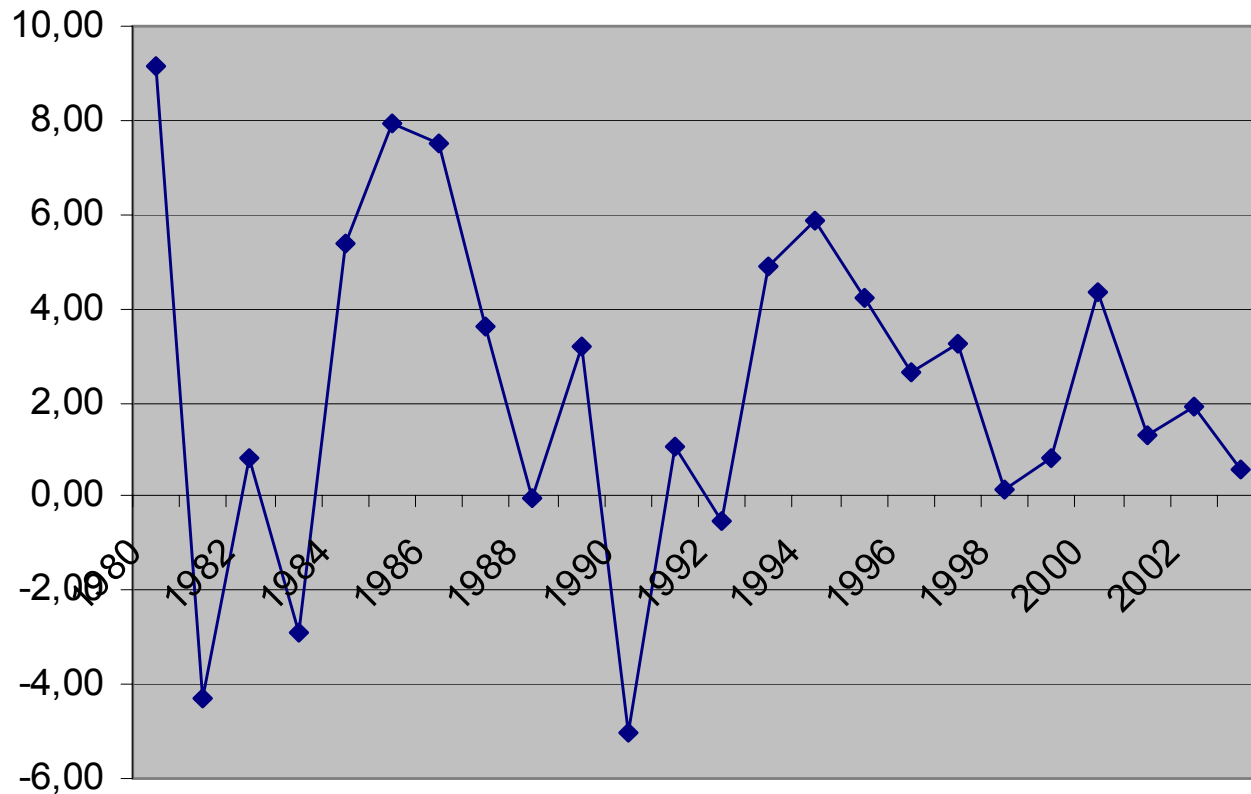
Overview of the Country (6)

Gross Scholl Enrollment (%)



Recent Economic Development (1)

Figure 7: Brazil GDP Annual Growth Rate (%)



source: www.ipeadata.gov.br

Recent Economic Development (2)

- During the 70s, Brazil experienced a period of high rates of growth. The supply of loans at low interest rates, after the oil shock of 1973, allowed a petroleum importer country to continue its development plans to create a diversified industry.
- The main issues during the 1980s were the constraints imposed by the adverse external conditions and the increasing inflation rate.
- The macroeconomic instability associated with the inflationary process, the lost of capacity of the government to finance a new cycle of investments or to continue the supply of credit subsidies, the debate about the “inefficiency” of the import substitution model, amounting pressures concerning Brazil’s protectionist policies are some of the factors usually pointed out to explain the change of economic policies in the 1990

Recent Economic Development: 1990s (3)

- In general terms, the major change has been the acknowledgment that past policies could not guarantee a new cycle of economic growth.
- A consensus concerning the link between inflation and public debt. Privatizations of State enterprises, the reform of the Social Insurance, proposals of administrative reforms to reduce the number of public employees are examples that express these concerns.
- A trade liberalization reform was implemented in 1990 which is considered one of the major visible changes of the new policies.
- The stabilization plan of 1994 — “Plano Real”, which has succeeded to stop the inflationary bias of the Brazilian economy. Inflation rate dropped from 2.708% in 1993 to 14.8%, in 1995.

Recent Economic Development: 1990s (3)

The period of 1990/2003 can be divided into 4 periods: 1990/1994; 1995/1998; 1999/2001 and 2002/2003.

1. 1990/1994. Macroeconomic instability and Reform Tariff.
2. 1995/1998: Stabilization program, overvalued exchange rate, increasing current account deficits and “contagious risk”.
3. 1999/2001. Adoption of a flexible exchange rate regime, worsening of external conditions and political uncertainties.
4. 2002/2003. Macroeconomic Policies have not changed. The return off trade surplus and signs of economic recovery.

Inflation Rate

Figure 8a: Annual Rate of Inflation: 1980/1986

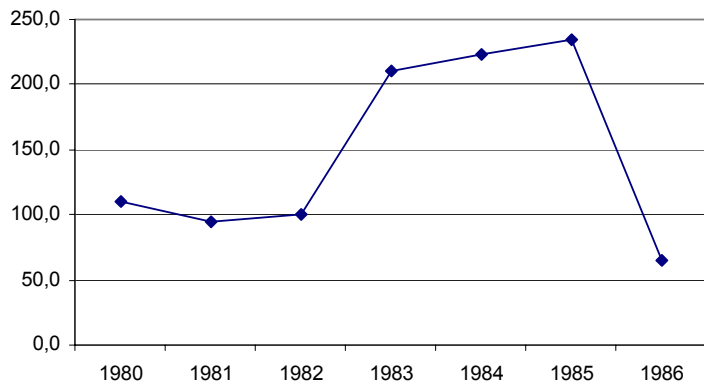


Figure 8b: Annual Rate of Inflation: 1987/1994 (%)

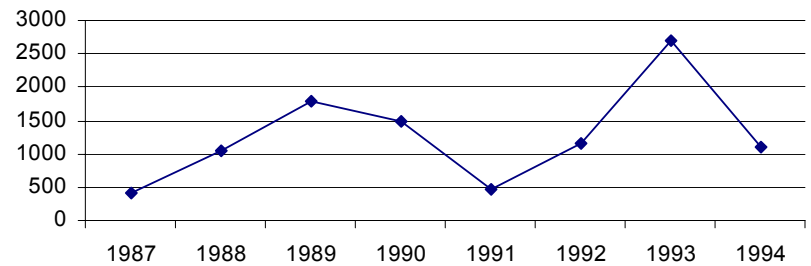


Figure 8c: Annual Rate of Inflation: 1995/2003

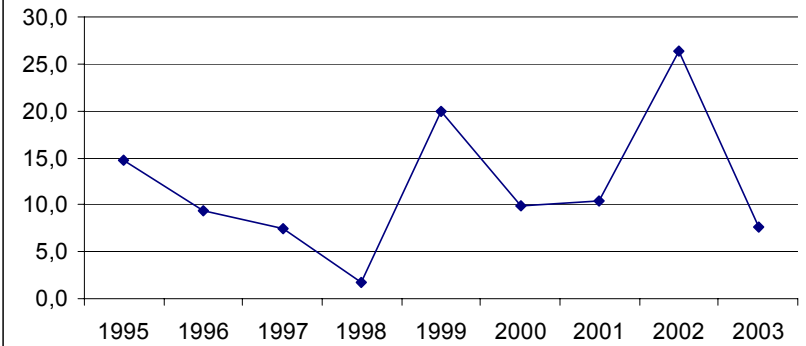


Figure 9: Real Effective Exchange Rate: Base Year 2000

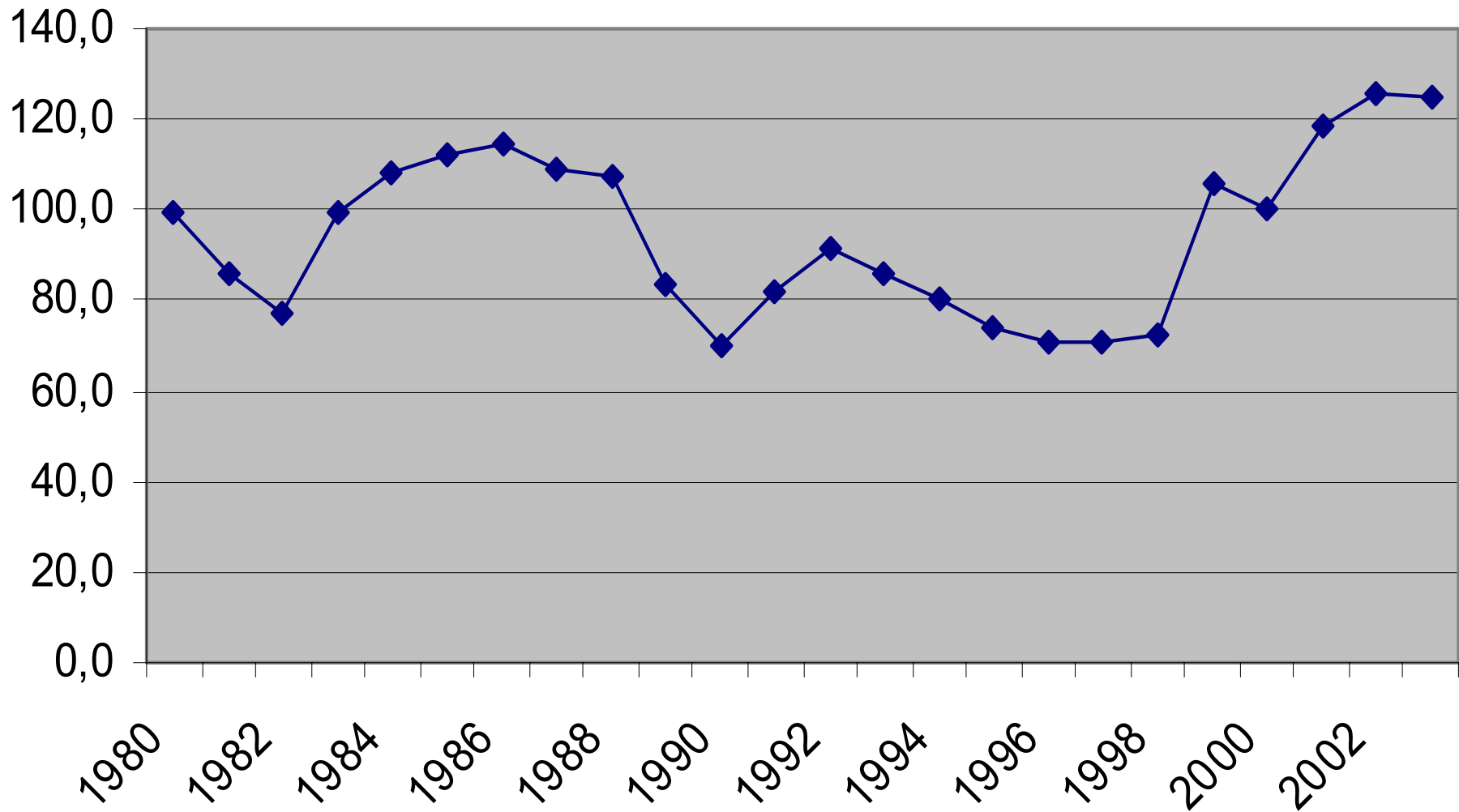
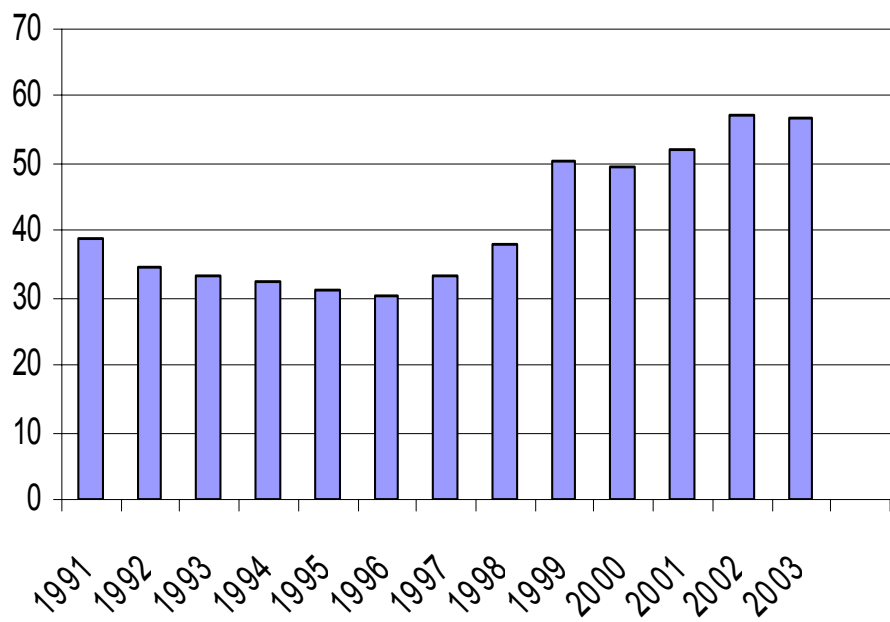


Figure 10: Total Net Public Debt as a percentage of GDP (%)



**Figure 11:
Current Account as a percentage of GDP**

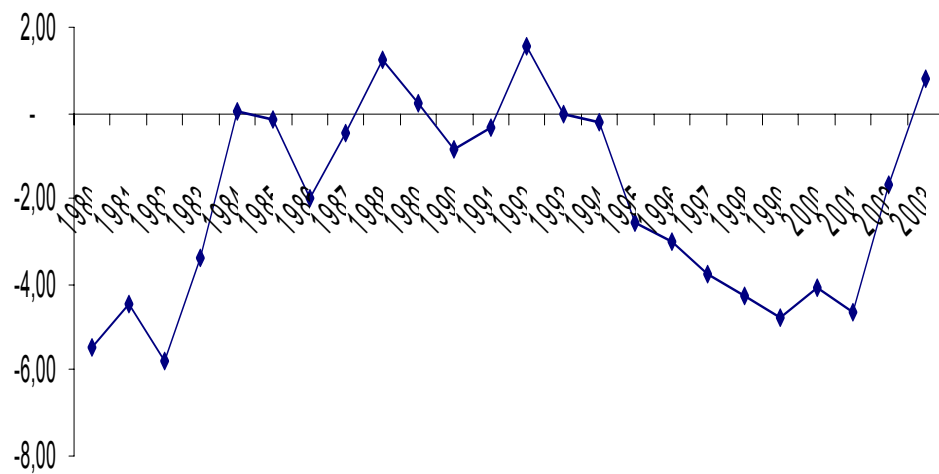
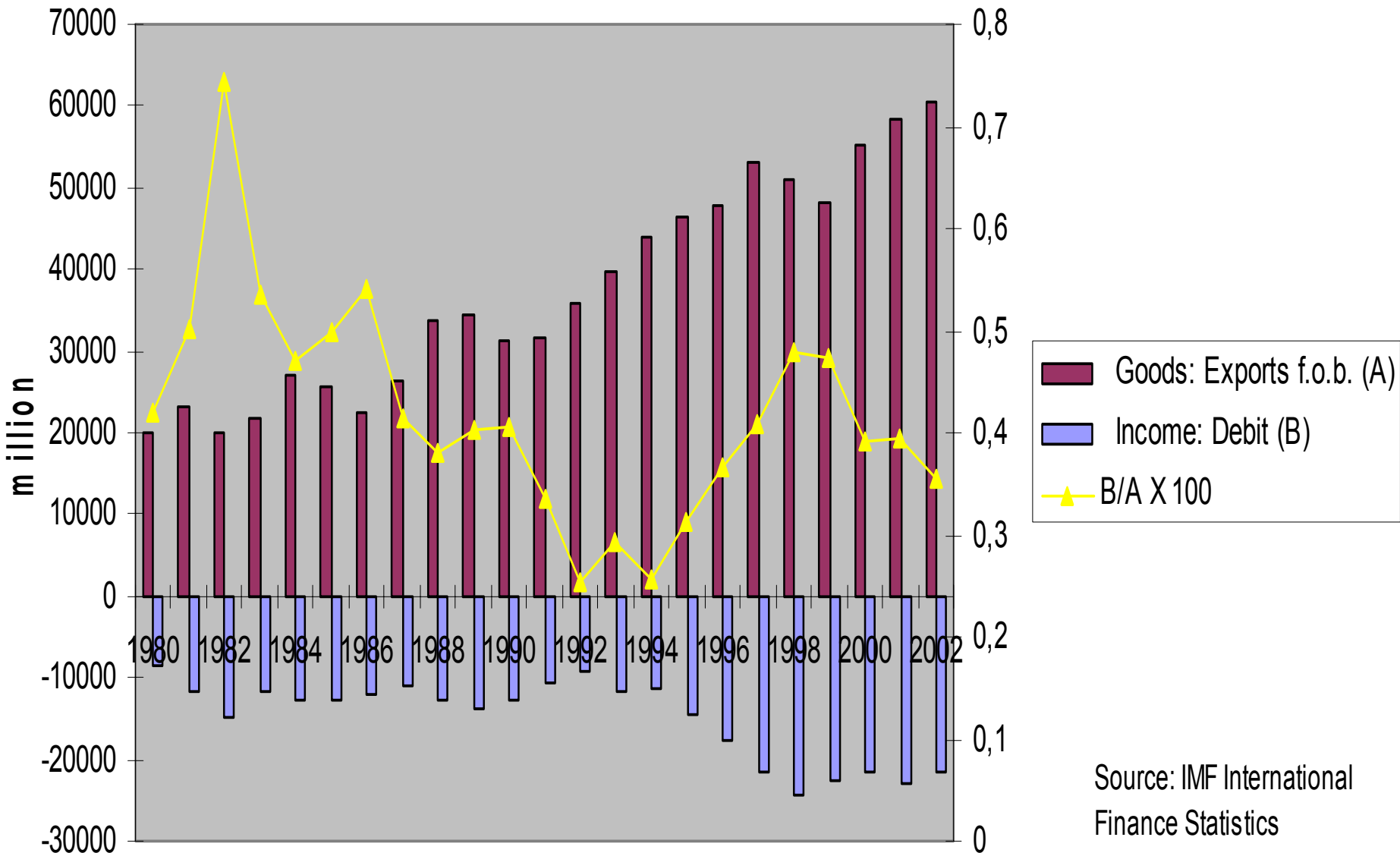


Figure 12: Export and Debit Relation



Source: IMF International Finance Statistics

Figure 13: Current Account in US\$ millions

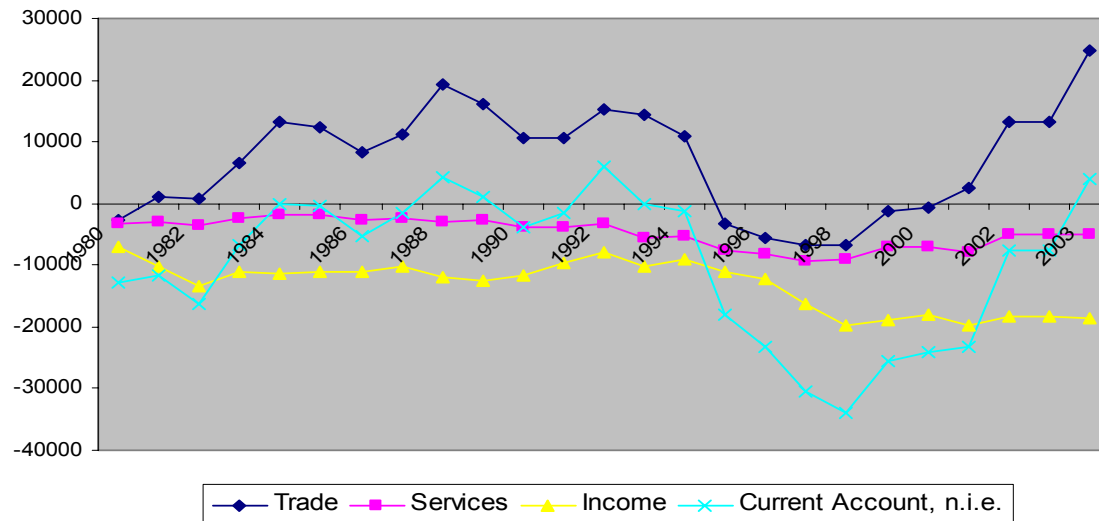


Figure 14: Merchandise Trade as Percentage of GDP (%)

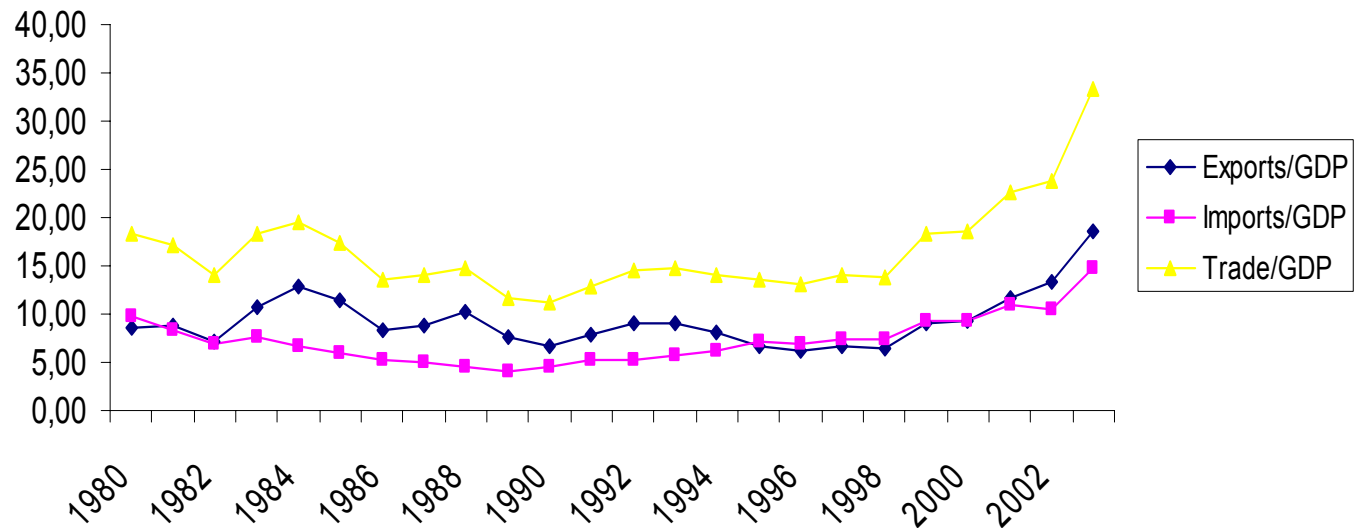
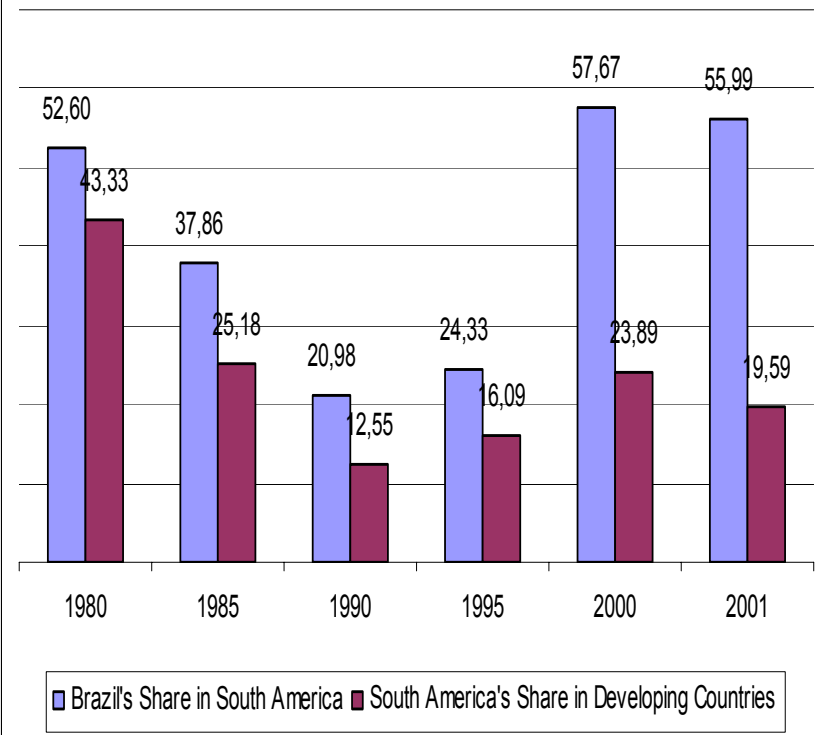


Figure 15: Merchandise Trade: Average Annual Growth Rates (%)



Figure 16: Foreign Direct Investment in Brazil (%)



Recent Economic Development and Liberalization

- The trade liberalization program in Brazil has been followed by a new economic policy environment — the commitment with stable macroeconomic conditions. However, it is not possible to conclude that the new policies have guaranteed a friendly and stable economic environment in respect to growth. Some of the problems are derived from domestic policies — exchange rate, public debt, high interest rates, difficulties to implement all the economic reforms — others are related to the external crisis of the 90s that exposed even more the domestic unbalances of the Brazilian economy. These observations must be kept on the background when one analyses the impact of the trade liberalization program in Brazil.

Pre-Trade Liberalization Policies

- The basic orientation of foreign trade policy was to increase export revenues. The export incentive program was deepened and reached its apex in the first half of the 80s. The import replacement process was nearly concluded, but the protectionist policy remained in force until the end of the 80s.
- The improvement of the current account was due to trade balance surplus. However, some data suggest that this does not reflect an increase in Brazil's competitiveness. The share of Brazilian exports in world exports remained around 1 per cent along the decade whereas the share of imports decreased from 1.25% to 0.65%. The share of exports in the Brazil GDP was 8.5%, in 1980, 12.9% in 1984 and 7.6%, in 1989. The burden upon imports to attain external equilibrium is reflected on the ratio of imports/GDP — it shrank from 9.8% to 4.1%.

The Relative Consensus at the end of the 80s.

- Brazil has not been able to change its comparative advantage towards the new technological sectors.
- The exposing of national industry to international competition forces the adoption of more efficient techniques, giving rise to greater international competitive power.
- Open trade reveals comparative advantages, providing better allocation of national resources, which results in greater international competitiveness; and
- Open foreign trade can be utilized to obtain economic stability (price control, anti-(mono) oligopoly policy, etc.), which is a precondition for adopting international competitiveness policies

Liberalization Trade Reform

- 1988: Eliminate tariff redundancy.
- 1990: First Broad Reform, since 1957.
- 1994: the Common External Tariff: Mercosur.
- 1995/1999: A slight reversal of the liberalization process.
- 2003. Doubts about unilateral liberalization offers.

Figure 17: Nominal Import Tariffs: 1989/2003

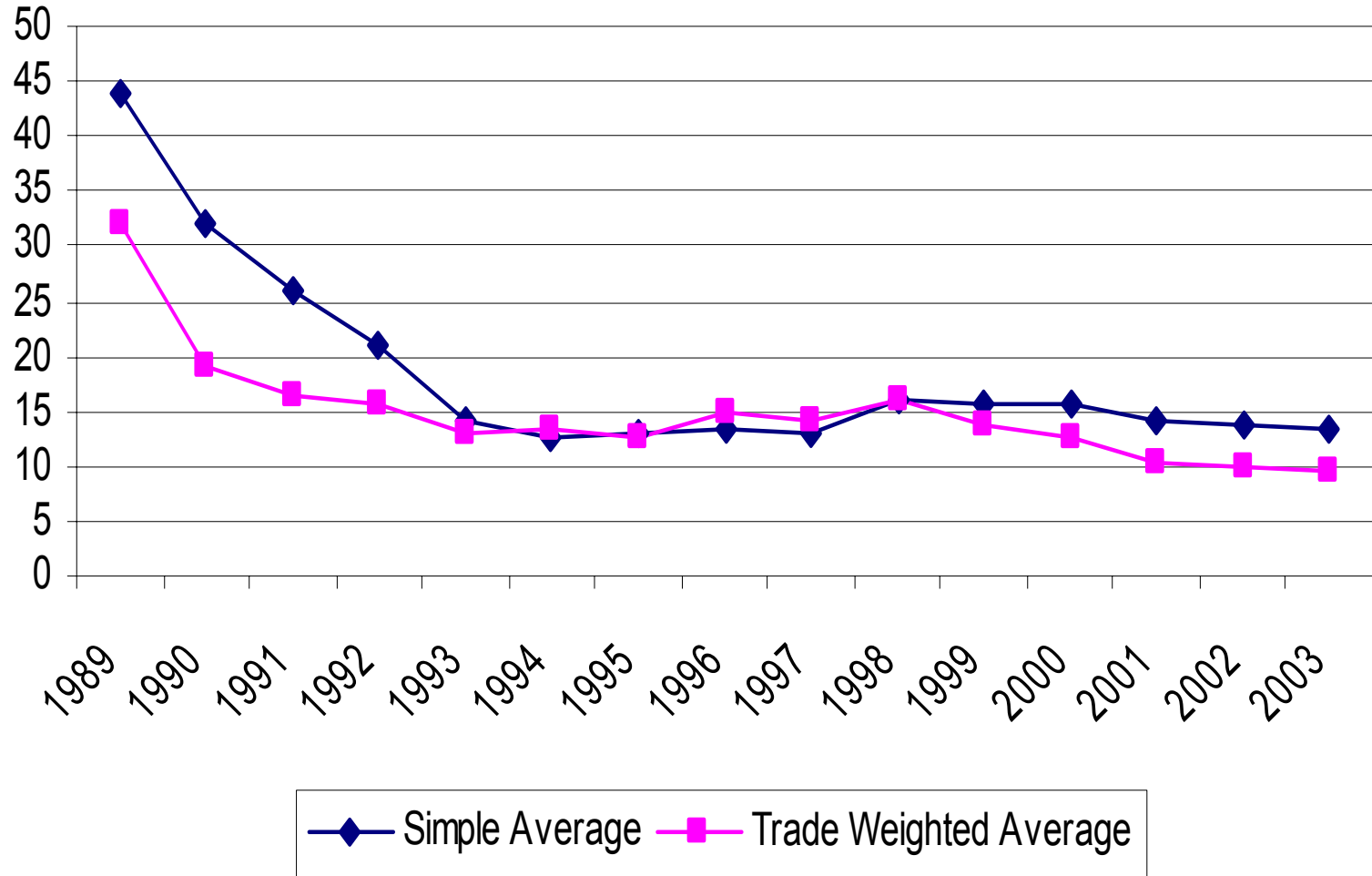


Table 5
Brazil Nominal Import Tariffs: Manufactured Products

Tariffs	1989	1994	1998	2003
Simple Average	45,61	14,32	16,82	14,27
Standard Deviation	16,24	6,29	5,76	5,37
Maximum Tariff	85,00	27,03	28,95	26,02
Minimum Tariff	21,67	0	1,67	1,17

Source: UN COMTRADE, Classification ISIC Rev. 3

Table 6
Brazil Weighted Nominal Tariff Rates: Manufactured Products

Tariffs	1989	1994	1998	2003
Simple Average	40,60	13,15	15,79	12,19
Standard Deviation	18,16	7,29	7,49	5,95
Maximum Tariff	85	27,97	36,6	21,33
Minimum Tariff	10,54	0	1,04	0

Source: UN COMTRADE, Classification ISIC Rev. 3

Figure 18: Frequency Distribution of Nominal Tariffs by Number of Manufacture Sectors

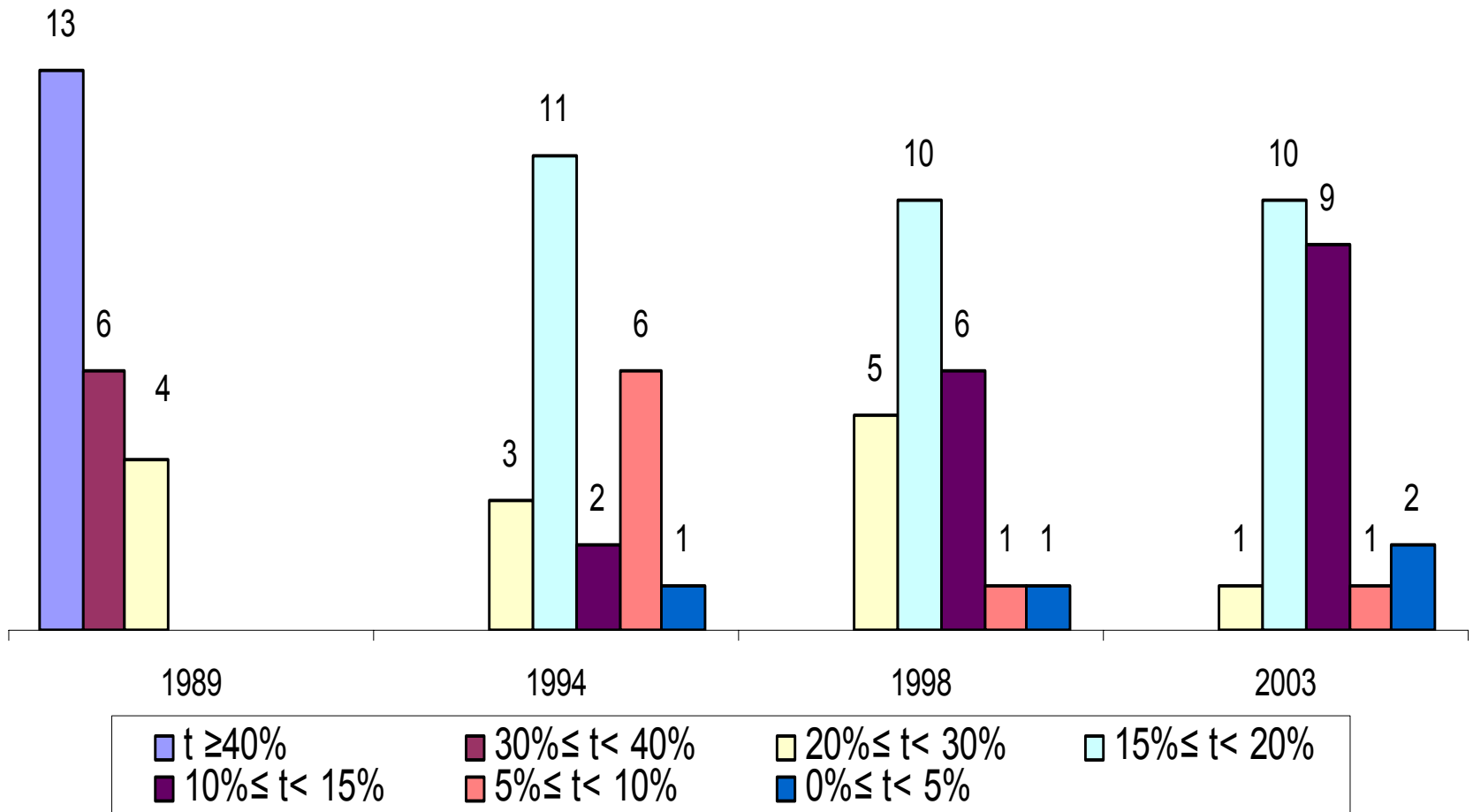
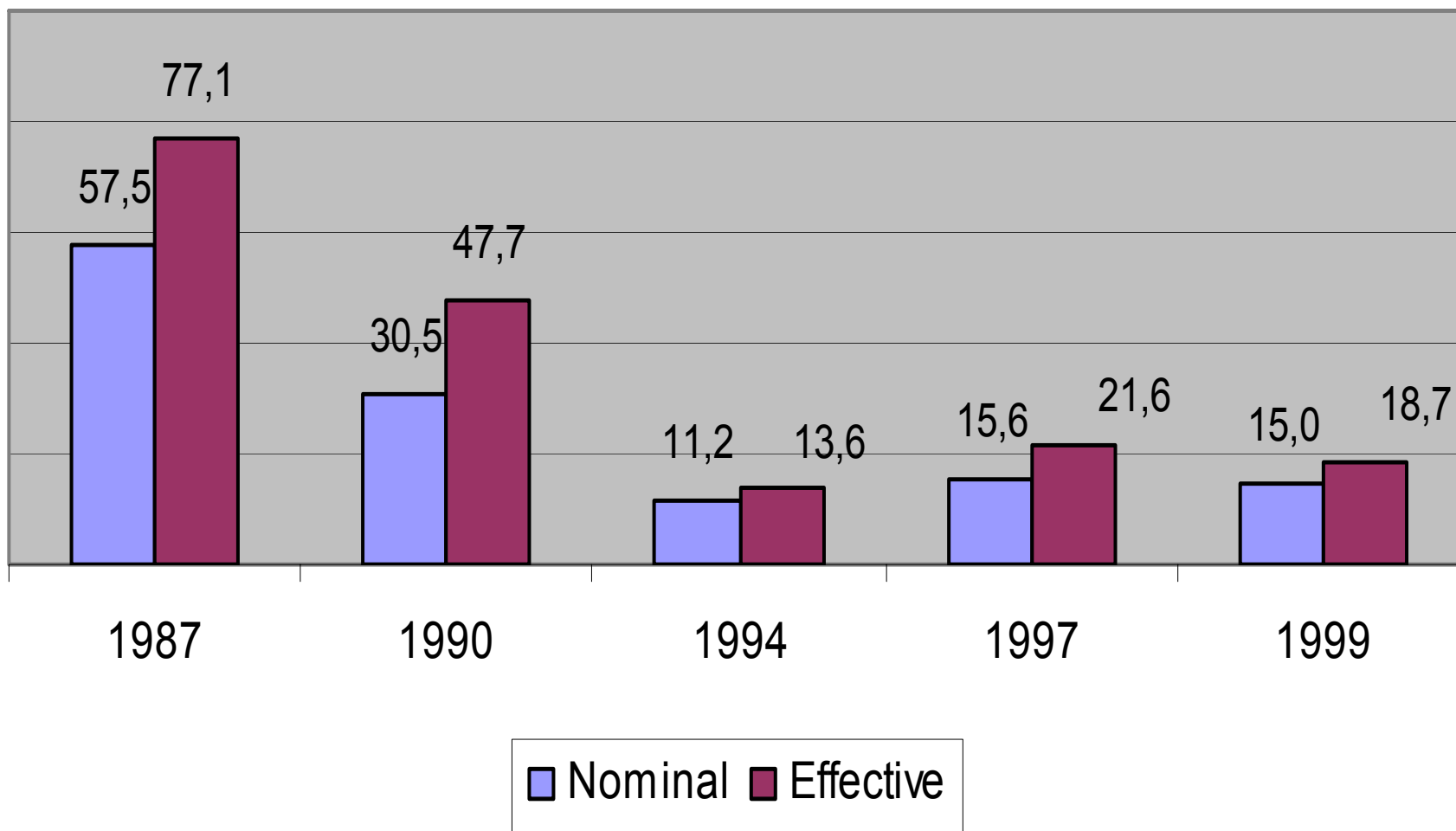


Table 7
Nominal Tariff Rates: Selected Sectors.

Simple Averages by Sctors	2003		1994		1989	
	Rank	Tariff	Rank	Tariff	Rank	Tariff
Manufacture of motor vehicles, trailers and semi-trailers	1	26,02	1	27.03	6	55,59
Manufacture of wearing apparel; dressing and dyeing of fur	2	19,98	4	19.83	2	81,82
Manufacture of tobacco products	3	19,83	5	19.11	1	85
Manufacture of furniture; manufacturing n.e.c.	4	19,07	7	18.01	3	64.69
Manufacture of fabricated metal products, except machinery and equipment	5	17,55	13	15.46	9	45.93
Tanning and dressing of leather	6	17,51	14	15.41	8	46.93
Manufacture of textiles	7	16,98	12	15.49	4	63.03
Manufacture of rubber and plastics products	8	16,5	11	15.62	5	55.63
Manufacture of electrical machinery and apparatus i.e..	9	16,15	8	15.73	11	43.77
Manufacture of radio, television, and communication equipment and apparatus	10	15,38	3	22.06	7	49.78
Manufacture of medical, precision and optical instruments, watches and clocks	11	15,17	9	16.91	12	43.73
Manufacture of office, accounting and computing machinery	12	14,57	2	22.26	13	41.77
Manufacture of machinery and equipment n.e.c.	13	14,02	6	19.06	10	44.94
Manufacture of other transport equipment	18	12,05	10	16.06	17	36.66

Figure 19: Nominal and Effective Import Rates



Economic Impact if the Liberalization Process: Trade Flows

Table 1

Total Import Growth Rates

IMPORTS	1980/1989	1990/1994	1995/1998	1998/1999	2000/2003	1990/2000
Total	-20,4	58,1	7,2	-14,9	-18,1	162,4
Food and live animals	-17,6	62,9	-1,2	-30,1	-18,0	75,4
Beverages and tobacco	133,7	171,0	-13,9	-32,7	-8,7	213,0
Crude materials, inedible, except f	65,1	56,8	-27,5	-11,0	-15,2	64,8
Mineral fuels, lubricants and relat	-52,6	-12,6	-24,3	4,0	-16,1	47,1
Animal and vegetable oils and fats	18,4	361,7	6,9	-38,4	-27,6	210,4
Chemicals	-9,7	69,2	11,5	-3,4	-0,7	195,9
Manufact goods classified chiefly b	-6,9	58,5	14,3	-23,3	-21,6	200,6
Machinery and transport equipment	4,0	112,5	26,5	-16,4	-25,6	290,7
Miscellaneous manufactured articles	108,1	68,8	-9,9	-24,3	-16,4	151,6
Commod. & transacts. not class. acc	-28,2	-23,1	-96,9	217,7	-95,9	3659,3

Table 2
Sectoral Composition of Imports

IMPORTS	1980	1989	1995	2000	2003
Total	100,0	100,0	100,0	100,0	100,0
Food and live animals	8,6	8,9	8,9	5,8	5,9
Beverages and tobacco	0,1	0,2	0,7	0,3	0,3
Crude materials, inedible, except f	3,4	7,1	4,4	3,3	3,5
Mineral fuels, lubricants and relat	43,1	25,6	12,1	15,1	15,5
Animal and vegetable oils and fats	0,4	0,6	0,7	0,4	0,3
Chemicals	13,9	15,7	15,2	17,6	21,4
Manufact goods classified chiefly b	8,7	10,1	11,5	10,2	9,8
Machinery and transport equipment	19,5	25,4	38,0	41,0	37,3
Miscellaneous manufactured articles	2,4	6,1	8,4	6,0	6,1
Commod. & transacts. not class. acc	0,0	0,0	0,0	0,1	0,0

Table 3**Total Export Growth Rates**

Exports	1980/1989	1990/1994	1995/1998	1998/1999	2000/2003	1990/2000
Total	70,8	38,1	7,6	-6,0	32,5	74,9
Food and live animals	-10,3	39,1	-3,5	0,3	52,6	39,5
Beverages and tobacco	95,3	66,9	-0,7	-37,3	24,7	35,3
Crude materials, inedible, except f	64,5	13,2	32,6	-10,1	39,2	75,2
Mineral fuels, lubricants and relat	137,1	15,7	-13,0	9,2	320,0	32,9
Animal and vegetable oils and fats	-23,2	94,3	11,3	-18,7	183,7	-3,4
Chemicals	180,7	32,1	2,9	-4,7	24,4	89,7
Manufact goods classified chiefly b	246,0	32,8	-8,8	-3,8	26,8	39,3
Machinery and transport equipment	101,9	53,9	31,8	-10,0	10,1	164,7
Miscellaneous manufactured articles	148,1	65,5	-2,9	1,9	2,2	86,5
Commod. & transacts. not class. acc	12,4	17,2	-1,6	30,6	14,6	180,1

Table 4**Sectoral Composition of Exports**

Exports	1980	1989	1995	2000	2003
Total	100,0	100,0	100,0	100,0	100,0
Food and live animals	39,2	20,6	21,6	16,8	19,4
Beverages and tobacco	1,5	1,8	2,8	1,7	1,6
Crude materials, inedible, except f	14,9	14,4	13,2	15,3	16,1
Mineral fuels, lubricants and relat	1,8	2,5	0,9	1,6	5,2
Animal and vegetable oils and fats	3,4	1,5	2,7	0,9	1,9
Chemicals	3,6	5,9	6,7	6,8	6,4
Manufact goods classified chiefly b	13,0	26,3	25,4	20,5	19,6
Machinery and transport equipment	16,9	19,9	19,1	28,0	23,2
Miscellaneous manufactured articles	4,3	6,2	6,4	6,4	5,0
Commod. & transacts. not class. acc	1,4	0,9	1,4	2,0	1,7

Import Coefficients

- Import/Apparent Consumption has increased from 4.5 to 22.5% (1989/1999), according to Markwald (2001).
- The largest increases were for capital goods, electronic and communications equipment, machinery and electrical equipment. Their penetration rates rose more than 40% and for the latter, almost 70% (Abreu 2004)
- The share of imports in Brazil GDP increased from 4.1%, in 1989 to 9.3%, in 1999 and reached 14.82 in 2003.

Sector Classification	Import Coefficient		Export Coefficient	
	1996	2004*	1996	2004*
Total Industry	19.9	17.4	17.9	22.3
Extraction Activities	75.8	90.4	66.1	88.9
Manufacturing Industry	18.4	15.3	17.0	20.5
Food and Beverage	9.2	4.5	23.5	27.5
Tobacco	6.6	0.8	58.6	19.6
Textile	11.3	9.6	14.0	15.0
Clothing	6.9	3.6	5.7	7.2
leather Products	14.7	7.1	49.4	48.4
Wood Products	5.2	6.1	38.1	70.4
Manufacture of paper and paper products	9.5	6.2	16.8	21.4
Manufacture of coke, refined petroleum products	13.1	7.9	4.9	8.8
Chemicals and chemical products	20.6	25.0	9.3	11.9
Manufacture of rubber and plastics products	12.0	13.2	8.3	11.1
Manufacture of non-metallic mineral products	6.0	6.4	8.4	15.1

Sector Classification	Import Coefficient		Export Coefficient	
	1996	2004*	1996	2004*
Basic metallurgy	16.5	9.1	47.9	31.8
Metal products except machinery	11.5	10.0	7.1	7.7
Machinery and Equipment	41.5	33.1	25.1	27.9
Manufacture of electrical machinery and apparatus i.e..	23.8	29.4	12.5	14.7
Communication equipment and apparatus	46.6	32.4	10.7	16.5
Manufacture of motor vehicles	26.0	14.7	22.9	27.1
Other Equipment Transport	12.2	21.6	11.4	35.0
Furniture	12.0	6.9	12.1	18.9

Source: Nassif and Puga (2004)

Productivity Gains

- Studies have shown gains in total factor productivity up to 4.4 % per annum to the industry as a whole, in the period of 1991/1998.
- A study by Mundler and others (2001) found lower numbers (0.29 per annum), Nonetheless they estimate that a 30-percentage point decline in tariff rates would yield a 6 percentage point acceleration in TFP growth.
- The results of TFP growth by sector were not uniform in 1987/1998.

Gains of Productivity (1991/1998).

- Positive gains: other metallic products (1.15); machinery (3.06%); electrical equipment (12.07%); wood and furniture (0.43%); paper, pulp (2.83%); plastics (0.14%); apparel (6.05%); vehicles and parts (6.95%); and processed and edible products (0,03%).
- Negative results: non metallic products (-1.16%); textiles (-2.06%); leather products (-2.34%) and food and beverages (-4.10%).

Distributive Effects

- The studies are not conclusive. For Terra, Gonzaga and Menezes (2002) the import liberalization has increased the share of less skilled workers in total income, though if the analysis look to individual sectors, there was na increase in the number of skilled workers.
- Arbache (2002) analysing a large sample of firms, has concluded tha the liberalization process has favoured skilled workers and does not help to improve income distribution in Brazil.

Policy Suggestions

- The institutional and macroeconomic environment.
- The need to separate the issues of income growth, income distribution and poverty in the debate about liberalization.
- The issue of safety nets in Brazil.
- The Doha negotiations and the South-South debate.