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OBSTACLES TO BRAZILIAN EXPORT GROWTH AND THE PRESENT MULTILATERAL TRADE NEGOTIATIONS[1]

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Abstract

This paper is concerned with the evaluation of the impact of non-tariff obstacles faced by Brazilian exports in developed markets. Some of the main issues of recent Brazilian commercial policy are examined as well as the economic rationale for the adoption of a specific agenda by Brazil in the Uruguay Round. The traditional coalitions of Brazilian economic diplomacy and alternative coalition possibilities are critically examined from an economic national interest point of view .

It is important to note that from the fact that this paper does not focus upon the importance of Brazilian obstacles to trade it does not follow that their importance is not recognized. This approach is justified as the literature on such sources of inefficiency is considerable, while that on the Brazilian "shopping list" for the MTNs is extremely limited. Moreover, the main problem faced by Brazilian exports is -- and is likely to continue to be in the foreseable future -- market access rather than lack of competitiveness.

This paper is divided in three sections. The first section of the paper deals with the evolution of exports and imports, the domestic and foreign determinants of exports as well as with import policies defined under balance of payments restrictions. The second summarizes the available evidence on obstacles to Brazilian exports in developed markets and includes an assessment of Brazilian concrete economic interests in each major issue likely to be of importance during the Uruguay Round: GSP, graduation and other preferential agreements; agricultural protectionism; tariff escalation; the MFA; antidumping procedures, subsidy countervailing duties and voluntary export restraints; the "new themes". The final section discusses the basic aims of Brazilian economic diplomacy in the present Round and puts the discussion of trade matters in a global perspective by considering trade-debt links and the importance of macroeconomic policy coordination among developed economies as a necessary condition for the long run stability of the developing countries' balance of payments position and ultimately for adequate economic growth. Likely coalitions, both South-South and North-South, are also discussed.

1. BRAZIL'S EXPORT PERFORMANCE AND IMPORT POLICIES

A long-run view of the impact of import-substituting and export-promoting policies is essential in the case of Brazil, a solid counterexample of the more extreme associations of so called "outward-looking" economic policies and economic growth performance . It is to be lamented that the recent World Bank Development Report 1987 should have limited its interest in economic history to a rather general treatment of the links between trade and industrialization from the Industrial Revolution to present times (World Bank (1987), pp. 37 and ff.). In the central treatment of outward-looking policies (pp.82 and ff.) history starts in 1963 and, at least from a Brazilian point of view, is told very unconvincingly. The determination of Brazil's degree of outwardness seems to have been defined by its economic performance rather than the reverse [3].

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[3] Given space restrictions it is impossible to deal adequately here with the limitations associated with the indicators based on which different degrees of "outwardness" are defined by the latest Bank report using weighing criteria which are not made explicit : effective rates of protection, use of direct controls, export incentives and degree of exchange rate overvaluation. Suffice it to say that they are very substantial.

Brazil's industry was already significant by the turn of the century. It developed rapidly, sheltered by import substitution policies based on a combination of high tariffs and restrictive foreign exchange and import control policies. Economic growth performance in consequence was extremely good, real output increased at 4.6% a year in 1900-29 and 5.2% in 1929-64 [4].

1.1 Growth and diversification of Brazilian exports since the 1960s

The new government established by the April 1964 coup clearly asserted for the first time in more than three decades the emphasis to be placed on closer links with the international economy and on policies which assured that this objective would be achieved.

Total exports increased very quickly after the introduction of both new macroeconomic policies and specific export promotion policies [5]. Export value increased 14.7% yearly between 1964 and 1985, year to year growth rates varying considerably (see Table 1.1). Performance was also impressive if judged by the behavior of export volume which increased 9.5% yearly in the same period (see Table 1.2). Exports as a proportion of GDP rose consequently: they reached 7.7% in 1973, remained above 6.3% until 1979, then started to rise as exports increased significantly and GDP fell, to reach a peak of 12.8% in 1984.

An important explanation for the impressive export performance

Table 1.1

Brazilian Exports and Imports, Selected Years, 1964-1985 (US$ million)

	Total Exports FOB	Manufactured Exports FOB (SITC 5-8)	Total Imports FOB	Mineral Fuel Imports FOB
1964	1,430	76	1,086	200
1967	1,654	163	1,441	178
1970	2,739	368	2,507	281
1973	6,199	1,229	6,192	769
1976	10,139	2,349	2,383	3,842
1979	15,244	5,825	18,083	6,773
1981	23,293	9,232	22,091	11,340
1982	20,175	7,823	19,395	10,623
1985	25,639	n.a.	13,168	6,176

Sources: Cacex and United Nations, Yearbook of International Trade Statistics

was the extremely fast growth of manufactured exports whose share in total exports rose from 5.3% in 1964 to 41.6% in 1983. The value of manufactured exports increased 25.6% a year in the same period while

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[4] See Fishlow (1972) passim.

[5] To be discussed in the next section.

volume grew 17.3% yearly. With the exception of the 1981-83 period, Brazilian manufactured export performance has consistently outpaced the growth of world and developing country exports. While this was more

Table 1.2

Brazilian Exports: Volume and Price Indices, Selected Years, 1964-1984 (1970=100)

	Volume Indices			Price Indices*		
	Total Exports	Manufactured Products	Unprocessed Products	Total Exports	Manufactured Products	Unprocessed Products
1964	62	35	77	90	96	85
1967	74	66	85	87	88	76
1973	155	177	114	150	175	141
1976	176	214	112	218	233	215
1979	220	355	74	269	292	259
1981	323	544	104	268	314	161
1982	295	488	104	252	285	165
1984	414	731	124	243	269	198

Source: Conjuntura Econômica; definition of manufactured products is not the same as SITC 5-8.
* In current US dollars.

markedly so in the early 1970s, it remained true in 1974-81 (see Table 1.3).

Table 1.4 shows the composition of Brazilian exports over time. Attention is drawn to the importance of steel, non-electric machinery, transport equipment (mainly motor cars and parts) and footwear which corresponded in 1983 to 56.4% of total manufactured exports (SITC 5-8).

Brazilian exports tend increasingly to be dependent on markets in developing countries: shares of all developed areas in 1984, with the exception of Japan, were below their level in the late 1960s. New markets were found in Africa, Asia and the Middle East, and, until the early 1980s debt crisis, in Latin America. The US market share has recovered quite dramatically in recent years as Brazil has benefited from the sharp increase in U.S. imports (see Table 1.5).

Manufactured exports show the same market trends. The US is now by far the main market for Brazilian manufactures. It absorbed in 1985 more than 85% of footwear exports, 28 % of steel products [1984] , 41% of non-electric machinery and 18.9% of transport equipment exports.The EEC purchased 3.6% of steel exports [1984], 6.6% of footwear exports, 18% of electrical machinery and 14.5% of transport equipment. Developing countries absorbed almost 30% of non-electric machinery exports (of which 22% of the total was accounted by Latin American countries) and 60% of transport equipment exports evenly distributed among Africa, Latin America and the Middle East. This resulted both from the US import boom and from foreign debt difficulties in other developing countries

Table 1.3

Manufactured Export Growth Rates: World, Developing Countries and Brazil, 1965-1983 (%)

	World	Developing Countries	Brazil
1965-1971	12.6	13.4	23.8
1971-1974	28.7	39.1	63.4
1974-1977	9.2	14.6	16.3
1977-1981	13.6	21.1	31.7
1981-1983	- 2.4	4.4	- 0.3
1965-1983	3.0	18.2	27.0
1971-1983	9.7	15.1	20.8

Source of raw data: UNCTAD, Handbook of International Trade and Development Statistics and United Nations,Yearbook of International Trade Statistics, several issues.

which reduced their rate of growth and made them curtail imports. The limited importance of the Japanese market and the shrinking post-1973 EEC market are other characteristics with important policy implications (Table 1.6).

In spite of the fast growth of manufactured exports, the export/output ratio remained low as it was still 9.1% in 1979 for the manufacturing industry as a whole, due to the concurrent fast growth of industrial output. This ratio rose more recently as industrial output declined and manufactured exports increased: by 1983 it had reached more than 17% as exports increased and industrial output contracted but it has fallen since. The overwhelming importance of the domestic market is also apparent when attempts are made to decompose the sources of manufacturing growth: in the 1970s import substitution contributed 4.3% of total growth and export expansion only 9.3%, the residual being due to domestic market expansion (World Bank (1983, pp. 38-9)).

1.2 Domestic and foreign determinants of export performance

The shift to a policy of closer integration with the international economy in the mid-1960s had as one of its main points the removal of discriminatory treatment of exports implied by the multiple exchange rate system coupled with the avowed intention of not overvaluing the foreign exchange rate as had been common in the past. In addition, fiscal reform made possible the introduction of tax rebates and duty drawbacks which did not exist previously. Export subsidies were created involving export tax credits in addition to tax rebates. New specific export credit facilities to finance production and sales were introduced as well as specific export promotion programs such as BEFIEX which made imports by specific firms duty free conditional on their meeting specified export targets in the future. Bureaucracy affecting export activities was reduced (see World Bank (1983, pp. 53-68)).

A crawling peg exchange rate policy was adopted in 1968 but it would seem that the policy was unable entirely to compensate the

Table 1.4

Brazilian Imports According to SITC, Selected Years, 1964-1983 (%)

SITC	1964	1967	1970	1973	1976	1979	1983
0 Food and live animals	64.4	62.4	58.0	49.2	46.4	39.4	38.3
1 Beverages and tobacco	2.1	1.3	1.3	1.1	1.7	2.0	1.9
2 Crude materials, excl. fuel	24.9	23.5	23.3	23.4	21.0	14.1	12.7
26Textile fibres	n.a.	8.0	7.2	5.4	1.0	0.8	1.3
3 Mineral fuels	0.2	0.1	0.6	1.4	2.5	1.5	6.3
4 Animal and veg. oils and fats	2.8	2.2	2.5	3.1	3.6	3.9	2.4
5 Chemicals	1.2	1.8	1.4	1.8	1.5	2.8	4.9
6 Basic manufactures	2.7	5.2	7.6	9.2	8.4	14.8	14.4
61Leather,dressed fur	0.1	0.4	0.6	0.7	0.9	1.2	0.7
62Rubber	0.4	...	...	...	0.2	0.5	0.4
63Wood, cork	0.3	0.5	1.0	1.0	0.6	0.8	0.6
64Paper and paperboard	...	...	...	0.4	0.4	0.8	0.8
65Textile yarns and fabrics	0.5	0.7	1.2	3.7	2.8	4.0	2.6
66Nonmetal mineral	0.1	0.4	0.7	0.9	0.7	0.9	0.5
67Iron and steel	1.2	2.9	3.6	1.8	2.3	5.0	6.5
68Non-ferrous metals	...	...	...	0.2	0.2	0.6	1.4
69Metals, n.s.	...	0.2	0.3	0.4	0.5	0.9	0.8
7 Machines and transport equipment	1.3	2.6	3.6	4.9	9.4	16.0	12.1
71Mach. non-elet.	0.6	1.8	2.3	2.1	3.8	7.1	4.6
72Electrical mach.	0.1	0.3	0.7	1.4	2.0	2.5	1.9
73Transport equip.	0.5	0.6	0.5	1.4	3.6	6.4	5.5
8 Misc. manuf. goods	0.1	0.3	0.8	4.0	3.8	4.6	5.1
841Clothing, not fur	...	...	0.1	1.3	0.9	0.7	0.4
851Footwear	...	...	...	1.5	1.7	2.3	4.0
9 Commodities and transactions, n.s.	0.3	0.6	0.9	1.9	1.7	0.9	1.9

Source of raw data: United Nations, Yearbook of International Trade Statistics, several issues.

revaluation of domestic currency which had occurred in 1966-67 so that in 1971 the real trade weighted exchange rate was 15% overvalued in relation to the 1965 level (but still slightly below the 1963 level which is the relevant one by which to gauge the government's success in not allowing foreign exchange overvaluation). By the end of the 1970s the real exchange rate was about 7% below its 1965 level. Devaluation in late 1979 was followed by significant overvaluation in 1981-82; then a significant real devaluation was obtained: in 1983-85 the real rate of exchange was 30% below its average 1982 level, and in 1986 it was more than 36% below this level [6].

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[6] In 1986 the real exchange rate was 42% below its 1965 level. See World Bank (1983),p. 202 and for 1980-86 data from Fundação Getúlio Vargas

It should be noted that as the range of variation of real exchange rates in Brazil was more limited than in other Latin American

Table 1.5

Destination of Brazilian Exports, Selected Years, 1968-1984 (%)

	1968	1970	1973	1976	1979	1982	1984
United States	33.3	24.7	18.2	18.4	19.5	20.2	28.9
Canada	1.4	1.5	1.1	1.4	1.3	1.2	1.5
Aladi	10.3	11.1	9.0	12.0	16.4	14.4	10.6
Other America	0.7	0.7	1.3	1.5	1.1	1.5	1.0
EEC of 10	31.8	35.3	37.5	31.0	30.4	27.3	23.0
EFTA*	5.2	5.4	4.7	4.5	3.4	2.5	2.8
Eastern Europe	7.1	6.2	7.1	11.0	7.0	6.2	5.2
Other European	3.3	4.9	4.1	5.3	2.7	2.4	2.4
Japan	3.0	5.3	6.9	6.4	5.9	6.5	5.7
Middle East	1.1	0.6	2.8	2.7	3.4	6.1	5.5
Asia**	1.2	3.0	3.9	1.6	4.1	4.7	6.1
Africa***	2.0	2.2	3.0	3.8	4.3	6.2	6.4
Oceania	0.1	0.1	0.4	0.4	0.5	0.8	0.9

Sources of raw data: Ministério da Fazenda and Cacex.
* 1981 membership.
** Japan and Middle East countries excluded.
*** Middle East countries excluded.

countries, the eventual damage to exports and the inducement to import was consequently bound to be less significant. Indeed, one of the merits of macroeconomic policy management in Brazil has been the avoidance of extreme overvaluation of the domestic currency. Even when wrong policies were adopted, such as the 1980 failed attempt to break inflationary expectations through foreign exchange pegging, the range of fluctuation was narrower than in other Latin American countries and the corrective reaction swifter.

Estimates of average subsidies and tax rebates vary: Baumann and Moreira (1986) suggest that these were equivalent in 1970 to about 53% of the export value of manufactured goods of which 7.5% corresponded to credit subsidies, 31.7% to tax exemptions and 13.5% to tax credits. Export promotion policies were maintained roughly unaltered in the 1970s; by 1979 their effect was equivalent to about 62% of the export value of manufactures. The sharp withdrawal of tax credits and reduction of credit subsidies allowed this figure to fall in 1980 to under 37% but it subsequently rose again. The impact of such incentives on different

Table 1.6

Destination of Brazilian Manufactured Exports, Selected Years, 1971-1984 (%)

	1971	1973	1977	1979	1981	1984
United States	33.4	29.5	26.9	22.8	20.8	38.0

Canada	3.1	2.6	2.8	2.7	1.6	1.8
ALADI	29.2	22.2	25.4	30.5	30.7	14.3
Other America	2.1	3.9	2.0	2.3	2.0	1.6
EEC*	17.2	27.1	22.0	20.9	17.8	15.5
EFTA*	7.6	2.3	2.0	1.6	1.3	1.6
Eastern Europe	1.4	1.6	2.9	1.0	1.9	1.3
Other Europe**	0.8	1.2	1.5	0.9	0.4	0.6
Japan	1.7	4.2	2.4	2.5	2.3	-
Asia and Middle East***	1.4	2.5	4.3	6.1	7.5	14.0
Africa****	1.8	2.0	7.2	8.3	12.6	10.0
Oceania	0.3	0.9	0.6	1.0	1.1	1.3

Sources of raw data: Ministério da Fazenda and Cacex.
*   Membership varies with year.
**   Countries included depend on EEC and EFTA membership.
*** Japan excluded until 1984.
**** Middle East countries excluded.

industrial sectors was not uniform: in 1980, capital goods and textiles were more favored than the average, while chemicals, furniture, paper, perfumes, food, beverages, tobacco and printing were considerably below average (World Bank (1983, p. 83)). BEFIEX program exports in the beginning of the 1980s corresponded to about 20% of total manufactured exports (Brazilian definition); more than 80% of export commitments were in the transport equipment, metals and machinery sectors. By 1985 their share was approaching 35% of manufactured and 19% of total exports.

In the beginning of 1979 Brazil agreed in the GATT to phase out its tax credit export incentive system until 1983. The Brazilian government, hard pressed by the US, decided at the end of 1979, at the same time the cruzeiro was significantly devalued, to discontinue the system. But as this policy failed and the real exchange rate was allowed to revalue, tax credits were reintroduced and only gradually phased out between 1980 and 1983 (Mussi (1982, p. 22)). The aggregate impact of export subsidies and rebates rose after 1980 to reach almost 69% of manufactured exports in 1982 then fell significantly to 43% in 1985 as tax rebates were withdrawn and tax subsidies reduced (Baumann and Moreira (1986)).

The relative importance of domestic versus foreign determinants of manufactured export performance is not easy to evaluate. Between 1967 and 1978 the decomposition of export growth using the constant market share method yields results which show after 1974 a decreasing importance of the Brazilian competitiveness factor, with both composition and destination factors being relatively insignificant and the growth of the world trade much more important (Doellinger (1974, pp. 105-6) and Horta (1983, p. 520)). Computations for the 1978-81 period indicate that this trend was reversed. Formerly insignificant factors such as export destination have become important and the competitiveness effect once again more important than the world trade growth effect (Martone and Braga (1987, p.16)). It is likely that this trend has continued since as US import growth accelerated.

The influence of domestic factors on export performance may be exerted through instruments other than price incentives or foreign exchange policy. In at least two recent episodes the fall in domestic demand acted as a powerful stimulus to increasing manufactured exports: during the 1964-67 program and in 1981-84 during the recession generated by balance of payments difficulties. In the latter case the vent for surplus character of the export boom not surprisingly resulted in a sharp fall of manufactured export prices which closely followed the fall in the prices of unprocessed products (see Table 1.2).

While the results of econometric work on Brazilian export supply equations and relevant reduced forms are conflicting in relation to conclusions on the relevance of subsidies or even the relevance of a price (that is export remuneration) variable, the importance of idle capacity of domestic industry and of world demand is stressed [7].

1.3 Import policies: liberalization attempts and adjustment to balance of payments difficulties

Brazil's import growth in the last decades was due in large part to the country's reliance on imported oil (see Tables 1.1 and 1.7) whose share of total imports increased from 20.4% in 1964 to more than 50% in 1984. Other imports were mainly capital and intermediate goods as well as wheat (see Table 1.7). A consequence of larger oil imports was the increased importance of oil supplying countries as the origin of Brazilian imports to the detriment of developed countries (see Table 1.8). These import shares are much more stable over time when the analysis is focused on non-oil exports. These trends have tended to become less marked recently as domestic oil production has increased as a share of oil consumption and as world oil prices have fallen (see oil import volume indices in Table 1.9).

Brazil's import liberalization attempt in the second half of the 1960s was cut short by the first oil crisis. In accord with the global government strategy, tariffs were reduced in 1966-67: the ERP for industry as whole was reduced from 108% to 63%. Consumer goods presented well above average ERPs while intermediate and capital goods showed much lower rates (Fishlow (1975, p. 58a)). Studies for the early 1970s show still lower ERPs: 47% for the manufacturing industry as a whole, 67% for consumer goods, 36% for intermediates and 40% for capital goods (World Bank (1983, p. 72)).

Table 1.7

Composition of Brazilian Imports, Selected Years, 1964-1984 (%)

SITC	1964	1970	1973	1976	1979	1982	1984
0 Food and live							

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[7] Reduced form price and world trade elasticities are typically of the order of 0.7 and 2.5, respectively (see for a review of such results Mussi (1982), passim). More recent work (Rios (1986)) suggests elasticities of -1.4 for price on the demand side, 1.0 for price in the supply equation and 2.3 for world trade.

animals	22.7	9.9	9.9	7.5	10.5	6.7	8.1
1 Beverages and tobacco	0.1	0.2	0.2	n.a.	n.a.	n.a.	n.a.
2 Crude minerals, excl. fuel	3.6	2.9	3.3	2.9	3.6	3.5	3.6
3 Mineral fuels	20.4	12.3	15.1	31.6	37.1	53.5	52.8
4 Animal and vegetable oils and fats	1.3	0.8	0.6	0.2	0.7	0.2	0.8
5 Chemicals	11.7	16.6	14.8	14.4	14.3	9.2	11.2
6 Basic manufactures	12.8	16.8	16.7	11.2	9.2	7.0	5.6
7 Machinery and transport equipment	24.5	35.2	33.5	29.0	21.4	17.2	15.5
8 Misc, manufactured goods	2.8	4.7	4.8	3.0	3.0	2.6	2.2
9 Commodities and transactions, n.e.s.	0.1	0.6	1.1	n.a.	n.a.	n.a.	n.a.

Source of raw data: United Nations, Yearbook of International Trade Statistics, several issues.

After the first oil shock one of the important elements of adjustment policy to redress the significant trade imbalance was strict control of imports through a wide range of instruments which included import deposits and non-transparent import licensing decisions. By 1978 Brazil was importing 5% less in volume of non-oil goods than in 1972-74

with a GDP roughly 40% higher. Import value as a share of GDP which had risen from 6.5% in 1971 to 11.9% in 1974 fell to 6.8% in 1977-78.

After 1980 it became impossible to continue to rely on the inflow of foreign loans to keep the balance of payments position reasonably under control as interest payments rose rapidly as a result of US policies and, especially after mid-1982, autonomous capital inflows ceased almost entirely. In the beginning of the 1980s aggregate ERP stood at 57%, above its level of nearly in 50% in the 1970s. It should, however, be noted that these estimates are extremely vulnerable in relation to assumptions concerning the shadow exchange rate and changes in methodology. Structural adjustment , of course, also played a a major role in reducing import volumes after 1981 as import substituting investment undertaken in the second half of the 1970s started to mature. Imports were also made more expensive from 1980 by the introduction of a financial operations tax which has varied between 0% and 25% over time and depending on the specific products, on their

Table 1.8

Origin of Brazilian Imports, Selected Years, 1971-1984 (%)

	1967	1970	1973	1976	1979	1982	1984
United States	35.4	32.9	29.4	22.9	17.9	14.8	16.5
Canada	1.1	2.4	1.7	2.5	1.9	2.3	3.6

ALADI	13.0	10.5	9.0	9.5	12.2	16.9	15.4
Other America	...	...	1.2	0.9	0.9	0.7	0.7
EEC*	20.1	22.8	28.5	20.3	18.1	12.6	12.4
EFTA*	11.2	12.3	6.4	4.8	3.5	3.2	2.2
Eastern Europe	4.8	2.1	1.4	1.8	1.3	2.4	3.0
Other Europe**	...	...	2.2	1.4	1.1	0.7	0.5
Japan	3.1	6.4	7.9	7.0	6.0	4.5	4.0
Asia and Middle East***	...	...	9.3	25.1	34.3	35.8	32.0
Africa****	...	...	2.7	3.7	2.6	6.0	1.3
Oceania	...	...	0.3	0.1	0.2	0.1	0.4
Other*****	11.3	10.6	-	-	-	-	-

Source of raw data: Ministério da Fazenda and Cacex.
* Membership varies over time.
** Countries included depend on EEC and EFTA membership.
*** Japan excluded.
**** Middle East countries excluded.
***** Includes Other America, Other Europe, Asia and Middle East, Africa and Oceania.

Table 1.9

Brazilian Imports FOB: Volume and Price Indices, Selected Years, 1964-1984 (1970 = 100)

	Volume Indices			Price Indices*		
	Total Imports	Manufactured Products	Crude Oil	Total Imports	Manufactured Products	Crude Oil
1964	52	33	68	92	110	103
1967	65	55	67	97	99	106
1973	179	192	203	139	132	173
1976	227	223	241	227	190	598
1979	242	216	296	302	245	840
1981	209	180	249	430	278	1,679
1982	191	156	234	416	273	1,620
1984	154	112	190	374	262	1,427

Source: Conjuntura Econômica, several issues.
* In current US dollars.

origin and on the specific importer (see Moreira and Araujo (1984, pp. 48-9)).

With the recession non-oil imports ,which stood in 1980 only 12% above the 1972-74 level with a GDP 60% higher, started to fall due not only to a tightening of controls but also to their high sensitivity to variations in the level of economic activity [8]. By 1983 volume of non-oil imports was only 10% above its 1970 level: in 1986 their share in GDP had fallen to 5.8% after reaching 9.5% in 1980. One of the main characteristics of the 1985-86 boom in Brazil was the very fast growth of repressed non-oil exports at yearly rates in the region of 40% (see Abreu (1987)).

Brazil's balance of payments difficulties have reduced quite drastically the degrees of freedom available eventually to liberalize trade policies. To adopt policies which would involve short run foreign exchange costs -- even if they are beneficial in the longer term -- is simply out of the question as there are no reserves to finance transitory adjustment costs. Attention has been drawn to the conflict between stabilization and trade liberalization as made explicit by the foreign exchange policies adopted by certain Latin American countries such as Chile and Argentina. Stabilization is a pre-condition for liberalization and this is confirmed by the experience of East Asian countries [9].

In spite of all difficulties, the Brazilian experience remains extremely successful as high rates of growth of GDP were achieved in a spite of structural balance of payments imbalances with the adoption of what would be considered extremely autarkic policies by proponents of export-led growth strategies. The Brazilian experience exemplifies a case where successful import substitution was a prerequisite for good performance in world markets as opposed to the commonly alleged unqualified advantages of the early adoption of an export-led strategy to the detriment of import substitution. Brazilian experience provides indeed a solid base for the World Bank assertion (1987, p.83) that "the links between trade strategy and macroeconomic performance are not entirely clear".

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[8] Econometric studies on import demand have consistently suggested import volume elasticities of the order of 1.0 for income, -0.7 for the relative price variable and 3.0 for utilization of capacity. Besides balance of payments-related licensing restrictions, specific sectoral prohibitions were effective such as those on small computers and other computing equipment as a result of the so-called Informatics Law which has reserved the market for domestic production under GATT's article XVIII. Analysis of such legislation, its possible costs as well as possible specific concessions Brazil could make in the present MTN is beyond the scope of this paper.

[9] See Sachs (1987, pp.17 and ff.) for a perceptive analysis of the links between stabilization and export-led growth).

2. NEGOTIATION ISSUES AND BRAZILIAN INTEREST IN THE NEW MTN

Brazil has been active in global commercial policy discussions both in the GATT and outside it. It is a GATT founding member,and played a major role in the discussions which led to Part IV and in the workings of the Framework group. More recently, Brazil played an important role in the defence of a GATT agenda for the next round of negotiations which would concentrate on the backlog of unfinished business rather than on the so-called new themes as proposed by the developed countries with the US in the lead.

This stand is, as will be shown in this section, both firmly supported by GATT law and, as far as the evidence goes, well rooted in self-interest. Brazilian exports face important non-tariff obstacles in the markets of developed countries. In 1986 about one fifth of the value of Brazilian exports to these markets were affected by such barriers, roughly the same proportion as at the beginning of the decade. This was equivalent to the coverage for all countries but above the level of developing countries. This would seem to be mainly explained by the diversification of Brazil's export structure which resulted in a larger proportion of manufactured products in total exports (see Table 2.1) [10]. Market access problems for Brazilian products are concentrated in the US and the EEC; coverage for Japan is significantly lower.

The evolution of coverage ratios for different products in all developed markets between 1981 and 1986 is presented for Brazil and all countries in Table 2.2. Brazilian exports of iron and steel products, chemicals, shoes, textiles and clothing are all significantly affected by non-tariff measures. These barriers have tended to increase since the

Table 2.1
NTM Coverage Ratios in Developed Economies, 1981 and 1986

	Brazil		Latin America		All Developing		All Countries	
Markets	1981	1986	1981	1986	1981	1986	1981	1986
Developed	20.1	20.9	37.1	14.4	34.5	17.5	26.7	20.0
USA	29.1	24.4	56.2	9.7	66.5	10.5	45.9	17.6
EEC	15.3	20.4	22.1	23.8	27.9	28.7	22.6	25.1
Japan	7.2	7.3	9.4	9.3	7.0	6.9	16.1	15.9

Source: UNCTAD inventory, Gonçalves (1987).

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[10] It is well known that the currently used measures of incidence of non-tariff measures such as the share of trade affected by NTMs (coverage) or the frequency of NTM incidence are extremely fragile (see, for instance, Nogués, Olechowski and Winters (1986 , pp. 186-7)). The use of tariff equivalents is, however, so data-, time- and cost-consuming that there is no alternative but to use the standard measures.

early 1980s with the exception of the case of shoes whose access to the US market is less restricted now than in the past. Brazilian agricultural exports are less affected than the average because of the limited importance of temperate agricultural exports which are more affected by non-tariff measures than tropical products.

This section will center on the analysis of the economic rationale which explains the Brazilian stance on the major problems

Table 2.2

NTM Coverage Ratios for Imports of Specific Groups of Products from Brazil and from All Countries in All Developed Economies, 1981 and 1986

	Brazil		All Countries	
	1981	1986	1981	1986
Food Products	15.1	19.6	40.8	42.5
Agricultural Raw Materials	2.2	2.2	2.8	8.4
Minerals and Metals	8.7	16.4	12.7	24.7
Iron and Steel	41.4	69.2	29.0	64.2
Fuels	97.5	9.4	42.4	15.5
Chemical Products	16.0	20.6	13.2	12.7
Manufactures	33.6	29.0	18.6	20.5
Leather	14.3	14.3	8.2	13.9
Textile	70.7	71.2	37.3	39.6
Clothing	67.8	68.9	67.3	67.4
Shoes	98.6	23.2	71.3	32.5

Source: UNCTAD inventory, Gonçalves (1987).

currently faced by GATT diplomacy. This includes evaluating the advance of protectionism in different sectors and/or in the use of different instruments as well as, wherever possible, estimating the export losses entailed by such policies.

2.1 Backlog themes: the economic basis of Brazil's negotiating stance

2.1.1 GSP, graduation and preferential agreements

It is obvious that the graduation of Brazilian exports formerly enjoying GSP treatment in developed markets is undesirable from the point of view of Brazil as it cancels the preferential margin enjoyed by some exports. Brazil is one of the countries most affected by exclusions -- see for the US Mac Phee (1986) -- but it has been suggested that total trade losses entailed by US graduation of Brazil are unlikely to exceed US$ 200 million [11]. This is roughly in line with Karsenty and Laird (1986) who estimate that GSP gains for Brazil under all schemes

[11] See Abreu and Fritsch (1987). The methodology used is ex ante, assessing losses due to both trade contraction and trade diversion

would be about US$ 300 million, or slightly more than 1.2% of total Brazilian exports.

While aggregate losses are not very substantial, trade in specific products can be reduced by as much as 60% by the withdrawal of preferences. US graduation would affect exports of chemicals, aluminium manufactures, cutting tools, furniture, film, tires and electric flatirons [12]. In spite of this, it does not seem that GSP graduation, even if comprehensive, constitutes a major trade issue from the point of view of Brazil.

More recently doubts have been accumulating in Brazil and in other successful manufacturing export countries whether it is convenient to insist on the continuation of GSP and to pay the costs entailed by allowing the developed countries, following the so-called "new reciprocity" policies, to use this modest provision of special and differential treatment to developing countries as a bargaining element in the negotiation of more important issues such as safeguards [13].

Brazilian interests are also unfavorably affected by the continuation and/or expansion of such preferential trade arrangements as those entailed by the Lomé Convention and the US Caribbean Basin Initiative. But to press for the elimination of this unknown economic cost would involve large political costs as it would undermine the much battered long standing coalition of all developing countries in the G-77.

Recent Brazilian trade policy has relied in an important way on ad hoc bilateral agreements. The trade imbalances generated by the two oil shocks in the 1970s and the interruption of voluntary capital flows stimulated the negotiation of ad hoc bilateral deals as part of the effort to reduce trade deficits with the main oil suppliers. These countertrade deals -- of which there is no systematic record -- generally involved the exchange of manufactures for oil and were reached with Middle Eastern and African countries -- Irak, Iran, Nigeria -- in many cases including arms exports. No reliable data exist on arms exports as they are not recorded by official statistics but unofficial information suggests yearly sales considerably in excess of US$1 billion, making Brazil a major supplier in the world arms market.

Political arguments were of major importance in explaining the recent economic understanding reached with Argentina concerning economic integration. Intraindustrial integration, especially in the automotive industry, probably provide the best efficiency arguments in favor of the initiative, together with increased wheat exports if these displace inefficient domestic production. While expansion of trade flows is likely to occur, it is difficult to see an overwhelming economic importance in the Argentina-Brazil program: if significant economic benefits can be reaped much the better, but its major importance is as a political agreement improving the political relations between the two major economies in South America.

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[12] See appendix A.1 of Abreu and Fritsch (1987).

[13] See Blackhurst (1986, p.5) for the point of view of a high-ranking GATT official on this matter.

2.1.2 Agricultural protectionism

Brazil was an early member of the Cairns group of countries that was formed to counter protectionist trends which affect agricultural products. It is not, however, a priori clearcut whether Brazil is favorably or unfavorably affected from a balance of payments point of view by protectionism in agricultural products in developed countries. Removal of such barriers would influence world prices of agricultural goods and consequently the volumes which Brazil produces and consumes.

Table 2.3 presents relevant data on non-tariff specific measures in Brazil's major export markets. Agricultural exports face protectionist obstacles related to the EEC Common Agricultural Policy, to the US agricultural policy especially in the case of sugar and to AD/CVD actions almost everywhere in the case of "sensitive" products such as orange juice.

In the case of sugar and beef, which are traditional Brazilian exports, increased international prices resulting from the removal of protectionist barriers prices would -- if domestic prices reflect changes in international prices -- imply lower domestic consumption and greater production with a consequent increase in the value of exports (see Australia Bureau of Agricultural Economics (1985, pp. 335-337)).

Brazilian exports of soya beans and derived products, which are much more significant than those of beef and sugar, would be unfavorably affected by the reduction in protectionism as this would entail cuts in dairy and meat output in the EEC which is by far the most important consumer of Brazilian soya exports. It is unlikely that a major part of increased dairy and meat output outside the EEC would rely so much on soya-based feedstuff (see Koster and Bale (1985, p. 27)).

As a major importer of wheat in average years Brazil would, on the other hand, be unfavorably affected by more liberal agricultural policies in developed countries as a reduction in protectionism would induce a rise in world wheat prices.

Zietz and Valdés (1986, p. 47) suggest that Brazilian foreign exchange gains resulting from agricultural trade liberalization in developed countries would be on average (1979-81) US$617 million for sugar exports and US$1,370 million for beef exports. Average sugar exports were, however, much greater in 1979-81 than more recently: sugar exports fell from US$904.6 million in 1979-81 to US$492.3 million in 1983-85. Part of the domestic output is heavily subsidized and the above estimates do not take into account possible changes in domestic policy. Beef exports, on the other hand, doubled from US$267.7 million to US$520.9 million. Recent massive imports were mainly due to a temporary demand surge unlikely to recur. Export volumes varied more widely as prices declined significantly in the period.

Brazil imported in 1980 4.3 million metric tons of wheat, a volume identical to the 1981-85 average. Trade liberalization implies wheat price increases in the range of 13-20% (Anderson and Tyers (1984)) depending on whether agricultural trade liberalization in the EEC or in all developed countries is assumed. Available demand and supply elasticities suggest a modest impact on demand -- a contraction of the order of 8% in a total consumption of 6.5 million tons in 1980 -- but a significant supply response in the short run of more than 20% on a level of production of 2.6 million tons. In the long run there would be a strong incentive toward import substitution in wheat production with imports almost disappearing [14]. Foreign exchange losses in the short run would not exceed US$ 70 million in 1980; in the long run they would be reversed. These estimates are fragile as the wheat market in Brazil is totally controlled by the government which has in the past adopted policies which subsidize consumption as well as domestic production and

Table 2.3

Brazilian Exports: NTM Coverage Ratio by Product in the Main Developed Economies, 1986

	USA*				EEC*				Japan*
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)**
Food Products	27.8	0.0	0.0	8.5	15.5	0.1	0.0	0.0	13.5
Agricultural Raw Materials	0.0	0.0	0.0	0.0	1.3	0.0	0.0	0.0	7.9
Minerals and Metals	62.7	44.6	0.0	58.1	8.2	3.4	0.0	5.1	1.2
Iron and Steel	75.5	65.1	0.0	68.7	98.3	41.6	0.0	61.8	0.0
Fuels	0.0	0.0	0.0	0.0	91.1	0.0	0.0	0.0	0.0
Chemical Products	14.0	0.0	0.0	14.0	1.3	0.0	0.0	0.1	44.0
Manufactures	12.9	0.4	4.7	8.4	52.1	0.0	22.5	9.1	3.8
Leather	0.0	0.0	0.0	0.0	18.1	0.0	0.0	0.0	0.0
Textiles	50.5	0.0	50.5	4.0	95.5	0.0	90.0	4.4	35.9
Clothing	68.3	0.0	57.0	11.3	77.2	0.0	77.1	0.0	0.0
Shoes	0.0	0.0	0.0	0.0	100.0	0.0	0.0	87.8	98.7

Source: UNCTAD inventory, Gonçalves (1987).
* 1=All NTMs.
2=VERs.
3=MFA quotas and other textile restrictions.
4=AD/CVD actions.
** All figures for Japan in columns 2 to 4 are null.

estimates are based on unchanged domestic policies and full transmission of international price variations. The less import substitution minded and the more consumption subsidy minded the government is, the greater are the benefits of maintaining the present policies in developed countries which depress world wheat prices. Changes in domestic wheat policy can have much more important consequences than developments in the world wheat market. In the recent past Brazil has mainly bought wheat from Canada and the US using mid-term credit facilities. The recently signed trade agreement with Argentina will, as already noted, change this pattern by increasing Brazilian imports of Argentinian wheat.

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[14] See Modiano (1983) for wheat demand and supply elasticities.

Average Brazilian soya exports -- beans, bran and oil -- in 1981-85 were around US$2.6 billion dollars. Beans and bran, which correspond to about 80% of the total, are basically exported to the EEC. As the main pillar of any serious effort to dismantle agricultural protectionism would have to be a complete overhaul of the Common Agricultural Policy it is expected that domestic output of milk and beef would fall sharply. Precise information on the quantitative details of such a scenario is not available but much of the diverted output would not rely on soya imports. Koester (1982, p.37) has suggested (based on US Department of Agriculture (1978) and Schatzer, Roberts, Heady and Gundal (1981)) that, due to high acreage response to price changes of wheat and coarse grains, EEC grain liberalization would result in such a demand contraction that the price of soya would remain more or less stable.

Supposing that one third of soya exports to the EEC is used to produce beef and milk and the rest to produce poultry, eggs and pork and using data presented by Anderson and Tyers (1984) to generate estimates of the evolution of EEC production of ruminant and non-ruminant meat, it is possible to show that foregone exports would not be much above 5% of total soya exports. Making ample allowance for a worldwide move to free trade in grains and meat it is unlikely that foregone exports would exceed US$ 300-400 million. Agricultural land released by a contraction of soya output could be used to grow alternative crops so that the adverse net balance of payments effect of the elimination of agricultural protectionism in the developed countries would be still less marked [15].

So Brazilian participation in the Cairns group of countries especially interested in the solution of agricultural protectionism is not to be exclusively explained by political factors but is based on solid economic interest as Brazilian exports would have increased by about US$1.5 billion in the early 1980s with the dismantlement of agricultural protectionism in developed countries. Computations based on more recent data are likely to reduce this estimate but not change its sign.

2.1.3 Tariff escalation

An issue which received special attention in the 1982 GATT Ministerial Declaration was tariff escalation, that is, the tendency of developed countries' nominal tariff structures to increase with the degree of raw material fabrication, thus generating high effective protection rates in the final stages of processing. This not only inhibits the expansion of manufactured exports but also affects the worldwide distribution of value added along the processing chain, with perverse global welfare effects (for a more detailed discussion of this

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[15] Brazilian poultry exports could also be affected but it is not possible to predict what would happen in the event of a rediacal liberalization in the developed markets. It is unlikely that their behavior would imply a reversal of the general arguments raised here.

issue see GATT (1982) and Yeats (1984)). Being both a large exporter of raw materials and unencumbered by the classical supply constraints which beset the expansion of processing activities in relatively small primary producing countries, Brazil has a special interest in this issue.

Inspection of processing chains in Brazilian exports reveals the dominating influence of raw and processed coffee, cocoa and oil seeds among agricultural products, and of iron ore among metals. Unprocessed materials along these four chains account for around two third of all Brazilian exports of primary and semi-manufactured products. However, the structure of protection against seed oil and iron and steel imports in developed countries is to a large extent based on quantitative restrictions (restrictions on iron and steel products are discussed below). The coverage ratio for quantitative restrictions applied against oil seed imports in developed countries reported by the UNCTAD Data Base is 56%, a magnitude comparable to that of refined sugar and cotton cloth at the 4-digit CCCN level (see CEPAL (1987), p. 37)). The most promising area for negotiation of tariff reform seems to be that of staple tropical beverages.

The estimation of the potential trade benefits as well as the welfare effects stemming from the global redistribution of value added in processing of these materials under alternative tariff cutting scenarios is made very difficult by the dearth of reliable data on the relevant cross price elasticities and technical input coefficients. Table 2.4 indicates, however, that there has already been some diversification of Brazilian exports towards higher degrees of processing in coffee and cocoa and that there are clear benefits to be derived from trade creation effects arising from a reduction in present tariff levels, especially in the EEC and Japan.

Table 2.4 also shows that the Community's and, to a lesser extent, Japan's tariff structures allow substantial preferences to third suppliers, thus discriminating against Brazil. This suggests that reform of present tariff structures, by eroding the existing preference margins are likely to be resisted by ACP countries and other beneficiaries of present preferential schemes. This may be especially true in the case of cocoa paste and butter, where developing countries already supply the bulk of industrial countries' imports.

2.1.4 The MFA

Textiles and clothing output and employment in Brazil corresponded to 11.5% of industrial output and 20.5% of industrial employment in 1975, considerably below the average for countries with roughly the same income per capita (GATT (1984, I, p. 26 and II, p. 1)). Textile and clothing exports contribute only a small part of Brazil's manufactured exports: 6.8% and 1.3% respectively in 1982 (GATT (1984, I, pp. 6 and 8)). This was larger in the past in the case of both textiles and clothing -- 18.9% and 7.4% of total manufactured exports respectively in 1973 -- as these exports have increased much less rapidly than other manufactures whose exports were not as tightly regulated.

In Table 2.5 data on Brazilian textile and clothing exports by country of destination are presented according to the Brazilian trade classification. It becomes apparent that the EEC is the main market for

Table 2.4

Tariff Escalation in Coffee and Cocoa Processing Chains in Leading OECD Markets (in % unless otherwise stated)

	Post Tokyo Round Tariffs							Share of Products in Brazilian Exports the Chain in 1986
	US	EEC			Japan			
		MFN	Lomé	GSP	MFN	LDC	GSP	
Coffee								
Beans	0	5	0*		0			86
Solluble Coffee	0	18	0		17.5	0		14
Cocoa								
Beans	0	3	0		0			42
Butter	0	12	0	8.0	2.5	0	0	30
Paste	0	15	0	11.0	10/20	0	5/10	20
Powder and Cake	$0.37/lb	16	0	11	21.5	0	15	3
Chocolate	7	12+VC*	0	10+VC	30			5

Sources: UNCTAD (1984b), p. 40 and UNCTAD (1984c), p. 34.
* Figures in brackets refer to preferential rates applying to ACP and the least developed countries, in the case of the EEC and to the latter, in the case of Japan.
** Tariffs to the "variable component" which varies with the ratio between EEC and external prices in this case up to a maximum of 27% including both elements.

manufactured textile and clothing products (see subtotal) but also that its importance is declining over time as US imports have trebled in value while EEC imports have only doubled between 1973 and 1983. Japan is not a significant market for Brazilian textile exports.

In the US market, Brazil, which supplied below 1% of total textile imports in 1963, increased its share to 1.7% in 1973, then to 3.0% in 1978 and 1982. In the EEC textile market Brazil's share was also insignificant in 1963, rose to 3.1% in 1973, fell to 2.5% in 1978 and recovered to 3.1% in 1982 (intra EEC trade excluded). In both major markets Brazil was not a significant supplier of clothing (GATT (1984), I, pp. 46 and 48, and II, p. 11). The total Brazilian share of aggregate imports of textiles and clothing by the main 16 developing countries was 1.09% in 1981 (UNCTAD (1984a)).

Table 2.3 shows the extent to which Brazilian textile and clothing manufactures are affected by nontrade measures in the main developed markets. The EEC market is considerably more protected than either the American or the Japanese markets both for textiles and for clothing.

Whereas MFA quota underutilization may be explained by a complex set of factors (see GATT (1984, I, pp. 154-55)) it is probably also explained, ceteris paribus, by the competitive position of exporting countries. Brazil's record concerning quota underutilization is mixed. Trade weighted average utilization rates in the EEC markets were high (86.6% in 1982) and in the US market rather low (43.3% in 1982 and lower in previous years). This is in sharp contrast to the majority of other suppliers of the US market whose utilization rates are generally above 80% (GATT (1984, I, pp. 94, 96 and 98)). This contrasting record

Table 2.5

Brazilian Manufactured Textile Exports, Main Markets, 1973 and 1983 (US$ million)

	USA		EEC		Japan		Total	
	1973	1983	1973	1983	1973	1983	1973	1983
Man-made fibers, continuous	0.8	3.3	1.6	7.7	...	...	25.1	37.0
Cotton yarn	3.8	8.9	31.4	74.1	0.4	8.4	45.0	196.7
Cotton fabric	8.4	25.4	22.6	51.3	5.1	...	52.6	143.2
Man-made fibers, discontinuous	1.8	16.9	2.8	5.8	0.9	0.1	24.0	87.8
Carpets,mats etc	0.2	2.7	0.7	1.7	0.1	...	3.3	16.8
Waddindg and felt, twine, cordage etc	6.7	37.0	1.5	5.6	0.2	...	10.9	64.3
Knitted goods	6.0	9.2	15.6	13.1	...	...	40.0	43.8
Apparel and clothing	10.8	19.3	7.4	9.4	0.4	...	41.6	43.7
other made up textile articles	3.4	5.8	12.1	24.9	0.4	...	21.6	69.3
Old clothing and rags	...	0.1	...	...	...	...	...	...
Total	41.9	128.6	95.7	193.6	7.5	8.5	264.1	702.7

Source of raw data: Cacex.

concerning quota underutilization is matched by the contrast between the proportion of Brazilian textile and clothing imports affected by quotas in both markets: 12.2% in the US market and 75.2% in the EEC. All major suppliers have typically more than 60-70% of their exports to the US affected by quotas (GATT (1984, I, pp. 95-8)).

Brazil's position is particularly weak in relation to the faster growing clothing segment of the textile/clothing aggregate market. As a proportion of world trade in manufactured goods textile exports fell from 11.3% in 1955 to 4.9% in 1982, while clothing exports increased from 1.9% to 3.9%. While the extremely limited clothing exports partly reflects the MFA limitations to market growth, they also point to the fact that at least some categories of Brazil's clothing products do not seem particularly competitive. In Table 2.5 this is, for instance, clear in the case of knitted goods and apparel and clothing, of which exports to the US, EEC and Japan remained stagnant between 1973 and 1983.[16]

[16] It is thus surprising that Cable (1983, p.91) refers to Brazil as a "more sophisticated NIC exporter" of knitwear.

The limited evidence available tends to confirm the more general argument that removal of MFA restrictions would hurt middle income countries without well developed textile and clothing industries, where wages are relatively high in relation to direct competitors. In a newly organized free world market in textile and clothing products it is thought that production will be concentrated in low labor cost countries, in countries with locational advantages (Mediterranean/Eastern Europe for the EEC; Caribbean/Central America for the US) or where high technology can be complemented by low labor costs and flexibility in fashion updating as in Hong Kong (Cable (1986, pp. 29-30)). Data provided by the International Textile Manufacturers Federation (1985) show clearly Brazil's competitive disadvantage in relation to other developing countries -- India as well as South Korea -- in the production of both cotton yarn and fabric. At the exchange rates then ruling competition was difficult even with Germany, Japan and the US. It is to be expected that German and Japanese products have become much less competitive as the dollar has since depreciated from 2.98 to 1.86 DM and from 247 to 151 yen. Brazil's only possible way of gaining a substantial share of this new competitive market is by entering the high technology/low labor cost/latest fashion sections of the market [17].

Only limited experiments with a "free" market for textile and clothing products have been made. Norway did not participate in MFA II and MFA III, textile and clothing imports being regulated only by global quotas. It is of interest to note that Hong Kong basically maintained its market share between 1978 and 1982 (around 7-8%) and that the only other developing country to have a market share above 1% was China.

Specific sectors of the Brazilian textile and clothing industries could benefit from liberalization but, on the whole, it is unlikely that the dismantling of the MFA would have any economic advantage from a Brazilian point of view. Brazil's eventual lack of enthusiasm concerning trade liberalization in this issue, of course, be countered by compensatory moves by countries which are supposed to benefit most from MFA dismantlement (China, India, the Philippines, among others), which, conversely, may be not so enthusiastic about themes which are of particular Brazilian interest as, for instance the topics discussed in the next section.

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[17] Aggarwal (1985, pp.148-9) defines three groups of developing countries in the context of MFA negotiations: 1] highly competitive, including Hong Kong, South Korea,Taiwan and Singapore; 2] competitive in some products due to comparative advantage and in others due to restrictions on group 1 (India, Brazil and Pakistan) ; and 3] uncompetitive countries which benefit from quantitative restrictions faced by more competitive countries (small Latin American countries, Thailand and Sri Lanka). It would appear that this taxonomy is inadequate as South Korea, Singapore and Brazil shoud have the assesment of their comparative advantage downgraded while India, Pakistan and smaller low labor cost suppliers would possibly gain more from a global textile liberalization than suggested.

2.1.5 Antidumping procedures, subsidy countervailing duties and voluntary export restraints

This is a vital issue from the point of view of Brazilian interests not only because of the damage entailed by past actions by developed countries but also because of further damage in the future if developed countries are not restrained.

More recently the bulk of protectionist initiatives by developed countries took the form of AD and CVD initiatives which in many cases, such as those of steel products, have served as instruments to obtain aggreement on VERs both in the EEC and the US. VERs also affect other less important products such as manioc in the EEC. Data presented in table 2.3 on NTM coverage ratios show the relative importance of VERs and/or AD/CVDs in the case of iron and steel products, chemicals, shoes and manufactured exports generally

Brazil has faced more countervailing subsidy initiations than any other country in the 1980-86 period both including and excluding actions imposed by Chile which used AD initiations as a protectionist device almost as much as the US in 1981-84. After Mexico and Spain, Brazil it also leads the list of affected countries in the case of provisional measures and definitive duties.

Similarly, with the exception of initiations -- in relation to which it has suffered marginally less than South Korea -- Brazil is the developing country which leads the table of countries subject to anti-dumping actions concerning the imposition of provisional measures and definitive duties as well as price undertakings [18].

Such actions affected, especially in the US market, a wide spectre of Brazilian exports such as airplanes, iron and steel products, paper products, plywood, tools, cotton yarn, chemical products such as ethyl alcohol, fatty acids, oxalic acid and cyanuric chloride, petrochemical products, orange juice, castor oil, and footwear. EEC actions have affected mainly steel products, pig iron, footwear and soybean products.[19]

The most important cases of goods affected either by countervailing duties, and/or by export taxes (whose introduction was prompted by the menace of the introduction of AD/CVD duties in developed countries) include shoes and orange juice in the United States and shoes in the EEC.

Precise quantitative assessment of the losses entailed by such duties depends on extensive new research on the subject especially so as the actual position concerning the application of these impediments is very volatile and the dissuasive impact of initiations -- which is

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[18] GATT, set of tables, Committee on Subsidies and Countervailing Measures and Committee on Anti-Dumping Practices, [1986]. The argument that it is natural that the countries which dump and subsidize more should suffer more actions fails, of course, to cope with the disparity of Brazil's ranking in action initiations and in its ranking in provisional measures and definitive duties table.

[19] UNCTAD NTM inventory, IPEA/CEPAL (1985A) and (1985B)

almost impossible to treat empirically -- is likely to be significantly more important than the visible price effects. Price effects can be estimated using the conventional methodology assessing the impact of both trade diversion and trade contraction on the main products affected by such impediments. [20] Export contraction due to AD/CVD duties or export taxes can be roughly estimated to be of US$ 16 million for orange juice and US$ 25 million for footwear in the US and US$ 8 million for footwear in the EEC. Alternatively it may be thought that given likely values for import demand elasticities and market penetration in developed markets export contraction is unlikely to exceed on average 1.3 % for each 1% of AD/CVD duty. In 1984 AD/CVD duties and import taxes affected US$ 1,255 million in the US and US$ 1,220 million in the EEC but these values were inflated in both cases by the inclusion of steel and iron products -- since then regulated by VERs -- and especially so in the EEC by the inclusion of soya products which corresponded to about US$ 900 million. Representative duties generally did not exceed 10% but could reach extremes beyond 100%.

Voluntary Export Restraints in exchange for the suspension of AD/CVD duties usually result from bilateral negotiations. In the case of Brazil they affect steel and iron products both in the US and EEC markets. Brazilian steel products to the US are limited to 0.8% of total apparent US consumption plus 700,000 tons/year of semi-finished steel. In the EEC exports are limited to 150,000 tons/year. It is possible to compute the impact of VERs on export values taking into account both volume contraction and price increases entailed by their introduction. [21] Rough estimates indicate that such arrangements result in export contraction of the order of 21% in the US -- around US$ 120 million -- and are rather small in the EEC, perhaps below US$ 10 million.

2.2 The "new themes"

Brazilian trade in services is portrayed in Table 2.6. It is apparent that the recent reduction of the deficit in the trade in services is, as in the case of goods, basically due to a contraction of imports -- transport and other services -- rather than any improvement in exports. This contraction since the early 1980s is explained by the fall in the level of imports and of economic activity generally, as the major subitems of other services are leasing of equipment, communications, and specialized technical services as well as hedge in commodity exchanges.

From the viewpoint of GATT negotiations -- or, to be more precise, Uruguay round negotiations outside the GATT using GATT machinery -- these are the crucial items in discussion which are recorded by present balance of payments accounting procedures. There is, however, no publicly available long term information on profit remittances and reinvestment of foreign firms which provide services in

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[20] See Abreu and Fritsch (1987) for a similar use in the evaluation of the impact of GSP graduation.

[21] See Greenaway and Hindley (1985, passim).

Brazil, which would certainly be relevant in any overall discussion of the "trade in services" issues. In 1986, of total profit remittances of US$ 1,133.1 million, remittances related to services amounted to US$ 188 million. Of this total US$ 129.9 million corresponded to non-commercial services of which only US$ 25.1 million was directed to the United States. To put numbers in perspective profit remittances originating in the largest industrial sector, basic chemicals, amounted to US$ 138.6 million.

Table 2.6

Brazil, Trade in Non-Factor Services, 1980-1985 (US$ million)

	1980	1981	1982	1983	1984	1985
Exports	1,765	2,287	1,819	1,729	1,955	2,092
Travel	126	243	65	39	65	66
Transport	814	1,087	998	1,106	1,295	1,490
Insurance	138	109	84	39	37	32
Government	59	73	62	55	74	69
Other Services	628	775	610	490	484	435
Imports	4,484	5,150	5,407	4,137	3,699	3,794
Travel	367	408	911	431	218	441
Transport	2,750	2,779	2,454	2,019	2,055	1,860
Insurance	52	65	102	82	151	135
Government	171	172	184	166	194	247
Other Services	1,544	1,726	1,756	1,439	1,081	1,111
Balance	-3,119	-2,863	-3,588	-2,408	-1,744	-1,702
Travel	- 214	- 165	- 846	- 392	- 153	- 375
Transport	-1,936	-1,692	-1,456	- 913	- 760	- 370
Insurance	86	44	- 18	- 43	- 114	- 103
Government	- 112	- 99	- 122	- 111	- 120	- 178
Other Services	- 916	- 951	-1,146	- 949	- 597	- 676

Sources: Banco Central, Relatório and Boletim, several issues.

Imports of other services -- that is services excluding interest, travel, transport, insurance and government -- are highly concentrated geographically: about 60% come from the US and much of the rest from other developed countries (1983 data). Exports of such services are similarly concentrated in developed markets with an increasingly important role being played by Middle Eastern countries such as Irak.

The bulk of trade in services -- as registered in the acknowledgedly inadequate statistics -- is already regulated internationally as, for instance, in the case of travel and maritime transport. Trade in producer services which is the main US interest in the Round corresponds to less than 10% of world trade in goods.[22]

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[22] Financial Times, 27.9.85.

The resistance of developing countries in Punta Del Este concerning the inclusion of "new themes" -- that is services, intellectual property and trade related investment [23] -- was rooted in a diversified set of arguments. Too little was, and is, known in terms of hard economic evidence on "new themes" included in the agenda of the Uruguay Round. Such a state of knowledge -- or rather the lack of it -- lent strength to the position of the G-10 group of countries in which Brazil and India played a particularly active role to define the position to resist consideration of such issues before pending business was discussed and dealt with.[24] Besides the strictly legal point, which is clearly against the inclusion of services in the scope of the general agreement, the G-10 (GATT) stance relied on the "first things first" classical argument as already stated in the Ministerial Declaration of November 1982 and on the fact that the discussion of such matters was bound to raise questions such as right of establishment, national treatment and other issues concerning the general conditions faced by developed countries' firms operating in developing countries which are complex and politically sensitive.

The case for the developing countries stand has been summarized by Nayyar (1986).[25] Static gains are likely to be unevenly distributed as comparative advantage is concentrated in a limited number of developed countries. The realization of potential comparative advantage by developing countries would be thwarted. Liberalization of services is bound to affect areas where considerations of national security and sovereignty are vital, so even if from a strictly allocative point of view liberalization is justified, non-economic arguments should prevail. The "new themes" agenda proposed by developed countries unduly concentrates on capital-related services and excludes labor services which are of much more interest for developing countries. Other excluded themes which are of crucial interest for developing countries include right of access to technology in the developed countries and a code on restrictive business practices by transnational corporations.

The outcome of the Punta del Este meeting concerning "new themes" involved the segregation of the services negotiations formally outside GATT. Part 1 of the declaration launching the new round included intellectual property matters (such as counterfeited goods) and trade-related investment questions which refer, for instance, to

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[23] US inclusion of high technology goods in its "new themes" list always looked suspicious as there is nothing in GATT which discriminates between high and low technology goods.

[24] As put by the main Brazilian negotiator: "it ought not to come as a surprise that developing countries ... should have felt reluctant or even hostile to endorsing the proposed negotiations on trade in services as... structural weaknesses in terms of negotiating strenght are compounded... by a very limited knowledge of the issues proposed for discussion and by a lack of negotiating experience in this complex new field" , Batista (1987, p.1).

[25] For a treatment of the same theme from a Latin American point of view see Rodriguez Mendoza (1986).

requirements of domestic purchase of inputs or of export performance as preconditions for foreign investment. It does not seem realistic to suppose that the formal segregation of the negotiation on services will assure that cross trade-services concessions so much feared by developing countries will not occur. The G-10 coalition served Brazilian interests well as it made possible to avoid -- in spite of the contrasts in actual bargaining power -- the adoption of the US extreme line concerning the explicit joint consideration of goods and services which was equivalent to the recognition that the GATT umbrella also covers trade in services.

The Brazilian stance, besides stressing the dangers of service liberalization and of trade-services cross concessions, has underlined the lack of legal basis for concepts such as right of establishment in international experience both in the United Nations and the OECD where the right of States to regulate the entry of foreign investment has been expressly acknowledged. Brazilian negotiators have noted with "serious misgivings attempts to treat the problem of trade in services through bilateral dealings, in parallel and possibly in opposition to the aims of [multilateral] negotiations". They have also stressed the fact that the US-sponsored concentration of negotiations on trade in services which purports to be a direct result of an international redivision of labor is not accompanied by any proposal to open the markets of developed countries to goods exported by developing countries (Batista (1987), pp. 4 ,12 and 14). Contradictions in the US stance concerning services in the UN -- where the US has effectively blocked the discussion of a code of conduct for transational corporations -- and in the GATT have also been noticed (Maciel (1986), p.90).

3. THE URUGUAY ROUND AND GROWTH PROSPECTS OF BRAZILIAN EXPORTS

3.1 A Brazilian agenda

Brazil is in a peculiar position among developing countries as its trade interests are very diversified. All issues analysed in the previous section are indeed of interest: GSP, trade preferences and graduation; agricultural protectionism; tariff escalation affecting processed tropical primary products; textile quotas; CVD/AD/VER and safeguard actions; and "new themes", especially services. This fits well with Brazil's active role in recent and more remote GATT experience, mainly based on policies jointly defined by the Ministry of Foreign Affairs -- which has traditionally exerted paramount influence in this field -- and the other Ministries involved with economic policy.

As has become clear, however, these issues are not of equal importance from the point of view of Brazil's economic interests. Moreover, it is not in all cases that national interests would benefit from a reduction of the present level of protectionism. Major Brazilian active interests are: the reduction of tariffs on processed primary goods; the reduction of agricultural protectionism which has a damaging impact on its net agricultural exports and the reduction of protective barriers which mainly affect its exports of manufactured goods by means of CVD, AD and safeguard actions.

While it would be beneficial for Brazilian interests to reduce tariff escalation on processed tropical products such a move would damage ACP exports with an important political impact on G-77 political cohesion. Nonborder taxes are also of importance in this context.

The position concerning agricultural protectionism is straightforward: Brazil should make its best efforts to dismantle the protectionist agricultural policies of developed countries. Brazil has succeeded in introducing in the scope of the liberalization initiative of the Cairns group of countries the explicit consideration of a special and differential treatment of developing countries.

In the case of AD, CVD and safeguard actions the main issue is how developing countries can limit the scope for illegitimate application of such devices. Ideally, antidumping and countervailing measures should be abolished, predatory pricing being met by improved safeguard clauses. Subjective "constructed values" based on average cost should be abandoned in favor of marginal cost criteria. The notion of injury should be based on injury to competition -- that is, on unfair business practices -- rather than on injury to domestic producers (see Oum (1986, pp.17-8)). A resurection of some variation of the Brazil-Uruguay formula rejected in the 1960s, which would make violators liable for the payment of financial compensation, is a possible way to make the use of the safeguard clause less destructive (Dam (1970), pp. 368-9).

It is clear from the previous analysis that Brazilian economic interest lies increasingly less in stressing the need to maintain GSP without graduation as the modest gains involved in this preferential scheme are thought to be outweighed by compensatory policies adopted by developed countries. Additionally, Brazilian interests, as those of other Latin American countries, are unfavorably affected by preferential agreements such as Lomé. However, Brazil has abstained from raising the discriminatory preferential agreements issue obviously because it is felt that much could be lost politically in terms of G-77 cohesion without much hope of gain.

Based strictly on the likely consequences of the MFA's dismantlement Brazil should show very little enthusiasm in relation to liberalizing moves affecting textile trade. The Brazilian stance in the GATT can be explained by a combination of intuitive evaluation of the economic importance of issues at stake and considerations of a strictly political nature. Brazil's position concerning the MFA and preferential agreements according to some observers is to be explained mainly by such political considerations. According to these views Brazil has been backing India in the MFA discussions -- a low-cost producer whose interest in this issue is clearly at variance with Brazil's -- basically moved by political arguments and a general support of a position of principle in favor of the dismantlement of protectionist barriers.

From the limited available evidence it would seem that national interests are best served in the case of "new themes" by a strategy of trying to reduce the speed of liberalization of trade in services while stressing the need for special consideration -- not necessarily through special and differentiated treatment -- of the services sector in developing countries. There may be disagreement concerning the choice of strategy to block the inclusion of such issues in the GATT negotiations, the mainly procedural line of defence adopted by the G-10 not being to the taste of all developing countries. It is difficult, however, to see how the substantive arguments used by developing countries can be falsified: they have a lot to lose and not much to gain from a liberalization of trade in services; they have much to gain from a re-examination of the GATT backlog [26].

3.2 Trade issues in a global perspective: trade-debt links

UNCTAD estimates of the impact of protectionism on the level of world trade indicate that, in 1983, elimination of tariffs in the twenty largest developed market economies would raise developing country exports by 5.2%, a rate of expansion similar to that for the EEC, Japan and the US markets only. If non-tariff barriers were added trade would expand in these economies developing by 11.9% (Sampson (1987, p.14)). Brazilian gains are estimated to be near the average: 10.3% of trade expansion with the removal of non-tariff barriers and 3.1% with the elimination of tariffs. Total gains would correspond in 1986 to US$ 3 billion. This fits well with sectoral estimates presented earlier in this paper [27]. These estimates for trade expansion must be considered in the overall context of the balance of payments problems of developing countries.

It is clear that developing countries such as Brazil are extremely vulnerable to macroeconomic policies adopted by developed countries. Brazil's net foreign debt was US$ 105.7 billion by the end of 1986. Interest payments in 1986 stood at US$ 9.1 billion, slightly below the 1981-85 average of US$ 10 billion (see table 1.11) [28] . An interest rate fall of 1% would thus result in a reduction of interest rate transfers -- if and when default is abandoned -- of around US$ 1 billion. Elasticity of the volume of Brazilian exports in relation to OECD growth is above 2.0: for each 1% additional growth of GDP in OECD economies, exports should increase ceteris paribus by about US$ 500 million [29]. Brazil therefore is likely to suffer severely with the failure of the US, Japan and Germany in achieving an effective

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[26] Ambassador Batista has called attention in Geneva to the obvious but frequently missed point that " [delegates] are mandated....not to further the best theoretical possible allocation of resources at the world level....Ministers decided that the set of multilateral rules on trade in services, that hopefully will be the outcome of our collective efforts, shall be the means of promoting economic growth of all and of contributing to the development of developing countries.

[27] Estimates based on 1980 trade values by Laird and Yeats (1986, p. 18).

[28] Since 1982 Brazil became a net exporter of resources: net transfer rose from 2.0 % of GDP in 1983 to a maximum of 5.4% in 1984 and fell to 2.3% of GDP in 1986 (Jornal do Brasil, 22.7.87).

[29] Volume elasticities within the OECD vary very substantially: for the US it has been recently above 2.0 for aggregate volume, for the EEC around 1.6 and for Japan near zero.

coordination of their macroeconomic policies which would assure a return to higher rates of growth in the OECD , lower interest rates and the continued recovery of commodity prices. It is easy to think of a combination of interest rates, rates of growth and commodity prices whose impact on trade values would exceed the advantages of a radical liberalization of world trade. But it is also easy to accept that while the leverage of developing countries in trade negotiations may be very small it is certain to be still more limited in G-3 talks on macroeconomic policy coordination.

It is obviously impossible for a heavily indebted country such as Brazil to envisage the maintenance of its foreign debt payments in the long run without either a renewal of capital flows or generating substantial overall trade surpluses including with developed countries. It should be noted, however, that this second option is difficult to maintain in the long run, as shown by the Brazilian default, as it is politically impossible to sustain an austerity program with a duration compatible with debt repayment.

Besides this trade-debt link associating exports to debt payments there is, as already mentioned, a trade-debt link which limits the possibility of introducing an import liberalization program -- whose beneficial impact in the long term is not in doubt -- without a tied financial package as the short- and mid-term impact of such a program is likely to worsen the trade balance position [30]. It is rather unclear whether such straightforward implications of the debt crisis carry much weight in politically influential circles in developed countries: indeed, judging from legislation initiatives in the US Congress now under consideration, it would seem that the provision for heavily indebted countries in their mercantilist new trade legislation proposals is, to say the least, extremely obscure. Such irrational moves in developed countries , if successful, are likely to strenghten the hand of extreme protectionists in developing countries with consequences difficult to forecast.

3.3 Coalitions: Old and New

From a global trade and debt perspective Brazilian interests include, as mentioned in the two previous subsections, tariff escalation,, agricultural protectionism and AD/CVD/VER issues and foreign debt service relief or refinance. The stand on GSP and graduation as well as other preferences , on MFA matters and on new themes is more ambiguous.

Brazilian GATT experience in the past has been marked by two major features. The first has been the continuous emphasis on the need to apply GATT law as defined multilaterally and that only by abiding to

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[30] Besides such balance of payments arguments and the obvious protectionist lobbies, unilateral liberalization ideas have to cope with the fact that it would be inconvenient to concede anything in the eve of a major trade negotiation and that Brazil would be giving up its ability to obtain counterconcessions from its developed partners.

GATT law members would assure a fair world distribution of the benefits of development. The second has been Brazil's long standing coalition with the G-77 group of developing countries.

Recent trends, however, indicate some coalition diversification, such as the formation of the G-10 group of more advanced developing countries opposing the US stance on services and the Cairns group of countries against agricultural protectionism which included both developing and developed countries.

Of Brazilian exports, tariff escalation affects mainly processed tropical products, especially coffee and cocoa; it consequently would in principle provide grounds for coalition formation among a large number of developing countries interested in the exports of such goods, but the Lomé Convention allows free entry of such goods in the EEC making the potential coalition much less significant.

The negotiation of international commodity agreements provide room eventually to accommodate differences of interest between Brazil and other developing countries in relation to issues such as AD/CVD/VER as Brazil could make concessions including increased market shares for G-77 members.

The goal of dismantlement of agricultural protectionism provides the basis for the coalition of agricultural exporters which include in a prominent position Argentina, Canada and Australia with the US in the background. On the other hand, the majority of G-77 members being net food importers are favored by the depression of agricultural prices entailed by the agricultural policies of developed countries and so are likely to object to a reduction of protectionism in agriculture.

In AD/CVD/VER issues, Brazil's more likely coalition opportunities in the group of developing countries are clearly with South Korea (AD/CVD/VER on steel and on footwear) and less markedly with China (AD/CVD footwear) and other exporters of manufactures such as Argentina and Mexico, especially in steel, and perhaps India. Japan is the less unlikely developed country coalition as steel is of much interest for Brazil; there may be minor incentives for a common front in the case of smaller countries as Canada, Sweden or Austria.

The problems raised by foreign debt payments provide a powerful incentive for coalition formation among heavily indebted countries. This affects most of Latin America and other more advanced developing countries such as the Philippines and Turkey and even South Korea, whose foreign debt position can deteriorate markedly with a slowing down of US growth and a rise in interest rates. Ideally, market access and debt payment questions could be jointly considered so as to assure that balance of payments stability would prevail. The difficulties associated to coalition formation based on debt have, however, been made dramatically explicit by the rather muddled experience of the main Latin American debtors -- Argentina, Brazil and Mexico -- as creditors have always being successful in breaking up their "common" stance.

As already mentioned, the view is gaining ground in Brazil and in other developing countries that export manufactures that the tariff advantages entailed by GSP, besides being increasingly eroded by graduation, are serving as a pretext for the application of restrictions far more important to their exports to developed countries based on reciprocity. There is certainly room for GSP reform and this can in fact become an important element of G-77 cohesion if more advanced developing countries can agree to a slow phasing out of the preferences they enjoy. This would be a good opportunity to abolish discriminatory preferential arrangements such as Lomé which could be replaced by GSP preferences.

Brazil's permanent interest in the dismantlement of the MFA can only be explained as a comprehensive stand of principle against protectionism or, more understandably, Brazil may feel that its support of countries such as India, or perhaps China, which would gain from a repeal of MFA would in turn assure Brazil the support of those countries on other issues such as AD/CVD/VER in which they are not so interested.

Interest in reducing the speed of liberalization of trade in services is common to a limited number of developing countries including Brazil and India. It is also important to recognise that the stance of developed countries on the "new themes" is far from homogeneous and that these differences can be exploited by the coalition of developing countries.

In spite of the growing differentiation of the agendas of G-77 countries, and especially between manufacture exporters and other countries, Brazil is in a singular position in relation to other exporters of manufactures. It has traditionally played an active role in trade negotiations as a member of the G-77 while the role of Asian NICs has been in many cases rather marginal. This, besides being a reflection of political weight, reflects the fact that given its diversified interests in the negotiations Brazil's position is much nearer to the G-77 than those of "pure" NICs. Being a competitor with many G-77 countries in the provision of commodities to the North, Brazil has in principle more to offer if the goal is to preserve the coalition's cohesion.

The possibilities for North-South coalition seem to be limited in the case of Brazil to agricultural protectionism , to a much less important extent to AD/CVD/VER issues for some specific products and, more generally, to safeguard questions. In this context the Cairns group is of extreme importance as recognised also by its more developed partners which preferred to accept the Brazilian-sponsored introduction of the S & D concept in their platform to reducing the group's membership.

It is difficult to see much change in Brazil's traditional coalitions in trade negotiations in the foreseable future in spite of growing difficulties to reach a common program; a prominent position in the G-77 grand coalition together with India and a few other countries and a much more active interest in specific product-defined sub-coalitions seems to be preferable to the alternative of a close coalition with a few other developing countries which are exporters of industrial goods.

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