

Brazil trade strategy: Where is it going?

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1. Brazil's trade strategy and its three (historical) pillars

- The central objective of the foreign economic policy and TS: to minimize external threats and risks to the national (autonomous) project of industrial development.
- The central assumption of the policy: the world is divided between developed and developing countries, with opposed interests.
- The political economy of trade strategy has been dominated by import-competing sectors, before and after the 90s liberalization.

2. Which consequences arise from the interplay of the three pillars?

- Trade strategy has been closely subordinated to foreign policy goals.
- International integration perceived as source of risks more than opportunities.
- Adoption of defensive stances in all negotiating fronts and issues.

3. Features of defensive trade strategy

- **GATT/WTO: Brazil advocates more favorable treatment to developing countries (previous rounds) and preservation of « policy space » (Doha Round).**
- **North-South preferential negotiations: rejection of disciplines WTO-plus + defense of asymmetrical reciprocity in market access concessions, to take into account differences in levels of development**

4. In the 90s: change and continuity

- **During the 90s, traditional trade strategy dominates, but new factors emerge, more or less difficult to accommodate in the traditional framework of TS:**
 - **A competitive agribusiness sector with offensive demands of market access.**
 - **The revision of the role of the State: liberalization in services and FDI regimes.**
 - **A more optimistic view of Brazil' s potential in the international economy.**

4. In the 90s: change and continuity

- **Implications of new factors:**
 - **Across-the-board defensive stance of Brazil in TN under criticism: for the agribusiness, international integration is a source of opportunity.**
 - **Participation in preferential negotiations with developed countries.**

4. In the 90s: change and continuity

- **But import-competing interests and traditional foreign policy paradigm still strong enough to balance the game.**
- **Brazil' s position in FTAA negotiations reflects the “ambiguity” arising from clash between new factors pushing for offensive stances and the strength of traditional paradigm**

5. Trade strategy under Lula

- At the « policy preferences » level, the old paradigm of trade strategy is back to the driver seat and the « ambiguity » that prevailed under FHC is left behind:
 - Trade policy subordinated to foreign policy goals.
 - The «North-South opposition» hypothesis comes back and Southern coalitions (in & outside the region) are valued as means to face it.
 - Preferential negotiations with DC lose the priority they had during the 90s.

5. Trade strategy under Lula

- But structural factors seem to move in the opposite sense, at domestic and international levels. At the domestic level:
 - Agribusiness consolidates as competitive, followed by some manufacturing sectors.
 - Trade openness indicators: huge increase in exports and imports => trade = 30% GDP.
 - Increasing FDI from Brazil in different sectors.
- Brazil is being pushed towards deeper integration with the international economy.

5. Trade strategy under Lula

- At the international level too, pressures for deeper integration of Brazil' s economy become explicit and reflect structural changes:
 - New and growing incentives for Brazil' s involvement with the international agenda: climate change issues, the agenda of BRICs relationship with G-8.
 - Initiatives attesting this: interest shown by OECD in closer links with Brazil, strategic partnership Brazil – EU, the ethanol initiative with the US.

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- The central assumption of Brazil' s TS (North – South opposition) becomes less and less functional *vis`a vis* the evolution of the Brazilian and the international economy:
 - growing heterogeneity of “the South” limits the scope for Southern coalitions.
 - seizing the opportunities linked to the new international agenda supposes close cooperation with Northern countries.

5. Trade strategy under Lula

- TS has to make room to new (offensive) objectives that conflict with the central goal of the foreign economic policy during the last 40 years (mitigate external risks to autonomous development).
- The political economy of TS is undergoing a deep change as import-competing sectors have lost the monopoly in the setting of the strategy.

5. Trade strategy under Lula

- To sum up, the three pillars of Brazil' s traditional TS are being challenged, although explicit policy preferences do not seem to be fully aware of it.
- There is a growing divergence between the forces driving the international insertion of Brazil and the traditional view framing the TS.

5. Trade strategy under Lula

- Results of current TS:
 - trade initiatives to forge South-South political alliances: scant economic value and unknown political benefits.
 - reluctance towards N-S preferential initiatives involving trade and investment.
 - in WTO, search of developing countries coalitions constrains defense of Brazil' s offensive interests.
- Political hyper activism and timid economic results.

6 - Scenarios for Brazil´s trade strategy

- There is no scenario of a « wholesale » reversal of trade liberalization and regulatory reforms Brazil underwent during the 90s. There are two scenarios:
 - 1) Adjusting policy preferences to actual & potential international insertion of Brazil´s economy.
 - Autonomy of trade strategy *vis à vis* foreign policy: interest in negotiations with Northern and Southern countries => economic goals.
 - Economic focus to South American and Mercosur agendas.

6 - Scenarios for Brazil´s trade strategy

- 2) *Status quo*: instable evolution due to divergence between structural (domestic and external) economic trends and policy preferences.
- Difficulties in implementing the priorities of foreign & trade policies: South America integration, Mercosur project and even WTO Round.
 - Political approach based on the “North-South opposition” hypothesis proves more and more non-functional *vis à vis* domestic and international structural trends.