Brazil’s Trade Policy: Moving Away from Old Paradigms?

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ABSTRACT

In the 1990s, Brazil went through important trade policy changes. It carried out unilateral liberalization and also engaged in an ambitious project of regional integration (Mercosur) and in various trade negotiations. These changes, however, took place within the limits set down by the paradigms of foreign and trade policies inherited from the period of protectionist industrialization. This explains both the specific features of unilateral liberalization (and its results) and the defensive stance systematically adopted by Brazil on the different trade negotiation fronts. In the past few years, these paradigms have been challenged in the field of trade negotiations by interests whose emergence is associated with structural changes in the economy, especially the consolidation of a highly competitive agribusiness. Under this scenario, Brazil is being pressured to revise its paradigm of foreign and trade policies and to deepen its integration with the international economy. As a result, tensions have arisen between, on the one side, the old paradigms that drive government policy choices and, on the other, pressures for deeper integration. Although the results of this conflict remain an open issue, if Brazil is to go further in its international integration, a new policy agenda is required and the country’s global and regional strategies need to be revised.
I. INTRODUCTION

This paper analyzes the political economy of trade policies in Brazil since the unilateral liberalization undertaken in the early 1990s, as well as the emergence of structural trends whose consolidation could challenge the dominant policy paradigms and shift the balance of power in the trade policy arena. After an episode of intense trade liberalization in the early 1990s, import policies in Brazil remained virtually unchanged, while activist export and investment policies were reintroduced during the second half of the decade. The level of tariff and nontariff protection that resulted from liberalization was much lower than the one prevailing in the preliberalization period, but industrial and trade policies in the postliberalization era have not changed a major feature of the long-lasting protectionist policies: the high degree of intersectoral discrimination in favor of import-competing industries.

At the same time, Brazil’s foreign policy paradigm, dating back to the 1960s, was only marginally affected by the liberalization trends of the 1990s. Trade strategies continued to be designed in accordance with the broad political framework defined by the basic assumptions of the foreign policy put in place during the long period of protectionist industrialization. Hence, it is not by chance that, despite the fact that Brazil entered into many trade negotiations during the late 1990s and the beginning of the 2000s, these have generated few economic results.

Despite the continuity observed in foreign and trade policies, the Brazilian economy is going through a set of structural changes that are pushing it towards deeper integration with the world economy. In a fairly plausible scenario for the next several years, these trends will gain strength, and the current policy preferences in the fields of trade policy and foreign policy will become less functional for the “real” dynamics of the relationships between Brazil and the world. The legitimacy of these policies will be increasingly challenged, and this fact will surely have important effects on the support they receive from a large part of Brazil’s public opinion.
This paper proceeds in six sections. The following section focuses on the role of domestic factors in explaining the continuity in trade policies during the 1990s, despite the liberalization episode of the early years of that decade. The next two sections describe the main features of the unilateral and negotiated trade policies adopted by Brazil after the unilateral liberalization, under Fernando Henrique Cardoso and Luiz Inácio Lula da Silva, while the fifth section summarizes the domestic debate on Lula’s trade policies. Finally, the sixth section analyzes the effects of the emergence of offensive interests in the trade policy arena in Brazil and proposes a policy agenda geared towards promoting the deepening integration of Brazil with the world economy.

II. THE POLITICAL ECONOMY OF TRADE POLICY IN BRAZIL: THE ROLE OF DOMESTIC FACTORS

Although the unilateral trade liberalization undertaken at the beginning of the 1990s was a moment of important change in the history of Brazilian industrial and trade policies, a major feature of Brazil’s trade policy implemented after the liberalization episode—as compared to the preliberalization period—has been continuity. In the field of unilateral trade policies, continuity is manifested through the “activation” of newly designed mechanisms to finance and promote exports, and especially through the permanence of a protectionist structure that discriminates strongly among sectors and which applies nontariff barriers (especially antidumping duties) to imports. In the sphere of negotiated trade policies, the participation of Brazil in the wide array of trade negotiations opened during the 1990s was characterized by defensive positions.

Two domestic factors seem especially important in explaining continuity in Brazil’s trade policies and negotiations. The first involves the political economy of the liberalization reforms in Brazil. The relevant point here is the primacy that import-competing sectors managed to maintain in the area of trade policy compared to the exporting sectors and interests, despite the unilateral liberalization launched at the beginning of the 1990s. After trade liberalization, manufacturing sectors that benefited from the import substitution
regime were able to maintain high levels of nominal and effective protection, and some of them received new tailor-made incentives to invest (autos, informatics, etc).

Based on sectoral indicators of trade flows, tariff protection, and access to public mechanisms in the field of financing and import special regimes, Markwald (2006) reaches similar conclusions and sheds light on the existence of a set of import-competing sectors that benefit from high levels of protection and make intense use of the mechanisms of public policy. Automobiles, electrical and electronic equipment, rubber and plastics, textiles, and clothing are among these sectors. These sectors concentrate a large share of foreign direct investment (FDI) stock in Brazil, and their trade agenda combines the defense of public policies to foster exports and the resistance to negotiate tariff reductions in multilateral and preferential forums. They played a protagonist role in the political economy of trade policy before the unilateral liberalization of the early 1990s and were able to keep this central position afterwards.

The second factor refers to the fact that the paradigm of foreign policy consolidated during the period of import substitution industrialization remained dominant despite the liberalization trend of the 1990s. This model was strongly associated with the protectionist industrialization strategy and gathered large support from the elites during the period of import substitution. This paradigm of foreign policy was historically driven by the objective of “neutralizing” external factors that might have jeopardized national economic development and the consolidation of domestic industrial capacity—conditions perceived as indispensable for the country to act autonomously in the international system. In this area, continuity prevailed quite unambiguously during the liberalization period; the dominant paradigm in Brazil’s foreign policy since the 1960s remained firmly in place and framed the political logic of its participation in Mercosur, as well as in its other initiatives of preferential liberalization and multilateral negotiations.

The weight of the foreign-policy paradigm in defining trade policy objectives and instruments could not be minimized in the case of Brazil. In Brazil’s history, the definition of foreign threats and the perception of external risks by the elites relates essentially to economic vulnerabilities rather than to security concerns. This led to a perception—
widespread among these elites—that the main function of foreign policy is to reduce this type of vulnerability and to “open up space” for national development policies.

Trade policy (and, more broadly, international economic policy) has traditionally been strictly subordinated to foreign policy objectives, as defined by the “autonomist” paradigm. In the field of trade policy, this led to a view where the North-South cleavage played a central role, not only in explaining the difficulties faced by Brazil in the international economic arena but also in setting the parameters for the alliances and coalitions Brazil sought in trade negotiations and, more broadly, in the international economic arena.

During the 1990s, the liberalization trend that affected economic policies of Latin American countries only partially challenged the policy framework inherited from the import substitution period. In trade negotiations, the protectionist paradigm (the “Brasilia consensus”) was shared by a large coalition of bureaucrats and business associations from the manufacturing sectors, which played a central role in setting the national negotiating positions during the Cardoso and Lula governments. The main consequence of this coalition’s hegemony is that Brazil participated in many trade negotiations but adopted systematically defensive stances.

III. BRAZIL’S UNILATERAL TRADE POLICIES SINCE 1990

Since the second half of the 1960s, Brazil has adopted an active policy of fostering and diversifying its exports. This policy has taken advantage of various fiscal and credit instruments and, most of the time, the exchange rate policy has been favorable to foreign sales. However, incentives to export were gradually withdrawn throughout the 1980s as the macroeconomic situation deteriorated and the pressures of trade partners intensified.

In the early 1990s, the priority for Brazil’s trade policy shifted to import liberalization, and the almost exclusive target of economic policy was the enormous rate of inflation. Export policies were relegated to second place and had to wait until 1995 to regain some priority. That year, under the combined effect of the growth of domestic demand and the
appreciation of the exchange rate, trade deficits reappeared, bringing in their wake concerns as to the sustainability of the stabilization plan.\(^1\)

The result of the set of initiatives adopted in 1995 is not obvious, but in general, its net impact on the propensity of Brazil-based companies to export has proved positive. In particular, the progress made in tax exemption for exports and the consolidation of financing mechanisms created during the decade received a positive evaluation for their effects on the profitability of Brazilian exports.

While the export policy grew more “horizontal,” and less discriminatory in intersectoral terms than the policy followed prior to the 1990s, the postliberalization policy of protection inherited a strong bias towards industrial sectors from the phase of import substitution. Up to the start of the process of trade liberalization, the tariff structure applied in Brazil was practically the one implanted thirty years before, in 1957, at the onset of the import substitution period. In the late 1980s, the import coefficient hardly went beyond 3% in manufacturing, and liberalization got off to a timid start in 1988, eliminating tariff redundancy, suppressing certain surcharges on imports, and simplifying the countless special tax regimes in place. These measures led the average nominal tariff to fall from 57.5% in 1987 to 32% in 1999.

Unilateral trade liberalization intensified in 1990 and concluded at the end of 1993, eliminating a wide range of nontariff barriers and bringing the average tariff from 32% in early 1990 down to around 13% in late 1993. Trade liberalization—implemented amid the aggravation of the macroeconomic crisis, with domestic demand retracted and the real exchange rate quite high—had little impact on import flows and practically no effect on domestic supply until 1994. Only when the Plano Real came into play, with the consequent appreciation of currency and expansion of domestic demand, were the effects of trade

\(^1\) The main components of this second cycle of export-boosting policies were (1) efforts to improve intragovernmental coordination of the export policies, resulting in the setting of the Chamber of Foreign Trade (CAMEX); (2) partial tax waivers for exports; (3) reestablishment of public export-financing mechanisms and the provision of guarantees to the credits granted; (iv) setting up an export-promoting agency; and (v) adapting institutional organization in the area of trade negotiations.
liberalization felt widely in the internal market, making an impact on companies and sectors according to their competitiveness and capacity to adapt to a more competitive environment.

At the aggregate level, this evolution produced successive trade deficits, and in the circumstances where the Mexican crisis raised fears of a rapid worsening of Brazil’s external accounts, two complementary forces converged in the Brazilian scenario. First, there was an increase in protectionist pressures from sectors threatened by the surge of imports; and second, there were macroeconomic concerns from policymakers. These forces led to a moderate inversion of the trade-opening process (Markwald 2006). In 1997, the average nominal tariff was 4.5 percentage points above the tariff registered in 1994. Only in 1999, following the adoption of the floating-exchange rate regimen, did the average levels of tariff protection return to those applied in the mid-1990s. As imports were increasing strongly, trade policymakers resorted increasingly to instruments of contingent protection, especially antidumping. During this period, there was an expressive increase in the number of investigations leading to positive determinations of dumping, and it is worth noting the high percentage of cases of revision that ended up with new duties being applied (Markwald 2006).

The Brazilian experience in this field took to an extreme a characteristic already identified in many countries, as far as the use of antidumping measures by trade policymakers is concerned; these measures protect industries with a high level of concentration of domestic supply: “In Brazil, more than half of the 247 cases opened in this period were to protect domestic monopolists; in 26% of the cases, the petitioning industry was a duopoly; and in a mere 9% of the petitions was the number of participating firms higher than six” (Tavares de Araújo and Miranda 2008).

At the same time that measures were reintroduced to protect domestic producers, new mechanisms were implemented to foster exports and investment: automotive and information technology regimes, lines of favored credit to support sectors affected by the combination of opening with exchange rate appreciation (as textiles and footwear), and subnational incentive programs to attract productive investments.
The convergence of these processes generated structural protection of industrial aggregate value. This protection was highly heterogeneous in intersectoral terms and largely benefited the same sectors favored by the industrial and export policies of previous decades, i.e., automobiles, electric and electronic appliances, textiles, clothing, and footwear. Throughout the 1990s, those sectors benefited from levels of nominal and effective protection well above averages for the manufacturing industries (Markwald 2006). Although the import policy of the 1990s introduced a significant rupture with the protectionist tradition of Brazil’s trade policy, in doing so, and by interacting with other policies—such as the industrial policy—it did not abandon the option for protection (and incentive) structures that were highly discriminatory in intersectoral terms—a major feature of the import industrialization period.

Despite its limits, several studies underscore the role of trade opening as a factor that induced the growth of industrial productivity as a whole, produced a remarkable increase in the import coefficients of the various sectors, and reduced the margins and costs of industrial companies. Based on a comprehensive review of the works on this topic, Markwald (2001) concluded that opening up trade clearly had positive effects on the levels of productivity of Brazil’s economy and on the various industrial sectors, as well as the investments made by industry and the technological performance of corporations.

As far as the effects of trade liberalization on income distribution are concerned, they seem to have been quite limited when considered in aggregate terms; positive and negative effects were registered in some studies, but these effects are always very small (Paes de Barros and Corseuil 2005). It is worth pointing out that concerns with the distributive implications of trade liberalization clearly played a secondary role in formulating and implementing policies in the trade and industrial areas in the postliberalization period.

IV. THE STRATEGY OF TRADE NEGOTIATIONS: FROM CARDOSO TO LULA

Although there was no major rupture with the framework of domestic factors conditioning the setting of trade policies in Brazil, as described in section 2, the strategy of trade negotiations in the Cardoso governments was not a mere continuation of the trends
inherited from the protectionist period. The distinctive feature of the strategy adopted under Cardoso was the place accorded to ambitious preferential negotiations with the European Union and the United States, Brazil’s main economic partners in the developed world. Especially during Cardoso’s second term, the Free Trade Area of the Americas (FTAA) and European Union negotiations were Brazil’s top priorities on the trade front. Those initiatives “tested” the limits of the policy framework inherited from the protectionist period and, if successful, would challenge these limits not only in the trade strategy but, more important, in the foreign policy field.

Upon accepting to negotiate free trade agreements with its two main partners in the developed world, Brazil faced two “ghosts” of the protectionist paradigm: the prospect of an extensive opening of its economy to competition of imported goods; and the adoption of rules and disciplines beyond trade areas, as in investments and government procurement. It is true that in these negotiations Brazil adopted an essentially defensive posture, but this was never translated into refusing to negotiate any of the issues included in the agendas, whether they were sensitive for Brazil or not.

The Lula government has clearly abandoned the “ambiguity” of the preceding administration with regard to preferential negotiations with developed countries, which lost the priority granted under Cardoso. In these negotiations, the Lula government adopted more conservative guidelines as those initiatives became increasingly assessed as “risky” for the objectives of national development. Three facts characterize the shift of the Lula government in the field of trade negotiations: the downgrading of negotiations with the United States and the EU; resistance to negotiate disciplines from the World Trade Organization (WTO); and a new priority given to South-South negotiations.

The first change introduced by the Lula government in the policy inherited from Cardoso was the downgrading of the preferential negotiations with the United States and the EU within the ranking of priorities of Brazil’s trade strategy. The main impact of this strategic shift was surprisingly not felt with great intensity during negotiations with the United States on the FTAA. The explanation is simple—within the dominant foreign policy framework, the FTAA was perceived as the less desirable strategic option, as it is viewed as a project
pushed by the United States and one which potentially threatens the unity of the subregional initiative backed by Brazil, Mercosur. As preferential negotiations with the Northern countries lost weight within the strategy of the new government, Brazilian demands with developed countries—essentially in the area of agriculture—tended to concentrate in the multilateral sphere.

The second element of the “strategic shift” of the Lula government in the field of trade negotiations is the resistance to negotiate WTO-plus disciplines. Especially in preferential talks with developed countries, Brazil came to adopt a “minimalist” approach in the beyond-trade issues: services, investment, and government procurement. A “radicalization” of the defensive stance inherited from previous governments is noticeable in these issues, held to be sensitive for their potential implications on the margins of freedom to formulate industrial policies.

The third shift made by the Lula government in its trade negotiation strategy concerns the new priority accorded to the South-South relationships. From 2003 on, negotiations with other developing countries became increasingly relevant to Brazil’s strategy. Two elements are present in the revival of the South-South dimension by the Brazilian negotiating policy: approaching other regional economic blocs and enhancing the Mercosur project.

On the one hand, setting a wide agenda of economic cooperation is sought with other large developing countries located outside South America. The India–Brazil–South Africa (IBSA) initiative is an illustration of this kind of proposal, in which the trade component of bilateral relations may not even play the central role, although the initiative itself is expected to produce positive externalities for the country in multilateral (trade) forums.

At the bilateral level, these understandings have generated two limited trade agreements so far: one between Mercosur and India, the other between Mercosur and the Southern Africa Customs Union (SACU). Both are agreements based on the reciprocal concession of fixed tariff preferences for a limited number of products (958 for Mercosur–SACU, and 450 for Mercosur–India).
On the other hand, priority is explicitly given to deepening and enhancing the subregional project (Mercosur) while, at the same time, intensifying economic relations with South America. This second component of the South-South strategy intends to put the region at the center of the Brazilian strategy. In South American negotiations, the trade component is seen by policymakers as only one of the elements in the strategy to strengthen Brazil’s regional links. As for Mercosur, for example, the need is claimed to include in the agenda issues related to industrial policy and the treatment of asymmetries between member countries, whereas in the case of relations with the rest of South America, infrastructure became a priority matter for Brazil.

However, not everything in the trade strategy of the Lula government is a break with the strategy of Cardoso. One of the main lines of continuity in trade strategy relates to the growing weight accorded to the agribusiness sector in the setting of the Brazilian trade agenda, which reflects a structural change in the Brazilian economy. The emergence of an export-oriented and very competitive agribusiness sector translated, in the negotiating agenda, into intensifying demands for market liberalization and elimination of trade-distorting subsidies, both in preferential negotiations and in the WTO.

Another line of continuity from Cardoso to Lula is the “zero tolerance” position concerning the link between the trade-environment and trade-labor issues in multilateral or preferential negotiations. Brazil has traditionally rejected this link as a protectionist device, a position which has not changed under Lula. This set of developments combining both inflections and lines of continuity defines the Lula government’s strategy for trade negotiations. Under Lula, the trade negotiations strategy was driven back to the rails of the “national-developmentalist” tradition of Brazilian foreign policy. This movement was accomplished in two steps.

The first step was made in the field of foreign policy, which rehabilitated two key concepts of the “national-developmentalist” tradition that had lost some of its prestige during the 1990s. The North-South divide is the first of these concepts. This opposition has played—in foreign policy hegemony during the protectionist period—a major role in explaining not only the problems of development faced by countries such as Brazil but also the logic of the
prevailing international economic order. Based on this cleavage, Brazil formulated its foreign policy’s political and economic priorities along with its strategies for its international alliances and coalitions. The second concept attributes to foreign policy the key function of “insulating” the design and implementation of industrial policies from the restrictions and threats represented by external agreements, external commitments, and the interests of the developed countries.

The second step directly subordinated the strategy of trade negotiations to the revamped “autonomist” foreign policy. Under Cardoso, a movement was made to “autonomize,” or separate, the strategy of trade negotiations from the more general objectives of foreign policy, based on the general idea (subject to some specific qualifications) that such negotiations and their results would not be capable of jeopardizing those objectives and might even make some positive contribution to their accomplishment. In the present government, this trend has been reverted; negotiations are again in large measure assessed according to political criteria, prominent among these being the North-South cleavage and the preservation of “national autonomy.”

There is, nonetheless, one major element in the current strategy that was not present in the earlier versions of the “national-developmentalist” vision; for the first time, the strategy includes significant offensive interests. These, of course, are the interests of the competing Brazilian agribusiness sectors. The process of including an offensive element in a defensive strategy was traditionally devised to “mitigate risks” and to help keep distance between the national and the international. This process is not immune to difficulties. How have these two components—the offensive and the defensive—interacted in the strategy put into practice by Brazil?

In the Lula government, the offensive component of the trade strategy was integrated in a policy framework largely determined by the priorities accorded to the North-South cleavage through the setting of the Group of Twenty (G-20) in the WTO agricultural negotiations. As a matter of fact, the constitution of the G-20 is fully compatible with Brazil’s current strategy as it raises the country to a leading position among the demandeurs of agricultural liberalization. Simultaneously, the country was sanctioning the North-South cleavage in
areas where up until now developed and developing countries shared a common position. Domestically, it received approval from export-oriented sectors as well as from “developmentalist” constituencies.

But the offensive and defensive components of the strategy cannot always be accommodated in an instrument of negotiation such as the G-20. In fact, while a negotiating strategy based on the logic of North-South opposition and the preservation of national autonomy discourages trade agreements with the developed countries, agribusiness sectors perceive these agreements as unique opportunities to access the large markets of the North. Hence, the gradual insertion of an offensive component into the negotiating strategy is leading some (relevant) domestic players to challenge the limits of the framework inherited from the Brazilian protectionist tradition in trade negotiations.

V. THE RECENT DEBATE ON TRADE POLICY

Unilateral and negotiated trade policies in Brazil have evolved, in the post-liberalization period (i.e., from 1994 on) within the limits defined by the “developmentalist” paradigm of foreign policy and by the interests of the import-competing sectors. The initiatives with some potential to challenge these limits have been aborted (the FTAA, for example) or have been managed by the government and the private sector through defensive strategies.

However, when assessed from an economic point of view, even those initiatives that have gained the priority for Brazil’s trade strategy under Lula have produced very limited results. The trade agreements with the SACU and with India refer exclusively to trade in goods and cover only a small fraction of the tariff nomenclature. Beyond that, the products included in the agreements are given fixed preferences, which seldom reach 100%. In South America, Mercosur is going through a large period of difficulties, and the so-called agenda of consolidation and deepening of the bloc has been left aside. Brazil has adopted a strategy of “risk mitigation,” accepting that it needs to deal with the “asymmetries” issue as a way to contain the dissatisfaction of the small countries (e.g., Uruguay and Paraguay). After a decade of ultraliberalism, Argentina became the most protectionist country in the bloc, and this is having a strong impact on negotiations within Mercosur and with third countries (whether
they are preferential or multilateral). For many analysts and business representatives in Brazil, the country is paying a high price for its decision to negotiate together with the currently protectionist Argentina in preferential (EU-Mercosur) and multilateral (WTO) forums.

These meager results, together with the option of reducing the priority of the North-South preferential negotiations, have generated an intense debate on trade policies and negotiation strategy in Brazil over the last few years. The debate has also been fed by Brazil’s strong export performance from 2002 onward, and by the expressive growth of its inward and outward FDI in the last several years. Is it possible to infer from this performance that trade agreements are irrelevant as a mechanism for fostering exports and investments, at least in the case of Brazil?

As a matter of fact, two debates have overlapped in the arena of trade policies. The first one refers specifically to the relevance of trade agreements as mechanisms to foster trade and investment. The second one targets the foreign policy options that define the priorities and preferences of the trade negotiation strategy. In this case, critics of the government’s strategy put less emphasis on the need to sign trade agreements and instead target the negative effects of the strategy—and of the political view that is behind it—on the capacity of Brazil to play a relevant role on the international scene, especially referring to its relationship with developed countries.

As for the first debate, at the end of the Lula government, the balance sheet of its trade strategy will almost certainly register the irrelevance of the net results (in economic terms) of the initiatives of negotiations in the preferential sphere, whether these were inherited from previous governments or initiated by the current government. These limited results stand in sharp contrast to the performance of foreign trade—exports in particular—during the Lula government. As a matter of fact, after a decade of poor performance on the foreign trade front, over the last few years Brazil’s foreign trade has enjoyed impressive growth. A good deal of this positive performance can be attributed to exports, which more than doubled between 2000 and 2005, reaching US$118 billion.
The growth of exports is the main factor behind the increase in the Brazilian economy’s trade coefficient (i.e., foreign trade/GNP). In the early 1990s, this coefficient was slightly above 10%, and by the end of the decade it had surpassed 16%. After 2000, it grew strongly, reaching 24% (with exports being responsible for 15%) in 2004. In many manufacturing sectors, the growth of the export coefficient between the end of the 1990s and recent years (2006) has been impressive; electronic equipment, automobiles, auto parts, wood and furniture, and footwear are among these sectors. Also during this period, the export markets diversified and the number of Brazilian products sold overseas grew substantially.

Within this context of an export boom, the performance of the agribusiness sector has been outstanding; exports in these sectors grew at an annual rate of 16% between 2001 and 2005. The diversification of exported products and the geographical destinations of exports has been a major feature in the recent performance of the agribusiness sector. Between 2000 and 2005, agribusiness exports to developing countries showed an average annual growth rate of 26%, while exports to developed countries grew at an annual rate of 13%. Currently, Brazil ranks first among world exporters of sugar, ethanol, beef, chicken, pork, and coffee. Brazil is also one of the top four exporters of soy, orange juice, and cotton.

Analysts usually mention the growth of the world economy, the emergence of China as the “vacuum cleaner” of the world production of primary goods, the effects of these two factors on the prices of commodities, and the integration of exports to the growth strategies of leading Brazilian companies as among the main factors driving Brazil’s export boom. More recently, Brazilian companies have substantially increased investments abroad, in sharp contrast with their historical record of a low degree of operational internationalization. South America has been the destination of an important share of this flow, but Brazil’s FDI has also targeted the markets of developed countries in North America and Europe, as well as China. In 2004, “outward investment flows scored an exceptional growth, putting Brazil among the top five foreign investors in the developing world” (CNI 2008). In 2006, outward investment flows surpassed inward flows for the first time in Brazil’s history. A still-limited but rapidly growing set of Brazilian companies are today referred to as examples of “multi-Latinas” with a diversified portfolio of investments in developing and developed regions of the world.
Just as the unilateral trade policy seems to have made little contribution to the current export and outward FDI booms, it is worth noting that these dynamics took place without Brazil signing any relevant preferential trade agreement. So are preferential agreements even necessary for Brazil?

The question then, in this first debate, is to know whether, in an international environment less favorable to Brazilian exports, the absence of trade agreements would have any impact. After all, preferential trade agreements have grown quickly in the last few years, especially in the Americas and Asia, a region that previously seemed immune to a regionalization process. While other countries negotiate and exchange preferential access to their markets, Brazil will go on seeing its exports treated by MMF tariffs—and this will be the case more frequently as its exports gradually lose the benefits of the SGP schemes. Although the results of foreign trade and the boom in commodity prices over the last few years have reduced domestic pressure to push preferential negotiations forward (especially those with developed countries), this issue is bound to gain relevance as the Doha Round is concluded (with probably limited results), bilateral agreements continue to proliferate, and domestic and/or external factors decrease the growth rate of exports.

On the second debate, critics of the current trade strategy attack the subordination of trade and economic objectives to an “autonomist” foreign policy, a criticism that essentially reflects the emerging presence of offensive interests in the trade policy arena. As a matter of fact, the key position of mitigating the risks and threats arising from trade agreements with developed countries explains why the net result of Brazil’s current strategy, when evaluated in terms of trade, is so limited. On the other hand, although strengthening economic relationships with other Southern countries is assessed positively by those defending a more offensive strategy, critics target the fact that the potential of these relationships is not reached, since trade policy has been directly subordinated to foreign policy. As a result, South-South agreements tend to be negotiated politically, without any major concerns for creating or taking advantage of export opportunities. Furthermore, the multiplication of South-South agreements becomes a political objective in itself, leading to a complete loss of
focus and priorities in the negotiations agenda when analyzed from the point of view of the country’s trade and investment interests.

In 2006, the Confederação Nacional da Indústria (National Confederation of Industry, or CNI), in a document addressed to the presidential candidates, proposed a strategy of trade negotiations whose priorities were based on explicit economic criteria: the dynamism and size of the markets, and the level of barriers to Brazil’s exports. Recently, the CNI presented the government with a proposal to negotiate a free trade agreement with Mexico. It is the first time that the Brazilian manufacturing sector has formally adopted an offensive stance in trade negotiations and pushed for a comprehensive and ambitious agreement.

At the end of the day, the main target of this kind of criticism lies in the political rationale behind Brazil’s strategy for trade negotiations, with a favorite target being the use of the North-South cleavage as the main criterion for analyzing the international economic order and certain negotiating positions. According to this view, this criterion is no longer suitable for guiding Brazil’s international behavior in a world where the differences in interests between developing countries are accentuated and these countries increasingly attempt to establish or maintain preferential relations with developed countries. This raises pertinent questions: Can South-South relations produce an increase in Brazil’s political capital in the international arena? Is it possible to make South-South strategies operational beyond specific initiatives like the G-20, when the cleavages between developing countries are made increasingly more manifest in multilateral and preferential negotiations?

The debate on Lula’s trade strategy makes it explicit that no consensus has been reached among Brazilian elites concerning the “ideal” degree of international integration of the Brazilian economy. This lack of consensus appears clearly in the debate on the relevance of preferential agreements with developed countries and, more broadly, on the assessment of the costs and benefits of trade liberalization aiming to foster competition and productivity in the domestic market.
Notwithstanding, from now on the trade policy arena in Brazil includes the competitive sectors mainly concentrated in agribusiness as relevant players, and this represents a huge change in the political landscape where this policy is designed and implemented.

VI. LOOKING AHEAD: THE CHALLENGES OF DEEPER INTEGRATION

Decades of trade protectionism and a foreign policy vision whereby economic relations with the world were perceived as a threat to national development left deep marks on the hearts and minds of the leading public and private actors who influence the course of trade policy in Brazil. Nevertheless, from the 1990s onward, Brazil’s economic evolution has enabled the emergence, in both the private and public sectors, of less defensive interests and visions from the perspective of the country’s international insertion. The determining factor behind this change was the consolidation of a highly competitive exporting sector with geographically diversified offensive interests. To a considerable extent, the agribusiness and mining sectors are the core of this “competitive bloc,” but it increasingly also tends to include the manufacturing sectors.

In this sense, it is interesting to notice that the driving force behind this evolution was not a policy option with a strong dose of willfulness, such as the one that pushed forward the unilateral liberalization of the early 1990s, but rather the fact that the Brazilian economy underwent a structural change related to the consolidation of competitive exporting sectors. Only lately have the effects of this structural change been felt in the trade policy arena. So long as Brazil had only defensive interests, trade policy was assessed basically for its ability to “prevent damages” and to “mitigate external threats and risks” for the strategy of “autonomous” industrial development. However, when powerful offensive-interest sectors are part of the game, a new concept emerges of what the positive results and policy and trade negotiations should be. Accordingly, the expected results of trade policy can no longer be restricted to minimizing risks and threats but rather ought to include the “capture” of the opportunities opened in the international markets for exporting sectors and the Brazilian economy as a whole. It is in light of this concept of “positive results” that the trade strategy of the Lula administration is criticized by Brazil’s exporting sectors.
The internal legitimacy of Brazil’s foreign policy came from the perception that its effects and implications for economic development were positive. The structural evolution of the economy and the emergence of offensive interests reduce the usefulness of an overwhelmingly defensive trade policy. Hence, under the pressure of structural factors (rather than because of a policy option), fine-tuning—historically consolidated between the orientation of foreign policy, on the one hand, and the model of international insertion of the Brazilian economy, on the other—is broken.

So, as of the start of the twenty-first century, the “maturing” of the changes introduced in the 1990s—the consolidation of a competitive agribusiness, the integration of exports into the growth strategies of large companies, the dynamism of the world economy, and China’s hunger for commodities—converged to produce an export boom that substantially increased the trade coefficient of the Brazilian economy. More recently, outward FDI from Brazil has also shown an impressive dynamism, being directed not only to neighboring countries in South America but also to the United States, China, and the European Union. Brazil’s economy has been undergoing a series of structural evolutions whose net result is the gradual change in the environment where trade policies are defined. But the forces behind the ongoing change in the model of international insertion have not exclusively originated domestically. They have also resulted from the evolution of both the global (economic and political) system as well as the geographic region in which Brazil is located, South America.

At the global level, there is a growing perception that Brazil will be one of the most important players in the twenty-first century’s world economy, together with the other BRIC countries (Brazil, Russia, India, and China—the four very large rapidly emerging economies). This perception is nurtured by the country’s growing weight as a great global supplier of food, the key role it plays in multilateral trade negotiations, and the realization that Brazil will be called to play a relevant role in addressing energy and environmental issues being assigned priority status on the international agenda. In different fields of international relations, Brazil has been frequently invited to participate in an agenda-setting process that brings a limited group of emerging countries together with the leading developed countries. Last year, Brazil received positive feedback from various sources; its new international dimension has been
perceived and evaluated positively outside the country. The President of the United States proposed a special relationship with Brazil in the area of biofuels, and the European Union extended its proposal for a strategic partnership formulated earlier to other BRICs. At the same time, the OECD indicated its interest in opening negotiations to bring Brazil into the organization. While such progress in this way has been slow, Brazil is taking part in a dialogue known as the Heiligendamm Process, where the OECD plays a pivotal role on policies, with the G-8 group of developed countries and the G-5 group of five emerging countries.

On the regional level, “demands” for a revision of Brazil’s South American policy arise among analysts in the country (CINDES 2007), and they are originating from three different perceptions. The first is that South America countries have a broad economic agenda in common which includes trade, investments—flows of intraregional FDI are increasing—infrastructure, and energy. Hence, privately driven flows, intergovernmental initiatives (e.g. the South American Initiative on Infrastructure Integration – IIRSA, in the infrastructure field), and conjunctural phenomena have combined to bring to light the existence of a common economic agenda with great potential for creating positive-sum games in all these areas.

The second perception refers to the fact that in a scenario where the options for economic policy within the region have diverged and the political conflicts between countries are producing very tense situations, the risk of missing the opportunity arising from a diversified intraregional economic agenda is large. Fragmentation would get the better of integration, and the economic and energy assets of the different countries would be used to pressure their neighbors, thereby jeopardizing the possibility of any cooperation.

The third perception refers to the role of Brazil in such a context. It outlines the fact that it is up to Brazil, given its economic and political clout, to play a key role in the strategy of seizing the opportunities for economic cooperation and integration and in mitigating the political risks associated with bilateral friction among various South America countries. Therefore, updating Brazil’s foreign strategy will call for simultaneously repositioning the country in both the global/multilateral and the regional spheres. Neither of these two
challenges can be ignored. The strength of Brazil in the global arenas of policies will depend partly on its capacity to play a protagonist role throughout the region and contribute towards maintaining peace, economic growth, and democracy in South America.

Today, the hypothesis of this repositioning comes up against the weight that the paradigms inherited from the period of protectionist industrialization exert on the design of foreign and trade policies. This weight and its consequences are clearly considered in the way that the present Brazilian government reacts to initiatives and proposals coming from developed countries. For instance, the prospect of being invited to join the OECD provoked considerable discomfort among Brazilian diplomats and policymakers; after all, how can Brazil keep the developing world’s “seal of approval” while at the same time participating in an organization identified in the *tiermondiste* rhetoric as “the rich countries’ club”?

In the regional field, too, Brazil’s current strategy does not favor taking on a role compatible with the opportunities and threats prevalent in South America. On one hand, the priority granted to Mercosur in Brazil’s regional strategy lost consistency at the economic level with the leaking of the bloc’s agenda and the practical abandonment of the proposals to consolidate and deepen the Customs Union. For Brazilian diplomacy, the usefulness of Mercosur has become essentially political, and that explains why, in the bloc’s negotiations with third-party countries, Brazil accepts that Argentina’s “hyper-protectionism” imposes its limits on the agenda and concessions of the bloc. Brazil’s interest in Venezuela’s adhesion to Mercosur follows the same political logic of strengthening the bloc, although this specific stance could be questioned in light of the same criterion.

On the other hand, Brazil’s efforts to “push forward” South American integration face an adverse scenario of tension and conflict among neighbors. But they are also hindered by the political priority Brazil assigns to its relationships with Argentina and Venezuela. This priority, especially the one with Venezuela, drastically lowers the chance of Brazil acting as a mediator of divergences and a promoter of positive agendas in the region.

Therefore, the repositioning of Brazil on the international scene in terms compatible with the structural changes under way in the country and in the world will require revising the
paradigm of foreign policy—which sees North-South relations essentially as a source of threats—as well as making more flexible the priority assigned today to Mercosur in its South American strategies.

There is nothing to guarantee that this repositioning will come about, at least in the short run. Although strong economic trends “push” Brazil towards such a scenario, its emergence may be substantially delayed or complicated by political options. This consideration is particularly relevant when one takes into account the importance of the current “leftist” foreign policy as a mechanism to legitimate Lula’s government among certain segments of the Workers’ Party and broader public opinion.

The convergence of internal and external conditions can also delay the process; the simultaneity of the financial crisis in the United States and the vigorous growth of domestic demand in Brazil tends to strengthen—at least in the short term—the position of those who see the “external world” as a source of danger and who oppose deepening the international integration of the economy due to a domestic-market-led model of growth. Furthermore, it is very likely that, even if the scenario resulting from this policy shift materializes, it will take place gradually and pragmatically, without any radical break with the previous trajectory of the policies in question. In this context, pro-integration views and interests are likely to gain influence over the policy setting in the years to come. But this process will not be a linear one, as it will most likely be negotiated with public and private actors favorable to autonomist policies. It is more likely that this evolution will occur through a set of inflections similar to that introduced by the Fernando Collor de Mello and Cardoso governments, in which trade policy and negotiations were inherited from the period of protectionist industrialization.

The policy agenda to push forward the required change in trade and trade-related policies should be aimed at fostering competition in the domestic market and, more broadly, in favoring the diffusion of a “culture of competition” among public and private actors. This would translate not only into a revision of the current import tariff structure (substantially reducing the tariff peaks) but also a closer scrutiny of the protectionist policies by the
competition regulatory board to avoid the abuse of antidumping actions designed to protect concentrated industries.

If competition is positively valued and pro-competition policies are to be implemented, ambitious preferential trade negotiations with Northern and large Southern countries should be seen more favorably than they deserve currently. Although the contribution of such agreements to fostering trade and investment flows between Brazil and its main partners should not be overestimated, under a new and procompetition scenario, the resistance to engaging in such negotiations will not be as strong as it is today.

In the regional sphere, the policy shift compatible with a new trade strategy includes (1) a new priority given the efforts of establishing a free trade area in South America; (2) the inclusion of energy, environmental, and infrastructure issues on the agenda of regional cooperation and integration; and (3) less emphasis on the custom union dimension of Mercosur, freeing its members to negotiate trade agreements with third countries and afterwards recovering intrabloc negotiations on the likelihood of setting a new common external tariff.

Furthermore, any policy agenda aimed at promoting a deeper integration of Brazil with the world economy needs to include measures addressing the systemic impediments to competitiveness, the improvement of domestic infrastructure, and the reduction of the tax burden which currently hinders investments and production as essential to enhancing the competitiveness of domestic producers. The lack of improvements in these domestic policy areas feeds protectionist resistance to deeper integration. By the same token, if Brazil is to strengthen the procompetitiveness dimension of its public policies to meet the challenges of deeper integration, it will have to address issues that, if not appropriately managed, could undermine the legitimacy of this policy shift. The distributional dimension of trade policies is one of the most important of these issues. This is particularly relevant in a country like Brazil, where the groups that oppose trade integration are economically and politically powerful. Therefore, a strategy to revise trade policy must address the concerns of the potential losers of the economic opening process. This can prove fundamental for reducing
resistance to liberalization and increasing the degree of domestic legitimacy of this type of process.

The Brazilian experience since liberalization in the early 1990s suggests that worrying about the losers tends to translate into measures that revert, if only partially, to the opening process, thereby reducing the beneficial effects of liberalization. “Finer” evaluations, with a view toward identifying potential losers, focusing on these social groups’ or economic sectors’ compensatory and restructuring actions, have not been part of Brazil’s policy menu. The agenda of industrial policy and of measures to manage the structural and distributive effects of trade liberalization are disconnected in Brazil, perhaps because the country has seen only one—albeit limited—movement of opening trade.

The task of connecting both agendas is particularly complex but absolutely necessary in a scenario of “deepening” the integration of Brazil with the international economy. The challenge facing Brazil is not just to administer change in trade policy but also to find new measures and instruments to manage the permanent “pressures” of globalization on its economy and social structure. These pressures come not only from changes in national policies—unilateral or negotiated—but also from structural processes and business strategies that have a permanent effect on the map of comparative advantages between sectors and countries, generating significant potential effects on trade policy.
VII. REFERENCES


