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ANALYSIS OF BRAZILIAN EXPORT POLICIES

*A comparison of some of the most
important Latin America's economies*

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1.0 INTRODUCTION

Over the last years, issues about the Brazilian balance of trade, specifically referring to deficit on current account, have been raised and led to discussions on policies to boost exports adopted by the Federal Government. Within an international context of globalization, new ideas start gaining importance in Brazil, such as the adoption of flexible and dynamic strategies to promote overseas sales.

Policies to encourage exports in Brazil seem to have started in the 50's. After the end of the import substitution model and the consequent anti-exporting tendency, several measures have been adopted to improve the country's participation in the world trade, which is today reduced to no more than 1%. Among such measures, one can point out that exporters have learned much through training projects and the implementation of policies to give them an export technique, besides the creation of programs to promote Brazilian products overseas as well as the adoption of mechanisms to reduce exports costs and decrease export taxes. In effect, the development of an export culture in Brazilian companies.

The objective of this work is to contribute to a comparative assessment of the main mechanisms to boost exports adopted by some of the most important economies of Latin America. It proposes to analyze how these mechanisms work to improve their respective trade balances, besides searching for similarities.

Using qualitative information on export policies implemented by other countries, this paper seeks to analyze the export policy model that has been used in Brazil, bringing new concepts that can help create new projects and/or lead to alterations in current policies.

On the other hand, the relevance of such analysis is also seen in the need to implement export policies that must be perfectly coordinated and can optimize the use of public resources. Thus, bounds imposed by the Fiscal Stability Program, agreed with the International Monetary Fund – IMF to balance Brazilian finances and public accounts, must be taken into account. Brazilian policy-makers must also be careful to not violate rules of international organizations that regulate the international trade.

This paper starts by giving an outlook of the analyzed economies, in order to outline what is going on in these countries as well as to better understand the interdependence of nations. Next it will go through the nuts and bolts of export policies implemented by Brazil, Argentina and Chile. These countries were chosen because they seem to represent some of the most important economies in Latin America.

2.0 ECONOMIC TRENDS¹

2.1 TRENDS IN THE BRAZILIAN ECONOMY

In the year 2000 good results were noticed in the Brazilian economy - a growth rate of 4% and an unemployment rate of 6.2%, according to IBGE (Instituto Brasileiro de Geografia e Estatística -

Brazilian Institute of Geography and Statistics).

Brazilian analysts are even predicting a better performance for the country in 2001, as table

Economic Forecast - 2001				
	Delfim Netto	Edmar Bacha	Luiz Gonzaga Belluzo	Marcelo Carvalho
Growth	4.0%	4.0%	3.0%	4.0%
Inflation	4.0%	4.0%	5.0%	4.0%
Unemployment Rate	7.0%	7.5%	6.5%	6.2%
Trade Balance (USD mn)	0	0	-400	+600

Source: Correio Braziliense, newspaper

shows. Indeed, the Federal Government has managed to fulfill the terms of the International Monetary Fund -IMF Agreement, which stipulated limits to general expenses. That is an achievement that increases the Brazilian economy's credibility with international investors.

Nevertheless, despite the economic recovery started in 2000, in 2001 Brazil will still face many problems that can hurt its future performance, such as a possible U.S. hard landing, the Argentinean crisis, Brazilian high internal debt and trade deficit in addition to political problems.

Given that the U.S. accounts for 20% of Brazilian overseas sales, an American hard landing would certainly be the biggest problem for Brazil in 2001. In addition to that,

¹ This analysis was based on information gathered from BNB Paribas and Correio Braziliense (Brazilian newspaper), issued on December 31st 2000.

the world growth would be reduced and consequently the total of Brazilian overseas sales would fall. Therefore, the country would have problems to get rid of its trade deficit, which amounted to US\$ 800 million in 2000. In 2001, US\$ 58 billion will be necessary to pay international bills, such as imports, part of the external debt and so forth. If a hard landing is really faced, the Brazilian Central Bank may be forced to increase the interest rate in order to attract foreign investors. This would trim economic activity and increase unemployment rates.

Actually, Brazil must keep on struggling to streamline its international sales, especially because the recent economic recovery has jacked up imports of inputs to Brazilian companies. Indeed, the foreign investment dependence seems to be one of its most important problems today.

Considering that the U.S. has a US\$ 10 trillion GDP and contributed with one third to the world growth in 2000, a slowdown of the American economy will certainly determine a slower world growth in 2001. Indeed, analysts predict a world growth of 2.9% (as table shows). It is important to keep in mind that the U.S. has had a trade deficit for more than 20 years, a figure that has amounted over US\$ 440 billion a year, which has been financed by foreign investments. Nevertheless, if the U.S.

	Growth (%)		
	2000	2001	2002
U.S.A.	5.1	2.9	2.9
Japan	2.0	1.6	1.9
Germany	3.1	2.3	3.2
France	3.1	2.8	3.7
Argentina	0.1	2.0	3.0
Brazil	4.0	4.0	4.5
Chile	5.7	5.0	5.5
Mexico	7.2	3.8	5.2
Industrialized Countries	3.7	2.6	2.8
Developing Countries	5.9	4.5	5.3
Euroland*	3.3	2.8	3.0
WORLD	4.2	2.9	3.3

Source: JP Morgan, BNB Paribas *

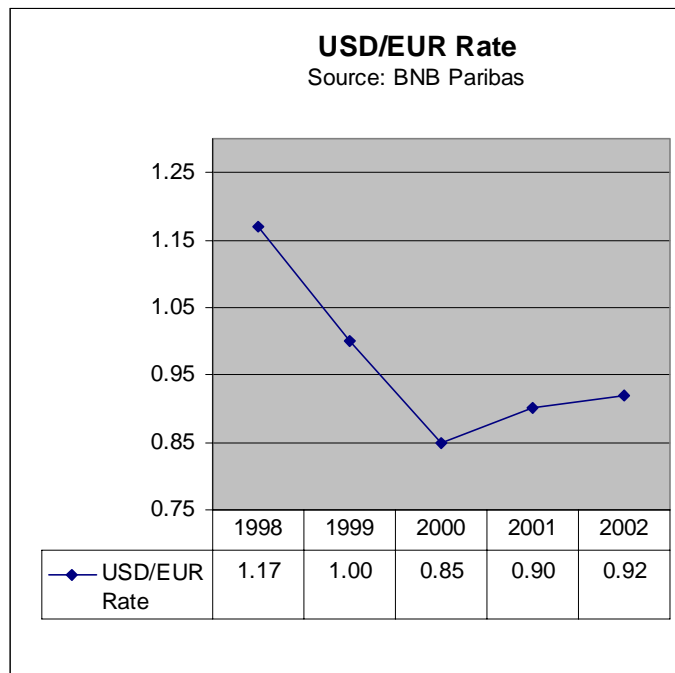
faces a hard landing, this could take the country to a period of recession and bankruptcy, an effect that would certainly spread throughout the world, especially to

countries that are more dependent on the American economy. A hard landing would trigger a reduction in the economic expansion of Europe and Asia as well. Moreover, foreign investment, which is very important to finance developing countries, will be very likely to decline. This would create a tendency to reduce capital flows to emergent markets, because of fears about the future performance of these countries.

Although there is still the risk of a hard landing, the U.S. and the world are more likely to experience something like a hard soft landing, given that the Federal Reserve has been performing interest-rate slashes that totaled 100 basis points in January 2001 alone.

Despite the currency devaluation of approximately 50% in January 1999, Brazilian exports to Europe did not go up considerably. In fact, the inflationary process during 1999 and 2000 trimmed the effects of devaluation. Moreover, the euro has dropped in value in comparison to the U.S. dollar. Consequently, the Brazilian currency has become even a little bit overvalued vis-à-vis the Euroland currency, which reduced the competitiveness of Brazilian goods in the European market. Luckily these circumstances are changing, given that the euro has recently rebounded.

In 2000, the United States



happened to be a better market to foreign investors, compared with Euroland - the group of European countries that adopted the euro as common currency. This happened because the U.S. high-tech companies could give investors more profitable and safer gains. Indeed, the European Central Bank intervened on a regular basis in order to stabilize the euro vis-à-vis the American currency, even though it has suffered many devaluations, as chart shows. In early 2001, that intervention was reduced because of a decrease of capital flow from Europe to the U.S., since the latter has plunged in a slowdown, allowing the European currency to keep a higher and steady rate. An American soft landing as well as a decrease in oil prices could improve Euroland economic growth, whereas a hard landing may hurt its consolidation and stability.

Oil prices also play an important role in the Brazilian trade balance. The country imports about 25% of its oil needs and had to spend approximately US\$ 3 billion more in 2000 because of higher oil prices. According to PETROBRAS, a Brazilian oil company, in 2005 it will be no longer necessary to import oil, given the company's growing output. However, the company's production of Brent crude oil, a sort of oil much used in Brazil, seems to be insufficient to meet the Brazilian demand.

Commodities prices are likely to stand still in 2001. Since Brazil is a strong commodity exporting country, it will not take any advantage of this tendency. Industrialized countries will probably keep or even strengthen their protectionism policies in order to protect their domestic commodity markets as well.

The Brazilian government internal debt remains at about 50% of GDP, a figure that scares investors. It would be necessary to obtain a higher primary surplus through expenditure cutbacks or tax increases, in order to shift the debt to 47% of GDP, an

acceptable level. This would be very difficult to achieve due to political pressures to increase public spending. Actually, everything depends on the current president's popularity as well as on the rumors about the presidential race in 2002.

Privatizations in the electrical energy sector, state banks, as well as sewage companies have been another issue. It is estimated that US\$ 14.5 billion will be collected after selling these companies. Brazil is one of the few South American countries that keep attracting foreign direct investment through privatization, given that Argentina and Chile have already sold every state company.

Analysts say that changes in the Brazilian tax system are vital to increase the growth rate. Indeed, in order to slash unemployment rates, a tax reform is very important. This would curb tax disputes among states. Nevertheless, the Federal Government is more likely to delay the tax reform, given that it would harm tax collection, which would force the federal government to cut expenses in order to keep the accounts in equilibrium.

The Argentinean economic situation is particularly worrisome for Brazil. If the crisis gets worse, foreign investment to emergent markets in South America will be reduced, which certainly would trim investment flows to Brazil. This could lead the Brazilian Central Bank to raise interest rates, reducing consumption, retail sales, industrial output and business activity, besides moving unemployment rates upwards. However, the Brazilian exchange regime as well as its fiscal condition makes the country less vulnerable to a potential default in Argentina.

2.2 TRENDS IN THE ARGENTINEAN ECONOMY

Foreign investors are worried about the country's bad growth performance in 2000. Because of the recent political crisis, they doubt that the government would be able to handle its debts.

Many analysts in Brazil believe the Argentinean economic situation is becoming really serious. The US\$ 39.7 billion package from the IMF is going to be very useful to refinance payments due in 2001. This strategy was supposed to help the country adopt new policies and become more competitive as well as to help its companies reduce output spending. Nevertheless this doesn't stave off a possible default in 2001.

In 1991, in order to get rid of its high inflation rates, Argentina implemented the Convertibility Law, which pegged the peso to the US dollar on a one-to-one exchange rate, leading the

country to very high output costs. Capital flow to Argentina started fading, which has stagnated the economy and increased

Argentinean Economic Performance				
	1997	1998	1999	2000
GDP (USD bn)	319	335	329	310
Growth	8.1%	3.9%	-3.0%	0.8%
Inflation	0.3%	0.7%	-1.8%	-1.1%
Unemployment Rate	14.9%	12.9%	14.3%	15.4%
Trade Balance (USD mn)	-4.08	-4.96	-2.23	-

Source: Seguradora Brasileira de Crédito à Exportação - SBCE

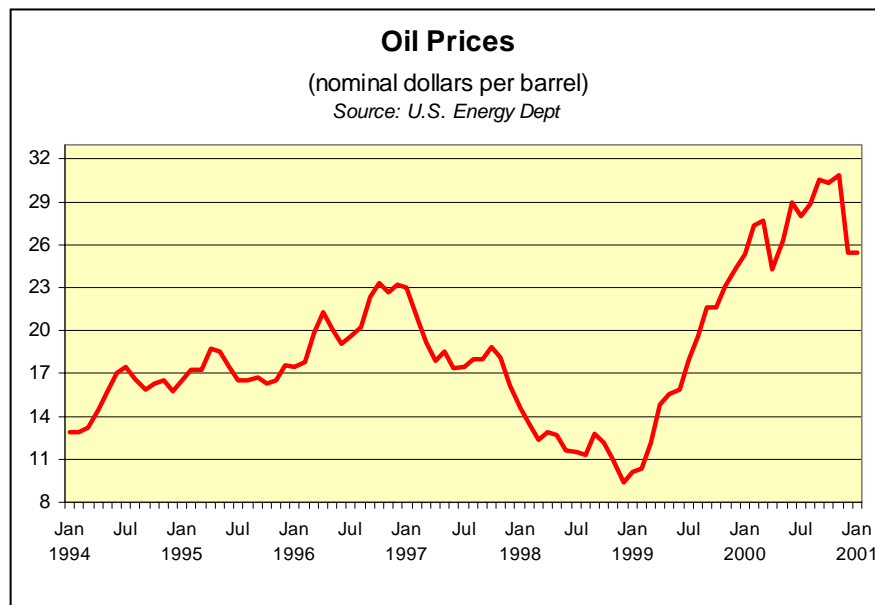
social problems and unemployment rates, which is now about 15% (as table shows).

About 80% of the country's liabilities are pegged to the U.S. dollar, which means that a peso devaluation would increase the public and private debts, leading companies to bankruptcy and the Argentinean workforce to soaring unemployment rates. If the crisis

persists, the country will probably face a failure, which would lead first to a default and then to a currency devaluation and a possible modification of the exchange rate regime.

Countries like Argentina and Turkey are definitely expected to have problems with occasional turmoils in the world economy, given their economic instability and dependence of international investments. Just like other developing countries, they will have to overcome ongoing obstacles such as current account imbalances, foreign

investor anxiety, instability of stock exchange market and oil prices tumult. Since Argentina is an oil exporting country, it will be hurt by oil prices reduction predicted for 2001. Despite having soared in 2000, oil barrel will achieve from



US\$ 27 to US\$ 28, or any price in between, until the end of 2001 (chart).

The Argentinean difficulties in overcoming the recession started in late 1998, after the Russian crisis, raising concerns and lack of confidence about the country's economy. After a two-year recession Argentina is facing pressures due to its slow growth and weak reforms.

The Minister of Finance asked the IMF to review the goals established for Argentina, and asked for more room. Once the country is facing a strong recession, the

government can't make more budget cutbacks. Despite the approval of labor reforms, unemployment is likely to keep a 15% rate and that is not expected to change in the short run. The growing and nagging unemployment rate as well as economic recovery problems have triggered criticisms about government policies.

A recent economic package was implemented by the Argentinean president Fernando de la Rúa in order to meet IMF goals. It included wage cutbacks to public employees, restructuring of public entities, asset sales and measures to prevent tax evasion. These seem to be measures that are not very popular with the Argentinean people, but they have pleased foreign investors.

Despite the fiscal effort, the risk of default persists. Foreign analysts have been speculating about the government's ability to keep the dollar-peso parity, given that an exchange rate regime modification could affect companies' debt. Luckily, the Brazilian and Chilean economic recovery might contribute to alleviate an outbreak risk, since more than 20% of Argentinean international trade is done with these countries.

In order to consolidate the MERCOSUR² and consequently its relations with Brazil, the Argentinean economy must be able to balance its accounts. The different exchange rate regimes have been another problem, since the Argentinean is fixed and the Brazilian is floating. Analysts say that it would be impossible to move MERCOSUR forward without the adoption of a similar regime by both countries. The floating regime used in Brazil is much better adapted to international trade, since it holds foreign investments when an outbreak is faced. That is why Argentina was supposed to adopt the same regime. However, as already mentioned, this could drive the country to bankruptcy.

² MERCOSUR stands for Mercado Común de la América del Sur (South American Common Market)

2.3 TRENDS IN THE CHILEAN ECONOMY

Chile has an open economy, with transparent and stable rules, which has been an advantage for the country in terms of international trade and foreign investment. It is considered a low-risk country with an attractive market and one of the most competitive economies of Latin America. It is the first Latin American country that has managed to carry out a comprehensive economic reform. Nevertheless, its external accounts are much dependent on commodities prices such as copper, fruit and fish.

Over the last ten years the Chilean economy has showed a sustainable growth, with an average rate of 7%. The GDP per capita jumped from US\$ 1,438 in 1986 to approximately US\$ 4,700 in 2000. In order to achieve these results, all the Chilean society, including business owners and government, became involved with the country's development strategy.

Chile had excellent achievements in terms of inflation curtailment. Its main advantages are: a private sector

targeted on the country's development, the state playing a regulator role, integration to world economy via export

Chilean Economic Performance and Forecast					
	1997	1998	1999	2000	2001
GDP (USD bn)	75.6	72.7	67	71.9	76.4
Growth	7.1%	3.4%	-1.1%	5.5%	6.4%
Inflation	6.0%	4.7%	2.3%	4.3%	3.2%
Debt/GDP	37.4%	46.1%	53.9%	50.2%	55.0%
Trade Balance (USD bn)	-1.6	-2.5	1.7	0.9	0.6

Source: Dresdner Bank, BNB Paribas

stimulus and international trade opening, environment protection and macroeconomic stability.

In terms of international trade, Chile is an open country and has a tariff, which is practically uniform, of 10% for its imports. This makes it one of the most open countries in the world. Actually, its exports grew from US\$ 4.2 billion in 1986 to approximately US\$ 18.1 billion in 2000.

The main products exported are copper, fresh fruit, paper, wood and fish. Copper used to be 80% of Chilean exports in 1973, but today it is no more than 33%. The country has worked out its exports to get more variation and add more value to its products. Chile has also diversified its range of products in order to become a global trader. Indeed, thanks to its export incentive policies, the Chilean products reach all the continents of the world.

The first months of the current President were positive. Besides good achievements in social programs and in budget monitoring, the government has had good results in terms of capital flow freedom. The Chilean economy is still expected to keep growing, with a growth rate forecast of 6% in 2001.

It should be borne in mind that the Chilean Central Bank has been shifting its policy in response to the U.S. economy alterations. Indeed, in 1999 the U.S. participated with almost 20% of foreign investment in Chile, but this participation had achieved 51% in 1995, according to the Chilean Central Bank. In 2000 Chile exported about US\$ 3.1 billion to the United States, which represented practically 18% of Chilean overseas sales. Given that the U.S. is facing a slowdown and capital flows are expected to drop, the Chilean central bank might be compelled to increase interest rates. This policy modification could drive the economy to cutbacks in business activity and higher unemployment rates.

Recently Chile started negotiating a bilateral agreement with the United States, which provoked reactions from members of MERCOSUR, especially Brazil. Chile was considered a potential member of MERCOSUR and its entry would reassure the block consolidation. Thus, the agreement signed with the U.S.A. will probably cause a slackening of its relations with MERCOSUR members in terms of international trade. Moreover, considering the slowdown of the American economy and that the Chilean economy is likely to become more dependent on the U.S., Chile will probably have problems in terms of trade balance and foreign investment.

3.0 POLICIES TO MOTIVATE EXPORTS

3.1 THE BRAZILIAN MODEL

3.1.1 Financial Instruments to Support Exports³

Credit instruments are the most important mechanisms to promote exports. They facilitate business in markets overseas and give producers more working capital in order to boost the company output. However, usually only big companies can get financing support from private banks, once their financial operations are less risky.

Besides loan support, there is also export credit insurance. This is also a mechanism used to reduce export costs, but it assumes the existence of a previous credit. Its objective is to cover defaults in circumstances of commercial risk (buyer's default) and extraordinary risk (in case of war, catastrophe and so forth). It is used as a guarantee as well, since exporters can obtain liabilities that might be higher than their assets.

3.1.1.1 Advance Payment under Foreign Exchange Contract (Adiantamento sobre Contrato de Câmbio- ACC) and Advanced Payment under Export Documents (Adiantamento sobre Cambiais Entregues – ACE)

These are well-known instruments in terms of international trade in Brazil. They are nothing but a kind of short short-term financing used to help Brazilian exporters. These instruments do not depend on government support and can cover a vast range of products, including raw materials. They give more competitiveness to overseas sales,

³ based on the paper Export Financing, Project nr. 1.13.6, Fundação Getúlio Vargas

once costs are trimmed and exporters can pay in longer terms. Private banks are mostly providers of this sort of credit, using their own resources as well as foreign funding.

ACC is a credit given prior to shipment, whereas ACE is given afterwards. Both loans can be used in just one credit operation, similar to back-to-back operation. Maximum terms are established by Central Bank. ACC operations can be carried out with financing programs of BNDES-Exim as well as PROEX⁴.

3.1.1.2 Financing with Exporter's own Resources or Another's

These exports are financed by banks or even exporters, and then their resources do not depend on government credit. Usually the Ministry of Development, Industry International Trade (Ministério do Desenvolvimento, Indústria e Comércio Exterior – MDIC) is responsible for the approval of this kind of operation. Exporters have to fill in forms, such as the Credit Registry (Registro de Crédito – RC) through a computer system called Integrated System of International Trade (Sistema Integrado de Comércio Exterior – SISCOMEX). This system involves three agencies: Secretariat of International Trade (Secretaria de Comércio Exterior – SECEX), Central Bank and Secretariat of Federal Revenue (Secretaria da Receita Federal). The SISCOMEX analyzes the financial conditions of the operation, including interest rate, term, period of grace and so on.

3.1.1.3 Loans Given by BNDES

a) Pre-Shipment Financing

⁴ BNDES stands for Banco Nacional de Desenvolvimento Econômico e Social (Social and Economic Development National Bank);
PROEX stands for Programa de Financiamento às Exportações (Exports Financing Program)

Since 1991 only the BNDES, through a specific program called BNDES-exim, gives loans to production destined to export using instruments that are similar to those from the international market.

Mostly, loans can cover up to 100% of the value of the operation and a 30-month term (including period of grace); it depends on the production cycle. The interest rate covers financial costs plus basic spread and risk spread. Thus, the interest rate is normally LIBOR (London Interbank Offered Rate) + 1% (basic spread) + risk spread.

b) Post-Shipment Financing

The BNDES, using internal or external resources, finances exports of goods and services bringing the same competitiveness of the international market. All products can be financed (except family automobile and products with low added value) as well as services associated with provided products. The financing can achieve 100% in terms of export value and the term range may vary from 60 days to 12 years. The interest rate includes LIBOR + 1% + spread. BNDES also takes part of post-shipment financing through the PROEX, used as interest-rate equalization.

3.1.1.4 PROEX

The PROEX was created in June 1991 to substitute the FINEX⁵. Its objective is to support Brazilian exports of goods and services in order to give exporters the same financial conditions of the international market. The Bank of Brazil is the PROEX's financial intermediate between exporters and the Brazilian government. The program can be used in two ways: export financing and equalization of export financing. In both cases the exporter gets paid immediately.

a) PROEX-Financing

In the PROEX-Financing, loans are given to exporters or foreign buyers. The Bank of Brazil has authority to decide on credit operations only up to a certain amount. Recently this amount was modified to US\$ 8 million. Operations above this figure have to be submitted to a Council, which will make the final decision after a detailed analysis. The Council is called CCEx⁶ and has representatives from many Ministries and other governmental institutions, such as the National Treasury, Ministry of Foreign Affairs, Central Bank, MDIC, Ministry of Finance, and so forth.

When some importer is interested in buying Brazilian products or even when they are bidding for an international contract, exporters may apply for a loan using an application form⁷. All procedures are regulated by MDIC and the credit may go to the exporter or to the importer, as follows:

- **Supplier's Credit** - this is given after the export credit bonds or the export credit rights are turned in to Bank of Brazil, i.e. after the international sale was eventually hired and goods or services were shipped.

- **Buyer's credit** – this is given after the contract between the foreign entity and the Brazilian government is signed. Once the buyer gets the loan, the sum is transferred to the exporter's account.

The MDIC has a list of products that can be exported using the sorts of credits mentioned before. It includes installation services, assembly, maintenance and setup of

⁵ FINEX stands for Fundo de Financiamento às Exportações (Exports Financing Fund).

⁶ CCEx stands for Comitê de Crédito às Exportações (Exports Credit Committee)

machinery and equipment overseas, software and movies. Exports of services are regulated by MDIC as well. They can be carried out separately or in packages, in just one sale of similar products, but with different payment terms. Due to their complexity, these operations have to be approved by the CCEX.

Normally, payment terms vary from 60 days to 10 years, with payments made every semester. The grace period is usually 180 days after shipment. When exporters require operations out of normal conditions, they have to obtain the approval of CCEX, which checks general conditions like terms, export value, country risk, exported good or service and so forth.

The percentage of Brazilian content is also taken into account. In order to finance 85% of the export value, the PROEX rules demand 60% of Brazilian components, at least. Since export operations normally involve risk, the PROEX asks for some guarantees such as top class banks, export insurance, etc. The CCR⁸ with automatic-payment condition used to be other sort of guarantee, but the Brazilian Central Bank decided to get rid of it in order to reduce the Brazilian risk exposure.

b) PROEX-Equalization

In this case, banks or financial institutions provide loans to exporters or importer of Brazilian goods and services. The PROEX just pays part of the financial expenses, in order to equalize the differences between Brazilian and foreign interest rates. The payment is made through the Bank of Brazil to international or Brazilian banks.

⁷ This application form is called Carta de Credenciamento (Letter of Credence).

⁸ CCR stands for Convênio de Crédito e Pagamentos Recíprocos – Mutual Credit and Payment Agreement – A sort of agreement signed by some South American countries to facilitate the credit compensation of foreign currencies that worked as an insurance mechanism.

This equalization is paid in case of supplier's credit as well as buyer's credit and the credit terms are the same as PROEX – Financing, when it comes to payment, guarantees, sort of products, etc. Usually, up to 85% of a loan can be equalized, depending on the percentage of Brazilian components.

3.1.1.5 Export Credit Insurance

The export credit insurance keeps exporters safe from possible losses if a default happens and the foreign buyer fails to pay. This sort of insurance also works as a prevention mechanism, performing a monitoring of the importer's financial health. Besides that, it can be used as a debt-collecting instrument.

In Brazil, this service is provided by the SBCE⁹, a private company whose shareholders are several Brazilian companies as well as the French company COFACE – *Compagnie Française d'Assurance pour le Commerce Extérieur*, which is the greatest export insurance company in the world. Actually most of the SBCE technique came from COFACE.

Benefits provided by SBCE involve insurance, monitoring, debt collecting and guarantee. The insurance covers up to 85% of the credit against commercial risks and 90% against political and extraordinary risks. Monitoring is provided in case of short-term operations, when the exporter lets SBCE perform a job of analysis of importers' financial health. Through COFACE, the SBCE has available a vast network of international information agencies throughout the world. Debt collecting is provided through a worldwide network of 170 law firms. This framework allows SBCE to collect debts using negotiations or lawsuits, since the complexity and diversity of different countries

legislation call for experts that must be able to negotiate and conduct lawsuits overseas. Insurance used in export financing allows a cost reduction, which enhances export competitiveness.

3.1.2 Other Instruments to Support Exports

3.1.2.1 APEX¹⁰

Launched in 1997, being part of SEBRAE¹¹, it aims at supporting the policies proposed by CAMEX¹² as well as to develop and to support export promotion programs for small and medium-size companies. Among its projects, there is a consortium of small and medium-size companies dedicated to exports.

The APEX has a kind of committee for the promotion of commerce, which is composed of MDIC, Ministry of International Affairs and private exporting companies.

3.1.2.2 CAMEX

CAMEX is chaired by the Minister of MDIC and comprises the Ministry of Finance, Ministry of Budget and Management, Ministry of Foreign Affairs, among others. Its task is to develop policies and conduct activities related to international trade of goods and services as well as to evaluate the results of policies adopted. The Chamber also has a

⁹ SBCE stands for Seguradora Brasileira de Crédito à Exportação (Brazilian Export Credit Insurance Company)

¹⁰ APEX stands for Agência de Promoção de Exportações (Export Promoting Agency)

¹¹ SEBRAE stands for Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (a Brazilian agency that supports micro and small companies)

¹² CAMEX stands for Câmara de Comércio Exterior (International Trade Chamber)

relationship with the private sector in order to implement policies that meet entrepreneurs' needs.

3.1.2.3 FGPC¹³

This is an instrument of credit guarantee, managed by BNDES, whose objective is to complement guarantees that are demanded in pre-shipment financing. This mechanism may be used by small businesses whether exporters or not, but if they are not exporters, they have to produce inputs that will be used by export companies.

FGPC covers credit risk, protecting at the most 80% of the loan, depending on the company size and location. It may be used in the following circumstances:

- In credit operations used to implement, expand, relocate and modernize business that are dedicated to boosting competitiveness
- In credit operations of production dedicated to export
- In financing to buy capital goods, install outlays and to meet training expenses
- In working capital associated with financings.

3.1.2.4 Tax Exemption

Many taxes are not applied to exported goods and services, such as IPI (*Imposto sobre Produtos Industrializados* – Industrialized Product Tax), ICMS (*Imposto de Circulação de Mercadorias* – Sale Tax), COFINS (Contribuição para Financiamento da Seguridade Social – Contribution to Social Security Financing) and PIS (*Programa de Integração Social* – Social Integration Program Tax).

¹³ FGPC stands for Fundo de Garantia para Promoção da Competitividade (Guarantee Fund to Promote Competitiveness)

All these taxes represent roughly 30% of product price in the internal market. It must be borne in mind that the exported product price comprises other costs such as freight, insurance, export packaging and financing. Indirect costs, such special training, technology, management, etc., have to be taken into account as well.

In addition, there are cases when a good is totally exempted from paying import tariffs, particularly when it is expected to be reexported, in **drawback customs regime**.

3.1.2.5 BrazilTradeNet

It is a system managed by the Ministry of International Affairs that gives information about business opportunities in terms of international trade. It comprises information about market research as well.

Given the small number of Brazilian exporters and a concentration in big companies, BrazilTradeNet is expected to increase the participation of small business in the export field. It is available on the Internet (<http://www.braziltradenet.mre.gov.br>) in Portuguese, English and Spanish. Companies have to sign up to use the site information and also may publicize information about their own businesses.

3.1.2.6 Special Export Program

The Special Export Program (Programa Especial de Exportações – **PEE**) was launched in 1998 to help double the country's exports by 2002. The program is based on the modern concept of management through directives. That's an initiative that starts a

new type of relationship between the public and private sectors, since both share the responsibilities of achieving a national goal.

PEE's idea is to organize the private sector through a closer contact among business leaders in order to increase the number of export companies and to encourage a stronger participation of current ones. Therefore, the government selected 61 production sectors that will get more consideration and that are supposed to conquer more markets overseas. These sectors were responsible for 90% of Brazilian overseas sales in 1997. In addition, 12 support activities were selected, since they are considered strategic in boosting external sales.

3.2 THE ARGENTINEAN MODEL

3.2.1 FINANCIAL INSTRUMENTS TO SUPPORT EXPORTS

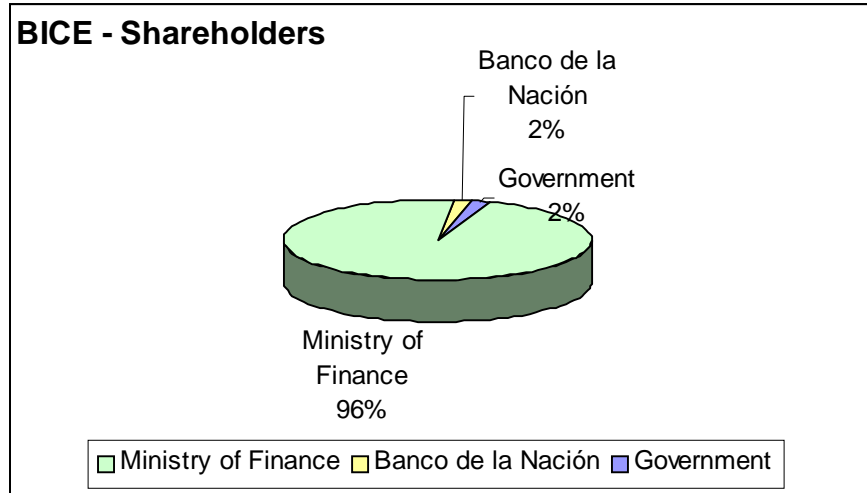
Most of export support job is done by the BICE¹⁴, which is a bank that channels resources to finance investments and international trade through private banks.

The bank performs its work as a Federal Government financial agent, besides providing export credit insurance. It

Private Banks that work together with BICE					
ABN	BNL	COMAFI	HSBC BANK ARGENTINA	PROVINCIA DE BUENOS AIRES	SUQUIA
AMRO	BNP	CORDOBA	ING BANK	RIO DE LA PLATA	THE BANK OF TOKIO/ MITSUBISHI
BANK BOSTON	CHASE MANHATTAN BANK	CORRIENTES	LA PAMPA	PATAGONIA	TORNQUIST
BANSUD	CITI BANK	CREDICOOP	LLOYDS BANK	SAENZ	
FRANCES	CIUDAD DE BUENOS AIRES	DEL CHUBUT	MACRO	SAN MIGUEL DE TUCUMAN	
BEAL	CMF	DEL TUCUMAN	MARI VA	SANTA FE	
B.I. CREDI TANSTALT	COMAFI	GALICIA	MORGAN GUARANTY TRUST CO.	SCOTI ABANK	QUI LMES
BI SEL	CORDOBA	GENERAL DE NEGOCIOS	NACION ARGENTINA	SUDAMERIS	

also finances directly exporters with short-term and long-term financing, when their export operations are partially financed by other top class banks (table).

Besides its own resources, the BICE can count on funds from the Argentinean Ministry of Finance that obtains resources from the international market. It operates with selected



¹⁴ BICE stands for Banco de Inversión y Comercio Exterior (Bank of Investment and International Trade)

private banks that will give loans and keep in touch directly with exporters. There are 40 private banks that qualify for working with the BICE, from a total of 119 public and private entities. The bank belongs to the Ministry of Finance (96%), Banco de la Nación (2%) and to the government (2%), as chart shows. It gives credit to almost all sectors of the Argentinean economy, featuring 41.25% to manufactured products.

3.2.1.1 Export Financing Program

Among the types of loans given by BICE, there are the following:

- Credit to spending in fairs, exhibits and commercial missions overseas (through the entity Exportar) as well as to searches and development of new products.
- Credit to develop mixed societies in MERCOSUR
- Pre-shipment credit
- Post-shipment credit

The export-financing program provided by the BICE gives loans to manufactured products from agricultural and industrial companies, turnkey installations, technical services, searches and analysis. Loans can be provided through financial institutions that were selected by BICE and through a financing together with one or more private banks.

Amount and Terms of Financing		
Good/Service	Amount (US\$)	Term
Capital Goods	500,000	until 5 years
	2,500,000	until 8.5 years
Durable Goods	1,500,000	until 3 years
Other goods	1,500,000	until 1 year
Turn-key plants	25,000,000	until 8.5 years
Technical services, searches and	2,500,000	until 5 years

The amounts and terms of loan depend on the type of goods or services provided (as table shows).

In terms of pre-shipment credit (production financing), the BICE gives loans of up to 90% of FOB¹⁵ value of goods that are going to be produced and exported. In case of post-shipment credit, the bank also finances up to 90% of FOB value of goods and services, but in some cases the loan can reach 100% of CIF¹⁶ value + plus credit insurance + interest.

As regards interest rates, in case of pre-shipment credit, it is applied a floating rate of LIBOR+1% is applied to operations of up to 270 days and LIBOR+1,25% to operations from 270 days to 1 year. In case of post-shipment credit, particularly to ALADI-countries, CIRR¹⁷ + 1%, is applied to operations of up to 5 years, CIRR+1,25%, to operations of up to 8.5 years and CIRR+1.5%, to operations of more than 8.5 years. To countries that are out of the ALADI region, the rates are 7.77%, to operations of up to 5 years, and 7.69%, to operations of more than 5 years.

3.2.1.2 Export Credit Insurance

Another job of BICE is to perform the work of export credit insurance. The Argentinean government in cases of extraordinary risks covers the insurance. Basically, extraordinary risks include political outbreaks, such as wars and revolutions, natural catastrophes,

¹⁵ FOB stands for free on board

¹⁶ CIF stands for cost, insurance and freight

¹⁷ Commercial Interest Reference Rates (CIRRs) are the official lending rates of Export Credit Agencies in the U.S.A.. They are calculated monthly and are based on U.S. government bonds issued in the country's domestic market for the country's currency. Ex-Im Bank's updated CIRR rates are published on the Internet on the Monday preceding the 15th of the month and are effective on the 15th of the month.

such as hurricanes, floods and earthquakes, and governmental measures such as import prohibition, payment suspension, and so forth.

Insurance policies can cover any exported good, usually with financing of up to 8.5 years depending on the product.

This instrument gives Argentinean exporters the following advantages:

- Access to new markets
- Exports expansion
- Costs reduction
- Access to export financing

3.2.1.2 Other Instruments to Support Exports

a) Temporary Entry

This regime, which is a temporary import of a good, has to do with exports incentive. Its objective is to eliminate tariffs and taxes that are applied to import inputs that will be used as part of export goods. Thus, all goods that are part of an industrial process and part of a new product, goods that will be exported, besides items that are part of export products, such as packaging, can receive this type of incentive.

b) Turnkey Plants Export Regime

This is an amount given to exports of whole turnkey plants or engineering constructions, including goods and services. The aim is to facilitate exports of goods and services originating in the country. This type of incentive comprises 12% of national goods as well as national services and technology. Contracts have to be turnkey and the percentage of national goods and services can't be less than 60% of

export FOB-value. National goods are required to have at least 40% national content, in terms of FOB-value.

c) Export Tax Refund

This is the return of the amount of money (total or partial) paid as internal tax along all steps of production and trade of goods that will be exported and that were manufactured in the country. These goods must be brand new. The refund percentage is applied on the FOB-value of the product, and can be modified according to government policies. The refund only can be applied to countries that are not members of MERCOSUR.

d) Drawback

This is a type of incentive that allows exporters to get a refund of duties paid, such as import taxes, fees and value-added taxes, once the imported input is expected to be used in export goods. This incentive includes packaging as well.

e) Financing of Value-Added Tax

Its objective is to promote purchases of capital goods that will boost the country's export performance. Thus, the government pays for financing interest of credits used to recover the value-added tax that are paid for imported capital goods. In order to receive this type of incentive, the purchaser has to set his machine output to export. The capital good can't be transferred to another purchaser during the course of the financing term.

f) International Trade Argentinean Commission (Comisión Nacional de Comercio Exterior- CNCE)

Among its major functions, this commission is responsible for analyzing international trade tendencies and the competition conditions of Argentinean goods overseas, as well as recognizing circumstances that might be harmful to Argentinean trade, such as dumping and subsidies. The commission also gives technical assistance about topics related to its task and subjects discussed in international multilateral lectures and conferences. It also keeps Argentinean exporters informed about problems to enter other markets.

Besides the mechanisms described before, other instruments can be used to support the Argentinean exports such as export consortium and cooperatives of small exporters.

3.3 THE CHILEAN MODEL

3.3.1 FINANCIAL INSTRUMENTS TO SUPPORT EXPORTS

a) Simplified System to Refund Non-traditional Exports

This is a sort of incentive given to exporters of non-traditional products. It compensates the exporter's expenses by giving them a percentage of the net export value. Its objective is to widen the export product range. According to World Trade Organization (WTO) rules, this incentive mechanism must be reduced to 3% in 2003.

In order to receive this benefit, the export product must be produced in the country with national inputs (raw materials and labor hand), besides being considered non-traditional. Therefore it is not included in the list of traditional products publicized by the Ministry of Finance.

b) Refund of Value-Added Tax

Producers of goods and services considered exportable have the right to receive a refund of value-added tax (VAT), when they pay for inputs that are going to be used in exports. When the export is an investment project that is expected to produce goods and services to export, the refund can be anticipated.

Usually the exporter has to prove through documents that his goods were sent overseas, in order to recovers the VAT.

c) Discount in Import Tariffs for Capital Goods

Capital goods can obtain discounts of import tariffs (normal tariff: 9%). The Ministry of Finance publicizes capital goods that can have this benefit, but other capital goods can

be added if the exporter formally asks for that. Capital good parts and accessories may have discounts as well.

The amount paid returns over the good's useful life, usually within its last 2 or 3 years, according to a specific law. The amount is paid in American dollars and includes interest rate determined by the Chilean Central Bank, i.e. 13.90% a year (first semester of 2000).

d) System to Refund Exports - Drawback

It is used to refund import tariffs on inputs to produce goods that are expected to be exported, such as raw materials, semi-manufactured items as well as parts and pieces used as inputs of exports. These inputs can be imported by the exporter or others.

e) Guarantee for Non-Traditional Exports

Through an insurance fund, the government covers exports of non-traditional products, when exporters ask for a loan in a private bank to finance their exports.

The fund covers credit operations up to the term of a year, in national or foreign currency, and can reach an amount of US\$ 150,000.00 for each exporter. It covers up to 50% of the remaining debt of each credit operation, including interest. Nevertheless, the exporter has to struggle to get an insurance policy to cover the other 50%. Users of this type of incentive have to pay an annual amount of 2% of the guarantee obtained.

3.3.2 OTHER INSTRUMENTS TO SUPPORT EXPORTS

a) ProChile – The Chilean Trade Commission¹⁸

ProChile was launched in November 1974 and it is an agency linked to Ministry of Foreign Affairs through *Dirección de Promoción de Exportaciones* (Export Promotion Department). Its objective is to support and advance Chilean business interests in the global marketplace by assisting in the development of the export process, and developing an export culture among Chilean firms, according to international economic policies adopted by the country and following the rules of bilateral agreements as well as WTO rules.

ProChile is active in establishing international business relationships, fostering the exchange of goods and services, attracting foreign investment and forging strategic alliances. The organization serves as a source of market research, international trade data and leads for the export industry for both foreign and Chilean firms alike. ProChile seeks to stimulate and diversify the country's export base in general; special emphasis is given to promoting non-traditional products.

Foreign investors and importers often have questions that require local expertise and a familiarity with the country's economy and legal framework. Through seminars and the constant circulation of news updates, guides, articles, and brochures, ProChile is able to provide such specialized information. Also important is the participation in Trade Shows and Commercial Missions. ProChile works to create links to Chilean industry representatives and to offer specific company information to distributors who are adding Chilean goods to their range of imported products.

¹⁸ This description is based on information gathered on site <http://www.chileinfo.com> as well as on information obtained from the Embassy of Chile in Washington D.C.

Because of its global presence, ProChile remains a crucial source of information for Chilean exporters. Chilean companies make use of ProChile's extensive knowledge of foreign markets to identify opportunities and potential business partners. All its 35 offices around the world monitor the development of legislative decisions and customs regulations to ensure that exporters are in full compliance with international trade rules. This trade commission also advises Chilean exporters on market trends and speculations concerning future developments within the economy of interest.

Being aware of new market opportunities for Chilean goods is one of the most important functions of this organization. One way this is done is by monitoring annual changes in Chilean exporters' global market share and changes in the number of participants involved. ProChile assumes no commercial liability or financial involvement in the business relationships it forms. The organization is strictly dedicated to the promotion of successful business relationships between Chile and the World. Investors and companies wishing to do business in Chile are encouraged to contact any ProChile office in the world.

The international culture includes, basically, promotion of goods and services exports, investment incentives, business and strategic agreements. Its goal is to stimulate and to widen the range of exported goods and services – especially non-traditional, besides providing information to the export sector and supporting contact with foreign buyers. ProChile develop a work of analysis of foreign markets, in order to find new opportunities for the Chilean production.

Having faced new challenges, after the entry of Chile to the international market, ProChile has increased its objectives to help Chilean companies go global, encouraging new companies and supporting old ones.

4.0 COMPARISON OF EXPORT POLICIES

In terms of policies adopted to promote the country's products abroad, ProChile seems to be a good mechanism. It is more aggressive than BrazilTradeNet, even if the jobs of CAMEX and Brazilian embassies were taken into account. Argentina seems not to have such an instrument, but probably its embassies might be doing a kind of promotion of Argentinean goods overseas.

With respect to export financing, Argentina and Brazil have very similar systems to facilitate their exports. Both adopt the credit mechanism before and after product shipping and make use of lower interest rates, compared to the country's current rates. Nevertheless, Brazil has a wider range of financial mechanisms for different types of exports, which calls for good coordination – a role that CAMEX is supposed to play. According to information obtained, Chile has no financing instruments.

Export credit insurance is a type of instrument used in Brazil as well as in Argentina. In both cases, this mechanism was designed to reduce exports costs, once exports call for insurance to be carried out and private insurance companies usually charge exporters with higher premiums. Thus, both countries provide insurance against commercial risks and political and extraordinary risks, even though some contract terms can vary. Chile doesn't have such a mechanism provided by the government, but the country provides a kind of guarantee of 50% for non-traditional exports.

Non-traditional export incentives seem to be provided only by Chile. Indeed, copper used to be 80% of country's exports, but in 2000 it represented 33%. This is a proof that mechanisms used to diversify Chilean exports had a good result. Now, Chile

exports a much wider range of products, which gives the country more stability in the foreign market.

Tax alleviation is a mechanism adopted by Brazil, Argentina and Chile. Drawback and VAT refunds are instruments used by all countries, with some variations. Chile doesn't refund VAT in exports, but in inputs for exports. Brazil refunds VAT for all goods. VAT for imported capital goods may be financed in Argentina and discounted in Chile, whereas Brazil doesn't seem to adopt any particular export policy for this type of good.

In addition to all these instruments, Brazil, Argentina and Chile have managers and representatives, in WTO, MERCOSUR and other organizations, that defend their commercial interest in international issues involving competition, non-tariff barriers, dumping and so forth. Brazil and Argentina have very similar export policies whereas Chile's are more concentrated in commercial promotion of goods and services overseas.

5.0 WHAT COULD BE DONE TO IMPROVE BRAZILIAN EXPORT POLICIES?

As a result of a comparison of policies adopted by the analyzed countries, Brazil seems to have much to learn from Chile, a country that implements an aggressive export policy without spending much money. Given that Brazil has been struggling to obtain surpluses in its budget in order to balance its finances, the Chilean model, particularly Prochile, could be a good example.

In terms of Argentinean export policies, Brazil could think about creating a bank like BICE, which would work as a kind of Exim-bank, an independent agency, and would concentrate many export activities. Indeed, Brazil has had difficulties to coordinate its export policies, since all export activities are spread throughout Ministries and governmental entities.

In addition to that, other measures¹⁹ could be taken, such as:

Logistic Costs Reduction: This could be done through a reduction of transportation costs, a cargo maneuvering costs reduction in ports and airports as well as through a better integration of different transportation systems. Logistic costs can also be reduced through ports and airports restructuring and privatization, besides adopting policies to reduce paperwork in export procedures.

Financing Costs Reduction and Lower Tax Costs: The former would be possible with more banks in trade finance business and through an easier access of exporters to

¹⁹ Based, in part, on a CAMEX presentation

cheaper export credits, whereas the latter could be obtained through the reduction or even elimination of taxes on all goods and services related to exports.

More Export Companies: Through a strengthening of PEE in order to stimulate more companies to export, stimulating export consortiums and encouraging new trading companies, besides promoting an export culture in the private sector.

Improvement of Exported Goods and Services: Including high value-added goods that are more and more demanded overseas, such as semiconductor, software, pharmaceutical, biotechnological software and so forth.

Implementation of a Promotion Program and Access to New Markets: This is an implementation that might be undertaken by MRE and APEX through initiatives to improve the design and packaging of Brazilian products, besides developing Brazilian brand names, organizing fairs, commercial missions, advertising and so forth. In order to access new markets, it is important to fight against tariff and non-tariff barriers overseas, particularly in industrial countries.

It is also important to encourage the installation of Brazilian subsidiaries abroad in order to increase the productivity of export companies, in order to stimulate more competitiveness as well.

Brazilian business owners and Brazilian officials must be proactive rather than reactive to alterations in the international environment. Indeed, decades of isolation might have strongly contributed to curb Brazilian international entrepreneurship. But, nevertheless, government and businessmen have to team up to overcome coordination problems and get concentrated in order to obtain a better export performance in the coming years.