EXAMINING BRAZIL’S FOREIGN TRADE PERFORMANCE, PROSPECTS AND INSTITUTIONAL ORGANIZATION

Author: Márcio Moraes Marciano da Rocha
Advisor: Professor Thomas O'Keefe
1. Introduction....................................................................................................................3
2. Export Dynamism and Industrialization: Developing Countries in World Trade.......6
3. International Trade Performance and Prospects in Brazil ........................................8
  3.1. Brazilian Anti-Exports Structural Factors...............................................................8
  3.2. The Characteristics of Brazil’s Exports......................................................................9
  3.3. Year 2003: the Beginning of a Virtuous Period for Brazilian Exports?...........16
  3.4. Brazil’s Export Base ..............................................................................................17
  3.5. Foreign Trade Role in Brazil’s Economic Stabilization........................................18
  3.5.1. Balance of Payments ......................................................................................19
  3.5.2. Direct Investment and Trade Balance Issue ....................................................21
4. Brazil’s Trade Policy Institutional Organization .......................................................24
  4.1. Path Towards Trade Liberalization .....................................................................25
  4.2. Brazil’s Trade Policy process in Recent Years: New Focus on Expanding Exports...27
  4.3. Evaluating Brazil’s Practices: Institutional Structure and International Insertion
      Strategy ....................................................................................................................31
5. A Brief Analysis on the International Trade Policy Process in the United States and
   Latin America .............................................................................................................34
  5.1. Mexico ...................................................................................................................35
  5.2. Chile ........................................................................................................................36
  5.3. Argentina ...............................................................................................................38
  5.4. United States of America .....................................................................................39
6. Conclusions and Recommendations .....................................................................41
7. References ..................................................................................................................45
1. Introduction

Government management is becoming more and more important in Brazil. Brazilian society is calling for a state that reduces social inequities, promotes socio-economic development and expands conditions that will ensure an adequate rhythm for the generation of employment. But at the same time the all-recurrent insufficiency of ways and means imposes the necessity to an optimization of the resources available. On the other hand, global competitiveness makes it necessary for the state to assume new functions in the way of creating an economic environment that is capable of raising the potential of competitiveness of the private sector. It is therefore necessary to reinvent the content and the extension of government administration, empowering the Brazilian state with more adequate and modern instruments that will help in pushing the country towards sustainable development.

Historically the pale reform of the Brazilian state occurring in the 1980s was brought about a certain perception that the management of the state had been inefficient and was generating even more problems than it solved. Recent experiences of institutional transformation of the Brazilian state are related mainly to fiscal adjustment and managerial reform. The first one is essentially a strategy geared at an economic adjustment, redefining the state’s role, and imposing practices of fiscal discipline, liberalization and privatization. On the other hand, the managerial reform focuses in implementing better operational procedures, seeking a focus on citizens’ demands, on public organization results and on the improvement of social control.

The past experience in implementing state reforms demonstrates that the economic dimension, mostly a fiscal one, was the dominant force for change. As a consequence, there was an important improvement in the liberalization of the economy, but a very weak movement towards reforming the country’s political and judiciary system and other issues related to social reform such as social security and health reforms.

The basic criticism is addressed to the fact that in the last decade Brazil went through fiscal and monetary adjustments that ended up by weakening Brazil’s capacity for formulating
and implementing public policies, despite the result of achieving some measure of stabilization of the economy.

This is a scenario that makes it clear how difficult is becoming to install some efficient management of foreign trade within the framework of the government agencies that are or should be active in this area. At the same time, these agencies are confronted with the rigidities of a state that is incapable of functioning properly in meeting the requirements of a new international agenda, and which are strongly dominated by the imperatives of competitiveness among the world players.

In fact, Brazil’s trade policy lacks a clear strategy that could help in creating new breakthroughs for the country’s exports. Improvising the policies for many years meant improving conditions in that sector, and that has remained clear evidence that the foreign sector of the economy has only gained some priority in critical periods when it has become absolutely imperative to create a better balancing of the external accounts. The present urgency in all debates within this diagnosis is essentially due to the need for expanding Brazil’s trade balance in order to compensate for declining foreign investments, and compounded with their vagaries, this results in increasing difficulties for the country to close its external accounts.

Moreover a continuing tendency towards the institutionalization of the country’s trade policy brings about pervasive evidence of a weak coordination in the thinking, the actions and the instruments of the many different government agencies in the formulation and implementation of policies that should support some continuous expansion of exports. Each of them seems to carry a different agenda and a different strategic thinking.

A preliminary diagnosis of Brazil’s trade policymaking process indicates structural inefficiencies in the formulation and implementation of public policies. This disfunctionality is originated from institutional inefficiencies and rigidities that, on the other hand, are tied to conceptual obsolescence of Brazil’s trade policies. It is common to observe conflicts in the decision making process among public organizations, and also to see dispersion of attributions, low coordination and confused hierarchical competition.
among several agencies. As a result, Brazil’s government became ineffective in stimulating the country’s export sector, producing a huge waste of valuable resources, and even more seriously, generating difficulties in implementing its own trade policy.

The large number of agencies, their overlapping functions combined with an almost infinite dispersion of competences, mirrors the improvised content and the manner in which the definition and the implementation of Brazil’s trade policy has been shaped through history. Easily arranged slogans, such as “to export or else to die”, have always been brought up in periods of acute crisis from the financing of external accounts, not at all resulting from the long term planning mechanism of a trade policy strategically well founded.

The in born characteristic of the Brazilian trade policy being typically anti-exports also include several factors and decisions that bear tremendous impact on the so-called “Brazil’s cost”, such as extremely high fiscal burdens as well as an outmoded and inefficient logistics structure. Besides, one is to recognize the constant obstacles that are laid in the way of Brazilian entrepreneurs by the institutional machinery of the federal government itself and by the obsolescent premises on which are founded the different actions and programs that pretend to support the exports.

In that context, there is a window of opportunity opening up for Brazilian policymakers to develop new and pragmatic approaches to the structural factors that negatively affect Brazil’s export performance. To achieve this, it will be essential to introduce an innovative way of designing and implementing public policies in Brazil, where it is recognized that not only the contextual challenges but also how the state functions. This will demand actions aiming at an institutional reinvigoration.

The objective of this study is to examine Brazil’s foreign trade performance, prospect, institutional architecture, and policymaking process. The intention is not to propose a new redesign of Brazil’s trade policy, but to think about how it is organized, to demonstrate its disfunctionalities resulting from its operational logic, and to establish some parameters that could support a more thorough and detailed institutional redesign.
This study will examine the main problems the country is confronted with in this area and will develop some guidelines that may lead to redrawing, in a coherent and more efficient way, the country’s trade policy institutional organization. The analyses will be based on the main principles and best practices, shared by modern public administration and which could be used to shape a new way of formulating and implementing public policies in Brazil.

The text is structured in six chapters. After a brief introduction, the paper will center attention on the export dynamism issue and how it is related to developing countries’ trade policies. The third chapter will focus on aspects related to international trade performance and prospects in Brazil, mainly regarding Brazil’s anti-export structural factors, the characteristics of the Brazilian exports, and the foreign trade role in Brazil’s economic stabilization. The fourth chapter will center attention in the recent developments in foreign trade policies in Brazil, its main structural components, organization logics, and main factors driving inefficiencies. The fifth chapter will highlight the main similarities and differences in the institutionalization of trade policies in Latin American countries and in the United States, and what lessons could be derived from these policies by Brazilian public managers. In conclusion, the paper will offer some indication of which obstacles should be overcome, how they should be dealt with and the main conceptual changes that should happen in the institutional organization of Brazil’s foreign trade policy.

2. Export Dynamism and Industrialization: Developing Countries in World Trade

An outstanding characteristic of the worldwide trade in the last three decades was the increasing share of developing countries. Between 1970 and 1999 the exports of goods of these countries had grown to an annual rate of 12 %, in comparison to a 10% growth for the whole world. Another important aspect was the fast shift of the developing countries’ exports composition, from mainly primary commodities to manufactured goods, mainly from the 1980s on.
In the developing countries, the present economic thought is dominated by the idea that the integration in the worldwide trade system will create more favorable conditions for growth, allowing a narrowing difference of income in relation to the industrialized countries.

During this time there was a widespread adoption of trade and foreign direct investment liberalization policies, resulting in some cases in a real expansion of the participation of developing countries in the world trade. However, for the great majority of these countries, the imports have expanded at a higher rate than exports, with an evident deterioration result in their trade balance. Furthermore, the expansion of the international trade in developing countries necessarily was not followed by a bigger expansion in the gross domestic product. The fast trade liberalization did not produce an increment in exports of manufactured goods. In the cases where this occurred, it was observed that the growth of the manufactured exports was not followed by a growth in domestic manufacturing value added, but rather, by rapid expansion in manufacturing imports.

However, some countries had more success than others in the combination of trade and gross domestic production expansion. East Asian economies have been successful in the increment of their participation in the world income of manufactured products, and grown competitiveness in the higher value added export markets.

The different results reached by developing countries suggests a direct and causal relation between trade policy and trade performance, and between trade in general and economic growth. It is important to notice that there is, in fact, a positive impact in the generation of income and economic growth when exporting products with a global high growth demand, high value added and rapid productivity growth. In contrast, a country that concentrates its exporting sector in the production of goods with low growth demand or consistent excess of supply, can put at risk its economic growth process, due to a decreasing generation of unitary income of its exported products.

It stands out that there is a considerable role played by public policies. Markets do not produce automatically the necessary incentives to modify the rhythm and the way the country integrates itself to the world economy or even to overcome the impediments of a
more dynamic integration between trade and growth. The analysis presented in this study has the objective of identifying some strategical options for policy makers of developing countries when integrating their economies in the international trade system. It will also alert for the risks associated with a policy excessively supported by highly volatile financial resources. It becomes clear, however, that developing countries will have to redirect their internal economy towards higher aggregate value, world-wide demand and productivity potential growth goods and services, and move away from their current standard of production and trade.

3. International Trade Performance and Prospects in Brazil

The different diagnosis that explain Brazil’s export poor performance are complementary, and includes a long list of factors. For example, there is a high tax burden on exports, high concentration of exports in a restricted number of products, scarce diversification of the destination markets, deficiency in the mechanisms of export financing, lack of political priority, low technological content, low investment in the consolidation of trademarks, absence of exporting culture in Brazil’s entrepreneurs, and low rate of investment in the economy.

This chapter will analyze Brazil’s export sector, trying to offer explanations about its insufficient performance. The role played by Brazil’s export sector in the country economic process of stabilization and balance of payments financing will also be assessed.

3.1. Brazilian Anti-Exports Structural Factors

An anti-exporting bias is a set of factors directly involved in the decision to export and to remain competitive internationally. In the Brazilian case, several sectors of the Brazilian economy do not have the necessary management skill and technology to compete internationally with sufficient scale of production. They again do not have an exporting culture that integrates their export strategy to the overall growth and investment strategy.
Furthermore, other factors linked to operational aspects of the exporting activity play an important role in the existence of an anti-exporting bias in Brazil. Some play an undeniable negative impact on the exporting activity in Brazil: the increased costs associated with the management of bureaucratic procedures, the access to trade information regarding customers and markets, the access to financing sources, the compensation of credits taxes, currency management, commercial and political risk.

There is another set of factors that favor the existence of an anti-export bias in Brazil, embracing the deficiencies in the infrastructure of domestic and international transportation, including the high operational cost of Brazilian ports. Without a doubt, this structural deficiency represents a relevant cost to the country’s exporting activity, reducing its international competitiveness.

There exists, still, an anti-exporting culture rooted in private and governmental sectors that have been supported and beneficiated from the imports substitution process, making it very difficult for new practices and policies to vigorously emerge in the country.

Finally, the inefficiency of the Brazilian institutional organization is another factor impeding strong growth in Brazil’s exports and has contributed to the consolidation of this negative framework. Unfortunately, little attention has been reserved to this matter, mainly because it has become imperceptible because of the short term economic urgency.

3.2. The Characteristics of Brazil’s Exports

Brazil exports very little and it becomes clearer that an increase in exports is an essential condition in order to adjust the external accounts in the next years, without having to go through a recessive process.

When we analyze the consolidated performance of the overall world export sector, we observe that there was huge growth over the last three decades, going from US$ 300 billion in 1970 to more than US$ 6 trillion in the year 2000, a growth of twenty times in thirty years, as seen in the graph bellow.
Despite this surprising expansion, the share of Brazil’s exports compared to the world’s exports decreased over the last twenty years. In fact, in the first years after the Second World War, Brazil had a share of less than 2.5 %, gradually reduced to less than 1 % at the end of the 1960s. After this period, there was a strong export effort in the 1970s with the imports substitution program, leading Brazil’s share in world’s exports to a level close to 1.5 % in the mid 1980s.

In the 1980s and 1990s, opposite to what was expected by Brazil’s economic opening - mainly the one occurred in the first years of the 1990s - Brazilian share in world trade was still inexpressive. In fact, with the exception of 1993 and 1994, the share of the country in the world exports was always below 1 %. The direct effect in the economy was a low stimulus to the country’s economic growth, and a lost opportunity regarding the internalization of new management practices and new technologies inherent to an internationally competitive industry. Exports are in fact a powerful engine to economic growth of developing countries, as we know from the classical examples of China and Korea.
Compared to other countries at similar economic development level, the performance of Brazil’s export sector in relation to the world has moved very little in the last years, as it can be seen in the graph below. On the other hand, the export effort in Mexico, Ireland and mainly China resulted in a five years strong increase in their world’s exports share.

The numbers presented here show the weaknesses and, at the same time, the immense growth opportunity for the Brazilian export sector. It means that the country could generate additional domestic production growth if an efficient export effort is implemented. Brazil could double or triple its participation in the world’s export in a few years, representing an increase of more than US$ 100 billion in production.

Source: SECEX MDIC, IMF.
Some factors explain the lack of dynamism of Brazil’s exports, and reflect serious problems in the country trade policy and international insertion strategy. Indeed, Brazil’s trade policymaking process has in its institutional dimension strong aspects affecting negatively its exports expansion. This is related to how the policy is formulated and implemented, including the premises that are incorporated in the federal government actions.

Specifically, in the last two decades Brazil’s economic authorities have centered all their efforts to control the painful and consistent inflationary process that devastated the country’s economy, leaving little space for trade policies geared at conquering new foreign markets and at the increase of the overall economic efficiency. This means that the exports were not a government priority, and other important actions and policies essential to expand the national competitiveness have been postponed. This includes namely the reduction of technological gaps, investment in infrastructure and logistic improvement, export financing instruments, tax reform that stimulates the export effort, apart from several other export promotion instruments.

Still, the successive attempts to stabilize the economy at the beginning of the 1990s produced a big GDP contraction, and an exports increase. However, the implementation of economic measures that had taken to the stabilization in July of 1994 (the Real Plan) and
the subsequent growth of the country’s internal demand for products and services, had led to the inevitable and gradual degradation of the trade balance. This was despite the trend of nominal export growth up to 1997, which was due to the increasing in the prices of the main primary products exported by Brazil (the exports totalized USS 43.5 billion in 1994 and USS 53 billion in 1997). On the other hand, the exports increase that happened was just a marginal one, as we can conclude when analyzing Brazil’s steady share in the world’s total exports and domestic GDP.

Moreover, the first years of the 1990s showed the weakness of the sustainability of Brazil’s exports growth. This was due to the high share of primary products and commodities on Brazil’s exports and the high exposure to a depreciation of international commodities prices, intensified during the period of 1998 through 2001. In those years, some of Brazil’s exports were strongly affected by the Russian and Asian crises, and by the decrease of the Latin American countries’ consumption, traditionally great purchasers of Brazil’s products.

In 1999, Brazil’s macroeconomic fundamentals became unsustainable, due to the decrease in exports, the persistent drop of the commodities’ international prices, the bad performance of industrialized goods exports to Latin America, and the uncertainties caused by the exchange rate depreciation of January 1999.

Source: Brazil’s Central Bank – BACEN.
The small share of Brazil’s exports compared to world exports is evident, as can be seen from the export coefficient in the graph below. We can also confirm how closed the economy is when comparing Brazil’s exports performance against other countries. In fact, in 2001 the exports represented 11% of Brazil’s GDP, compared to 29% in Chile, 23% in China, 36% in Korea, 26% in Mexico, 101% in Malaysia, 25% in South Africa, 27% in France, 22% in Italy and 18% in the United Kingdom.

Source: Brazil’s Central Bank – BACEN.

Despite the efforts to increase Brazil’s exports, mainly in the higher value added products niche, certainly the currency depreciations of 1999 and 2002 were crucial factors boosting exports, in addition to the low economic growth of 2002 and 2003.
Brazil’s Trade Balance 1980-2003

Brazil’s Trade Balance 1980-2003 (Nominal)

<table>
<thead>
<tr>
<th></th>
<th>Brazil’s Exports (FOB)</th>
<th>Brazil’s Imports (FOB)</th>
<th>Brazil’s Trade Balance (FOB)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ bi (Nominal)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>25.6</td>
<td>13.2</td>
<td>12.5</td>
</tr>
<tr>
<td>1986</td>
<td>22.3</td>
<td>14.0</td>
<td>8.3</td>
</tr>
<tr>
<td>1987</td>
<td>26.2</td>
<td>15.1</td>
<td>11.2</td>
</tr>
<tr>
<td>1988</td>
<td>33.8</td>
<td>14.6</td>
<td>19.2</td>
</tr>
<tr>
<td>1989</td>
<td>34.4</td>
<td>18.3</td>
<td>16.1</td>
</tr>
<tr>
<td>1990</td>
<td>31.4</td>
<td>20.7</td>
<td>10.8</td>
</tr>
<tr>
<td>1991</td>
<td>31.6</td>
<td>21.0</td>
<td>10.6</td>
</tr>
<tr>
<td>1992</td>
<td>35.8</td>
<td>20.6</td>
<td>15.2</td>
</tr>
<tr>
<td>1993</td>
<td>38.6</td>
<td>25.3</td>
<td>13.3</td>
</tr>
<tr>
<td>1994</td>
<td>43.5</td>
<td>33.1</td>
<td>10.5</td>
</tr>
<tr>
<td>1995</td>
<td>46.5</td>
<td>49.8</td>
<td>-3.3</td>
</tr>
<tr>
<td>1996</td>
<td>47.7</td>
<td>53.3</td>
<td>-5.6</td>
</tr>
<tr>
<td>1997</td>
<td>53.0</td>
<td>59.7</td>
<td>-6.8</td>
</tr>
<tr>
<td>1998</td>
<td>51.1</td>
<td>57.7</td>
<td>-6.6</td>
</tr>
<tr>
<td>1999</td>
<td>48.0</td>
<td>49.3</td>
<td>-1.3</td>
</tr>
<tr>
<td>2000</td>
<td>55.1</td>
<td>55.8</td>
<td>-0.7</td>
</tr>
<tr>
<td>2001</td>
<td>58.2</td>
<td>55.6</td>
<td>2.6</td>
</tr>
<tr>
<td>2002</td>
<td>60.4</td>
<td>47.2</td>
<td>13.1</td>
</tr>
<tr>
<td>2003</td>
<td>73.0</td>
<td>48.2</td>
<td>24.8</td>
</tr>
</tbody>
</table>

Source: Brazil’s Central Bank – BACEN.
3.3. Year 2003: the Beginning of a Virtuous Period for Brazilian Exports?

The numbers of Brazil’s trade balance in 2003 at a first glance are very impressive, totaling a US$ 24 billion trade surplus. Average prices of the exported products maintained the recovery path initiated in January of 2003, with an average increase of 20% on Brazil’s main commodities. This positive performance can also be explained by the partial recovery of the exports to Argentina, after the strong drop of 2002, and by the great dynamism of new markets such as China, becoming important to Brazil’s exports.

Nevertheless, one cannot fail to take into consideration the structural reality of Brazil’s foreign trade. In 2003, according to data produced by the foundation for trade studies - FUNCEX - more than half of the expressive trade balance improvement came in sectors with low international dynamism (small global market demand growth). Furthermore, more than 80% of this growth came from sectors that are systematically losing shares in total world-wide exports, or are experiencing declining market shares in the world-wide trade
arena. In fact, there is an increasing perception in Brazil that an increase in the country’s GDP could significantly reduce Brazil’s trade surplus built in last the two years.

<table>
<thead>
<tr>
<th></th>
<th>Brazil’s Exports (FOB)</th>
<th>Brazil’s Imports (FOB)</th>
<th>Brazil’s Trade Balance (FOB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan/2003</td>
<td>4,81</td>
<td>3,65</td>
<td>1,16</td>
</tr>
<tr>
<td>Feb/2003</td>
<td>5,00</td>
<td>3,89</td>
<td>1,12</td>
</tr>
<tr>
<td>Mar/2003</td>
<td>5,24</td>
<td>3,70</td>
<td>1,54</td>
</tr>
<tr>
<td>April/2003</td>
<td>5,71</td>
<td>3,99</td>
<td>1,72</td>
</tr>
<tr>
<td>Mai/2003</td>
<td>6,37</td>
<td>3,86</td>
<td>2,51</td>
</tr>
<tr>
<td>June/2003</td>
<td>5,87</td>
<td>3,52</td>
<td>2,36</td>
</tr>
<tr>
<td>July/2003</td>
<td>6,11</td>
<td>4,05</td>
<td>2,06</td>
</tr>
<tr>
<td>Aug/2003</td>
<td>6,40</td>
<td>3,73</td>
<td>2,67</td>
</tr>
<tr>
<td>Sep/2003</td>
<td>7,28</td>
<td>4,61</td>
<td>2,67</td>
</tr>
<tr>
<td>Oct/2003</td>
<td>7,56</td>
<td>5,02</td>
<td>2,54</td>
</tr>
<tr>
<td>Nov/2003</td>
<td>5,98</td>
<td>4,24</td>
<td>1,73</td>
</tr>
<tr>
<td>Dec/2003</td>
<td>6,74</td>
<td>3,98</td>
<td>2,75</td>
</tr>
<tr>
<td>Year 2003</td>
<td>73,08</td>
<td>48,26</td>
<td>24,82</td>
</tr>
</tbody>
</table>

Source: Boletim FUNCEX de Comércio exterior – www.funcex.com.br

The main diagnosis that stands out is Brazil’s strong grow restriction coming from foreign accounts financing. It is possible that an economic recovery could impact significantly the trade surplus and generate a current account deficit. This will indeed impose increasing difficulties to cover foreign debt commitments, mainly if we consider the recent strong drop in foreign direct investments. They has indeed played a crucial role in financing the current account during the first years of the REAL Plan. The export sector plays, thus, preponderant position in sustaining the country economic growth and stability.

3.4. Brazil’s Export Base

Brazil’s insufficient trade performance is also associated to an excessively narrow export base. In fact, comparing to other countries, Brazil’s performance corroborates this diagnosis. According to the ITC (2000) - "Redefining Trade Promotion: ITC/UNCTAD/WTO ", the Brazilian economy combines two main deficiencies: a narrow exporting base, and companies with low propensity to export. Some countries can compensate a low average of exports by companies with a high number of exporting companies, as Mexico. Others compensate a low number of exporting companies with a
high average of exports by company, as Ireland. For Brazil, the situation becomes uncomfortable, with a low number of exporting companies and at the same time, low average exports.

From 1990 to 2001, the number of effective export companies duplicated in Brazil, going from a total of 8,537 companies in 1990, to 16,821 in 2001, accordingly to FUNCEX. In this same period, an average of 3,350 new companies entered each year the country export base, meaning that between ¼ and 1/5 of the exporting base was composed by companies who had made its debut as exporters. These companies contributed, in average, to 2% of Brazil’s annual exports.

From this same data, we can conclude that 2,600 companies left Brazil’s export base every year. The possible causes for this behavior are the presence of sporadically or opportunistic exporting companies, with an export activity not fully rooted in their corporate strategy, or they are just profiting from a short term exporting opportunity. We have also to consider that debut companies in the export sector faces difficulties related to new market access, competitors information, inadequate managerial skills and organizational resources.

Furthermore, accordingly to FUNCEX, Brazil’s exporting base represented in 2000 less that 0,7% of its domestic productive base. It means that less than 1% of the companies established in the country are exporting in fact. Any commercial policy that intends to expand the country exports must necessarily aim at an exporting base expansion.

3.5. Foreign Trade Role in Brazil’s Economic Stabilization

One of the most relevant ways to measure Brazil’s external vulnerability is looking at its current account balance. It includes the transactions of goods and services, (tourism, freights, insurances, etc), incomes (payments of interests, transferences of shares and profits) and donations. When the country has a strong economic growth, the imports of industrial goods, as machineries and capital goods, tends to increase the current transactions deficit. The deficit is financed by the inflow of foreign direct investments or loans. The country becomes, thus, a consumer of foreign savings.
However, even though the high current account deficits is a consequence to an economical growth effort, it also indicates a high vulnerability to international financial markets condition. In periods of great international financing liquidity, a current account deficit can easily be financed. But market conditions can change very fast. International liquidity can decrease very fast and investors can become risk adverse. This happened in Brazil in 1999, resulting in the Real currency depreciation, at a high cost to the economy.

Indeed, the increasing trade deficit observed during the Real Plan was one of the main sources of Brazil’s currency instability. The Brazilian economy needed increasing foreign capital to finance its current account deficit. It became evident how unsustainable was its macroeconomic fundamentals.

Brazil’s trade balance, besides contributing to the current accounts surplus in 2003, counterbalanced the strong retraction verified in the domestic market in 2001 and 2002. It plays indeed a crucial role in stabilizing the economy. The small growth of Brazil’s GDP in 2002 and 2003 would be even worst without the export sector strong performance.

### 3.5.1. Balance of Payments

The current account deficit reached US$ 7.6 billion in 2002. In 2003 there was a surplus of US$ 4 billion, representing a strong adjustment to previous years deficits greater than US$ 20 billion. The trade balance surplus of US$ 13.1 billion in 2002 and 24.8 billion in 2003 shows, in a superficial analysis, the vigor of Brazil’s economy and how fast it adjusted to new internal and external scenarios.

Nevertheless, there was a strong drop in foreign direct investments in 2001 to 2003. As consequence, it was necessary to adjust the external accounts through strong trade balance surplus. This was exactly what happened in 2002 and 2003 with records high in Brazil’s exports, reaching US$ 60 billion in 2002 and US$ 73 billions in 2003. Last year, for the first time in many years, Brazil reached a current account surplus.
Brazil’s Balance of Payment 1995-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-23,502.14</td>
<td>-30,452.27</td>
<td>-33,415.90</td>
<td>-25,334.81</td>
<td>-24,224.48</td>
<td>-23,214.60</td>
<td>-7,693.28</td>
<td>4,051.30</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>46,506.31</td>
<td>52,994.30</td>
<td>51,139.90</td>
<td>48,011.40</td>
<td>55,085.60</td>
<td>58,222.60</td>
<td>60,361.80</td>
<td>73,084.10</td>
<td></td>
</tr>
<tr>
<td><strong>Trade Balance</strong></td>
<td>-3,465.60</td>
<td>-6,752.90</td>
<td>-6,574.50</td>
<td>-1,198.90</td>
<td>-697.70</td>
<td>2,650.40</td>
<td>13,145.70</td>
<td>24,824.51</td>
<td></td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>-7,482.95</td>
<td>-10,646.03</td>
<td>-10,110.52</td>
<td>-6,976.91</td>
<td>-7,162.03</td>
<td>-7,759.31</td>
<td>-5,038.25</td>
<td>-5,078.70</td>
<td></td>
</tr>
<tr>
<td>Income Balance</td>
<td>-11,057.56</td>
<td>-14,876.25</td>
<td>-18,188.87</td>
<td>-17,885.82</td>
<td>-17,943.21</td>
<td>-18,190.55</td>
<td>-18,552.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unilateral Transfers</td>
<td>3,622.41</td>
<td>2,446.48</td>
<td>1,822.91</td>
<td>1,457.99</td>
<td>1,689.40</td>
<td>1,521.07</td>
<td>2,389.82</td>
<td>2,866.59</td>
<td></td>
</tr>
<tr>
<td><strong>Financial &amp; Cap. Account</strong></td>
<td>29,095.45</td>
<td>25,800.34</td>
<td>17,319.14</td>
<td>19,325.80</td>
<td>27,052.10</td>
<td>8,808.25</td>
<td>5,543.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Account</td>
<td>351.69</td>
<td>453.83</td>
<td>392.60</td>
<td>320.43</td>
<td>337.73</td>
<td>272.50</td>
<td>-35.97</td>
<td>432.96</td>
<td>498.19</td>
</tr>
<tr>
<td><strong>Financial Account</strong></td>
<td>28,743.77</td>
<td>25,407.74</td>
<td>29,381.23</td>
<td>16,981.41</td>
<td>19,853.30</td>
<td>27,088.07</td>
<td>8,375.29</td>
<td>5,044.90</td>
<td></td>
</tr>
<tr>
<td>Direct Investment Balance</td>
<td>3,309.48</td>
<td>17,877.37</td>
<td>26,001.60</td>
<td>26,888.02</td>
<td>30,497.65</td>
<td>24,714.94</td>
<td>14,084.10</td>
<td>9,894.20</td>
<td></td>
</tr>
<tr>
<td>Direct Foreign Investment</td>
<td>4,405.12</td>
<td>18,992.93</td>
<td>28,855.61</td>
<td>28,578.43</td>
<td>32,779.24</td>
<td>22,457.35</td>
<td>16,866.20</td>
<td>10,143.50</td>
<td></td>
</tr>
<tr>
<td>Direct Brazilian Investment</td>
<td>-1,095.64</td>
<td>-1,115.56</td>
<td>-2,854.01</td>
<td>-1,690.41</td>
<td>-2,281.59</td>
<td>2,257.59</td>
<td>-2,482.11</td>
<td>-249.30</td>
<td></td>
</tr>
<tr>
<td>Portfolio Investment Balance</td>
<td>9,216.79</td>
<td>12,615.57</td>
<td>18,124.97</td>
<td>3,801.56</td>
<td>6,955.06</td>
<td>76.99</td>
<td>-5,118.57</td>
<td>5,307.50</td>
<td></td>
</tr>
<tr>
<td>Other Investment Balance</td>
<td>16,200.03</td>
<td>672.96</td>
<td>-4,832.58</td>
<td>-14,285.50</td>
<td>-13,620.03</td>
<td>2,767.16</td>
<td>-234.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net errors &amp; Omissions</td>
<td>2,207.16</td>
<td>-1,799.89</td>
<td>-3,255.24</td>
<td>-4,255.96</td>
<td>193.60</td>
<td>2,637.07</td>
<td>-530.97</td>
<td>-812.88</td>
<td>-1,098.80</td>
</tr>
<tr>
<td><strong>Results (Reserves Variation)</strong></td>
<td>-12,918.90</td>
<td>-8,666.10</td>
<td>7,907.16</td>
<td>7,970.21</td>
<td>7,822.04</td>
<td>2,261.65</td>
<td>-3,306.60</td>
<td>-302.09</td>
<td>-8,495.70</td>
</tr>
</tbody>
</table>

Source: Brazil’s Central Bank

Obs: (Other Investment Balance: represents the sum of the net assets values and commercial credits liabilities, loans and financings, currency and deposits and other short and long term assets and liabilities. It accounts for other Brazilian investments and other foreign investments - It represents loans amortizations).
As it can be seen from the table above, the main external accounts indicate the continuity of the adjustment coming from the strong currency depreciation of 2002. However, the adjustment also seems to clearly indicate that the external accounts remain fragile, mainly the persistent drop in foreign direct investments.

The 2002 and 2003 reversion does not represent a structural transformation of Brazil’s foreign accounts, as well as it does not indicate a new exporting culture established in the country. Despite the strong external adjustment, Brazil’s balance of payments figures could also indicate a fragility of Brazil’s economic fundamentals. Indeed, the strong growth in exports was due to Brazil’s private sector decision to export the production that normally would be directed to the domestic market, representing an internal idleness export. In fact, the export expansion is positively correlated to Brazil’s economic slowdown. It means that an increase in Brazil’s GDP could impact the country capability to cover its foreign debt commitments.

### 3.5.2. Direct Investment and Trade Balance Issue

Brazil’s net inflow of FDI in 2002 totaled US$ 14 billion, with a strong reduction regarding 2001, when it reached US$ 24.7 billion. In 2003, the figures reached US$ 9.9 billion, deepening the negative trend. This retraction is explained part from the increase of Brazilian investments abroad and part from a reduction of FDI in Brazil, going from US$ 22 billion in 2001, to US$ 16.5 billion in 2002 and US$ 10 billion in 2003.

### Brazil’s Financial Account 1995-2002 (Nominal)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Balance</td>
<td>-5,599.10</td>
<td>-6,752.90</td>
<td>-6,574.50</td>
<td>-1,198.90</td>
<td>-697.70</td>
<td>2,650.0</td>
<td>13,145.70</td>
<td>24,820.00</td>
</tr>
<tr>
<td>Direct Investment Balance</td>
<td>11,260.75</td>
<td>17,877.37</td>
<td>26,001.60</td>
<td>26,888.02</td>
<td>30,497.65</td>
<td>24,714.94</td>
<td>14,084.10</td>
<td>9,994.2</td>
</tr>
<tr>
<td>Direct Foreign Investment</td>
<td>10,791.69</td>
<td>18,992.93</td>
<td>28,855.61</td>
<td>28,578.43</td>
<td>32,779.24</td>
<td>22,457.35</td>
<td>16,566.20</td>
<td>10,143.5</td>
</tr>
<tr>
<td>Direct Brazilian Investment</td>
<td>469.06</td>
<td>-1,115.56</td>
<td>-2,854.01</td>
<td>-1,690.41</td>
<td>-2,281.59</td>
<td>2,257.59</td>
<td>-2,482.11</td>
<td>-249.3</td>
</tr>
</tbody>
</table>

Source: Brazil’s Central Bank
It is important to understand that a trade policy based in short-term perspectives (due to the immediate urgency coming from the external financing needs) can impact Brazil’s opportunity to efficiently structure its productive base towards foreign markets. A sound strategy can go beyond foreign currency generation, and impact the whole economy efficiency.

It is evident that an international insertion of Brazil’s industrial structure will not only reduce its fragility to international liquidity shocks, but will also expose the internal sector to foreign competition. It can indeed induce the improvement of Brazilian companies’ product quality and flexibility towards changes in the international standards of consumption. Furthermore, the export sector development could reduce Brazil’s economic vulnerability to foreign capital.

However, historical evidences indicate that trade policy in Brazil has always been a contingency strategy, without a long term planning, and induced by foreign financing crisis. When international liquidity was positive towards Brazil, international trade was relegated to a secondary position. This was evident during the second half of the 1990s. The end of this international liquidity cycle and the increasing risk aversion from international investors, impacted strongly Brazil’s capability to cover its debt commitments. The only alternative was to rely on multilateral financing organisms and to produce trade balance surplus. Emergencial measures were then implemented without the necessary reorganization of Brazil’s export sector, possibly undermining its long term growth potential.
Furthermore, Brazil’s international competitiveness is concentrated in products with low unitary value, intensive in natural resources and energy. This is the case for cellulose, concentrated orange juice, processed derivatives of soy and minerals. Those sectors were responsible for an important share of Brazil’s trade surplus in the last two years.

Nevertheless, this scenario is not comfortable for Brazil, because the external markets for its main national products are very sensible to worldwide economy conditions. The demand for these products does not grow in the same ratio as the worldwide income. Furthermore, Brazilian exporting companies have little power to influence international markets prices for commodities. The result is that, although this significant increase in the exports volume in 2002 and 2003, the share of Brazil in the world’s exports revenue has decreased or kept at a very low level, around 1%, during the last years.

Source: Brazil’s Central Bank
Brazilian Export Price Index (1996 = Base Year)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
<td>Semi manufactured</td>
<td>Manufactured</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>92</td>
<td>115</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>108</td>
<td>99</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>90</td>
<td>90</td>
<td>97</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>77</td>
<td>77</td>
<td>87</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>74</td>
<td>88</td>
<td>88</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>68</td>
<td>78</td>
<td>88</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: FUNCEX

Brazil’s economic authorities’ dilemma is how to conciliate a reduction of external vulnerability to an expansion of the national economy. The fact is that Brazil needs a new strategy for its international insertion that would make possible current accounts financing without increasing the country’s external vulnerability. Brazil’s trade policy has to be part of a long term sustainable development strategy, and not be conceived as a contingency response to short term financing crises.

4. Brazil’s Trade Policy Institutional Organization

Following what has been described along this paper, the institutional structure inefficiency of Brazil’s federal government plays preponderant role in public policies success. It explains particularly the confused and erratic performance of the trade policy implemented. In fact, it is common to observe numerous instances with responsibilities to formulate and implement trade policy, several government entities with too broad responsibilities, and discoordination among public agencies and between the private and public sector.

The historical experience demonstrates that trade policy has traditionally been a contingent solution in Brazil. Foreign markets were prioritized during balance of payments crisis. Trade has not been part of the government long term planning, supported by a sound and well coordinated institutional organization. In consequence, public policies were designed randomly across the government structure. Over the years, it has produced high
discoordination of actions, duplicity of organizational structures, and conflicts of authority. All of that with a considerable waste of valuable financial and human resources, a part from lack of efficiency and effectiveness.

Brazil’s trade policy institutionalization had a very slow and difficult evolution along the last two decades. But the national economic environment evolved fast and new international economic paradigma have emerged, producing new ways to formulate and to manage public policies. With this in mind, this chapter will analyze the different foreign trade institutional models adopted in Brazil, describing the possible existing disfunctionalities and inefficiencies.

4.1. Path Towards Trade Liberalization

Brazil’s economic history has been influenced by foreign trade patterns and policies. Before World War II, the country’s exports boom of agricultural products played a major role in its development. An infant industrialized country appeared in the following decades, where the development was oriented through import substitution policies. Brazil became then one of the closest economies of Latin American. But in the 1990’s, Brazil shifted to a more opened economy, with direct impacts to its institutional organization, especially the way foreign trade was conducted at the federal government level.

Certainly the government intervention in foreign trade has long history in Brazil. The country’s industrialization was supported by protectionist policies towards domestic industries looking for protection against more competitive foreign corporations. Additionally to the investments incentives policies, trade protectionism was the pillar of Brazil’s industrial policy implanted after the 1960s. From 1970 on, a set of other policies have been implemented to promote foreign trade, mainly tax and credit incentives to big corporations.

According to Peter M. Veiga, in he’s study “The institutionalization of the Brazilian trade policy”, (BNDES, Seminar "The Brazilian Trade Policy" - april/2002), the existing instruments of trade policy in Brazil during the 1960s and 1970s were, essentially, based in
a "sectorial logic". For this reason, the structure of functioning of all the governmental bodies responsible for conducting the industrial and trade policy were based on industrial or economical sectors and sub sectors. This form of organization was clearly in place at the Industrial Development Counsel - CDI, and at the foreign trade department of the Bank of Brazil – CACEX. In those structures, the mechanisms of communication between the public and private sectors followed the same sectorial logic. It was the case during the trade talks that involved the textiles and steel export associations. Furthermore, in the 1970s it was also common the existence of a lack of transparency when implementing public policies, and an informal relation between the public and private sector.

Likewise, trade negotiations were also based in the same sectorial functioning logic. In fact, at the intra-sectorial agreements discussions at the Latin American Integration Association (ALADI), companies and corporate associations had active role in the trade agreements negotiation process. Equally present was the sectorialist logic at the consultation process between the public sector and private agents when bilateral subjects of interest of specific enterprises were discussed. That was the case for the textile sector.

During the 1980s, Brazil’s faced a strong macroeconomic crisis. Beyond the consequent economic and social effects, the crisis paralyzed the foreign trade negotiations that were in course, mainly at the scope of ALADI. This impacted the state capacity to implement industrial and trade policies. Furthermore, it affected negatively the institutional mechanisms of communication and articulation between the state and the private sector. There was also a considerable break up in the state and the private sector coordination and negotiation capacity.

In this period, the public agency that withheld the power to lead Brazil’s trade policy was CACEX. It had unique institutional characteristics, because it was formally subordinated to the Finance Ministry (was part of Bank of Brazil), and while being the high body of the Foreign Trade Counsel - CONCEX, it was under the responsibility of the Ministry of the Industry and Trade - MIC, a part from its director being chosen by the President.
This institutional particularity of CACEX increased enormously its capacity of operation. It could act, as agency of Bank of Brazil, as a provider of export financing instruments. CACEX capacity to act and decide was due to its broad influence and relationship with other entities of the federal government. Furthermore, it had also a board member position at Bank of Brazil’s trading company board of directors, the so called Brazilian Company of Commercial Warehouses (COBEC).

In fact, CACEX was an example of public organization success in Brazil’s state expansionism period. It acted simultaneously as regulator and operator, providing financial resources, managing incentives, promoting exports and trading directly Brazilian goods. Its enormous operational capacity was also due to its high degree of financial capacity compared to other government organizations.

CACEX was ended by the President Collor Administration in 1990, together with a set of economical liberalization measures aiming at the elimination of several import restrictive measures. In this same period, the state apparatus went through an ample reorganization, including the creation of the Ministry of the Economy and Planning that withheld the responsibilities to formulate and to execute Brazil’s industrial and trade policies.

In 1992, at the President Itamar Franco Administration, trade policy organization structure that existed before 1990 was recreated. It included a gradual displacement to the Ministry of the Industry, Trade and Tourism (MICT) the leadership of Brazil’s trade policymaking process. Later in 1998, MICT was renamed as Ministry of Development, Industry and Foreign Trade (MDIC), and concentrated the operational and normative responsibilities regarding trade policy, leaving to the Ministry of Finance, tax and tariffs attributions.

4.2. Brazil’s Trade Policy process in Recent Years: New Focus on Expanding Exports

In the President Fernando Enrique Cardoso administration, a new initiative to create a coordinated action regarding foreign trade at the federal branch emerged. It included the creation of the Foreign Chamber of Commerce of the Presidency of the Republic, the CAMEX, in 1995. Moreover, there was, in the same period, an attempt to reorganize the
export public financial, guarantee and promotion instruments, endowing Brazil’s state with new institutional arrangements. Finally, during the second half of the 1990’s, new forms of relationship between the state and the private sector emerged from the increasing importance of trade negotiations.

Since late 1990’s, Brazil’s trade policy managers perceived that any significant jump in the volume of the Brazilian exports could not occur without a better coordination of trade actions. The intention was to overcome the institutional problems resulting from the break up of the decision instances at the federal government level. There was also a clear intention to increase the coordination between the different public and private entities involved in trade.

CAMEX creation was intended to develop a long term foreign trade strategy. As integrant agency of the Government Advice Committee, it has the objective to formulate, adopt, implement, and coordinate issues related to foreign trade, including tourism. CAMEX was integrated by the Minister of Development, Industry and Foreign Trade, as president; the Ministers Head of the Civil House; of Finance; of Planning, Budget and Management; of Foreign affairs; and of Agriculture.

At the present time, its responsibilities are defined by the Decree nº 4,732, of 10 of June of 2003. It includes the definition of basic orientations and procedures regarding foreign trade policies implementation. There is also a clear objective to increase Brazil’s competitive insertion in the international economy, and to coordinate and guide all agencies responsible for foreign trade issues.

CAMEX institutional structure is organized by a cabinet composed by the following state Ministers: as president, the Development, industry and Foreign Trade Ministry, and the ministries of Foreign Affairs, Finance, Agriculture, Cattle and Supplying; Planning, Budget and Management; and The Head of the Civil House of the Presidency of the Republic. There are also an Executive Committee of Management, a Consulting Board of Private Sector - CONEX, and an Executive-Secretariat.
CAMEX has an advisory purpose, and has not an executive one. It is in fact an instrument of coordination and discussion regarding foreign trade policy, setting direction. It is an instrument of dialogue between the public and private sectors. Operationally, each ministry keeps its own responsibility to formulate trade policies. However, it is important to notice that in 1998, the minister of MDIC became president of CAMEX, at the same time where it became responsible for the agency executive-secretariat, generating a clear institutional ambiguity. In fact, CAMEX is simultaneously a collegiate advice of state ministers, and an agency whose executive secretariat is part of MDIC institutional organization, subordinating itself, therefore, to this ministry.

In the last years one can distinguished some very important policies implemented in Brazil regarding foreign trade, as the Special Program of Exports, launched in 1998. Its objective was to duplicate the country’s exports before 2002. However, this too optimistic goal, the lack of a real political will, and the lack of sound public management practices to implement the program undermined its operations and results.

Furthermore, CAMEX is responsible to define the broad trade policy directives and to guide the sectorial policies. The sectorial ministries have the attribution to define the sectorial norms, operational procedures, customs policies, and financial and insurance instruments. In 2001, a new decree established that CAMEX had to be consulted concerning any issue related to foreign trade.

Regarding trade promotion, historically the implementation was carry out by the Secretariat of Foreign Trade of the MDIC and by the Department of Trade Promotion of the Foreign Relations Ministry - MRE, including the embassies and Brazilian consulates abroad. This model of state organization was very inefficient in terms of performance, producing duplicity of functions between the different agencies.

In this context, in 1997 the Agency of Trade Promotion - APEX was established in the scope of the Brazilian Micro and Small Business Support Service – SEBRAE. Its objectives were to implement policies to boost Brazil’s exports, and to support small and medium enterprises. Its attributions were directly related to trade promotion, but also to all the issues
affecting export procedures, including policies geared at the increase of the number of small companies actively exporting.

One of the most common critics regarding APEX was related to the fact that it was financed by SEBRAE and its most senior executive was indicated by CAMEX’s president, and consequently by MDIC. The problem came from the difficult to approve any project to support companies willing to export. In fact, the process was very long and time consuming, with enormous inefficiencies.

Another important element of Brazil’s foreign trade assessment is the role played by the export financing instruments. Until the end of the 1980s, those instruments had an important role in the exports intersectorial diversification. However, the costs involved were very much questioned, mainly the sectorial concentration, in its majority granted to very big companies. There was also a lack of adequate management mechanisms of credit risk, blocking the financings access to smaller and riskier companies.

In the 1990s, the public export financing system was reorganized. The National Development Bank - BNDES and Finamex reintroduced a system of interest rate equalization, guided to industrial goods financing. With last years budgetary reinforcement, these financing and guarantee mechanisms had endowed Brazil with more diversified export financing instruments. In 1997 it was also created a credit insurance company, mainly private owned, and a fund structured to support projects related to increase the competitiveness of smaller size companies.

The current system of export financing is highly concentrated in a small group of big exporting companies, and in few industrial sectors. Those companies are exporting mainly to Latin American markets. There is also an emphasis given to the development of guarantee instruments as a way to extend the access of smaller companies to foreign markets. Furthermore, BNDES is the main source of financing resources.

From 1998 on, some events, as the priority "to export or to die" granted by the Brazilian government to the country’s export effort, and the intensification of FTAA negotiations,
had generated a significant change in the management of Brazil’s trade policy. Indeed, the
importance of negotiations in the trade policy agenda was enormously extended, redefining,
in turn, the private sector style of acting and the interlocution form between these and the
government.

In the case of the FTAA, the private sector had a strong and increasing participation in the
process of negotiation in course. At the public sector, it was created a new National
Secretariat of the FTAA at the Foreign Affairs Ministry, whose objective was to be a forum
of discussion of trade agreements of the economic block, and an instrument of coordination
and structuring of a national position regarding the subjects in question. Equally important
was the gradual and increasing relevance of workers unions and corporate associations in
the process of negotiating trade agreements.

The increasing importance of negotiation issues in Brazil’s trade agenda is inducing an
erosion of the Foreign Affairs Ministry monopoly as foreign trade policy maker. Other
government agencies got new responsibilities and there was an intensified pressure for
access of private sectors in the overall foreign trade policy scenario. As M. Veiga (2002)
well describes, "from a perspective, new mechanisms of intergovernmental consultation
were created, and new actors - the private sector and syndicalism representations - entered
the system". It is a change that in its essence benefits the participation of multisectorial or
horizontal entities of interests’ representation.

4.3. Evaluating Brazil’s Practices: Institutional Structure and International
Insertion Strategy

When evaluating the recent policies implemented in Brazil regarding trade, there are
outstanding changes over the last decades. There was a shift from an institutional model
that concentrated very diverse attributions in a single agency, as CACEX, to a more
complex and confused one, with great dispersion of attributions and concurrent
jurisdictions between different public entities.

It is important to understand which factors explain the problems related to formulation and
implementation actions at the executive branch, and why the effort did not delivered the
expected sustainable export growth. Several analyses and diagnoses have been carried out through recent years on how trade policy has been managed in Brazil, and the following aspects stand out:

- The logic of a more efficient performance of Brazil’s state, centered in a regulative way of thinking and with a non protective interlocution with the private sector, is still not supported by a corresponding organizational structure,

- There is a perception spread out among academics and specialists of Brazil’s trade policy institutional organization, that MDIC has difficulties to surpass the sectorialist tradition of drawing and implement trade policies. It has difficulties to expand its objectives and skills to new areas that are gaining each day more importance at the international trade negotiation agenda, as e-commerce and services,

- There is no convergent agreement inside the executive branch about the importance of foreign trade for the overall country development strategy. The consequence are mistaken diagnoses and conflicting initiatives at the government agencies level, and serious problems of coordination of actions producing waste of financial and human resources,

- The current institutional model has among its main fragilities the fact that trade policy usually competes with others government policies for priority status. This is particularly the case for fiscal adjustment policy, widely valued by the economic sector of the federal government. This scenario discourages innovative initiatives of institutional organization, mainly if they have short term negative fiscal impact,

- The development of new international trade agreements negotiations imposes an increasing necessity to well manage and coordinate the federal government policies. However, any effort that optimizes the government management finds strong barriers to be overcome due to the low internal consensus at the executive branch level on how trade policy is crucial and strategic to the country.
As we have seen, among the several analyses and diagnoses produced in recent years regarding Brazil’s export sector, some are of enormous relevance for Brazil’s trade policy institutionalization, and corroborate the described weak points in the beginning of this chapter. It is observed that CAMEX faces some problems of coordination in reason of its institutional ambiguity status, producing institutional instability and limitations in its decision making ability.

Moreover, the institutions responsible for trade financing implementation -BNDES, Bank of Brazil and Regional banks - face problems of low coordination between public agents. There are also weak articulation with the Agency of Promotion of Exports – APEX’s promotion policies, and lack of decision effectiveness in reason of conflicts between the commercial and political logic that characterizes state owned banks. At the negotiating instance of the federal government, of responsibility of MRE and MDIC, there are permanent lack of negotiating staff, and weak institutionalization of civil society interlocution. Trade promotion, in turn, lead by APEX, MDIC and MRE, faces problems related to institutional instability and existence of precarious instruments of policy evaluation.

In fact, there are several ministries with attributions related to foreign trade (Ministry of Development, Economy, Foreign affairs, Agriculture, Cattle and Supplying, Planning, and Science and Technology). Each one has enormous amount of agencies acting in a discoordinating way, competing for scarce resources, and structured in different management logics (by factors of production, by sectors of the economy, etc). Hence, it is not uncommon the existence of dispersion of attributions, low coordination and competition between hierarchies.

A part from the institutional problem inducing a structural disfunctioning of the public sector, the export supporting measures are based on old principles of international trade. They are conceived aiming at the export sector as a whole, not differentiating the type of products or consuming markets. Those policies are the traditional instruments of trade agreements celebration, promotional events, and measures directed toward the
simplification of export paper workings. They do not respond anymore to modern sophisticated trade issues, like copyright, investments and services. Indeed, Brazil’s international insertion strategy does not follow the new dynamics of modern international trade, producing policies designed to expand export volumes and to imports substitution, based on products with low aggregate value and little international market dynamism.

The current international relations scenario and Brazil’s economic fundamentals are increasing the importance to well manage trade negotiations. Thus, there is a growing perception of the importance played by Brazil’s federal government institutional structure to well manage public policies and to ensure a more competitive economy. It means that the increasing pressure for fiscal surplus generation at the federal government level and the increase of interested parties directly involved in trade issues need definitely a more efficient state.

5. A Brief Analysis on the International Trade Policy Process in the United States and Latin America

Some recurrent critics regarding Brazil's trade policy are related to its international insertion model and how the policy is institutionalized at the government level, mainly the aspects related to its design and implementation. There are some diagnoses showing lack of coordination and overlapping of attributions and functions. In fact, the obsolete and inefficient institutional organization impacts negatively public policies’ effectiveness.

Brazil’s trade policy has strong disfunctionalities: dispersion of attributions, low coordination of action, and competition between hierarchies. This is caused by a policymaking process that is not adapted to a modus operandi that favors more flexible management practices.

The following analysis of three Latin American countries and the United States will highlight some features that differentiates the policymaking process in each country, raising questions and insights to a better understanding of Brazil’s trade policymaking process.
5.1. Mexico

Mexico has experienced during the last decade an unprecedented increase in exports, hitting more than US$ 250 billion in 2003, positioning the country among the world’s top-10 export countries. This performance is explained mainly by the effects of the integration with the North American Free Trade Agreement – NAFTA, and the consequently strong presence of transnational corporation affiliates. There are other factors explaining this performance, as government export incentives, the proximity to the US market, an internal market and infrastructure development, and qualified and cheap work force.

In fact, accordingly to the study published by the Institute for the Integration of Latin America and the Caribbean (Integration and Trade Journal, N° 4-5 January-August 1998), the trade liberalization that occurred in the 1980s had a positive impact on Mexico’s economic policy redirection towards increasing non-oil exports.

Nonetheless, some aspects related to foreign trade policy suffer from the same type of disfunctionalities than other Latin-Americans countries: national strategies and programs for promoting trade are usually poorly conceived and integrated; promotion institutions lack authority and resources to design and implement their programs; lack of coordination between government agencies responsible for the promotion and regulation, lack of coordination between the government and the private sector; lack of a long-term export strategy; and little coordination between business-men.

Mexico developed several programs and incentives designed to boost its exports to an unprecedented level in its history. But it is clear that the basic factors explaining the dynamism of Mexico's international trade are the direct impact of foreign investments linked to the development of transnational companies based in the country, the known “maquiladora industry”, and the development of NAFTA. This is the main reason why Mexico’s exports are concentrated in a few companies, with a very low degree of participation of small and medium companies. In fact, some 600 large corporations tied to multinationals account for 80% of total foreign revenues.
Similarly to countries like Brazil and Argentina, Mexico still faces constraints of excess of regulation and bureaucratic processes regarding its exports. Even though, it has developed a clear and focused trade strategy, resulting in several trade arrangements with NAFTA, ALADI and the European Community. This strategy had a direct impact in the development of sound institutional structures and processes at the public sector level. It also induced the private sector to build business associations, and its participation on the trade promotion incentives design.

5.2. Chile

Chile’s experience regarding the institutionalization of the trade policy is a case of success in Latin America and brings important insights to the whole region. First of all, there is an internal consensus regarding the importance of the foreign trade as a platform for the Chilean economic development, shared by the vast majority of the society. This national consensus produced the necessary internal conditions to conduct the trade policy as a priority for the country development. There is an efficient allocation of resources, and high coordination of actions and policies. It was possible to build a more efficient institutional arrangement with fewer imperfections than what occurred in other Latin American countries.

Indeed, a plan for Chile’s competitiveness development was built for the 1998-2003 period, done by the Ministry of the Economy, widely discussed inside the Productive Development Inter-Ministerial Committee. The proposal had contributions from the private and public sectors and was aimed at the drawing of a new trade policy to be implemented before 2003, when the not compatible rules with the ones of the World Trade Organization – WTO had to be deactivated. The central idea of the Plan was to boost the competitiveness of the Chilean companies through some incentive instruments. There was also the intension to increase the country’s economy competitiveness as a whole, not only the export sector specifically. This could certainly be very successful if replicated in Brazil, reducing the well known "Brazil’s Cost". It could produce an improvement in the logistic sector, and in the tax system, among other results.
Regarding trade promotion activities, the Chilean agency of trade promotion, ProChile, restructured its functions and institutional organization. The intention was to expand the private sector participation in trade promotion activities and international negotiations, apart from supporting a more aggressive model of international insertion of Chilean companies.

In Brazil, trade policy suffers from a poor coordination between the different agencies responsible for the policy definition and those responsible for the policy implementation. The consequence is a clear dispersion of attributions at the federal government level, producing an unfocused strategy with very high inefficiency. In Chile, on the other hand, ProChile demonstrates great capacity to establish and to implement focused strategies. It is able to define specific goals and priorities, and to benefit the sectors that have the higher potential and dynamism as exporters, as the fruits, wine, and salmon product sectors.

Another aspect that enormously differentiates the Chilean trade policymaking process from Brazil is the importance that each country grants to trade negotiations in the set of the country’s trade strategy. In Chile, the improvement of negotiation skills and all other support activities are perceived as a crucial part of the overall strategy. At the organizational structure level, it has been devoted strong efforts to improve the coordination between the different ministries, because it was correctly assessed the transversality nature of trade policies. The necessity of an institutional modernization was perceived as a basic factor for the success of the country’s trade policy. There is a strong coordination between the agencies responsible for the diverse aspects that constitute a typical trade negotiation.

In fact, modern world imposes more complex trade negotiation activities, increasing the necessity to modernize the trade policymaking process. This was perfectly perceived by the Chilean authorities. In fact, with the presence of new actors in the international scene, the concept of private sector became broader to include all the civil society, as workers union, business associations, and new subjects as social security and environment.
In the same way, the orientations and objectives of modern trade policy need a new type of organizational structure at the executive branch. It is necessary higher coordination between the public and private agencies that worked accordingly to totally independent logics, according to old sectorial classification of public administration (SÁEZ, 2002). This is one of the main deficiencies of Brazil’s trade policy, inducing great dispersion of actions, conflicts of authority and overlapping of functions.

Furthermore, the new structural factors of a modern trade policy demand a new institutional framework that makes possible to build a social consensus and to legitimate trade agreements. Public hearings and more transparent practices at the government level when conduction trade negotiations to the Parliament placed Chile in a vanguard position in Latin America.

5.3. Argentina

In the opposite side o Chile, Argentina has probably one the most confused and inefficient trade policymaking process in Latin America. At the executive branch, its implementation is distributed among several agencies, with remarkable coordination deficiency. It is common to observe fierce competition among the agencies for financial, technical, human resources, and prestige, resulting in high cost and low efficiency in delivering foreign trade strategies.

There are several ministries, secretariats, and agencies directly involved in foreign trade policy, resulting in a very complex and multi-layered structure. Without a strong coordination and information sharing mechanisms it cannot work properly. And in practice, this is exactly what happens. There is indeed no formal and focused deliberative policymaking process.

The experience shows high functional overlaps, competition between government agencies, and information withholding, resulting in a management behavior that favors a dependence on personalities and leadership.
Regarding the private sector participation in the trade policymaking process, old methods of representation where not replaced by more structured ones. As result, business associations and entrepreneurs have an informal, unsystematic, and episodic participation in foreign trade negotiations.

In general, trade policy design and implementation are very fragmented at the private and public level, with poor coordination, inter-agency competition, and duplication of structures. Together with the lack of a formal channel of communication between private and public sectors, it undermines Argentina’s foreign trade policy efficiency and effectiveness. The country is at the opposite side of Chile in terms of benchmarking for policymaking process in Latin America, has several of Brazil’s main deficiencies in terms of institutional organization.

5.4. United States of America

The responsibility to develop and implement trade policy and to negotiate agreements in the United States is determined by the Constitution to the Congress and the President. In general terms the process of policymaking has very sophisticated characteristics that differentiates it from those implemented in Latin American countries.

There is a set of formal and informal array of subsidiary decision-makers, a vast number of advisors, interests, the broad court of public opinion, and the interrelation with the state and local system, supporting the federal decision-makers. Indeed, the way the process is conducted allows an unlimited range of interest to participate.

Differently from what happens in Brazil, the congress has the main role in conducting the trade policy. Three institutional spheres interact within the official policy making: the executive branch consultative process, the congressional consultative process, and the official advisory committee system. Moreover, there is an informal process of information sharing surrounding that is as important as the official one.
At the executive branch, The Office of the US Trade Representative (USTR), within the Executive Office of the President of the US, is the statutory proscribed coordinator of US trade policymaking as well as the chief US trade negotiator. Involving over 18 federal agencies, the policy development is carried out through an interagency deliberative process, including several government departments and entities: the Departments of State, Defense, Treasury, Agriculture, Commerce, Labor, Interior, Energy, CIA, the Small Business Administration, the National Security Council, and the Vice President’s Office, among others.

The consultative process has also a strong role apart from this interagency dimension. The executive branch actively requests information or opinion from the interested sector through public hearings, subsidizing its internal deliberative process.

Regarding the congressional process, several committees are involved in both the House of Representatives and the Senate. The most traditional committees in which the Congress considers and deliberates on trade and agreements are “The ways and Means Committee” in the House and the “Finance Committee” in the Senate. The work is done mainly through public hearings and written views from the interested public and stakeholders.

The third institutional sphere is the official advisory committee system. It was established by the Congress in 1974, providing information and advice regarding trade agreements processes, and other matters related to development, implementation and administration of trade policies. With NAFTA and the Uruguay Round, state and local consultative procedures were expanded to ensure that localities are informed in trade related matters directly affecting them.

In short, the US trade policy has numerous formal and informal transparent procedures of soliciting and receiving information utilized by both the executive and the congressional branches. There is also a growing process of accommodating an increasing spectrum of interests, including those of civil society.
6. Conclusions and Recommendations

The main element detaching itself in this diagnosis of the Brazilian economy’s exporting sectors is that this sector plays a crucial role in the country’s sustainable growth. In fact, in spite of the harsh economic measures adopted in 2002 and 2003, which brought about an impressive trade surplus, the expansion of the Brazilian exports is still strongly correlated to the economical downturn and exchange rate depreciation.

Brazilian foreign trade policy has always been designed as a conjuncture set of measures in response to phases of crisis in the financing of the external accounts. Nevertheless, the country is in need of a strategical view of how economic development can be achieved and sustained in the long term. It is necessary an economic development strategy where trade policy is not structured as a contingency adjustment to the needs of financing of foreign accounts, but, on the contrary, as a main strategical part of a sustainable economic development.

The almost always recurrent periods of crises in Brazil’s balance of payments explain clearly how unstable the exercise of balancing the country’s foreign accounts is. It is also a marker of how limited the adopted strategy of inserting the Brazilian economy in the international spheres is. There are different diagnoses showing the possible causes of the poor economic growth and unsatisfactory performance of Brazilian exporting sector over the last two decades, including insufficient infrastructure of logistics, inadequate volume of resources financing exports, and an extremely heavy tax structure.

To this large anti-export trend one could add a number of problems appearing in how government shapes up Brazilian trade policy, by relying on a structural organization that is not effective in leading the whole effort to coordinate actions and ultimately to succeed. There is no consensus among federal officers regarding the strategical importance that the exporting sector bears on the national economy. To say the least, this results in the erratic pattern of a number of government policies. Furthermore, this became patent in 2001 when the federal government launched the “motto” – to export or to die –. It was a reaction to another crisis of financing the country’s foreign accounts that occurred when a drastic
reduction in the volume of foreign investments prevailed. Trade policy became again, as always has been the case, a contingency policy for facing the emergency situation of rarefied traditional foreign inflow of capitals. In fact there is no enduring link between the design of the trade policy and a long term economic growth strategy.

The many diverse agencies and bodies that have been created inside the governmental machinery are a direct consequence of the vagaries of the Brazilian trade policy. These, as a matter of fact, started their activities amidst much of institutional power, only to be left almost dormant politically as soon as the emergency situation disappeared. One can clearly observe the many agencies and administrative units to which a number of functions in the area of trade policy have been attributed, but which in fact bear neither visible influence nor effective action. This also explains why there is a hierarchical line of decision with almost no transparency, most of the time confused and charged with enormous inefficiency.

The way trade policy is planned and carried out in Brazil indicates a possible short-sighted view of international trade in Brazilian spheres of government. In fact, domestic market considerations is what really impacts the orientation of national generation of products of all sorts, instead of considering the requirements of the world markets. With that, it becomes more and more difficult for the economy to create an adequate interaction with the world economy. Moreover, the negative results of a poor institutional trade policy design are producing poorly made decisions.

Whatever analysis is made of Brazil’s insertion into the world economy, it will also be necessary to consider the problems that exist in the trade policy’s implementation, and the extents of its impacts on institutional function at the government level. A political and institutional reform of Brazilian foreign trade is a matter of necessity to strengthen the exporting sector and bring about an economic growth that is well structured and sustainable for the long range.

As recommendations, I would like rather to highlight some of the main findings of this enquiry, including the very low capacity of the state apparatus to devise and formulate in a coordinated way its policies for an adequate insertion into the world economy. This become
an extremely critical factor to achieve in Brazil a sustainable economic development. It would be more convenient then, instead of developing a set of prescriptions for an institutional restructuring of Brazil’s trade policy, to understand well the intricacies of this complex matter:

- Markets do not produce automatically the necessary incentives to modify the rhythm and the way the country integrates itself into the world economy or even to overcome the impediments of a more dynamic integration between trade and growth. There is a considerable role played by public policies,

- The increasing pressure for fiscal surplus generation at the federal government level and the increase of interested parties directly involved in trade issues need definitely a more efficient state,

- It is essential to build a consensus at the government executive branch to recognize the all too important character of the exports as a permanent component of a sustainable economic development strategy. A trade policy must be developed that is not easily and suddenly affected or changed by the vagaries of financial measures adopted by merely sectorial bodies. Foreign trade policy has to be a permanent component of such a strategy, rather than a set of contingency measures for facing a conjuncture reduction in the influx of foreign financial resources,

- Reforming the institutional structure of Brazil’s foreign trade is absolutely necessary in light of the requirements of the private sector and of the country’s population in general. It must favor an upsurge of mechanisms that are capable of coordinating the different agencies and bodies responsible for the formulation and the implementation of the trade policy,

- The inescapable character of a foreign trade policy that percolates through all production factors and embraces all aspects and actors cannot be reconciled with a centralized power that concentrates decision making in a sole public agency,
Brazilian experience has also demonstrated that spreading attributions too many actors can lead to coordination problems and disfunctional results for the country’s trade policy. The different segments of the state apparatus tend to follow diverging approaches that generate miss implementation and poor management, clogging the state machine and blocking the operational effectiveness of the decisions taken at the upper management levels,

CAMEX might be a convenient body for the process of coordinating all decision making and the corresponding implementation of trade policy measures. In addition, the Ministry of Foreign Affairs should act as a coordination agent in the process of international trade negotiations. But the pervasive effects of a free-handed Ministry of Finance, with its several bodies issuing and changing rules that affect the whole economy, and the confessed vocation of the Ministry of Foreign Affairs to continue being a true formulating power of the trade policy, only strengthen the dysfunctional character of Brazil’s trade policy,

Within the present day scenario of international relations and a growing demand by the society to participate in the process of negotiating international agreements, it is indispensable that mechanisms of coordination and cross-consultation between government, the private sector and the society are spread out among the entities representing them all,

Foreign trade is to be understood not merely as a means for selling goods and services. It must also incorporate considerations of investment, technological aspects and entrepreneurial strategies, which are always interrelated,

Brazilian exporting efforts must focus on the diversification of its exporting capacity. It is necessary to prioritize high aggregate value products with increasing world wide demand, focusing on those products with an already established production capacity.
7. References


BANCO CENTRAL DO BRASIL – BACEN. www.bacen.gov.br


MINISTÉRIO DO DESENVOLVIMENTO INDÚSTRIA E COMÉRCIO EXTERIOR – MDIC. www.desenvolvimento.gov.br


THE WORLD BANK GROUP. “Global Economic Prospects 2004 - Realizing the Development Promise of the Doha Agenda”.

THE WORLD BANK GROUP. “Global economic prospects and the developing countries 2003”.

