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TRADE AND INDUSTRIAL POLICIES IN BRAZIL: PAST PERFORMANCE AND FUTURE PROSPECTS *

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ABSTRACT

This document reviews trade and industrial policies in Brazil in light of the rights and obligations of the new trading system administered by the World Trade Organization (WTO). The underlying subject of concern is the linkage between trade and development in the context of recent institutional and economic changes in the world economy.

The basic hypothesis of the paper is that domestic market variables are the major determinants of economic growth in Brazil. A dynamic foreign sector cannot replace a stagnant domestic demand. Nevertheless, export growth and diversification are necessary to provide for the foreign currency that is required to import essential goods, services and technology as well as to reduce the vulnerability of Brazilian balance of payments. In other words, export growth cannot determine domestic economic growth, but a poor performance of exports can indirectly affect domestic growth through the derived effects of current account deficits.

Growth-led exports therefore have been a more common feature of Brazilian development than export-led growth. Also, the design and implementation of trade policies in Brazil have been subordinated to domestic interests. There is evidence that the diversification of Brazilian exports at the end of the 1970s is explained by the success of import substitution policies implemented in the first decades of the post-War era. The debt crisis of the 1980s led to the contraction of the economy and of domestic investments; it was also followed by a relative decrease in the real value of exports. Currently, the fundamental components of Brazilian international competitiveness are its sophisticated industrial structure, the extent of its domestic market and its natural resource endowments.

In the late 1980s, after three decades of highly protected markets, Brazil adopted policies aimed at liberalizing its trade. The country abolished most of its non-tariff measures (quantitative restrictions), introduced substantial tariff cuts and reduced the dispersion of effective protection. However, no sustained solution was given to the historical vulnerability of the country's balance of payments, which can limit the liberalization of the economy. Conversely, the present Brazilian Government's use of the exchange rate as the "anchor" for its stabilization policies, with consequently high domestic interest rates, and an excessive dependency on short-term capital movements have raised concerns about the trade-off between short-term stability of the balance of payments and low rates of overall economic growth.

Between 1900 and 1980, Brazil presented one of the highest rates of long-term growth, even when compared with countries that had an above average performance in this century, such as Japan, Germany, Italy and the United States. Since the 1980s, however, the country's

performance has been far from satisfactory: the growth rate of the gross domestic product (GDP) fell to 2.0% per year, as compared to the historical rate of 5.5%. The per capita GDP stagnated, as compared to a growth rate of 3.0% in the preceding decades. The former Brazilian development strategy, which was quite successful in the period before the debt crisis, seems to have exhausted its possibilities. Brazil has not yet found a new successful strategy for long-term growth. Although important changes were made to adapt the economy to the new global environment, those measures were not sufficient to overcome the barriers for economic development that were imposed by the economic upheaval of the 1980s.

This document is organized as follows. The first chapter summarizes the trade and development strategies that were adopted in Brazil in the first decades of the post-World War II period.[1] The second chapter outlines the various attempts to reform trade and industrial policies by Brazilian governments from the late 1980s to the implementation of the Real Plan of stabilization. The third chapter provides a historical overview of Brazilian trade diplomacy, focusing on the negotiating positions adopted during the Uruguay Round. Chapter IV discusses the adjustment of Brazilian trade and industrial policies to the new world trading system, with emphasis on the Brazilian schedule of trade concessions at the end of the Uruguay Round. Chapter V analyses the economic and social bottlenecks that hold back endogenous growth in Brazil. Finally, Chapter VI presents some concluding remarks.

1 For additional references on Brazilian trade and development policies see Castro and Souza, 1985; Bonelli, 1991; Franco and Fritsch, 1991; Coes, 1991; Fritsch and Abreu, 1992; Guimarães, 1995.

I. TRADE POLICY AND ECONOMIC GROWTH IN BRAZIL: AN OVERVIEW

Although Brazil has a long tradition of controlling imports through high tariffs and administrative measures, it was not until the 1950s that policies were deliberately designed to affect private investment decisions and to substitute manufacturing imports with domestic production. In the preceding periods, protectionism was the unintended product of fiscal policies primarily designed to deal with a chronically unbalanced budget or large current account deficits. Tariffs were not low, but they were basically fiscal instruments to finance government expenditures.

Conservative policies prevailed in Brazil before the financial crisis of 1930. Free trade, a balanced budget, austere monetary policies and low participation by the State in economic matters were the fundamental economic principles that guided government policies in the oligarchic republic. Prior to 1945, industrialization through import substitution developed in Brazil behind a system of largely flexible exchange rates, high tariffs and minimal direct government intervention.

After 1945, overvaluation of the exchange rate became endemic, requiring closer attention to the balance of payments and allocation of imports. The war hostilities and the relative isolation of the country provided some room for the development of an incipient industrial basis in Brazil. Brazilian industrial growth was limited, however, by the restrictions that war conditions imposed on the access to capital goods, fuel and imports of some essential raw materials. The curtailment of imports led to the accumulation of large foreign currency reserves, but uncontrolled imports and inconvertibility problems exhausted those reserves only two years after the end of the war. A severe exchange rate crisis followed. The Government responded with a policy of foreign exchange rationing in which foreign currency was allocated according to a priority schedule. Imports were classified into three categories: (i) essential goods; (ii) relatively essential goods and (iii) non-essential goods. A large part of the foreign exchange (75%) was allocated to goods classified as essential, a lesser part (20%) to goods classified as relatively essential and very little to goods classified as non-essential (Von Doellinger, Cavalcanti and Branco, 1977).

In spite of the distortions that this system introduced into the economy, it generated strong stimulus for import substitution. The overvalued exchange rate thus became the explicit instrument for altering the domestic relative exchange rate in favour of imports and against exports, until 1957.

The quota system was replaced in 1953 by a system of multiple exchange rates which allocated foreign currency through an auction mechanism. Exceptions were made for capital goods, as well as for the remittance of profits and interests.

Although these policies eventually promoted domestic industrialization and import substitution, some instruments continued to be conceived primarily to deal with current account deficits. The most notorious case of this unintended promotion of import substitution was the authorization for foreign manufacturing firms to import capital goods without a mandatory monetary transaction. Instruction 113 was issued by a conservative Minister of Finance in January 1955 to deal with a deep foreign currency crisis.[2] This regulation, which represented a subsidy to foreign investment, together with the direct allocation of foreign exchange made intermediate and capital goods relatively cheap while final consumers' goods became expensive. They developed into a set of policies aimed at promoting import substitution of durable goods and foreign direct investment in manufacturing, particularly in the automobile, chemical and capital goods sectors. Elaborate policies of quantitative exchange restriction, multiple and auction exchange rates, and incentives to capital inflows were designed throughout the 1950s to sustain the development process.

The second half of the 1950s was a period of rapid economic growth. From 1955 to 1960, the Brazilian economy grew 60.5%, which represented an annual average growth rate of 9.9% exports did not keep the same pace, however. The share of exports in GDP decreased from 7.8% to 7.0% from 1951 to 1960 (Villela and Suzigan, 1973). This basically resulted from the reduction in world prices for Brazil's major export commodities (coffee and cocoa), since volume of exports rose by more than 10% in the last years of the 1950s (Fishlow, 1976, pp. 29-30).

Brazilian tariffs and surcharges reached extraordinary levels by the early 1960s. This protective structure aimed not merely to limit imports but also to increase the relative profitability of investments in domestic industry. In addition to the strong anti-export bias, the promotion of import substitution in Brazil was highly selective, favouring foreign investors over domestic firms and durable over non-durable consumer goods.

The Kubitschek government (1956-1961) set up the first government programme encompassing economic policies that explicitly and systematically fostered import substitution. A Target Plan established the machinery for channeling subsidies and other incentives to specific sectors. The plan coordinated a programme of public and private (national and foreign) investments around a set of targets. Each manufacturing sector was under the responsibility of one Executive Group, which was in turn coordinated by a newly created Development Council. A new trade law was issued and implemented. At the same time, the Council for Tariff Policy was created to control imports according to the availability of import-competing domestic production ("similares"), as well as to grant discretionary exemptions from the tariffs established. A Law of Similars was also activated: after a product was registered with the Council for Tariff

[2] Instruction 113 of the Monetary Council (Superitendencia da Moeda e do Crédito (SUMOC), Banco do Brazil) allowed equipment of goods included in the first three auction categories to be imported without a monetary transaction. The payment instead was made by acquiring equity in an existing or newly established enterprise (see Suzigan, 1975, p. 452; Oliveira, 1993, p. 8; Bergsman, 1970, cap. 3; Fishlow, 1976, pp. 24-25).

Policy as being domestically produced, government agencies were prohibited from importing "similar" items (Suzigan 1975; Bergsman 1970).[3]

In March 1961, the new President Janio Quadros introduced, far-reaching measures to reform commercial policy. Instruction 204, for instance, abolished the system of auctions for nearly all imports and eliminated the multiple exchange rates. These new regulations attempted to introduce a free market system for exchange rates.[4] The cruzeiro was devaluated and two transitional restrictions were introduced to help control internal inflation. Importers had to make prior deposits of amounts equivalent to their contracts in the form of short-term bills of 150 days at 6% interest in domestic currency and a larger proportion of export proceeds was to be paid in bills.

These measures led to some improvement in the trade balance, but it was the new credits to finance debt repayment and current import requirements that were crucial to the improvement in the balance of payment (Abreu, 1990). The foreign debt service, which had increased from 13.0% of export earnings in 1950 to 43.6% in 1960, was again reduced to 32.2% in 1961. Foreign debt, which had grown about 60% since 1955, increased to roughly US$ 3 million in 1962 and stabilized at this level in 1964. However, the period from 1961 to 1964 was characterized by a sharp fall in GDP growth rates and high inflation. From 1950 to 1960, the average annual growth rate of GDP was 6.4%, whereas from 1961 to 1965 it fell to 3.2%. Annual inflation (measured by the general price index) accelerated from 16% in the period 1950-1955 to 28.9% in 1956-1961, and finally to 64.8% in 1962-1965.[5]

The military government that assumed power in March 1964 adopted stabilization and reform measures to alleviate Brazil's deteriorating economic situation. At first, those measures worsened the recession, but they lowered the inflation rate and increased public receipts, providing the basis for rapid economic growth. The military government made important changes in trade policy, as well as in exchange rate policy to reduce Brazil's anti-export bias.

A programme of export promotion policies was established. It included a drawback program, introduced in 1964, that exempted import tariffs on inputs for export goods; the Export Financing Fund (FINEX), introduced in 1966; exemptions on some domestic duties and credits on specific duties that had been paid on inputs for export products, introduced in 1967; and a crawling peg for exchange rate devaluation, introduced in 1968.

The period 1967-1973, known as the era of economic miracle because of the high growth rates of the Brazilian economy, and the period 1974-1978, with the implementation of the National Development Plan, can be considered as the heyday of the Brazilian model of state-led growth. During those eleven years, GDP grew 167%, or an annual average growth rate of 10.3%.

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[3] The 1957 tariff schedule had three basic tariff levels: 0-10% for products whose supply was entirely external; 10-60%, which was high enough to permit import substitution at the upper range and low cost supplies at the lower; and 60-150% for those goods already largely locally supplied (Fishlow, 1976, p. 28).

[4] Auction continued to be used, however, for special categories of imports, specifically products considered superfluous (see Abreu, 1990, p. 198).

[5] Data from *Conjuntura Econômica*, various issues.

During the seven years of the miracle period, GDP grew at an annual average rate of 13.9%. Over the whole period, Brazilian exports grew on average at 22.5% per year, that is, from US$ 1.6 billion in 1967 to more than US$ 12.6 billion in 1978. Moreover, in that period, the Brazilian economy showed the highest rates of investment in its history as measured by gross fixed capital formation (GFCF) ratios: in 1975, the ratio GFCF:GDP reached almost 26% (see table I.1).

The rapid growth and diversification of Brazilian exports allowed the country to increase its imports and to satisfy the strong demand for capital goods, intermediate products and raw materials, especially oil. This trade dynamics was a typical case of growth-led exports, and not export-led growth. That is, the growth of the domestic manufacturing sector, fostered by the expansion of the previous import substitution strategy, created the capability to sustain the growth and diversification of exports.

Economic historians present opposing interpretations of the Brazilian "miracle". On the one hand, the economy presented those extraordinary growth rates. On the other hand, the growth was not sustained, since it relied heavily on the liberalization of the capital account as a means of financing the current account deficit. Financing this deficit was based not only on direct investment, but also on the progressive dependence of the country on foreign debt.[6] Foreign economic policy in the period 1967-1973 was built around three main goals: (i) attracting foreign capital, in the form of both direct investment and private loans; (ii) expanding and diversifying exports; and (iii) progressively reducing import tariffs (Clements, 1989, p. 13). After 1974, the oil crisis and world stagflation had profound effects on the Brazilian balance of payments, halting the tariff liberalization programme and presenting the country with difficult decisions on adjusting the economy.

The oil shock of 1974 led to a record current account deficit of US$ 4.7 billion. In addition, the terms of trade of Brazil's major commodities suffered a huge deterioration. The crisis hit the country when it was at the peak of its most remarkable economic boom, with inflation at remarkably low levels by Brazilian standards. Brazil depended on oil imports, since the car and truck industry was one of the leading sectors in Brazilian manufacturing growth and domestic oil production was declining.

A severe adjustment to the new world conditions was required. However, the Brazilian Government decided to bet that the international crisis would be short lived, and that the country could continue expanding industrialization through import substitution, counting on foreign borrowing to finance vital imports and public expenditures. The Geisel Administration chose to promote a new phase of state-led import substitution investment supported by credit and fiscal subsidies and highly protected markets. Those subsidies would be financed by private loans. The Brazilian Government sought to benefit from the new conditions of international liquidity and to use external savings to supplement domestic resources.

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[6] Resolution 63 of the Central Bank and Law No. 4131 were the main instruments for liberalizing foreign borrowing for non-governmental enterprises.

Barros de Castro and Souza (1987) suggest that the Brazilian Government had no option but to increase public investment in order to sustain the level of domestic investment and to maintain its import substitution policies. The impact of that development strategy on Brazilian exports was very positive. From 1973 to 1979, Brazilian exports grew at an average yearly rate of 19.7%, which was below the average annual import growth rate of 23.9%, but high enough to reduce the trade deficit from US$ 4.7 billion in 1974 to US$ 2.8 billion in 1979. On the other hand, the gross national product (GNP) presented an average annual growth rate of 8.3% in the same period.

After 1979, however, the international economic environment deteriorated further. Brazil's growth-cum-debt strategy implied that a rising proportion of medium- and long-term debt was contracted at variable interest rates. Initially, variable interest rates did not pose serious problems, since the international interest rates were very low. The second oil shock, however, was associated with extremely high international interest rates. The country faced increasing difficulty in meeting its debt-service commitments.

Following the Mexican financial crisis of 1982, the Brazilian Government was compelled to adopt restrictive monetary policies which imposed a drastic contraction of the economy (see table I.1). The Brazilian economy entered a period of profound macroeconomic instability, in spite of various economic plans and policies aimed at stabilization. It soon became clear that the old import substitution strategy could not provide adequate incentives for sustained economic and industrial growth. When foreign debt reached US$ 91 billion, the government was forced to face the fundamental adjustments that had been postponed for so long.

The foreign debt crisis of the 1980s led to fundamental changes in Brazil's long-term development strategy. First, international competitiveness became the main target of domestic industrial policy. Second, trade liberalization was adopted as a mechanism to induce productivity growth and enhance the international competitiveness of domestic enterprises. Nevertheless, emphasis was placed on short-term problems and, in particular, on stabilization programmes to deal with rampant inflation. The debt service and capital outflows led to the declaration of a debt moratorium in 1987 and 1989. It was only after the Brazilian Government reached an agreement with its creditors in 1991 that the liberalization of trade policies could be implemented.

Several unsuccessful attempts to control inflation were launched. The first was the Cruzado Plan, which was launched in February 1986. However, inflation returned, reaching annual levels of 200% in 1986-1987. A new attempt, the Bresser Plan, lasted from June 1987 to early 1988. Inflation reached hyperinflationary levels with an annual rate of over 600% in 1988 and over 1,200% in 1989. The Summer Plan of January 1989 was completely ineffective; inflation reached an annual level of 3,000% in 1990. Finally, an unsuccessful anti-inflation plan was proposed when the newly elected President Fernando Collor took office in March 1990. The failure of this last plan and the political crisis that followed the impeachment of President Collor paved the way for the acceptance of market-oriented reforms aimed at macroeconomic stability.

Table I.1

BRAZIL: GDP GROWTH, GROSS FIXED CAPITAL FORMATION (GFCF) AND THE TRADE BALANCE, 1965-1996

Period	GDP (1980 = 100)	Growth rate of GDP	GFCF:GDP	US$ 1 000 000 (f.o.b.)		
				Exports	Imports	Trade Balance
1965	30.9	-	19.1	1 596.0	941.0	655.0
1966	30.6	3.80	20.8	1 741.0	1 303.0	438.0
1967	32.0	4.80	20.8	1 654.0	1 441.0	213.0
1968	35.6	11.20	22.1	1 881.0	1 855.0	26.0
1969	39.2	10.00	22.8	2 311.0	1 993.0	318.0
1970	42.6	8.80	20.6	2 739.0	2 507.0	232.0
1971	48.3	13.30	21.3	2 904.0	3 245.0	-341.0
1972	53.9	11.70	22.2	3 991.0	4 235.0	-244.0
1973	61.5	14.00	23.6	6 199.2	6 192.2	7.0
1974	67.5	9.80	24.7	7 951.0	12 641.3	-4 690.3
1975	71.0	5.20	25.8	8 669.9	12 210.3	-3 540.4
1976	78.0	9.80	25.0	10 128.3	12 383.0	-2 254.7
1977	81.6	4.60	23.6	12 120.1	12 023.3	96.8
1978	85.5	4.80	23.5	12 658.9	13 683.1	-1 024.2
1979	91.7	7.20	22.9	15 244.4	18 083.9	-2 839.5
1980	100.0	9.10	22.9	20 132.4	22 955.2	-2 822.8
1981	95.8	-4.25	21.0	23 293.0	22 090.6	1 202.4
1982	96.5	0.83	19.5	20 175.1	19 395.0	780.1
1983	93.7	-2.92	16.9	21 899.3	15 428.9	6 470.4
1984	98.8	5.40	16.3	27 005.3	13 915.8	13 089.5
1985	106.5	7.85	16.4	25 638.7	13 153.0	12 485.7
1986	114.5	7.49	18.7	22 348.0	14 044.0	8 304.0
1987	118.6	3.53	17.9	26 224.0	15 052.0	11 172.0
1988	118.5	-0.06	17.0	33 789.0	14 605.0	19 184.0
1989	122.2	3.16	16.7	34 383.0	18 263.0	16 120.0
1990	117.1	-4.19	15.5	31 414.0	20 661.0	10 753.0
1991	117.8	0.60	15.2	31 620.0	21 041.0	10 579.0
1992	116.6	-1.02	14.0	35 793.0	20 554.0	15 239.0
1993	121.4	4.12	14.4	38 783.0	25 711.0	13 072.0
1994	128.7	6.01	15.3	43 545.0	33 079.0	10 466.0
1995	134.2	4.27	16.6	46 506.0	49 663.0	-3 157.0
1996	138.1	2.90	n.a.	47 747.0	53 301.0	-5 554.0
1997	141.8	2.70	n.a.	52 986.0	61 272.0	-8 286.0

Source: Brazilian Geographical and Statistical Institute (IBGE), *Anuario estatístico* (various issues) and the Brazilian Secretariat of Foreign Trade (SECEX).

II. TRADE AND INDUSTRIAL POLICY IN BRAZIL: ADJUSTMENT TO WORLD ECONOMIC CONDITIONS

1. Trade policies: the opening of Brazilian domestic markets

In 1988, the transition government of José Sarney took the first steps towards liberalizing Brazil's foreign trade, as part of the New Industrial Policy (NPI). The NPI was an attempt at an alternative industrial strategy to foster Brazilian industrial development in the new context of international liberalization. It included legislation on export processing zones (EPZs)[7] (Suzigan and Villela, 1996, p. 71).

The New Industrial Policy consisted of fiscal incentives aimed at improving the technological and commercial capabilities of Brazilian enterprises. It included programmes to promote investment in research and development (R&D) and investment in tradables. The investment incentives were administered through the Integrated Programmes for Industrial Sectors (PSI) following a systemic approach to industrial sectors. The objective was to single out one industrial sector with all of its backward and forward linkages: each integrated sector is an individual vector of one industrial input-output matrix. In addition, the programmes to promote R&D were part of the Industrial Technology Development Programmes.

The most important component of the New Industrial Policy was trade policy reform. Its purpose was the gradual reduction of the tariff rate and the virtual elimination of non-tariff measures. It also included the simplification of export and import procedures. Very little progress was made on tariff reform, however, due to political conditions. Because the reduction of tariff rates was not accompanied by a revision of non-tariff measures, bureaucratic procedures became the most important mechanism for import control.

It was only in the following Collor Administration (1990-1992) that dramatic changes were finally introduced in Brazilian trade policy. Trade reform was part of an industrial policy to foster the modernization and restructuring of Brazilian industry.[8] This Industrial and Trade Policy (PICE) was implemented through the following measures : (i) a progressive reduction of tariff and non-tariff barriers; (ii) the promotion of greater specialization of industrial sectors; and (iii) the improvement of technological capability through selective protection of high-tech industries and the support of innovation in other sectors.

[7] In July 1988 legislation was issued on the establishment of EPZs. Although 14 EPZs were authorized in the late 1980s, they were not actually set up. In the 1990s the legislation was suspended, and in 1992 new rules were defined.

[8] Executive Decree 15 March 1990. The Government proposal was clarified in the document "*Diretrizes Gerais para a Política Industrial e de Comércio Exterior*", June 1990.

The new policies tried to reverse dramatically the previous industrial strategy. The new development strategy, called competitive integration, was based on greater productive efficiency at the enterprise level and on market-friendly policies. It depended on international prices to compel domestic manufacturers to invest in the modernization of their enterprises and in improving the quality of their products. The Government set up three programmes to support those targeted changes: the Programme for Industrial Competitiveness (PCI), the National Programme for Quality and Productivity (PBQP) and the Programme for Supporting the Improvement of Industrial Technological Capability (PACTI).

An important organizational change was effected through the creation of the all-powerful Ministry of Economic Affairs, Finance and Planning, together with the extinction of the Ministry of Industry and Commerce and the Planning Secretariat of the Presidency of the Republic. Chambers of Industrial Sectors, composed of representatives of the private and public sectors, were set up to advise the Ministry of Economic Affairs, finance and Planning on industrial policies. Those policies were designed for integrated sectors, as had been proposed by the previous administration. Twenty-nine chambers were created, and many of them were divided up into work groups dealing with specific industries. The chambers were created as a mechanism for the exchange of information between private and public actors, to integrate policies for public and private investments and to advise the government on industrial and trade policies.

In January 1991, the government announced a general reform of tariff rates, with a time schedule of gradual reductions up to 1994. This time schedule was later accelerated. Table II.1 presents the established targets:

Table II.1
TIME SCHEDULE FOR THE REDUCTION OF TARIFF RATES

Initial schedule	1 990	2/15/91	1/01/92	1/01/93	1/01/94
Modified schedule	1 990	2/15/91	1/01/92	10/01/92	7/01/93
Average (%)	32.2	25.3	21.2	7.1	14.3
Mode	40	20	20	20	20
Standard deviation	19.6	17.4	14.2	10.7	7.9

Source: Suzigan and Villela, 1997, p. 90.

Most of the remaining non-tariff import controls were also eliminated, including a list of forbidden imports. The use of the "similarity test" was dramatically reduced.[9] Administrative regulations that had been imposed on private enterprises with the purpose of controlling imports, such as filing annual import programmes or limiting imports to quotas based on past import levels, were also repealed. Although licenses were still required for imports, they were granted automatically, with the exception of computers and products related to information technology.

In addition, the government eliminated export incentives, including the Concession of Fiscal Benefits to Special Export Programmes (BEFIEX), which granted tariff and import-control exemptions for export-oriented products. Preferential income tax rates for export profits were also abolished. The only export programmes that remained were those that aimed at reducing the impact of domestic taxation on exports, such as the drawback programme.

The Government essentially had to rely on government deregulation and new market regulations to increase competition in domestic markets. The former involved the removal of government obstacles to the operation of a freely competitive market; the latter focused on eliminating enterprise-level restrictions on the functioning of a free market, such as cartels and monopoly powers.

In February 1992, the Brazilian Government issued trade facilitation measures which sought: (i) to simplify trade procedures through the implementation of an integrated computerized system of Foreign Trade (SISCOMEX), the consolidation of foreign trade legislation and the simplification of special customs procedures; (ii) to eliminate remaining fiscal obstacles and infrastructure bottlenecks for export activities; and (iii) to strengthen official mechanisms for supporting export activities, such as export financing and export promotion.

Those measures failed to achieve continuity, however, because of the institutional crisis that led to the impeachment of President Fernando Collor in December 1992 and because of rampant inflation. It was not until the implementation of the Real Plan of stabilization in 1994 that the full effects of economic liberalization could actually be felt.

2. Economic liberalization and the Real Plan

In December 1993, the Brazilian Government announced that a new stabilization plan, called the Real Plan, would be implemented in three stages: (i) a set of measures to reduce fiscal unbalance would be introduced; (ii) a mechanism to provide transparency on relative prices would be implemented, with the creation of a new unit of monetary account equivalent to one dollar (the unit of real value, or URV); and (iii) the account unit would be converted into a new currency, the Real.

[9] The similarity test allowed enterprises located in Brazil to block potential imports from the moment it showed that it was able to produce similar import-competing goods.

The Real Plan became the backbone of the country's economic strategy. It was more than an anti-inflationary plan; it was a long-term strategy for economic recovery. Gustavo Franco, one of the engineers of the Plan and currently the President of the Central Bank, believes that the Real Plan can make compatible the three major objectives of economic development: growth, income distribution and productive efficiency. Trade liberalization, a non-inflationary exchange rate and structural economic reforms should lead the economy to higher rates of productivity and growth. Private investment and consumption should replace the State as growth leaders. Productivity growth should allow increased wages and reduce the high levels of social inequity. Finally, the new strategy should have a deflationary bias, since free trade and competition prevent above average profits. The Government's decision to refrain from any inflationary financing of public investments should reinforce this trend.

The new development strategy relies on the openness of the economy, as well as on a non-inflationary exchange rate. Trade liberalization was therefore intensified and accompanied by exchange rate valuation.

At first, trade liberalization did not increase imports: from 1989 to 1992 imports increased slightly from US$ 18.2 to 20.5 billion. The growth rate of imports accelerated in 1993 and in the following years. The economic recession, realistic exchange rate policies and the increase of productivity in a highly competitive atmosphere explain the import performance in the first three years of the liberalization process. From October 1990 to July 1994, exchange rate devaluation followed by exchange rate stability, together with the contraction of domestic demand, resulted in a relatively large trade surplus of US$ 10.5 billion as late as 1994.

Domestic demand expanded after the stabilization set by the Real Plan, converting the 1994 trade surplus into a US$ 3.2 billion trade deficit in 1995. The deficit reached US$ 5.2 billion in 1996 and about US$ 7 billion as of September 1997. From 1995 to the end of 1996, Brazil's accumulated current account deficit was more than US$ 42 billion (see table II.2). The combination of exchange rate overvaluation, free capital account and domestic interest rates that are higher than international levels has contributed to the formation of a large current account deficit. In a short period, a stable Brazilian economy became an attractive market for capital flows, with negative impacts on the exchange rate. An overvalued exchange rate made it difficult for local industry to adjust to a new environment of trade liberalization and low inflation.

Table II.2

BRAZIL: THE ORIGIN AND EVOLUTION OF THE CURRENT ACCOUNT UNBALANCE (1945-1996)

(In millions of dollars)

	1945-1949	**1950-1956**	**1957-1962**	**1963-1966**	**1967-1973**	**1974-1976**	**1977-1980**	**1981-1987**	**1988-1990**	**1991-1994**	**1995-1996**
Trade balance (f.o.b.)	1 210	1 536	245	1 549	211	10 336	-6 590	53 503	46 057	49 591	-8 891
Services	-1 017	-2 458	-2 188	-1 353	-6 480	-9 564	28 243	98 098	45 803	55 209	40 301
Net factor income payments abroad	-34	-46	31	252	199	1	257	776	1 172	8 073	6 873
Current account	159	-968	-1 912	448	-6 070	19 899	34 576	41 819	1 426	2 455	42 319

Source: *Conjuntura econômica*, Rio de Janeiro, Getulio Vargas Foundation (FGV), November 1997.

III. BRAZILIAN TRADE DIPLOMACY AND THE URUGUAY ROUND

1. Multilateral negotiations

Brazil is an influential member of the WTO and has participated actively in all multilateral trade negotiations since the foundation of the General Agreement on Tariffs and Trade (GATT).[10] Until recently, however, Brazilian economic diplomacy reflected its position as a commodity exporter with a vulnerable balance of payments and a development strategy based on industrialization through import substitution. The few developing countries which were members perceived GATT as a rich countries' club: trade liberalization negotiations included only manufacturing goods traded among industrial countries. Until the Tokyo Round, the best efforts of Brazilian trade diplomacy were assigned to negotiations in the United Nations Conference on Trade and Development (UNCTAD), in connection with improving access to industrial countries' markets through a general system of preferences (GSP) for developing countries.

Brazil tried to establish an independent foreign policy over the course of post-war history, although at different moments the Brazilian representatives decided for total alignment with the United States foreign policy for Latin America. The recent history of Brazilian economic diplomacy can be divided into six periods. The first, roughly 1945-1949, was characterized by frustrated attempts to consolidate a special relationship with the United States. The second period, 1950-1960, is more heterogeneous. Brazil's foreign policy oscillated between a populist-nationalist approach, attempts to attract foreign capital and a lukewarm support of the Pan-American System. In 1959, Brazil, Colombia and other Latin American countries successfully negotiated an international commodity agreement with the purpose of stabilizing the international price of coffee.[11]

During the third period, 1961-1964, Brazil attempted to foster an independent foreign policy. This policy was based on three priorities: (i) at the regional level, to support a Pan-American policy, with independence from the United States' priorities; (ii) at the bilateral level, to promote negotiations simultaneously with the United States, Western European countries and the Soviet Union in order to strengthen Brazil's negotiating position *vis-à-vis* the United States,

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[10] According to Hoekman and Kostecki, "Countries such as Brazil and India have traditionally exerted substantial influence [on trade negotiations], in part because of their economic size, and in part because they have often acted as spokesmen for other developing countries" (1995, p. 43).

[11] Brazilian exports were smaller in 1960 (US$ 1.27 billion) than in 1950 (US$1.36 billions) to the fall of coffee prices, which, after an initial rise to 90 cents per pound in 1954, fell to 57 cents in 1955-1957 and to 41 cents in 1958.

and (iii) at the international level, to support a third-world position and to defend non-aligned countries' views in negotiations with industrial countries.[12]

The fourth period, 1964-1973, is associated with the first part of the military regime. It was characterized by a policy of automatic alignment with United States foreign policies, including direct engagement in the invasion of the Dominican Republic in April 1965 (Skidmore, 1975, p. 397).

The fifth period, 1974-1984, was marked by the return to an independent foreign policy and by a pragmatic economic nationalism, although the country was still under the authoritarian regime. During that period, Brazilian foreign policy had three priorities: at the bilateral level, to reduce the inequalities in the economic and political relationship with the United States; at the regional level, to consolidate Brazilian leadership in Latin America; and at the multilateral level, to advance the concept of preferential treatment for developing countries, against the idea of reciprocal and equivalent concessions, which was customary in GATT (Fritsch and Abreu, 1992. p. 81).

It was in this fifth period, during the Tokyo Round of multilateral trade negotiations (1973-1979), that the active participation of Brazilian diplomats contributed to increasing their influence in GATT. Brazil was responsible for initiating negotiations on GATT articles known as the framework agreement.[13] Basically, Brazil led a proposal to change the structure of GATT obligations with regard to developing countries. The developing countries tried to secure special and differential treatment in each of the codes negotiated at the Tokyo Round and in the tariff negotiations. Moreover, the Brazilian proposal, introduced a general effort to change the structure of legal obligations in order to improve the trading position of the economically weaker countries and to make GATT an organization more responsive to their economic needs.

The Tokyo Round results did not satisfy most of the countries, particularly, the United States. As early as 1982, a GATT Ministerial Meeting was preparing the ground for of a new round of trade negotiations. Industrial countries were increasingly managing trade through administrative measures such as agreements between importing and exporting countries to keep exports at a given level (i.e., voluntary exports restrains and orderly marketing arrangements). At the same time, developed countries were insisting that developing countries renounce their claims to special and differential treatment and assume their full obligations toward the international community with higher levels of development. The new agenda proposed by the member countries of the Organization for Economic Cooperation and Development (OECD)

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[12] For information on Janio Quadros' independent foreign policies, see his article, "Brazil New Foreign Policy", *Foreign Affairs*, October 1961. See also Skidmore (1975, pp. 244-245).

[13] "Framework" is a contracted form of "The legal framework for differential and more favourabale treatment for developing countries in relation to GATT provisions". The framework agreement covered subjects such as safeguard actions for development purposes (or infant industry measures), trade measures taken to correct payment deficits, export controls, and deviations from most-favoured-nation procedures for developing countries (Winham, 1986, p. 18).

considerably widened the scope of trade negotiations with the inclusion of trade in services, trade-related aspects of intellectual property rights and trade-related investment measures.

The preparation for the Uruguay Round marks the start of the sixth period, 1985-present. Brazil was a vocal opponent of the inclusion of the new themes. The Brazilian position, like that of the other developing countries, was basically defensive, trying to prevent the inclusion of the new issues in the agenda while at the same time fighting to retain development issues (e.g., agriculture, textiles and overall market access). The long negotiation process that preceded the launching of the Uruguay Round in September 1986 was characterized by opposing positions regarding the agenda. The Uruguay Round declaration was a compromise that the Brazilian diplomacy helped to construct. New themes other than services were included in the general negotiations according to the General Agreement, and separate negotiations were launched for trade in services.

Brazil had a broad agenda of active interests in the Uruguay Round, including temperate agricultural products, textiles and clothing, anti-dumping, subsidies, countervailing duties, safeguards, a more effective mechanism for dispute settlements and other normative issues. With regard to the new issues of trade-related investment measures, trade-related intellectual property rights and trade in services, Brazil was at first defensive and mostly reactive to the proposals of industrial countries. Nevertheless, as the Uruguay Round evolved and the debt crisis paved the way for domestic trade reforms, the obstructive tactics were reversed into a more cooperative negotiating stance. As the negotiations proceeded, Brazil and other developing countries participated constructively in advancing negotiating concepts, norms and procedures in most of the Uruguay Round Agreements on the new topics, Brazil was also very active in the Cairns Group, a heterogeneous coalition formed by developed and developing agricultural exporters to overcome protectionism in agricultural products.

The change of course in negotiations was explained in part by fatigue with obstructive policies, but also by the importance that the new Brazilian administration ascribed to improving its relations with the United States in order to win support in the foreign debt negotiations (Abreu, 1991, p. 146; Fritsch and Abreu, 1992, p. 83).

2. Regional commitments

Brazilian diplomacy currently emphasizes on subregional and regional integration and the consolidation of its regional leadership, particularly in relation to the on-going preparatory negotiations for the formation of the Free Trade Area of the Americas (FTAA) a hemispheric free trade area.

Brazilian trade diplomacy has been quite active on regional cooperation. It is a founder member of the Latin American Free Trade Association LAFTA, the Latin American Integration Association (LAIA) and the Southern Common Market (Mercosur). This last treaty has been the backbone of Brazilian diplomacy in South America since it was signed in 1991. It originated from bilateral negotiations between Brazil and Argentina in the mid-1980s. In July 1986, the Argentina-Brazilian Integration Agreement was signed in Buenos Aires, setting up the Programme for Integration and Economic Cooperation (PICE). Between 1988 and 1990, the two countries also signed a Treaty on Integration, Cooperation and Development and the Economic Complementation Agreement (ACE), both under the LAIA framework.

Political motivation was behind the cooperation between Brazil and Argentina during the first years. On July 1990, Brazil and Argentina signed the Buenos Aires Act agreeing to establish a customs union by December 1994. At the beginning of 1991, Paraguay and Uruguay joined the negotiations, leading to the signing of Treaty of Asunción on 26 March 1991.

IV. BRAZIL AND THE NEW WORLD TRADING SYSTEM

1. Preliminary remarks

The comprehensive trade liberalization reforms of this decade converted the Brazilian economy into one that is relatively open to international competition. Unlike some industrial countries which maintained administrative controls to protect their markets, Brazil has eliminated almost all of its non-tariff barriers, and moderate *ad valorem* tariffs became its principal trade policy instrument.

The large, sophisticated manufacturing sector that was established in Brazil over the past 50 years enabled the country to expand and diversify its exports, in terms of both products and markets. In 1947, five agricultural products represented 69% of Brazilian exports, and just one, coffee, accounted for 42% of the total. In 1996, the five major products represented only 21.3% of exports, and none of them accounted for 6% of overall exports. Also, in 1947, five countries bought 64% of Brazilian exports, and the largest market, the United States, represented 39% of the whole. In 1996, Brazil could be characterized as a global trader. The European Union was its largest market, with 27% of the total. LAIA countries was the second largest market, buying 21% of its exports, and Mercosur countries represented 17 % of Brazilian exports (see table IV.1).

This diversification of Brazilian exports was due to the high growth rate of the Brazilian economy for more than three decades. In other words, the diversification of Brazilian exports followed major changes in the domestic economic structure. In fact, the export boom began after 1973, or **after** the acceleration of economic growth, not **before** it (see Statistical Appendix). Trade expansion would thus be better described as a "handmaiden of successful growth" rather than as an autonomous engine of growth.[14]

Exports did not determine economic growth. Nevertheless, the vulnerability of Brazilian external payments, combined with the large current account deficits resulting from the two large external shocks of the late 1970s, halted the process of economic growth. Consequently, while a bad external performance can disrupt domestic growth, a good trade performance alone is not a guarantee of domestic growth.

[14] The literature on trade includes a debate between Nurkse (1962) and Kravis (1970) about trade as an "engine of growth" or as a "handmaiden of growth", referring to the nineteenth century economic development of non-European countries, particularly the United Sates.

Table IV.1
BRAZIL: MAIN EXPORT PRODUCTS AND THEIR DESTINATION MARKETS

Year	Product	% of Total	Destination	% of Total
1947	Coffee	41.6	United States	38.8
	Cotton	15.6	Argentina	9.5
	Cocoa	4.9	United Kingdom	7.8
	Wood	3.7	Belgium and Luxembourg	4.7
	Leather and skins	3.5	France	3.6
	Subtotal	69.3	**Subtotal**	64.3
1957	Coffee	60.7	United States	47.4
	Cocoa	5.0	Argentina	7.4
	Wood	4.6	Germany	6.0
	Iron ore	3.4	United Kingdom	4.8
	Sugar	3.3	France	3.2
	Subtotal	77.1	**Subtotal**	68.7
1967	Unroasted coffee	42.6	United States	33.1
	Iron ore	6.2	Germany	8.1
	Cotton	5.5	Netherlands	6.8
	Sugar	4.9	Italy	6.6
	Cocoa	3.6	Argentina	5.9
	Subtotal	82.8	**Subtotal**	60.5
1977	Unroasted coffee	19	United States	17.7
	Soybean products	9.5	Germany	8.8
	Iron ore	7.1	Netherlands	7.7
	Soybeans	5.9	Japan	5.6
	Cocoa	3.6	Italy	5.5
	Subtotal	44.9	**Subtotal**	45.3
1987	Unroasted coffee	7.5	United States	27.9
	Soybean products	5.5	Japan	6.4
	Iron ore	4.2	Netherlands	6.1
	Concentrated orange juice	3.2	Italy	4.8
	Leather shoes	3.1	Germany	4.7
	Subtotal	23.4	**Subtotal**	50.0
1996	Soybean products	5.7	United States	19.2
	Ore and its concentrates	5.6	Argentina	10.8
	Unroasted coffee	3.6	Netherlands	7.4
	Shoes	5.5	Japan	6.4
	Concentrated and frozen orange juice	2.9	Germany	4.4
	Subtotal	21.3	**Subtotal**	48.2

Source: *Conjuntura Econômica,* Rio de Janeiro, Getulio Vargas Foundation (FGV), November 1997.

The basic argument is that Brazil, as a large country, is not outward-oriented. The category of outwardness and the very concept of economic openness have not been rigorously defined in the economic literature.[15] Moreover, trade openness may not necessarily be linked to liberal trade policies. Trade openness can be defined simply as the relative importance of foreign trade for the domestic economy.[16] That is, trade openness can be measured by the proportion of the sum of exports and imports in GDP.

$$T_0 = (X+M)/GDP$$

where:

X = exports;
M = imports
GDP = gross domestic product.

A larger T_0 means a more open economy, and, a rising T_0 implies an increasing outward orientation of the economy, without necessarily implying the characteristics of the country's trade policy. A country can have a liberal trade policy and be relatively closed, just as a country with a protectionist trade policy can be relatively open. The principal factor that determines the outward orientation of a country, assuming that individual exports and imports are bounded, is the size of the domestic economy. Large countries, with a large population, an elastic supply of natural resources and large territorial extension, tend to be less open than small countries, with a small population and small territorial size. Brazil and the United States are not open economies as measured by the proportion of exports over GDP. Small countries, such as Taiwan (Province of China) or the Netherlands, have to rely on trade as an engine of growth. Countries of small territorial size but with large populations would fall in an intermediate position: trade could be an engine of growth, but the domestic market would also be instrumental for domestic growth.

Although the new trading system is important for Brazil, it is not likely that an export-led growth model can be applied to the country. Market-friendly trade policies are effective instruments for fostering domestic productivity and preventing market distortions that hinder economic development. The trade liberalization process is therefore necessary for improving efficiency in all sectors of the Brazilian economy. However, exports cannot replace domestic markets as the basic determinant of sustained growth in Brazil.

A Brazilian trade strategy must be based on two assumptions. First, export growth will depend on domestic growth. Second, exports are essential to provide foreign currency and allow imports that are necessary for sustaining domestic growth. Nevertheless, trade cannot be an exogenous engine of growth.

Brazil could make use of the size of its domestic market to implement industrial policies that are compatible with WTO rules. It could use the chambers of industrial sectors, which were

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[15] Edwards (1993, pp. 1364-65) has shown that trade liberalization and outward trade orientation have different meanings.

[16] For more information see Prado, 1996.

introduced in 1990 and later discontinued, to bring together producers, workers, consumers and government representatives in order to coordinate actions in certain areas. Coordinating the actions of distinct economic agents can reduce uncertainty and stimulate investment. Another instrument that is compatible with WTO rules is public support for R&D at universities and research agencies, the outputs of which could be transferred to the domestic private sector. That is the case of the Brazilian Agricultural Research Enterprise (EMBRAPA), which was very successful in improving the productivity and quality of several crops in Brazil.

2. Access to markets[17]

Although most of the results of the Uruguay Round will not be felt until the year 2005 when the commitments made by WTO country members will be fully implemented, empirical work show that they will bring little trade creation for Brazilian products. Most of the measurable gains resulted from unilateral liberalization programmes applied in Latin America. Also, while some positive gains will result from phasing out the quota system in textiles and apparel, there are still doubts that the Agreement on Textiles and Clothing will be effectively implemented.

According to the Brazilian Government, the direct gains from improved market access resulting from those agreements would not exceed 0.34% of Brazilian GDP. Even when the dynamic effects are considered and indirect effects on the investment level are introduced, total gains would be roughly equal to 1.0% of GDP (IPEA, 1997, p. 176). Brazil will gain moderately from the WTO agreement on agriculture. Official estimates indicate that 20% of Brazilian gains from post-Uruguay Round trade liberalization will be due to the Agreement on Agriculture (IPEA, 1997).

During the Uruguay Round negotiations, Brazil and other developing countries were unilaterally changing their trade policies and practices. Those countries could therefore bind their tariffs at remarkably higher levels than those actually in use, Brazil agreed to a ceiling tariff of 35%, except for some agricultural products for which tariffs were consolidated at 55% (IPEA, 1997). The trade liberalization process in Brazil will lead the country to meet its commitments in WTO in 1999. Domestic consensus rather than international constraints is the main determinant of those changes.

Brazil's tariff commitments in the former General Agreement were minimal: the number of products that were bound accounted for only about 6% of tariff lines and was equivalent to about 10% of Brazil's 1995 non-oil imports. As the result of the Uruguay Round negotiations, 100% of the tariff lines were bound with the vast majority of lines bound at ceiling rates. Between 1995 and 2000, the general level of bound rates on manufactured goods is to be reduced to 35% in five stages. Exceptions were made for certain products, such as beverages, tobacco and cotton, which will be bound at higher rates. Other products, such as fertilizers, certain chemicals and photographic goods, will be set at lower rates. Agricultural items are to be bound at 55%;

[17] This section draws heavily on WTO (1996).

most of these will be fully implemented in 2004, with some exceptions which will be applied in 1995 and 1999 (WTO, 1996) (see table IV.2).[18]

Table IV.2
TARIFF BINDINGS IN BRAZIL

	Pre-Uruguay Round				Post-Uruguay Round			
	1995 Imports		Tariff lines		1995 Imports		Tariff lines	
	Value (US$ billion)	%	Number	%	Value (US$ billion)	%	Number	%
All Products (excluding petroleum)								
Total	**23.18**	**100.0**	**12 381**	**100.0**	**23.18**	**100.0**	**12 381**	**100.0**
Bound	2.56	11.0	785	6.3	23.18	100.0	12 381	100.0
Fully Bound	1.71	7.4	432	3.5	23.18	100.0	12 381	100.0
Partially Bound	0.84	3.6	353	2.9	0	0.0	0	0.0
Unbound	20.62	89.0	11 596	93.7	0	0.0	0	0.0
All Agricultural products (HS 01-24)								
Total	**3.07**	**100.0**	**1.548**	**100.0**	**3.07**	**100.0**	**1.548**	**100.0**
Bound	0.33	10.6	75	4.8	3.07	100.0	1 548	100.0
Fully Bound	0.24	7.9	55	3.7	3.07	100.0	1 548	100.0
Partially Bound	0.08	2.7	20	1.3	0	0.0	0	0.0
Unbound	2.75	89.4	1 473	95.2	0	0.0	0	0.0
Industrial Products (HS 25-97) (Excluding petroleum products)								
Total	**20.10**	**100.0**	**10.835**	**100.0**	**20.11**	**100.0**	**10.833**	**100.0**
Bound	2.23	11.1	710	6.6	20.11	100.0	10 833	100.0
Fully Bound	1.47	7.3	377	3.5	20.11	100.0	10 833	100.0
Partially Bound	0.76	3.8	333	3.1	0	0.0	0	0.0
Unbound	17.87	88.9	10 125	93.4	0	0.0	0	0.0

Source: World Trade Organization (WTO), Trade Policy Review, Brazil. Report by the Secretariat (WT/TPR/S/21), Geneva, 1996. table III.6, p. 48.

[18] Since January of 1989, Brazil has also adopted the Harmonized Commodity Description and Coding System (HS). It consists of more than 12 000 ten-digit items. The negotiations for the transposition of Brazilian binding commitments into the Mercosur Common External Tariff (CET) is not completed. However, Brazil is applying the bound rate whenever it is exceeded by the CET.

In 1990, Brazil eliminated most of its previously numerous tariff exemptions, notably those granted to public enterprises. Exceptions were made for the drawback scheme, the special treatment granted to imports into the Manaus duty free zone and other specific imports such as those by international organizations and scientific and technological institutes. The drawback scheme is important for some exports, but it will become less necessary with progressive tariff reduction. The electronic sector, located in the Manaus duty free zone, is still dependent on special fiscal treatment.

The most significant introduction to the legislation on market access involves the special regime for the automotive industry, Decree No. 1761 of December 1995 granted the automotive industry a tariff reduction of 90% on capital goods, inputs and auto parts used by car producers.[19] In order to have access to those fiscal benefits, automotive enterprises must comply with local-content, export-performance and trade-balancing requirements. Trade in automotive products among Mercosur countries is subject to special rules. Following the obligations under Article 5, paragraph 2, of the Agreement on Trade-Related Investment Measures (TRIMs), the automotive regime will be discontinued after 1999.[20]

The high income elasticity of the demand for cars, the historically repressed demand and the exchange rate policy all led to increasing market shares for imported cars in Brazil. It is recognized that the Brazilian Government must watch carefully to prevent automobile imports from creating balance-of-payments problems. However, some analysts believe that consumers may consider imported cars too expensive to maintain and inadequate for Brazilian roads and fuel. The demand for imported cars may therefore decrease without government intervention.

As mentioned above, Brazil is part of several regional-preference schemes. The tariff preferences for LAIA countries has remained virtually unchanged since 1992. In 1995, negotiations began between Mercosur and LAIA members with the purpose of replacing preferences between the subregional group and the other members with agreed preferences on a bilateral basis. Brazil also grants some limited concessions to developing countries under the Generalized System of Trade Preferences GSTP among developing countries.

Since January 1995, Mercosur members have constituted a Customs Union with a Common External Tariff (CET) that covers roughly 85% of total intra-Mercosur trade. Trade

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[19] In June 1995, Brazil notified the WTO of Decree 1024 of June 1995, which contained tariff reductions and quantitative restrictions to benefit the domestic automotive industry. The notification was based on balance-of-payments problems according to Article XVIII.B of GATT 1994. In October 1995, however, the Committee on Balance-of-Payments Restrictions of GATT 1947 and the Committee on Balance-of-Payments Restrictions of the WTO did not find that Brazil had balance-of-payments problems and therefore ruled that the quantitative restrictions were unjustified (WTO, 1996, pp. 68-69). The new Decree 1761 was issued in December 1995 without the quantitative restrictions.

[20] "Each member shall eliminate all TRIMs which are notified under paragraph 1 above within two years of the date of entry into force of the Agreement establishing the WTO in the case of a developed country Member, within five years in the case of a developing country Member, and within seven years in the case of a least-developed country Member."

between Brazil and Mercosur members is duty-free, except for 29 tariff items subject to a transitional regime which should be completed by 1999.

3. Safeguards, countervailing measures and other trade remedies

Trade defense measures were not deemed necessary in Brazil while no real competition existed in the domestic market. The trade reform of the early 1990s led to the replacement of non-tariff measures or high duties by legal measures to protect domestic industry from unfair competition.

The most important pieces of legislation on anti-dumping and countervailing duties are Law 9019 (March 1995) and Decrees 1602 (August 1995) and 1751 (December 1995). Law 9019, which was originally issued as Decree 926 (March 1995) reflects the inclusion of the WTO agreements into the Brazilian legal system. It establishes the authority of the Secretary of Foreign Trade (SECEX) to initiate, develop and conclude anti-dumping investigations. Decree 1602 defines the procedures for the application of anti-dumping measures, and Decree 1751 defines the procedures for countervailing duties.

The request for an anti-dumping investigation must include evidence of injury and follow the format established by SECEX. Provisional measures may be applied for a limited period to prevent further injury during investigation. In some exceptional cases, the Government may initiate ex officio an anti-dumping investigation.[21]

The subsidies that can be considered for the imposition of countervailing measures are defined in Article XVI of GATT 1994 and Annexes I and II of the Agreement on Subsidies and Countervailing Measures. As with the anti-dumping investigations, a request for action must provide evidence of subsidization and resulting injury. Federal Government authorities can initiate ex officio an investigation, but domestic producers can only initiate an action if they account for at least 25% of total domestic production of the good in question.

Decree 1488 (May 1995) established the administrative procedures for the application of safeguard measures. It is based on the WTO Agreement on Safeguards, and it includes the norms for the application of transitory safeguards for textiles, which are part of the WTO Agreement on Textiles and Clothing.

Safeguard measures can be applied if a sudden increase in imports may cause, or threaten to cause, serious injury to the domestic industry. In May 1996, Brazil imposed for safeguard measures the first time; they were applied starting June 1996 to protect the domestic textile sector from market disruption caused by imports from China, Korea, Hong Kong, Taiwan and Panama. Article VI of the Agreement on Textiles and Clothing sets the maximum duration of such measures at three years. In June 1996, Brazil also imposed temporary safeguard measures to protect the toy industry, which was facing heavy competition from imports after import duties decreased from 50%-85% to barely 20%. Safeguard measures are to be applied on a most-

[21] See WTO, 1996, p. 64.

favoured-nation basis, except for the transitional provisions applicable to textile products. In this case, transitional safeguards may be applied to products that Brazil has not integrated into GATT 1994.[22]

Although Brazil did not have much experience in the use of those trade remedy measures, their use increased during the period 1992-1995, when, according to the WTO, Brazil initiated 66 anti-dumping cases (mainly on chemical and mineral products) and 13 countervailing investigations (on agricultural goods). In mid-1996, 25 anti-dumping and seven countervailing measures were in force.

Brazilian entrepreneurs and government agencies that deal with foreign trade are rapidly learning the complexities of those “free trade protectionist” measures. Brazilian exports, such as steel, apparels and shoes, have suffered constant (and in most cases unfair) accusations of dumping in the United States and the European Union. Trade analysts are increasingly concerned that trade defense measures are becoming de facto mechanisms for protecting markets against more competitive products.

4. Trade in services

Brazil is not a large exporter of services. Service imports have been growing, however, resulting in large deficits in the commercial services trade account. Brazil participates in several regional agreements on services, such as the Agreement on International Land Transportation with Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay, as well as other agreements in LAIA. Mercosur countries have also negotiated a framework agreement on services. Brazil maintains a large number of bilateral agreements on services, including maritime transportation, air transportation and tourism.

In the past, the State was the main supplier of services such as banking, insurance, transport, telecommunications and electricity. However, the State is fast decreasing its role in these activities through the Government Privatization Programme.

Brazil’s commitments to the General Agreement on Trade in Services (GATS) include granting national treatment for commercial presence of foreign service suppliers, except for the space satellite industry. However, the Brazilian schedule of commitments left access to markets unbound for all four of the modes of supply defined by GATS. As Brazilian authorities noted, in most service activities, foreign service suppliers’ access to Brazilian service markets depended on changes in constitutional measures, as in financial services and telecommunications (WTO, 1996). Brazil later assumed stronger commitments in the recently finalized sectoral agreements on telecommunications and financial services.

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[22] See WTO, 1996, p. 68.

The final Brazilian schedule of exceptions to the most-favoured-nation procedures included audiovisual services, land transportation and maritime transportation. Those exceptions will be valid for an indefinite period.

5. Intellectual property rights

Before the signing of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the matter was ruled by the World Intellectual Property Organization (WIPO), which allowed special conditions for intellectual property rights according to the development level of the country. In Brazil, the lack of rules on intellectual property rights was deliberately used to support the development of domestic industries and to foster direct investment in some strategic areas. That was the case for chemical and pharmaceutical products.

Brazil is a founding member of the Paris and Berne Conventions and has signed the Stockholm Convention and Paris revision. The WTO TRIPS Agreement was incorporated into Brazil's domestic legislation. On 14 May 1996, Brazil approved a new industrial property law (Law 9279). It was very controversial, some sectors hold that it is more strict than the TRIPS Agreement and that it resulted from pressure from the United States. That country made intense use of its Trade Law: Brazil was included on the priority watch list as allowed by Section 301.[23]

Before the approval of Law 9279, Brazilian legislation on industrial property was based on Law 5772, of 21 December 1971, also called the Code of Industrial Property. From the mid-1980s, complaints from foreign countries increased regarding the legal exclusion of patent rights in areas such as the pharmaceutical, chemical and food industries. By June 1987, the United States started talks with Brazilian authorities on complaints from United States-based pharmaceutical laboratories that Brazilian firms freely copied their products. In 1988, Brazil created a group of experts from several ministries to examine Brazilian industrial property policy in the chemical and pharmaceutical industries. The group's report stated that Brazil should keep its policy of excluding such products from patent rights, in order to support its domestic industry and to foster its technological and economic development. The Brazilian Government offered a conciliatory proposal to recognize patents only on processes for the pharmaceutical industry, which was rejected by the United States Government. The United States imposed trade sanctions against Brazil in October 1988, based on Section 301 of its Trade Law.

The United States sanctions affected Brazilian manufacturing imports, with tariffs of 100% *ad valorem* on certain paper, chemical and electronics goods, Brazil reacted by asking for a GATT arbitration, since the Brazilian law was supported by the Paris Convention, to which Brazil was a signatory since 1883. By 1990, however, the Collor administration agreed to change Brazilian legislation on intellectual property rights (see Blasi *et al.* 1997, p. 9). The United States Government decided to suspend the trade sanctions while a commission led by Brazil's National Institute of Industrial Property (INPI) developed a bill to present to Congress.

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[23] The main sources for this section are Law 5772 of 21 December 1971, Decree 75572 of 8 April, 1975; Law 9279 of 14 May 1996; Grau, 1997; Blasi, García and Mendes, 1997.

The congressional debate on industrial property was, nevertheless, very intense, and it took several years for a law to be approved. New aspects of the bill 824/91 sent to Congress by the Executive Office included the protection of living beings [plant or animal varieties or essentially biological processes for the production of plants or animals], pharmaceutical products and processes or products that are in the pipeline [processes or products that do not yet have commercial applications]. The government hoped to approve the project quickly, but the Chamber of Deputies decided not to give special treatment to the bill and sent it to be discussed under a special commission that was created in November 1991. Several groups opposed the bill, particularly the Catholic Church, which opposes patents on living beings, and nationalist groups, which opposed pipeline protection and patents on pharmaceutical products.

By 1993, Brazil had approved a law that accepted patents on living beings, but no other changes in Brazilian law had been approved. In May 1993, the United States again included Brazil on a priority watch list, because the Brazilian legislation was not yet changed. New negotiations between the two countries resulted in the United States removing Brazil from the priority watch list in February 1994.

Decree 1355 of 30 December 1994 incorporated into Brazilian law the Final Act of the Uruguay Round, including the TRIPS agreements. By April 1995, however, the contentions between the United States and Brazil arose again with new threats of trade sanctions. At that time the Brazilian Congress discussed two bills on industrial property, one from the Chamber of Deputies Commission on Constitution and Justice and the other from the Senate Commission on Economic Issues. Pipeline protection had become the controversial issue. Domestic industry had accepted the Uruguay Round agreements, but insisted on using all the advantages granted by the WTO, which provides a five-year transitional period.

Two groups were formed: those who defended pipeline protection and patents on living beings and those who were opposed to both. The President of the Republic, Fernando Henrique Cardoso, was a powerful ally of the first group. In February 1996, the Government approved special treatment for the Bill on Industrial Property, and was able to put it to vote several days later. The Executive Office was quite active during these days, and the bill was approved in the Senate on 29 February. The group opposing the bill had argued to incorporate the transitional period allowed by the TRIPS agreements, to amend articles on pipeline protection, microorganisms and local production, those changes were not considered. On 17 April, the Chamber of Deputies approved the bill according to the text approved by the Senate, and Law 9279 was promulgated on 14 May1996.

Even before the law was approved, the National Institute of Industrial Property (INPI) which is responsible for implementing norms on industrial property, had made important changes in its relations with transnational corporations. Particularly, procedures for technology transfer contracts and scientific assistance were simplified. Until December 1993, all technology transfer contracts had to be registered with INPI, including those between foreign and Brazilian companies. The liberalization of the norms has led to a fast increase in payments abroad for technology or technical assistance (see tables IV.3 and IV.4).

Table IV.3
EXTERNAL CONTRACTS FOR TECHNOLOGY, TRADEMARKS AND SERVICES IN BRAZIL: NUMBER OF LEGAL REGISTRATIONS

Country or block	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996
Europe	879	780	587	807	739	770	689	581	615	777
United States	486	469	471	701	572	580	517	412	419	422
Japan	120	159	58	77	59	79	100	71	77	93
Other	79	79	32	102	80	86	87	65	78	92
Total	1 564	1 487	1 148	1 687	1 450	1 515	1 393	1 129	1 189	1 384

Source: National Institute of Industrial Property (INPI), DIRTEC.

Table IV.4
GROSS EXPENDITURES ON SERVICES

Gross expenditures on services	1995 Millions of dollars	(%)	1996 Millions of dollars	(%)
Technological services	676	2.5	1 008	3.1
Transportation	4 727	17.3	6 211	18.9
Travel	3 391	12.4	4 434	13.5
Several services (excluding technological)	3 203	11.7	3 421	10.4
Government	468	1.7	450	1.4
Insurance	308	1.1	300	0.9
Interest	10 643	39.0	12 758	38.8
Profit and dividends	3 501	12.8	3 841	11.7
Profit reinvestment	384	1.4	447	1.4
Total services	**27 301**	**100.0**	**32 870**	**100.0**

Source: Brazilian Society for the Study of Transnational Corporations and Economic Globalization (SOBEET) and the Economic Department (DEPEC) of the Central Bank of Brazil.

Brazil's industrial property legislation was designed not only to observe all the international agreements that Brazil had signed, but also to resolve any contentions between Brazil and the United States in this field. The challenge for Brazil was to compensate the inevitable increase in payments abroad with other sources of foreign currency, and to avoid a dramatic deterioration of its current account.

6. The structure of trade policy institutions

The all-powerful Ministry of Economic Affairs, Finance and Planning, created in 1990, was broken into three ministries in 1993: (i) Planning and Budget; (ii) Finance and; (iii) Industry, Commerce and Tourism. These last two ministries share the responsibility for foreign trade policy. The Ministry of Finance is charged with fiscal and customs issues, and the Ministry of Industry, Commerce and Tourism is responsible for trade policy implementation and the review of trade laws. The Secretariat of Foreign Trade (SECEX), within the latter Ministry, implements and reviews trade policies, but it is not charged with trade policy formulation and coordination.

External economic relations are carried out by the Ministry of Foreign Relations. This ministry is responsible for bilateral, regional and multilateral trade negotiations and international trade-related fora. Only the Ministry of Foreign Relations has the authority to sign international agreements. It is therefore responsible for all issues related to WTO agreements and dispute settlements.

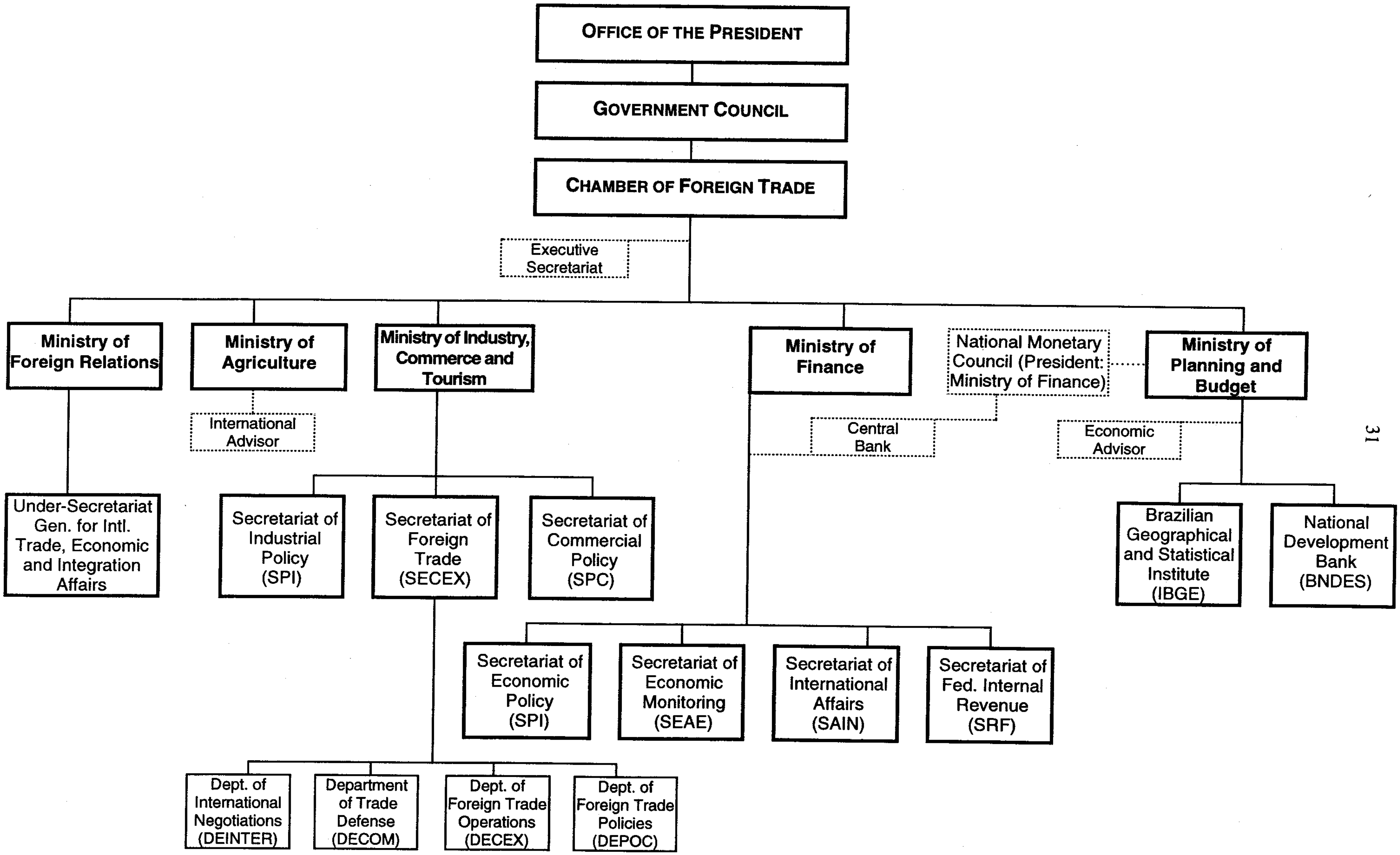
Another important body for trade policy formulation is the Chamber of Foreign Trade. It was established in 1995 to formulate and evaluate policies and coordinate activities related to foreign trade. The Chamber implements its decisions through its Executive Secretariat. The Head of the Chamber is the Minister of the Office of the President. The Ministers of Agriculture, Finance, Foreign Relations, Planning and Budget and Industry, Commerce and Tourism, as well as the President of the Central Bank, are members of the Chamber.

Figure IV.1 outlines the structure of the trade-related agencies. As the figure shows, four ministries have direct responsibilities on trade issues. The Ministry of Foreign Relations undertakes international negotiations; the Ministry of Agriculture and the Ministry of Industry, Commerce and Tourism are responsible for policies on agriculture and manufacturing products respectively; and the Ministry of Finance deals with financial aspects of international trade, particularly special concessions such as PROEX, which grants lower interest rates for exporters.

The Ministry of Industry, Commerce and Tourism has a key position in the formulation of industrial and trade policies. The Secretariat of Industrial Policy (SPI) and the Secretariat of Foreign Trade (SECEX) are responsible for adapting Brazil's development strategies to the world system. Government trade strategy has two pillars: domestically, it aims to increase the efficiency of industry and improve the mechanism of trade defense; internationally, it intends to remain active in economic diplomacy, with particular emphasis on the consolidation of Mercosur (see IPEA, 1997).

Brazil does not have a clear strategy for increasing the competitive advantage of domestic firms. The Government holds that domestic firms will be compelled to improve their organizational methods and make investments in order not to lose market share to imports. It also holds that privatization and changes in labour legislation can improve the competitive advantage of these firms. In fact, although the productivity of manufacturing firms improve, the share of gross domestic investment in GDP is still less than 20%, which is much lower than its level in the 1970s and the first two years of the 1980s. These changes are not at all sufficient to compensate for the valuation of the domestic currency after the Real Plan.

Figure IV.1
MAIN TRADE-RELATED AGENCIES IN BRAZIL



Source: World Trade Organization, Trade Policy Review, Brazil, Report by the Secretariat (WT/TPR/S/21), Geneva, 1996.

The only strategy for domestic competition is to substitute tariff protection for a more active trade defense legislation. In a very short time, Brazil has increased the number of anti-dumping and anti-subsidies measures to become the seventh-ranked country in number of anti-dumping measures applied.[24] This ranking is remarkable, because Brazil has very little experience in trade defense.

[24] The countries that applied more anti-dumping measures than Brazil are the United States, the European Union, Canada, Australia, New Zealand and Turkey (IPEA, 1997, p. 183).

V. GROWTH AND THE CHALLENGE OF THE POST-COLD WAR TRADING SYSTEM

1. Convergence and catch-up: some theoretical remarks

Studies on the sources of economic growth have shown that basic inputs, such as labour and capital, alone cannot account for most of the aggregate growth of the economy. The pioneers of those studies, such as Robert Solow (1956, 1957) and Moses Abramovitz (1956), showed that another factor, which they labeled technological change, was responsible for almost three-quarters of all growth.[25] In addition, an important segment of the literature on economic development has shown that over time, countries converge on a similar path of technological development.

The concept of convergence relies on four assumptions. First, countries of different development levels differ only in their initial endowment of technical knowledge, but they are culturally and institutionally similar. Second, the growth rate of the leader country depended on technological and organizational innovations, whereas the follower country can benefit from the leader technology by choosing and implementing the best techniques. When the follower country replaces industrial equipment, it can use state-of-the-art technology, thereby speeding its growth rate. Third, follower countries suffer from low levels of capital per worker. Marginal returns to capital investment are therefore higher than in leader countries. They also have redundant workers in farming and petty trade; productivity growth can occur by shifting labour from farms to non-farm jobs and from informal jobs and self-employment to larger-scale enterprises. Fourth, the relatively rapid growth from the first sources leads to further growth because of gains in scale and scope.

Mechanisms for narrowing differences in real per capita output or productivity among countries are not automatically triggered.[26] They need an adequate institutional environment and, quite frequently, active government policies in areas such as education, physical capital, R&D capability and national, organizational and firm efficiencies. The economic literature calls attention to the importance of the "social capability" of countries for gaining the advantages of advanced technologies.

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[25] For a detailed study on the concept of convergence and catch-up and on the sources of long-term economic growth, see Abramovitz and David (1996) and Lau, (1996).

[26] For a review of the convergence controversy and the link to endogenous growth theory, see Romer (1994).

2. Enhancing endogenous capability: the social challenge

Brazil has both very advanced characteristics and dramatically laggard ones. The country has world-level universities and sophisticated graduate programmes, but the quality of public primary and secondary school is low. Brazil has made progress on enrollment for basic education, but the average years of schooling in Brazil was still 5.4 years in the mid-1990s.[27] Brazil's income distribution is still one of the worst in the world. Government health expenditure is still very low –about R$ 100.00 per capita in 1995– and because of the low quality of public medical services, the number of associates of private health-insurance plans grew more than 50% between 1987 and 1997.[28] Brazilian life expectancy was 67 years in 1997, and infant mortality is 42 per thousand live births (IBGE, 1996).

The above data implies that Brazil has to increase its social expenditure fast to create the preconditions for a self-sustained catch-up process. Before addressing material infrastructure, this country must deal with its social handicap. Brazil was able to postpone any effective action against this historical social unbalance while maintaining a rapid growth rate before the 1980s. It is not likely, however that this country can recover that past growth rate without tackling this complex structural problem.

3. Enhancing endogenous capability: the infrastructure challenge

For many decades, funding for investment in infrastructure came from fiscal resources. Development plans from the 1950s to the 1970s concentrated enormous funds on investment in areas such as energy, telecommunications and road building. This does not reflect a prejudice against private entrepreneurship, but rather a lack of funds or interest among private companies for investing on the scale necessary to sustain the rapid growth of domestic and industrial demand. In the coming years, Brazil will have to rely on private investment to satisfy the growing demand for those services.

Even in private hands, however, most of the funding will still most likely come from government agencies. For example, the National Economic and Social Development Bank (BNDES) increased its financing for infrastructure by 412% in 1996.[29] Since 1995, when the National Privatization Council (CND) was set up, the Government has speed up the privatization process. It has already privatized several large companies, such as the National Steel Company

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[27] See IPEA (1997), table III.19, p. 98 and Nunes (1996).

[28] According to IPEA (1997, pp. 76-78) the population covered by private medical insurance grew from 22.3 million in 1987 to about 40 million in 1997. Hospital coverage of the public system, the Unified Health System (SUS) is stagnated at 10%. The ambulatory public system on average can supply only two appointments per capita per year.

[29] Data from BNDES Relatório de Atividades (1996). Their main finance operations were the Brazil-Bolivia Gasoduto, the Rio Madeira waterway, the Port of Sepetiba, the Metros of São Paulo and Rio de Janeiro, and resources for privatized companies.

(CSN), the Rio Doce Valley Company (CVRD), which is the largest Brazilian mining company, and Light, the supplier of electricity for the Rio de Janeiro metropolitan area.[30]

According to Government estimates Brazil needs to invest R$ 85 billion on infrastructure billion 1996-1999 (IPEA, 1997, p. 133). Energy alone will require 45% of this amount. For telecommunications, the Target Plan (PASTE) anticipates an overall investment of R$ 75 billion, from public and private sources, with half applied through 1999 and the other half in 2000-2003.

The transportation system has also been partially conceded to private companies. The RFFSA, the largest Brazilian railway system, has been sold to a joint venture of Brazilian companies and North American Railtex (Piccinini, 1996, p. 83). Several roads have also been privatized including the Rio-São Paulo motorway at the federal level and the Anhaguera-Bandeirantes, at the state level. Brazil has yet to learn whether those private firms, which will control large shares of infrastructural activities, will make the investment necessary to increase the country growth rate which has been sluggish since the 1980s.[31]

4. Further challenges for endogenous capability

In the past, Brazil relied on three pillars for financing growth: domestic investment, foreign direct investment and government investment. The gross domestic fixed capital formation rate has been very low, suggesting an energetic recovery of economic growth. Foreign direct investment has also been recovering lately, which is partly due to the privatization programme and partly due to the success of Mercosur (see Statistical Appendix). Brazil still needs the Government to speed up public investment, however. Several areas still depend on Government action, not only in large public works such as roads, metropolitan railways and ports, but also in energy generation and environmental development. In the past, increasing public investment stimulated a quick response from the private sector, but the confidence between the state bureaucracy and domestic entrepreneurs has been weaken. We cannot know whether this link can be rebuilt and whether entrepreneurs will again respond quickly to new investment opportunities. Recovering some capability for coordinated action between public and private economic agents is a necessary component of a successful economic development strategy under the new trading system.

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[30] For a detailed study on public and private participation of infrastructure see Piccininni (1996). See also Ministério do Planejamento e Orçamento, *Plano plurianual 1996-1999*, Brasilia D.F.

[31] The privatization of public services got off to a bad start in Rio de Janeiro with the disastrous performance of Light, the city's new supplier of electricity. During the summer of 1997-1998, the company could not respond to the increased consumption of energy resulting from the heat.

Table V.1
BRAZIL: VARIOUS ECONOMIC INDICATORS AS A PERCENTAGE OF GDP, 1951-1995

Period	Net factor income payments abroad	Exports	Imports	Consumption expenditures	Gross domestic investment	External saving	Domestic saving
1951	0.5	9.6	11.3	86.8	15.2	2.7	12.5
1952	0.2	7.1	9.9	87.6	14.6	2.6	12.1
1953	0.7	6.6	5.6	84.4	14.9	0.2	14.7
1954	0.6	6.7	6.8	83.5	15.6	-0.1	15.7
1955	0.7	7.6	6.8	84.0	13.3	-1.7	15.1
1956	0.7	6.8	5.8	84.6	14.3	-0.2	14.5
1957	0.3	5.6	6.2	83.2	14.9	-1.3	16.2
1958	0.6	5.7	6.1	82.2	16.8	-0.2	16.9
1959	0.6	6.0	6.6	80.1	17.8	-1.3	19.0
1960	0.7	5.3	6.4	84.1	15.6	47.0	15.1
1961	0.5	5.8	6.2	85.3	13.0	-1.1	14.1
1962	0.8	6.7	8.0	83.7	15.4	-0.2	15.5
1963	0.5	8.6	9.0	82.3	16.4	-0.3	17.2
1964	0.5	6.5	5.6	82.2	14.8	-2.4	17.2
1965	0.9	7.6	5.4	79.4	14.6	-5.3	19.9
1966	0.8	6.5	5.8	80.9	15.8	-2.7	18.5
1967	1.0	5.7	5.8	83.8	16.1	0.7	15.4
1968	0.8	5.6	6.7	81.8	18.6	1.2	17.4
1969	0.8	6.3	6.2	75.1	19.0	-2.1	21.1
1970	0.9	6.6	7.0	76.9	18.7	-0.4	19.1
1971	1.0	6.5	8.2	80.5	19.9	1.3	18.6
1972	1.0	7.3	8.9	80.4	20.3	1.7	18.7
1973	0.9	7.8	9.0	79.1	20.4	0.3	20.0
1974	0.8	7.7	13.3	81.3	21.8	4.0	17.4

Period	Net factor income payments abroad	Exports	Imports	Consumption expenditures	Gross domestic investment	External saving	Domestic saving
1975	1.4	7.2	11.0	78.1	23.4	2.8	20.5
1976	1.5	7.0	9.4	79.4	22.4	3.3	19.1
1977	1.6	7.3	7.9	78.6	21.3	1.6	19.8
1978	2.3	6.7	7.9	78.2	22.3	2.7	19.6
1979	2.7	7.2	9.3	79.0	23.4	5.0	18.3
1980	3.3	9.0	11.2	78.9	22.9	5.0	17.9
1981	4.2	9.6	10.0	75.9	24.3	4.4	19.9
1982	5.2	7.9	8.6	78.1	23.0	6.4	16.6
1983	6.3	12.2	9.7	79.0	19.9	5.2	14.8
1984	6.3	15.0	8.8	76.1	18.9	1.3	17.7
1985	5.6	13.0	7.5	74.2	18.0	2.3	20.3
1986	4.7	9.2	6.6	77.4	20.0	2.0	18.0
1987	3.9	9.8	6.4	73.4	23.2	0.5	22.7
1988	4.2	11.7	6.1	70.1	24.3	-1.4	25.7
1989	3.3	8.9	5.5	69.7	26.9	-0.3	27.1
1990	2.8	7.8	6.1	76.7	21.6	0.9	20.7
1991	2.8	8.9	6.9	79.2	18.8	0.4	18.4
1992	2.5	10.4	6.9	77.6	18.9	-1.4	20.5
1993	2.8	9.8	7.5	78.6	19.2	0.2	19.1
1994	1.9	8.3	7.2	79.3	19.6	0.3	19.3
1995	1.7	7.0	8.4	82.1	19.2	2.5	16.8

Source: *Conjuntura Económica*, Rio de Janeiro, Getulio Vargas Foundation (FGV), November 1997.

Table V.2

BRAZIL: SHARE OF CONSTRUCTION, MACHINERY AND EQUIPMENT EXPENDITURES IN GROSS DOMESTIC FIXED CAPITAL FORMATION (GDFCF), 1970-1995

(In percentages)

	YEARS																	
	1970	**1975**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
GDFCF-Constant Value	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Construction	58.4	54.6	62.0	66.2	69.3	70.9	70.2	68.4	65.8	67.2	68.4	69.8	70.6	69.4	70.7	69.1	65.1	57.5
Total Machinery and Equipment	40.5	44.1	34.3	30.5	28.1	26.0	28.3	29.3	30.9	30.2	28.9	27.5	27.2	28.7	26.7	29.1	33.1	41.2
Domestic Machinery and Equipment	34.0	33.8	29.4	25.6	24.0	22.7	25.2	25.8	27.3	26.1	24.7	23.0	20.9	21.2	17.4	17.9	19.1	19.6
Imported Machinery and Equipment	6.4	10.3	4.9	4.9	4.1	3.3	3.1	3.5	3.6	4.1	4.2	4.6	6.3	7.5	9.3	11.2	14.0	21.6
Other	1.1	1.3	3.7	3.2	2.5	3.1	1.4	2.2	3.3	2.6	2.6	2.7	2.2	1.8	2.6	1.8	1.7	1.4

Source: Brazilian Geographical and Statistical Institute (IBGE). *Anuario estatístico*, various issues; and *Conjuntura Econômica*, Rio de Janeiro, Getulio Vargas Foundation (FGV), November 1997.

VI. BEYOND THE URUGUAY ROUND: BRAZILIAN TRADE POLICY INSTITUTIONS AND ECONOMIC INTEGRATION

1. Concluding remarks

Brazil's economy is led by its domestic dynamism, but it is also highly integrated in the world economy in terms of direct and portfolio investment. By 1995, 32% of Brazilian manufacturing output was produced by branches of foreign transnational corporations (TNCs), and by December 1996, Brazil was the largest market for investment in emerging market funds.[32] Economic growth in Brazil is a function of this mix between domestic dynamism and external financial integration.

What attracts foreign capital to Brazil is the size of the domestic market. To the extent that market size increases with regional economic integration, foreign investment will increase in the country, as well as in the region. About 9.600 foreign transnational corporations are established in Brazil, more than in any other Latin American nation. Several of those TNCs can use Brazil as a base for exporting to the regional market. Economic integration can thus contribute to Brazil's economic growth by expanding the domestic market, enhancing opportunities for direct investment by TNCs and developing new export opportunities.

Because the size of the domestic market is the main reason TNCs invest in Brazil, the economic growth rate will determine the growth rate of foreign direct investment, all things being equal. Thus, in the long run economic growth alleviates balance-of-payment problems because it attracts foreign investment and, after a lag, tends to stimulate exports. This happened in Brazil from the late 1960s to 1980. In the short term, however, economic growth implies increasing imports. Also if there is not an expectation that growth will last, it may not affect the rate of gross fixed capital formation and may bring inflationary pressures.

On the other hand, the trade balance is affected by trade policy and the exchange rate. With the implementation of the Real Plan in 1994, the joint action of tariff liberalization, high interest rates and overvaluation of the exchange rate has transformed the large external trade surplus of the late 1980s into a very large trade deficit. This chapter will discuss Brazil's trade institutions and how they are dealing with the trade deficit and trade regional trade policies.

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[32] Brazil alone absorbed 12.2% of the 107 largest emerging market fund investments. See Statistical Appendix. See also Gonçalves, Prado, Bauman and Canuto (1998, p. 169).

2. The role of Mercosur in the structure of trade policy formulation

Mercosur is presently a strategic priority for Brazil's foreign economic relations. It is the basis for Brazil's building-block approach to economic integration, where it enhances the country's bargaining power for negotiations with other countries or trade groupings. Brazil has wide objectives and intends to reach them in a relatively short period. It intends to set up a common market, coordinate macroeconomic and industrial policies and harmonize legal systems.

The Treaty of Asunción is not modelled on the Treaty of Rome, which created the European Economic Community, but is more similar to the Benelux Convention, which created the Economic Union between Belgium, Luxembourg and the Netherlands. It does not have supranational bodies, but intergovernmental ones. The main organism of Mercosur is the Common Market Council, an intergovernmental body. Other bodies in that institution serve only technical or adviser roles.

The Customs Union area is already on its final adjustment. Duty-free already covers more than 95% of intraregional trade. A list of products still enjoys national tariff protection within Mercosur; these exceptions will automatically be eliminated on 31 December 1998 for Brazil and Argentina and on 31 December 1999 for Paraguay and Uruguay.

The Common External Tariff (CET) rates can only be modified with the consent of all Mercosur members. The Common Market Group is responsible for approving all changes, under the recommendation of the Mercosur Trade Commission. This commission has also served as a forum for monthly consultations on specific trade problems, mostly involving market access.

Brazil has been trying to hold the Mercosur members together in negotiations with other trade groups. It has reached free trade agreements with Chile and Bolivia. Despite negotiations with other South American countries, Mercosur continues to be centred on the four countries with full membership, while maintaining close economic and political relations with Chile and Bolivia. Mercosur members generally agree that if Chile applied for full membership, it would greatly enhance the region's bargaining power in international fora. It is very unlikely, however, that this country would give up its tariff structure and its independent trade policy to join the Mercosur CET.

Mercosur faces challenges from the North American Free Trade Agreement (NAFTA) between Mexico, Canada and the United States and from the construction of the Free Trade Area of the Americas (FTAA). The objectives and scope of NAFTA are quite different from those of Mercosur. Unlike the Central and North American countries, Mercosur members do not target the United States as their main market. For them, it is more advantageous to have good trade relations with worldwide trade groups, as well as large individual countries. Consequently, when the United States proposed the FTAA at the Summit of the Americas in December 1994, Brazil did not consider this initiative to be a priority. Mercosur countries jointly decided to negotiate as a group, placing importance on strengthening Mercosur itself and on the process of regional convergence of subregional schemes.

Mercosur has made a strong contribution to the growth of regional trade. From the period 1989-1990 to the period 1994-1995, intra-Mercosur trade grew 241%, whereas extra-Mercosur trade grew only 54.4% (see IPEA, 1997, p. 153). The regional market is very important for Brazil and Argentina because of the structure of intra-Mercosur trade. For these two countries, trade is essentially intra-industrial, and a large share of this bilateral trade is in manufacturing products, particularly transport products, chemicals, and agro-industrial products.

This regional integration is reinforced by the transnational corporations' strategy of complex integration. That is, the new investments deepen the integration between TNC plants and branches in Brazil and Argentina. In addition to creating trade, Mercosur has attracted new productive investment for the region. It has become an integrated area for both investment and trade. The great challenge for the member countries is to create mechanisms for integration beyond the Customs Union. Several problems must be overcome before a common market is established. Convergence of domestic legislation, differences in wage levels, income distribution and exchange rate policies are just a few of these barriers (see Prado, 1997). However, Brazil and Argentina, which in the past have been competitors, currently share the belief that their futures are inexorably intermingled.

Table VI.1
MAIN MARKETS FOR BRAZILIAN EXPORTS AND IMPORTS

Country or economic block	Imports			Exports		
	Participation %		Change Rate	Participation %		Change Rate
	1997	1996		1997	1996	
Americas	47.72	46.77	22.09	45.60	43.93	15.27
LAIA [a]	22.00	21.65	21.42	24.96	22.45	23.52
Mercosur	15.91	15.59	21.92	16.75	15.02	23.84
Other LAIA countries	6.08	6.05	20.12	8.21	7.43	22.85
CACM [b]	0.01	0.01	61.87	0.34	0.34	10.44
Other Latin American countries	0.10	0.15	-26.29	0.80	0.48	83.41
CARICOM [c]	0.03	0.02	33.76	0.23	0.28	-10.86
Canada	2.43	2.51	15.84	1.09	1.04	16.84
United States (including Puerto Rico)	23.03	22.23	23.77	17.85	19.20	3.24
Other American countries	0.13	0.21	-26.52	0.67	0.48	54.58
Europe	29.82	30.45	17.07	31.55	31.15	12.50
Eastern Europe	1.50	1.84	-2.07	2.34	2.22	17.06
European Union	26.41	26.61	18.61	27.78	27.15	13.65
EFTA [d]	1.77	1.86	13.72	0.72	1.11	-27.51
Other Western European countries	0.14	0.14	20.62	0.71	0.67	16.88
Asia	18.66	18.13	23.01	17.93	19.80	0.55
Asia (excluding the Middle East)	15.32	14.09	29.95	15.16	16.92	-0.48
Middle East	3.34	4.04	-1.18	2.77	2.88	6.62
Africa	3.21	3.35	14.38	2.71	3.15	-4.28
Oceania	0.54	0.77	-15.96	0.56	0.63	-0.90
Other	0.04	0.52	-91.76	1.29	0.97	46.84
Total	**100**	**100**	**19.49**	**100**	**100**	**11.07**

Source: Brazilian Secretariat of Foreign Trade (SECEX).

[a] Latin American Integration Association.

[b] Central American Common Market.

[c] Caribbean Community.

[d] European Free Trade Association.

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STATISTICAL APPENDIX

Table A.1

FOREIGN INVESTMENT FLOWS TO AND FROM BRAZIL

(In millions of dollars)

	Portfolio[a]	Direct[b]	Intercompany loans	Total
	Inflows			
1990	824	1 130	258	2 212
1991	4 186	1 095	308	5 589
1992	9 960	1 749	871	12 580
1993	23 554	1 294	1 064	25 912
1994	32 621	2 589	632	35 842
1995	35 858	5 291	1 133	42 282
1996 (first quarter)	9 644	1 544	413	11 601
	Outflows			
1990	245	230	170	645
1991	378	123	177	678
1992	2 594	169	390	3 153
1993	10 602	580	487	11 669
1994	21 046	618	454	22 118
1995	25 846	1 163	402	27 411
1996 (first quarter)	5 384	319	89	5 792
	Net			
1990	579	900	88	1 567
1991	3 808	972	131	4 911
1992	7 366	1 580	481	9 427
1993	12 952	714	577	14 243
1994	11 575	1 971	178	13 724
1995	10 012	4 128	731	14 871
1996 (first quarter)	4 260	1 225	324	5 809

Source: Central Bank of Brazil.

[a] Includes bonds, commercial paper and notes; excludes external debt restructuring bonds.

[b] Includes reinvestment of earnings.

Table A.2

STOCK OF FOREIGN INVESTMENT IN BRAZIL ON 30 JUNE 1995, BY SOURCE

(In millions of dollars)[a]

Source[b]	Investments[c]	Reinvestment	Total	Share in total (%)
United States	17 427	3 003	20 430	35.2
Germany	5 029	2 845	7 874	13.6
Japan	3 660	900	4 560	7.9
United Kingdom	3 612	729	4 341	7.5
France	2 036	1 150	3 186	5.5
Netherlands	1 734	707	2 441	4.2
Italy	2 004	422	2 426	4.2
Switzerland	1 344	779	2 123	3.7
Canada	1 272	612	1 884	3.2
Bahamas	1 230	13	1 243	2.1
Bermuda	803	14	817	1.4
Luxembourg	498	130	628	1.1
Sweden	352	273	625	1.1
Panama	458	128	586	1.0
Belgium	267	305	572	1.0
Argentina	146	218	364	0.6
Liechtenstein	323	32	355	0.6
Portugal	319	19	338	0.6
Netherlands Antilles	270	32	302	0.5
Kuwait	268	0	268	0.5
Australia	248	9	257	0.4
Other	2 204	259	2 463	4.2
Total	45 504	12 579	58 083	100.0

Source: Central Bank of Brazil.

[a] Conversion to US dollars at the rate of 30 June 1995.

[b] Countries shown have a total investment greater than US$ 250 million.

[c] Includes portfolio investments, fixed-income funds and foreign capital and privatization funds.

Table A.3

PARTICIPATION OF SELECTED COUNTRIES AND REGIONS IN THE PORTFOLIO OF THE 107th LARGEST EMERGING MARKET FUNDS (EQUITY), JUNE 1993 TO DECEMBER 1996

(In percentages)

Country or region	1993			1994				1995				1996			
	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Brazil	7.26	7.09	5.97	8.84	8.49	11.28	12.02	9.97	10.08	11.07	10.06	10.92	11.44	11.63	12.2
Malaysia	8.26	9.50	8.42	6.77	6.98	8.13	8.27	9.27	9.97	8.42	8.05	8.64	8.23	8.13	9.37
Mexico	13.64	14.89	17.06	15.02	12.90	14.80	9.64	5.59	6.05	6.43	6.71	7.3	7.52	8.4	8.32
Thailand	5.99	6.04	7.15	5.15	5.46	5.83	6.02	6.05	7.26	6.75	6.88	7.29	6.4	5.52	3.82
South Africa	0.30	0.76	0.61	0.32	1.08	1.73	2.74	4.50	5.15	5.94	6.41	5.75	5.65	5.09	4.43
South Korea	5.83	5.18	5.47	5.76	6.14	5.53	5.57	6.06	5.49	6.65	6.05	5.44	5.29	5.02	4.43
India	3.67	3.95	3.70	5.69	6.20	5.46	5.26	5.27	4.53	4.72	4.36	5.03	5.08	4.68	4.21
Taiwan (Province of China)	2.06	2.39	3.41	3.60	4.26	3.43	3.38	3.06	2.82	3.59	3.57	2.82	4.42	4.59	4.83
Indonesia	4.09	4.08	3.59	3.64	3.57	3.75	4.05	4.02	4.39	4.39	4.28	4.35	4.09	3.81	3.89
Hong Kong	5.89	4.26	5.72	5.06	4.21	3.38	3.14	3.67	3.71	3.82	3.87	4.07	3.65	4.13	4.8
Argentina	4.89	5.34	5.65	5.32	5.05	4.46	3.78	3.41	3.47	3.58	4.00	3.72	3.63	3.23	3.56
Philippines	3.25	3.00	3.20	2.77	3.30	2.57	2.92	2.28	2.74	2.73	2.74	2.96	3.26	3.33	3.11
China	1.64	1.97	2.03	1.57	1.39	1.69	1.59	1.72	1.77	1.71	1.63	1.61	1.76	1.91	2.06
Asia	46.26	46.11	47.60	45.87	46.97	44.49	44.54	45.47	46.44	46.50	45.16	45.72	44.94	43.65	42.87
Latin America	32.73	33.58	34.87	36.49	33.41	37.68	32.85	26.68	27.23	27.65	27.49	27.90	29.03	30.16	30.65
Europe	10.70	12.30	9.81	9.82	9.67	8.71	9.57	11.01	11.67	11.87	11.64	13.18	13.18	13.37	13.68
Middle East and Africa	1.39	1.76	1.45	2.23	2.69	3.19	4.60	6.58	7.21	8.20	8.75	7.28	7.67	8.04	7.83
Temporary investments	7.82	5.01	4.92	4.02	5.94	4.81	7.27	8.72	5.74	3.99	5.23	3.79	3.82	3.10	3.46
Other markets	1.10	1.24	1.35	1.57	1.32	1.12	1.17	1.54	1.71	1.79	1.73	1.59	1.36	1.68	1.51
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Brazilian Society for the Study of Transnational Corporations and Economic Globalization (SOBEET) and *Emerging Market Funds Monitor*, Micropal, various issues.

Table A.4
BRAZILIAN PARTICIPATION IN WORLD TRADE

Period	Brazil US$ billions		World US$ billions		Brazilian participation (%)		Total Brazilian participation (%)
	Exports[a]	Imports[b]	Exports[a]	Imports[b]	Exports	Imports	(Exports + imports)
1970	2.74	2.85	298.26	313.50	0.92	0.91	0.91
1971	2.90	3.70	333.89	344.82	0.87	1.07	0.97
1972	3.99	4.78	397.72	405.58	1.00	1.18	1.09
1973	6.20	7.00	553.29	559.75	1.12	1.25	1.19
1974	7.95	14.17	820.08	822.31	0.97	1.72	1.35
1975	8.67	13.59	843.49	866.85	1.03	1.57	1.30
1976	10.13	13.73	950.87	971.89	1.07	1.41	1.24
1977	12.12	13.26	1 076.54	1 112.90	1.13	1.19	1.16
1978	12.66	15.05	1 245.83	1 287.38	1.02	1.17	1.09
1979	15.24	19.80	1 604.23	1 624.82	0.95	1.22	1.09
1980	20.13	24.96	1 920.75	1 999.13	1.05	1.25	1.15
1981	23.29	24.08	1 899.67	1 982.16	1.23	1.21	1.22
1982	20.18	21.07	1 752.88	1 852.99	1.15	1.14	1.14
1983	21.90	16.80	1 711.97	1 793.17	1.28	0.94	1.10
1984	27.01	15.21	1 817.93	1 911.37	1.49	0.80	1.13
1985	25.64	14.33	1 848.68	1 935.16	1.39	0.74	1.06
1986	22.35	15.56	2 034.46	2 114.35	1.10	0.74	0.91
1987	26.22	16.58	2 391.66	2 473.77	1.10	0.67	0.88
1988	33.49	16.06	2 729.39	2 821.99	1.23	0.57	0.89
1989	34.38	19.88	2 965.51	3 040.89	1.16	0.65	0.90
1990	31.41	22.52	3 379.09	3 466.21	0.93	0.65	0.79
1991	31.62	22.95	3 477.55	3 584.04	0.91	0.64	0.77
1992	35.79	23.07	3 722.96	3 838.22	0.96	0.60	0.78
1993	38.60	27.74	3 714.76	3 769.77	1.04	0.74	0.89
1994	43.56	35.51	4 224.70	4 278.30	1.03	0.83	0.93
1995	46.51	53.78	5 098.22	5 141.32	0.91	1.05	0.98
1996	47.75	56.95	5 293.52	5 339.87	0.90	1.07	0.98

Source: IMF (Brazilian data sometimes differ from those published domestically).

[a] f.o.b.
[b] c.i.f.

Table A.5

EXTERNAL CONTRACTS FOR TECHNOLOGY, TRADE MARKS AND SERVICES IN BRAZIL: NUMBER OF LEGAL REGISTRATIONS, 1975-1996

Country or block	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996
Europe	879	780	587	807	739	770	689	581	615	777
United States	486	469	471	701	572	580	517	412	419	422
Japan	120	159	58	77	59	79	100	71	77	93
Other	79	79	32	102	80	86	87	65	78	92
Total	1 564	1 487	1 148	1 687	1 450	1 515	1 393	1 129	1 189	1 384

Source: National Institute of Industrial Property (INPI), DIRTEC.

Table A.6
CHRONOLOGY OF MAJOR INDUSTRIAL POLICY MEASURES, 1990-1996[a]

1990	**March**	MPs 158 and 161 (Laws 8032 & 8034) reform import and fiscal incentives policies.
	April	National Privatization Programme (PND), Law 8031, regulated by Decree 99463, 16 August 1990.
		CEBRAE is transformed into SEBRAE and removed from the public sector. Law 8029, 12 April 1990, regulated in October 1990.
	June	General Guidelines for PICE (Port. 365/MEFP).
		Port. 363/MEFP reduces indexes of domestic content.
	Aug.	Anti-trust legislation (MP 204; Law 8158, 8 January 1991) regulated by Decree 36, 02/14/91.
	Sept.	Programme for the Support of Industrial Technological Capability (PACTI) defines targets for outlays on science and technology, and proposes the reinstatement of fiscal incentives for R&D.
		MP 222 (Decree 99541) transfers powers from SEI to SCT; alters previous import permit for imports of informatics goods.
		Code for Consumers' Defense (Law 8078, 11 September 1990).
	Nov.	National Programme for Quality and Productivity (PBQP) established to induce the country's industrial and technological modernization.
		FINAMEX/BNDES to finance imports of capital goods, beginning in January 1991.
1991	**Jan.**	Bill on fiscal incentives for enhancing the technological capability of industry and agriculture (PDTI and PDTA).
		Implementation of tariff reform (Port. 58/MEFP).
		Reinstatement of regional incentives (Law 8167, 16 January 1991, regulated by Decree 101, 17 April 1991).
	Feb.	Programme for Industrial Competitiveness establishes sectoral targets and proposes new legislation on fiscal incentives.
		Norms for technology transfer (Res. INPI 20, 27 February 1991).
		Domestic content index reduced to 60% for capital goods (Port. 126/MEFP).
	May	Bill on intellectual property (824/91).
	June	Law 8191 (1 June 1991), adapts fiscal incentives of the Programme for Industrial Competitiveness: exemption of IPI and accelarated depreciation for capital goods until 31 December 1993. Renewed for 1994 and 1995.
		PROEX (Law 8187, regulated on 31 July 1991).
	Oct.	New informatics law (Law 8248, 23 October) confirms the end of the market reserve in October 1992, alters the concept of national enterprise and creates new fiscal incentives (regulated in June 1992, Decree 574).
	Dec.	New incentives (IPI) for the Manaus Free Zone (Law 8387, 30 December 1991, regulated by Decree 613, 12 July 1992)

Table A.6 (Concl.)

1992	**Jan.**	Redefinition of the installation policy for EPZs through fiscal incentives (Law 8396, 2 January 1992).
	Feb.	"Active Foreign Trade Policy" (Law 8402, regulated by Decree 452, 18 February 1992).
		Anticipation of the time scheduled of tariff reform (Port. 131).
1993	**April**	Law 8643 renews fiscal incentives of Law 8191 (1 June 1991) through 3 December 1994. These incentives were later renewed until 31 December 1995 by MP 775/94.
		Reduction of IPI on small cars (Decree 799, 17 April 1993).
	June	Law 8661 (2 June 1993) defines fiscal incentives to enhance the technological capabilities of industry and agriculture (PDTI and PDTA), regulated by Decree 949, 5 October 1993.
1994	**March**	Law 8864 (23 March 1994), creates the bases for differentiated treatment granted to small- and medium-sized firms in fiscal administration, social security and labour.
	June	New law for defense of competition (Law 8884, 11 June 1994).
	Oct.	Fiscal credit for PIS and COFINS export taxes (MP 674).
		Anticipation of enforcement of the Common External Tariff (Mercosur).
	Dec.	Decree 1355 (30 December 1994) regulates the multilateral agreements under GATT 1994 and the WTO.
1995	**Feb.**	Creation of the Chamber of Foreign Trade (Decree 1386).
		New legislation to regulate concessions of public utility services (Law 8987).
	March	Law 9000 renews exemption from IPI for capital goods.
		Law 9019 sets the basic legislation in compliance with GATT and WTO agreements on safeguard regimes, rules of origin, antidumping codes and subsidies and countervailing duties.
	April	Renewal of exemption from PIS/PASEP and COFINS export taxes (MP 948, subsequently renewed by new MPs).
	May	Regulation of Law 9019 regarding the application of WTO safeguard regimes (Decree 1488).
	June	MP 1024 creates sectoral policy for the automotive industry (later renewed by several MPs).
	July	Regulation of Law 9019 regarding WTO rules of origin.
	Aug.	Regulation of Law 9019 regarding the application of WTO antidumping codes.
	Dec.	Regulation of Law 9019 regarding the WTO agreements on subsidies and countervailing duties.
		MP 1235 modifies previous MPs and sets new policy for the automotive industry.
		Decree 1761 regulates sectorial policy for the automotive industry.
1996	**May**	Congress approves the new legislation on intellectual property protection, in accordance with WTO agreements on trade-related aspects of intellectual property rights (TRIPs).
	Aug.	New fund for export financing through BNDES.

Source: W. Suzigan and A.V. Villela, Industrial Policy in Brazil, Campinas, Instituto de Economía (IE), State University at Campinas (UNICAMP), 1997.

[a] Abbreviations: Port.= *Portaria* (Regulation issued by a ministry); Res.= *Resolução* (Regulation issued by a government agency).