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The Brazilian trade policy: new motivations and trends*

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Until the beginning of 2010, the administration of the Brazilian trade policy was focused on the mitigation of the negative effects from the international economic crisis on Brazil's exports. The main initiatives sought to increase the supply of export finance and reduce its costs.

In the last few months, the focus of Brazilian trade policy has shifted from the mitigation of the effects of the financial crisis on exports to measures geared at compensating exports for the appreciation of the Brazilian currency. The return of the appreciation trend of the Real revived the debate about the relation between exchange rate and trade policies.

This change in focus is reflected in the exports stimulus package that the government announced on 5th May 2010. Two months have passed between the announcement of measures and their effective implementation. In some cases, when the measures were implemented, their reach proved to be more limited than what previously had been announced.

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As it seems to happen in the case of the "May package", the process of trade policy-making in Brazil has been revealing difficulties in terms of bringing together viewpoints inside the government. These difficulties have resulted in a very limited ability to implement measures than can actually have a positive impact on the international competitiveness of exports. The obstacles are more intense as far as tax exemptions for exports are concerned, although this kind of measure is considered by the majority of Brazilian exports as the main priority in the field of export policies.

The summary chart below shows the main characteristics of the evolution of Brazilian trade policy in the post-crisis. In the comparison between the main instruments used in 2008/9 and 2010, it is clear that the current year inaugurates a new phase. The motivations shifted from the mitigation of the effects of the financial crisis on exports to the objectives of avoiding the deterioration of the trade balance and compensating the domestic producers for the currency appreciation.

In this process, trade policy becomes more encompassing, widening the export incentives, but also increasing protection against imports including industrial policy instruments (as the preferences in government procurement).

The characteristics of the May 2010 'competitiveness package' points to a more protectionist trade policy, one that uses a bigger variety of instruments, in contrast with the policy of the immediate post-crisis, centered on the financing of exports. But beyond these characteristics, the announcement of a new exports stimulus 'package' expresses the governmental concerns over the impacts of the appreciation of the Real on the exporting performance and, more generally, over the deterioration of the payments balance.

The concerns with this process of deterioration tend to dominate the scenario in which the Brazilian trade policy is formulated. They will move the governmental agenda in the field of trade policy in the near future.

Brazilian trade policy since the crisis: main instruments

Policy instruments	2008 / 2009	2010
Financing for exports	Extension of the Exports Financing Program More favorable conditions (subsidies) for the financing of capital goods by BNDES	Extension of financing conditions (subsidies) granted to capital goods to consumer goods by BNDES
Tax exemption for exports		Partial restitution of indirect federal tax accumulated by companies in exporting operations. Implementation of drawback – exemption modality in the domestic market
Protection policy	Specific tariff alterations, in most cases reducing protection, especially in the capital goods sector, to stimulate investments. No increase in the trade defense measures (AD)	Specific changes in tariffs, in some cases related to the risk of supply shortages in the domestic market. Increase in the use of AD: the ratio between the application of measures and opening of investigations has grown. Concerns over the deficit of an industrial sector (auto parts) generate decisions to raise tariffs for imports in this sector.
Government procurement		Changes in government procurement rules: concessions of preferences to domestic suppliers (with a minimum pre-requisite of local content) of goods and services.