

Markets for Brazilian manufactured exports and trade agreements

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THE SHARE OF MANUFACTURES in Brazilian exports began to decline in 2005. The rise in Chinese demand for Brazilian commodities in the midst of the 2008 international crisis accentuated the trend, and by 2010 the share of manufactures was less than that of commodities. Surging commodity prices were the main cause for this change in the composition of Brazilian exports, but the fall in commodity prices reversed the uptrend in the terms of trade, which fell by 7% between 2011 and 2013.

The dynamism of Brazilian exports more and more depends on the performance of manufacturing. Another boom in commodity prices is not expected in coming years, although prices should not return to the levels of the early 2000s.

Expectations

Would a world economic recovery and a depreciated Brazilian exchange rate guarantee the expansion of manufactured exports?

During the international crisis (2007–09), the volume of manufactured exports fell sharply by 27% and then recovered by 9.4% from 2009 to 2012 and 4% between 2012 and 2013. Despite the steep appreciation of the exchange rate in 2011 and part of 2012, manufacturing exports grew. However, we are still far from recovering the share of manufactures in total exports. In November 2013, that share was 38% compared to the commodities share of 48%.

The improvement of competitiveness and productivity of Brazilian products is a key factor for the recovery of exports of manufactures. Addressing the "Brazil cost" caused by poor infrastructure, high taxation, little technological innovation, poor education, and cumbersome administrative procedures is critical to improving productivity. But what is happening in the main markets for Brazilian manufactures?

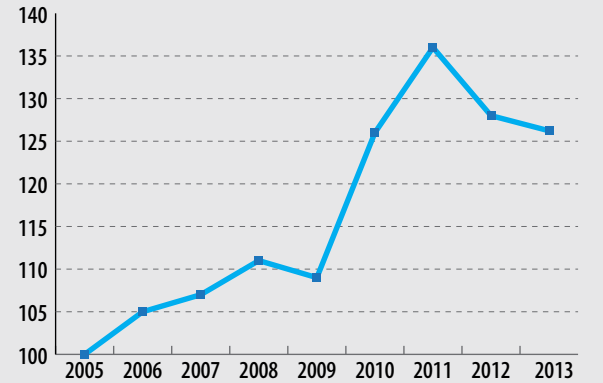
Markets

Between 2005 and 2013 the US share in Brazilian exports of manufactures declined from 27% to 19%. After reaching 23% in 2009, the EU share fell as the financial crisis in Europe spread.

US and EU tariffs on imports of nonagricultural products are relatively low. The average in 2012 was 3.2% for the US and 4.2% for the EU. In contrast, Brazil's tariffs on imports of nonagricultural products were 14%, according to the World Trade Organization (WTO). Nontariff

Brazil's export prices have declined relatively to its import prices.

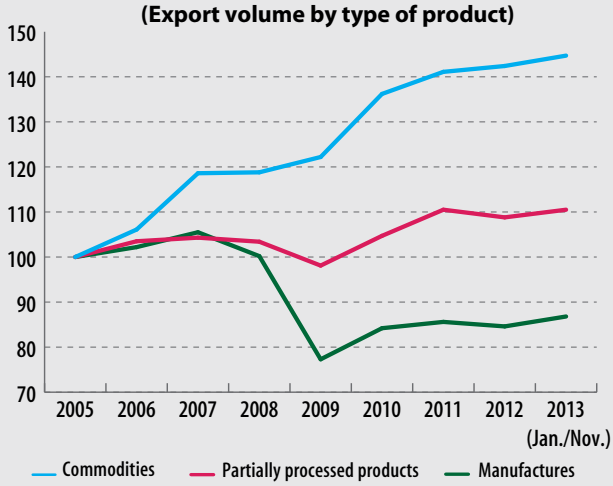
(Terms of trade, 2005=100)



Source: www.funcex.com.br.

Brazilian manufactured exports have stagnated since 2009.

(Export volume by type of product)



Source: www.funcex.com.br.

Brazil should negotiate trade agreements with the US, the EU, and Asian countries because it is missing out on the new wave of regional arrangements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership TTIP).

barriers such as technical standards may hinder exports, but the loss of competitiveness of Brazilian products and competition from China are the main factors accounting for the decline in Brazilian exports of manufactures to the US.

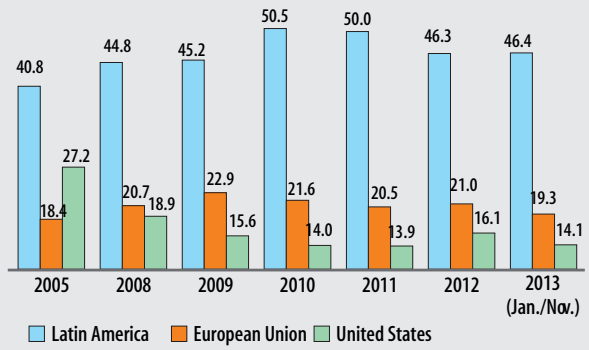
Africa's share in Brazilian exports of manufactures reached 8.4% in 2009 and then fell. Asia's share reached 9.7% in 2012 and then also fell. In Asia and Africa country protectionist barriers vary greatly. In major economies, tariffs on nonagricultural products are relatively high: India (10.4%), South Africa (7.4 %), and China (8.7%).

Latin America accounts for almost 50% of Brazilian exports of manufactures. The three Latin American markets are the Alliance for the Pacific (Chile, Colombia, Peru, and Mexico); Mercosur (Argentina, Paraguay, Uruguay, and Venezuela): and the rest of the countries in the region.

The share of the Alliance for the Pacific in Brazilian manufacturing exports fell from 35% in 2005 to 25% in 2013 because Brazil's preferential access to those markets eroded as Chile, Peru, and Colombia signed trade agreements with the US, the EU, and China, and because Brazilian products could not compete.

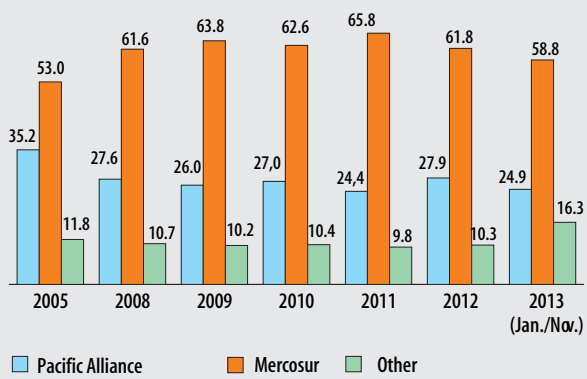
Mercosur's share of Brazilian exports of manufactures was 33.5% in 2011, 25% of which went to the Argentine market.

Share of markets in Brazilian manufacturing exports



Source: Ministry of Development, Industry and Commerce.

Exporters' share of Latin American market.



Source: Ministry of Development, Industry and Commerce.

Trade agreements

Brazil should negotiate trade agreements with the US, the EU, and Asian countries because it is missing out on the new wave of regional arrangements such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Brazil should get behind its trade policy on Mercosur and South-South trade.

Brazil's participation in agreements with major economies depends on changes in its trade policies. Trade liberalization and commitments in areas such as services, investment, and intellectual property rights will be part of the negotiations and may contribute to improving the competitiveness of Brazilian products. Such agreements are important to consolidate commitments to a possible change in direction of Brazil's protectionist trade policies, though they will not necessarily guarantee increased exports of manufactures.

The expansion of Brazilian exports of manufactures in the region has to turn gains in access to protected markets into gains in competitiveness.

Mercosur and South American trade integration are fragile. Brazil should pursue the goal of the Treaty of Asuncion that created Mercosur: trade integration to raise the international competitiveness of member countries should guide trade negotiations in coming years. The expansion of Brazilian exports of manufactures in the region has to turn gains in access to protected markets into gains in competitiveness. The South American market is too important to Brazilian manufactures to be relegated to the background.



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