Agenda and Agreements

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The difficulties surrounding the end of the World Trade Organization (WTO) Doha Round negotiations have led to debate over the role of multilateralism in today's world.

WTO's decisions are taken by a consensus that, until the Uruguay Round (1986-1994), consisted of developed countries: the United States, Japan, Canada, and the European Union (the Quad). Quad relevance in global trade at the time meant that the negotiations reflected primarily the interests of those countries. But things have changed. The emergence of a new group of nations having an influence on international trade has resulted in the creation of other alliances that could effectively influence trade talks. The constitution during the Doha Round of the G20 — a group in which Brazil, China, and India are prominent — was a milestone in multilateral negotiations.

The perception that the order established after World War II needs to be reviewed is under discussion within the financial sphere, though global trading countries are considering changes to the WTO. However, beyond the debate, bilateral and regional agreements are proliferating. According to the WTO, 271 preference agreements are currently in force. Although the WTO accepts these agreements, they contradict the multilateral principle that all countries should enjoy equal trade treatment.

The Strategy

Brazil's strategy for the failed Doha Round has been criticized by business leaders and former diplomats. The strategy is said to have supported the WTO to the detriment of the negotiations, especially with developed countries. It is worthwhile to notice that the modest offers that the EU made to Mercosur in the agricultural area in 2004 reflected some skepticism about the consequences of multilateral talks.

The resumption of trade talks with the EU in July this year is motivated partly by the lack of Doha Round results and partly by Spain's presidency of the European Union — given the economic and cultural ties, Iberian countries seem more likely than other EU members to come to agreement with Latin American countries. The success of the negotiations, however, is not guaranteed. France, Ireland, and some Eastern European countries refuse to negotiate agricultural issues. The agreements the EU has entered into are not with the large agricultural exporting countries of Central America, or with Peru and Colombia.

What is being, or has already been, negotiated? An analysis of Brazil's

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recent foreign trade helps to understand better Brazil's trade agenda.

Global trader

What has happened with trade in the first four months of 2010 suggests that Brazil's agenda is to be a global trader. Brazilian exports to Latin America, the Caribbean, and Asia are of similar volume, almost 25% each. For imports Asia is Brazil's principal supplier (30%), closely followed by Latin America (27.4%). The high Asian percentage in both cases is mostly due to China, whose share in both Brazil's exports and imports is 13.2%. China is the main destination for our exports, surpassing the United States with 10.7%. For imports, the United States is our principal supplier (14.7%). In Latin America and the Caribbean, Brazil trades more heavily with its South American neighbors, who account for 18.7% of exports and 14.6% of imports.

The EU is third among Brazil's principal export and import partners, ahead of the United States. The difference between exports to developing countries and to developed countries is 13 percentage points: The first group accounted for 55.5% of Brazilian exports in the first four months of 2010. For imports, developed countries represented 51.2%, while developing countries corresponded to 48.7%.

The description of trade flows by product points up differences between the markets. Asia and the EU buy basic and semi-finished products, while manufactured goods go heavily to Latin America (44%), the vast majority of them (83%) to South America. The EU gets the second highest amount of manufactured goods, followed by the United States.

Trade with Asia in manufactured goods is far from balanced. Brazil sends 7% of its exports there, but Asia sends 35.5% of our imports. The situation is somewhat reversed for Latin America: Exports of 44% contrast with imports of 13.5%. Developed countries account for 41% of Brazilian manufacturing sales, while developing countries are responsible for 59%. Thus, both markets are relevant.

Brazilian foreign trade structure
by regions/product groups

Products/Regions	Exports	Imports
Basic products	100.0	100.0
Asia	41.57	5.62
European Union	23.82	2.33
Latin America, the Caribbean	10.9	31.8
United States	8.1	6.4
Africa	2.9	34.2
Others	12.7	19.7
Developed Countries	42.1	
Developing Countries	57.9	
Semi-finished products	100.0	100.0
Asia	34.1	3.7
European Union	23.3	19.4
Latin America, the Caribbean	6.1	44.4
United States	11.8	8.4
Africa	5.6	2.7
Others	19.1	21.6
Developed Countries	53.6	
Developing Countries	46.4	
Manufatures	100.0	100.0
Asia	7.0	35.5
European Union	21.1	25.2
Latin America, the Caribbean	44.0	13.5
United States	13.6	16.6
Africa	5.4	2.6
Others	9.0	6.6
Developed Countries	41.0	
Developing Countries	59.0	

Source: Secretariat of Foreign Trade (Secex) of Ministry of Development, Industry and Foreign Trade, www.desenvolvimento.gov.br.

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The high Asian percentage in both cases is mostly due to China, whose share in both exports and imports from Brazil in the first four months of 2010 was 13.2%.

The structure of bilateral trade agendas shows a high percentage of manufacturing imports (above 90%) from the EU, the US, and Asia. Manufacturing exports flows to the US (40%) and the EU (53%) are relatively balanced. Exports to Asia are concentrated on basic products (69%).

Mapping trade flows shows the diversity of Brazil's interests in terms of demand, but its agenda should include multilateral prospects.

Agreements

Free trade agreements are already effective among all countries in South America.[1] The most recent are with Colombia, Ecuador, and Venezuela (2005) and Peru (2006). Domestic manufacturers have criticized the agreements for distinctly liberalizing trade terms. In general, Brazil allows immediate free access of most products to its market, although it does not always get a similar benefit from its partners: Full liberalization terms for Andean countries are from five to ten years.[2]

More recently Brazil has entered into other agreements, one with Israel in April 2010, and another with India effective in June 2009, though the Indian agreement so far covers only 450 products. An agreement on preferential taxes encompassing some 1,000 products has been signed with the SACU, whose members are South Africa, Namibia, Botswana, Lesotho, and Swaziland, but it has not yet been submitted to Congress for approval.

Since 2002 Brazil has engaged in trade talks with Mexico on the definition of a free trade area, but the talks have not yet reached a conclusion. An agreement affecting the automotive sector, entered into in March 2003, provides for reciprocal reductions in import taxes.

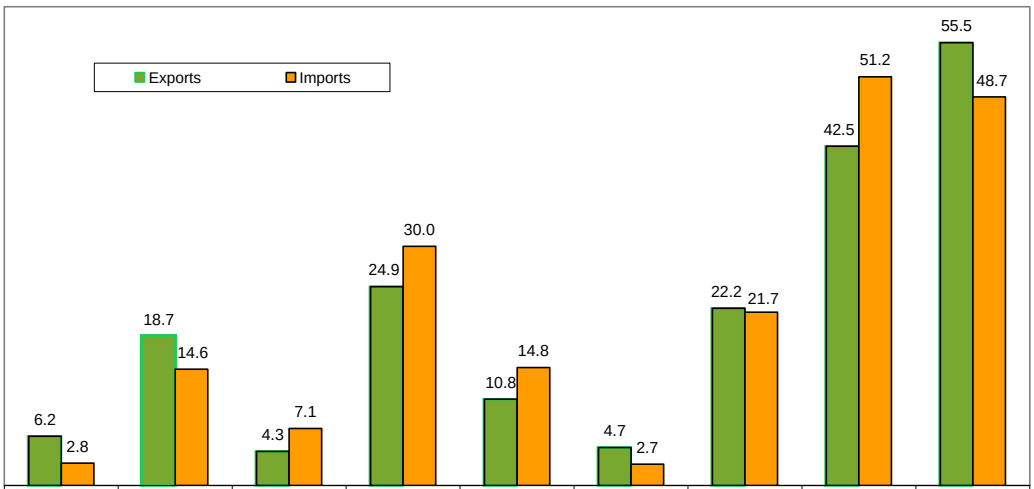
A preliminary agreement with the EU on creation of a free trade area was signed in 1999. By 2004 negotiations had advanced and full agreement seemed to be closer, but European offers in the agricultural area were considered insufficient: simply expansion of Brazil's export quotas currently in effect

Bilateral trade structure: January- July 2010
(in percentage)

	Asia		European Union		Latin America and the Caribbean		United States		Africa	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Basic products	69.0	2.7	44.3	1.5	18.6	26.2	30.8	6.2	28.3	68.4
Semi-finished products	18.9	0.5	14.5	3.5	3.4	10.1	15.1	2.2	18.0	1.5
Manufatures	12.0	96.8	40.3	94.9	77.8	63.7	53.3	91.6	53.5	30.1

"Source: Secretariat of Foreign Trade (Secex) of Ministry of Development, Industry and Foreign Trade."

Regions' share in Brazilian foreign trade, January-April 2010 (in percent)



	Central America and the Caribbean	South America	Africa	Asia	United States	Middle East	European Union	Developed Countries	Developing Countries
Exports	6.17	18.69	4.26	24.91	10.81	4.74	22.21	42.51	55.49
Imports	2.79	14.57	7.13	29.97	14.78	2.65	21.71	51.22	48.69

Source: Secretariat of Foreign Trade (Secex) of Ministry of Development, Industry and Foreign Trade.

and reduction in tariffs on Brazil's exports exceeding quotas. Moreover, the gains applied primarily to ethanol exports.[3]

Barriers

Before negotiations can go forward, the EU must first come to an understanding with members that defend agricultural protectionism. Considering Europe's current crisis, free trade offers are likely to be rare. And what might be demanded from Brazil? In 2004, domestic businesses did not welcome EU's demands in the services and government purchases sectors.

Agreements are also being discussed with Jordan, Turkey, Morocco, Egypt, the Gulf Cooperation Council, and Pakistan.

Given how extensive the trade agenda is, some priorities have to be defined. Mercosur and South America's integration deserve further negotiations that go beyond trade issues. A comprehensive agreement with Mexico might consolidate intra-industry trading among trans-Latin companies. A trade agreement with the EU would be welcome, but an approach to the US would be needed to avoid trade diversion.

Ineffective multilateral negotiations cause losses to the global economy. To compensate, a country like Brazil with a global trade agenda must expand its network of agreements. ■

[1] All agreements into which Brazil has entered can be found the website of Secretariat of Foreign Trade (Secex) of Ministry of Development, Industry and Foreign Trade, http://www.desenvolvimento.gov.br/sitio/interna/index.php?area=5.

[2] See analysis on IBRE's website, Applied Economy Center – International Economics, http://portalibre.fgv.br/main.jsp?lumChannelId=8A7C8233253AEA0A01253B0A09222084.

[3] A detailed analysis of this offer was carried out by H. Kume and others (IPEA Discussion Texts nos. 1054 and 1296. Available on www.ipea.gov.br, under "Publications – Texts for Discussion").