Why have policies of trade liberalisation been applied to brazil

Economics, Trade

There are numerous aspects resulting in policies of trade liberalisation being applied to Brazil. The main driving forces behind these policies are outlined below focussing in particular on government intervention, interest groups and election campaigns. With a population of almost 200 million, and with more than 25% of its population surviving on under $2 USD per day, a sustainable path of economic growth remains the central issue surrounding the Brazilian government. In the world market, Brazil is both the 23rd largest exporter and the 23rd largest importer of merchandise worldwide (CIA, 2012).

However, this has not always been the case. In recent years, Brazil has begun the transition from a protectionist developing country to a fully developed one. It is not quite there despite recently overtaking the United Kingdom and becoming the world’s sixth largest economy it is still in the middle stage of development, known as an emerging market (Williams, S. , 2011). To begin with government intervention must be looked at in detail as it has long been a characteristic of the Brazilian economy.

Dating back to colonial times, the prohibition of trade between Brazil and other countries was one of the primary means of control imposed by Portugal. After gaining independence in 1822, Brazil opened its ports, and international trade began (Butler, R. , 1997). Up until World War I, prevalent trade regulation continued with tariffs accounting for more than half of total government revenue (Hudson, R. A. , 1998 p233). The 1906 coffee price support plan was another means of government intervention. It was a complex regime which endeavoured to exploit Brazil's monopolistic position in the world coffee market.

This plan, known as " valorisation" was implemented in February of 1906 and is a prime example of the highly influential stance taken by the coffee production companies towards federal politics. Seemingly, the valorisation plan was the result of a combination of lobbying by the coffee growers with the resulting government intervention manipulating market forces (Abreu, M. D. P. , 1997 p64). As production of coffee beans increased, this caused the world price of coffee to decrease, resulting from an excess supply of the commodity.

In order to protect the coffee industry and in particular the interests of the coffee growers, the Brazilian government established a means of exchange rate fixing, which was implemented by governmental purchases of surplus coffee beans. The government would then wait for the price to exceed a certain level before selling these surpluses at the higher price on the international market. The valorisation scheme worked in the short-run as it temporarily raised the commodity price level of coffee, which helped support the continued expansion of the coffee industry.

Initially it was successful from both the perspective of the coffee growers and the Brazilian government, however the resulting excess supply intensified the impact of an inevitable bust (Fridell, G. , 2007 p118-119). The crash in coffee prices signalled an inward turn, which promoted a growing industrial economy. In the following years restrictive trade policies were implemented deliberately to promote industrial development, leading to Brazil becoming a closed economy (Butler, R. , 1997).

The protection of infant industries coupled with import substitution formed a solid policy framework not only in Brazil, but also in Latin America as a whole. Up until 1979 import bans, quantitative controls and reserved market shares were the main instruments used by policy makers. The “ lei do similar nacional” or “ law of similar domestic production” granted market shares for Brazilian firms and imposed prohibitive tariffs in any sector where domestic production was in competition (Rossi Jr. , J. , 1999 p2). This effectively allowed domestic producers a monopoly on any given market as imports of substitutive goods were not allowed.

After 1979 previous quantitative controls were largely disbanded as the main instrument of trade policy. In the following years, a further decline in Brazil’s external payment position prompted policy makers to seek alternative means in order to restore external balance. The primary means for achieving this was an adjustment in the exchange rate. Strict controls on trade remained in place and the 1982Mexicandebt crisis caused a knock-on effect on voluntary foreign lending, which consequently resulted in significant effects on trade policy.

The Central Bank centralised all foreign-exchange transactions, which further strengthened the control of imports to Brazil. A negative list, being a collection of items whose import is suspended, was considerably expanded; causing import financing to become further restricted (Butler, R. , 1997).

During the 1980s, a rapid external account adjustment was the result of a fall in domestic demand combined with stricter import controls and real depreciation. It was during this time that another price-stabilisation attempt was implemented, known as the Bresser Plan.

Launched by the newfinanceminister, Luiz Carlos Bresser Pereira in June 1987, it was a strategy adopted by the Brazilian government in order to maintain power. The Bresser Plan appealed to the ‘ median voter’ by avoiding the use of external economic policy as an instrument for internal stabilisation (Butler, R. , 1997). This allowed Brazil to go back to its previously successful policy of frequently making small devaluations in line with domestic inflation. Not only that, however, it also improved the trade balance, which led to a fall in domestic production resulting in a current-account balance by the end of 1987.

The improvement in the position of external payments allowed some modest trade liberalisation, starting with the reduction of the negative list. The financing for imports was relaxed, and the end of 1988 saw an additional plan announced to promote the expansion of imports. (Hudson, R. A. , 1998). However, the end of the Sarney government in 1990 saw inflation rates bordering on hyperinflation. Despite the trade balance falling by two thirds in the following year, policy makers were directly focused on internal stabilisation, with trade policy reforms being a secondary objective.

Collor de Mello succeeded Sarney, and during his election campaign, he successfully portrayed his opposition of interventionist bureaucracy. By applying this vote-maximising tactic, he successfully gained power. Attacks on corruption, and highly paid officials formed the basis of his election campaign while heavily emphasising his views on deregulation and greater openness in terms of international trade. Further reforms produced a more simplified tariff system by consolidating import rules and therefore reducing the number of agencies involved in the trade approval process.

While import licences were not abolished altogether, approval was a routine operation with licences being issued within one working week (Butler, R. , 1997). With a greater level of automaticity government bureaucracy was reduced, therefore preventing non-elected officials acting out of personal interest. The 1992 exemption of certain taxes on raw materials, manufactured components destined for export helped simplify procedures relating to the needed remittances of foreign currencies.

The further introduction of the Mercosur common external tariff in 1995 led to even more reductions in trade barriers (Thirlwall, A. P. , 2008 p235). In conclusion, it can be seen that while liberalised trade policies were introduced throughout the twentieth century, they were only modest compared to those of other Latin American countries. The coffee valorisation scheme is a form of government intervention as a result of pressure from interest groups, which in this case are the coffee growers.

While government intervention was initially successful, the exploitation of Brazil’s monopolistic position in the world coffee market resulted in a global over supply. This in turn caused in a global price crash, which not only affected the government but also the coffee growers. We can see here a form of governmentfailureas the intervention in the coffee market failed to produce a desirable outcome. It was only at the end of the twentieth century when Brazil finally implemented a policy where all import licenses, prohibitions and special regulations were replaced by a system of tariffs. Related article: Brazilgender rolesin business

This is the largest collection of trade liberalisation policies and was fundamentally the result of an election campaign targeting bureaucrats in order to provide a fairer market for the Brazilian people. It appears that it was simply a vote-maximising scheme in which to appeal to the majority of voters, however since the 1990s, Brazil has advanced rapidly and is now a major player amongst some of the world’s most successful economies. It has already overtaken the United Kingdom in terms of economic power and, despite the global downturn since 2008, Brazil’s economy is still growing.