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Abstract

This chapter discusses the impacts of globalization on international trade patterns and the required shifts in trade policies. Highlighting the effects of production fragmentation, geographic dispersion and the expansion of global value chains (GVCs), the chapter outlines the Brazilian experience to illustrate the difficulties that various countries face in acknowledging this economic reality and providing appropriate policy responses. It draws on the global value chains literature to analyze Brazil’s foreign trade policies implemented during the recent ruling of the Labor Party (PT) presidents Lula da Silva and Dilma Rousseff (2003 to 2015), discussing the Brazilian strategy (or the lack of one) to integrate into global value chains. Results of this exercise have led to the conclusion that a non-GVC-oriented trade policy has allowed Brazil to integrate only superficially into globalized international production and commercial flows. The chapter concludes providing an outlook on the policy shifts required for increasing Brazil’s insertion into global value chains and boosting a more prominent role in international trade.

Keywords: Brazil, foreign trade, global value chains, trade policy, globalization

1. Introduction

The beginning of the twenty-first century has witnessed many shifts in international trade patterns and its composition, resulting from the evolution in the economic globalization process. Under the logic of transnational companies, the objectives of cross-border trading have become wider and more complex. Production fragmentation in tasks and its geographic dispersion in global value chains (GVCs) have fostered a multilayered relational framework
linking international trade, support services to the companies’ core activities and foreign direct investment.

This rapidly evolving scenario has generated important implications for trade policy. It has different meanings depending on each country’s domestic context. Developed nations, for instance, are concerned about retaining jobs and keeping the upper-level activities in the value chain. Some developing economies, on the other hand, are proactively making efforts to engage in global value chains, while for other countries the main concerns are linked to upgrading in value chains.

Policy responses to these challenges have been different around the globe. A number of countries have effectively implemented trade policies informed by the GVC’s framework, focusing on promoting export competitiveness, attracting investments and supporting the internationalization of their businesses. On the other hand, the debate over GVCs and the new trade patterns is still in early stages in some nations, which have failed to recognize the deep changes in the international trade structure. Currently, a protectionist movement has also gained momentum, opposing globalization and geared towards slowing the pace of international economic integration.

In light of this context, this chapter is aimed at discussing the Brazilian strategy (or the lack of one) to integrate into global value chains and reap the benefits of a stronger participation in international trade. It focuses on the Brazilian experience, centering its analysis on the foreign trade policy responses this important emerging economy has implemented in the last 13 years of the Labor Party’s (PT) government (2003–2015). The chapter draws on the GVC’s literature to provide a comprehensive landscape of Brazil’s foreign trade policies, analyzing primary trade data (traditional and value added) and building a qualitative discussion of government development plans, trade and investment regulations and policies.

The chapter comprises three sections. The first section discusses the “twenty-first-century trade” features. The second section outlines the current level of Brazilian participation in global value chains (GVCs). The third section presents the concept of a “GVCs-oriented trade policy,” encompassing four variables, which are tested against Brazil’s empirical experience. The conclusion brings an outlook on the political shifts required for increasing Brazil’s insertion into global value chains and boosting a more prominent role in international trade.

2. International trade in the twenty-first century

International trade has undergone profound shifts, playing a central role in the production process of companies now organized in global value chains (GVCs). In a deeply connected world, where companies rely on cross-border flows for “making goods” instead of just “selling goods” [1], international trade is no longer limited to the traditional sale of a final good “made in” a country to consumers in another region. The development of global value chains evolved in parallel to economic globalization and both processes have had common catalysts: new information and communication technologies, reduction in transportation costs and trade and investment liberalization.
International trade in goods has increased from approximately US$ 10 trillion in 2004 to US$ 18.5 trillion in 2014, while world trade in services has risen from US$ 2 trillion to nearly US$ 5 trillion in the same period [2]. The increase in international trade in intermediate inputs and components, which accounted for almost US$ 8 trillion in 2014, illustrates the production fragmentation, its geographic dispersion and the complexity of current production systems, with multilayered international sourcing networks.

The concept of global value chains has been used to characterize the set of activities that companies and workers perform in the process of developing a product, from its conception to end use, and also including after-sale services [3]. Under this concept, the usual stages in a production chain are included: inputs; research and development; manufacture; distribution; marketing; and after-sales services. These activities have increasingly become fragmented and geographically dispersed around the globe. The functional integration of these tangible and intangible value-adding activities or tasks and its governance is a key feature of this concept, differentiating trade within global value chains from traditional arm’s-length trade [4].

Linked to the evolution of global value chains, the concept of “trade in tasks” emerged to illustrate that each stage of value adding to a good, throughout its production chain process, can be seen as a task with potential to be internationally transacted inter- or intracompanies [5]. The cross-border trade of tasks is aimed at minimizing production and transaction costs and achieving gains in competitiveness. Following this private sector logic, countries may now specialize in certain tasks rather than in productive sectors or complete value chains.

This increasing fragmentation of production stages and its dispersion around the globe has highlighted the complexity of the nexus among trade, investments, services and intellectual property [6]. The concept of “twenty-first-century international trade” reflects these multiples linkages in the transactions within global value chains. In order to understand the current trade patterns, it is required a joint analysis of these intertwined factors: (i) trade in goods, mainly parts and components; (ii) international investments in production plants, training, technology and long-term business relationships; (iii) the use of infrastructure services (telecommunications, internet, parcel delivery, air transport, etc.) to coordinate the production; and (iv) international flows of knowledge, intellectual property and tacit exchanges of know-how. The concept of “twenty-first-century trade” reflects, in sum, the implications of trade globalization and its deep linkages with finance and productive globalization.

The international trade landscape has also changed due to the increased South-South trade and the proliferation of preferential trade agreements. Between 1948 and 1994, the General Agreement on Tariffs and Trade (GATT) received 124 notifications of regional trade agreements (covering trade in goods). Since the establishment of the World Trade Organization (WTO) in 1995, the number of agreements in force increased to 267 [7]. Currently, all WTO members have at least one regional trade agreement in force. Multilateral trade agreements, however, have not advanced in the same pace. The WTO Doha Round, launched in 2001, has not been concluded and members have signed only a trade facilitation agreement.
3. Brazil’s insertion in global value chains and world trade

During the 2000s, Brazil raised in the international scene as a promising emerging economy, showcasing a widely praised “growth-with-social-inclusion” model that leveraged the country to the seventh position in the global GDP rank. Brazil’s emergence, however, has been much more linked to the triad “credit, domestic consumption and commodities” rather than the development of a world-class industry, leading global value chains and capable of placing Brazil ahead of the international competition.

In 2014, Brazil accounted for only 1.2% of the global exports of goods, ranking 25th in the top exporters rank. Brazil exported US$ 225 billion, and imported US$ 239 billion [8]. Brazil’s participation in global services trade is also small. In 2014, Brazil exported US$ 40 billion in commercial services, while imported US$ 87 billion. Low linkages to global value chains, as well as decreasing industrial labor productivity, poor innovation rates and an obsolete industrial park have hampered the growth of Brazil’s participation in world trade.

Among the top 25 exporters, Brazil ranks 24th in terms of participation in GVCs, with a 37% rate of integration [9]. Brazil’s integration level, Brazil’s integration level is slightly higher than India’s (36%), but lower than China’s (59%), Russia (56%) and South Africa (59%). The ratio of domestic value-added content in Brazilian gross exports is significantly high, exceeding 90%, the second highest among G20 countries [10]. This figure reflects Brazil’s role as supplier of raw materials and primary inputs for GVCs. This high level of domestic value added would be positive if reflecting industrial production. However, in the Brazilian case, it is mainly the result of high share of primary goods and commodities in exports. In 2015, for instance, the agribusiness sector accounted for more than 46% of Brazil’s total exports [11].

OECD-WTO Trade in Value Added (TiVA) database’s figures released in 2015, which measured trade in valued added for year 2011, have confirmed Brazil’s low engagement in GVCs. In 2011, ICT and electronics industry had the highest foreign value added share in Brazil’s exports, accounting for 24.1%, followed by coke and petroleum (21.4%) and motor vehicles (19.9%). OECD-WTO TiVA analysis have also highlighted the underdevelopment of a regional value chain in Latin America, contrasting with the linkages found in North America, Europe and East Asia. Brazil’s major import and export markets are from outside the region. In 2011, China directly imported one-quarter of all Brazil’s intermediate exports in value-added terms [12].

Brazil’s low participation in international trade reflects the inward orientation of its development strategy implemented along the 13 years (2003–2015) that the PT (Labour Party) governed Brazil. During this period, three versions of industrial policies have been launched, using traditional “picking winners” strategies, strong local content requirements and the goal of developing and maintaining full production chains within the country.

In 2003, early in the first term of former President Lula da Silva, the government launched the Industrial, Technological and Foreign Trade Policy (PITCE), aimed at promoting gains in competitiveness through technological innovation [13]. PITCE focused on technology intensive sectors, such as capital goods, semiconductors, biotechnology and software. The
government considered these sectors as key to develop Brazil’s innovation system and to transfer productivity gains to the rest of the industry.

Five years later, the government revamped this policy, launching in 2008 the Productive Development Policy (PDP). This policy provided a detailed roadmap for actions in 25 sectors, aimed at upgrading the industrial pattern of investments. Due to the international economic crisis in 2008 and 2009, however, this policy became a set of anti-cyclical measures rather than initiatives capable of structurally transforming the industrial sector.

The “Greater Brazil Plan” (Plano Brasil Maior), launched in 2011 in the first term of President Dilma Rousseff, was the last broad industrial policy implemented in Brazil, focusing on promoting technologic and production competencies to strengthen domestic value chains [14]. One of the core guidelines of the plan was to promote a “structural change in Brazil’s insertion into the international economy.” It was aimed at diversifying and boosting exports, seeking to increase Brazil’s share in international trade from 1.36% in 2010 to 1.60% in 2014. Trade-related policies focused on the following objectives: (a) promoting exports of intermediate-technology and knowledge-intensive products, (b) supporting the internationalization of companies through product differentiation and greater domestic value added, and (c) rooting foreign companies in Brazil and attracting research and development (R & D) centers.

Although these industrial policies suggested a roadmap for fostering national competitiveness, they still did not reflect a full understanding of the structural changes in the global production system, increasingly internationally dispersed and fragmented in GVCs. The empirical results of PITCE, PDP and Greater Brazil Plan have been criticized because international trade and industrial activity indicators for the period point to a specialization in low-technology goods and commodities.

In spite of the governmental efforts to foster innovation and increase technological content in exports, Brazil consolidated a position of commodities exporter. The share of non-manufactured exports increased from 19.9% in 2003 to 37.7% in 2015. Furthermore, the share of exports of high-technology products decreased from 7% in 2003 to 5.2% in 2015, and the share of medium-high technology exports decreased from 22.8 to 16% in the same period. On the other hand, the profile of imports remained relatively stable, with medium-high technology products accounting for 42.7% of the total Brazilian imports in 2015. Likewise, the analysis of the technological intensity of Brazil’s trade balance shows an increased trade deficit in high and medium-high technology goods. In 2015, Brazil had a US $ 22.8 billion trade deficit in high-technology products and a US $ 42.7 billion deficit in medium-high technology products [15].

During the first mandate of the Dilma Rousseff administration (2011–2014), furthermore, Brazilian foreign trade flows of goods showed a decrease, from US $ 482.3 billion in 2011 to US $ 454.1 billion in 2014. Commercial services’ trade had just a slight increase. In 2011, Brazil exported US $ 37.11 billion, while imported US $ 73.1 billion. In 2014, Brazil exported US $ 39 billion and imported US $ 85.9 billion [16].

Rousseff’s economic policy departed from the three pillars maintained in the previous government (primary surplus, floating exchange rate and inflation targets), and Brazil's
economic fundamentals started to deteriorate. Brazilian trade followed the downward trend. Exports declined from a 2011 peak of US $256 billion to US $191.1 billion in 2015. In 2015 (the first year of Rousseff’s second term), trade flows continued to drop, decreasing to US $362.5 billion, while Brazil’s GDP contracted 3.8% and trade accounted for only 27% of the GDP [17]. Combined with a large corruption scandal, the economic recession led to Rousseff’s impeachment in 2016.

4. GVC-prone foreign trade policies: Brazil’s profile

GVC-oriented trade policies can positively influence the integration of domestic enterprises into the world economy, as well as attracting and retaining high value-added activities into the country. In a world of global value chains, an integration prone foreign trade policy includes four variables [18]: (i) adoption of an updated concept of international trade, recognizing the nexus among trade of final goods, intermediates, services, investment and intellectual property flows; (ii) focus on facilitating market access to inputs and intermediary goods into the domestic market and seeks preferential access for exports into key foreign markets; (iii) recognizes heterodox trade barriers, such as infrastructure, support services, business environment, among others; and (iv) foreign trade promotion targets the integration of small and medium enterprises into global value chains.

Since the early 2000s, however, Brazil has not followed this GVC-oriented model. Instead, the Brazilian foreign trade policy has been crafted under the umbrella of larger industrial development plans, explained in the previous section. The government has favored the development of full production chains within the country instead of specializing and integrating into global value chains.

Looking at the first recommendation of the model, “adoption of an updated definition of international trade,” Brazilian policies have only partially recognized the trade-investment-intellectual property nexus. Although the policies have taken into account the connection between trade and investments, it is not clear the recognition of the importance of imports of world-class inputs and parts for improving exports competitiveness. Brazil’s understanding of the integrated trade concept, furthermore, seems to be limited, not including components connected to intellectual property, information and innovation flows among countries. In the diplomatic practice, an example of this disconnection can be observed in the science, technology and innovation agreements, since these partnerships are not perceived as potential elements for foreign trade policy.

During the Lula da Silva two terms (2003–2010), the President himself engaged in commercial diplomacy initiatives, strongly promoting the establishment of a “new international trade geography,” pursuing a diversification of Brazilian commercial partnerships, focusing on a larger relationship with countries of the South. Brazil also prioritized relations with MERCOSUR, seeking to deepen the regional integration and the creation of a space for expanded cooperation in South America.
It is important to note that in that period, however, the search for new business partnerships was not linked to a viewpoint of improving the integration of domestic firms into global production chains. The mainstream perception regarding the international trade structure was still related to the traditional North-South cleavage, and the rapprochement to developing countries was a general orientation of the Brazilian foreign policy in the period. Brazil’s search for a more prominent role in foreign trade faded in Dilma Rousseff’s term, in face of other government priorities and the low prestige granted to foreign policy issues in the period.

Taking into account the “market access” aspect of a GVC-oriented trade policy, Brazil’s approach has favored protection, instead of liberalization. Governmental actions in this direction have included tariff increases, nontariff barriers and strengthening of trade remedy mechanisms. Furthermore, Brazil continues to have a high level of tariff protection through MERCOSUR’s Common External Tariff, which averages 14.1% applied rate for non-agricultural goods and 10.2% for agricultural goods [19].

Brazilian trade policy has emphasized the implementation of trade remedy measures, beginning with the introduction of a “New Strategy of the Brazilian Trade Remedies System,” in 2003. More recently, the government has increased the number of personnel dedicated to this issue at the Ministry of Development, Industry and Foreign Trade. Brazil applied 112 definitive trade remedy measures from 2003 to 2010 and 152 measures from 2011 to 2015. These numbers have significantly increased compared to the eight years before the Lula da Silva government, when 66 definitive measures had been applied, including antidumping and safeguards [20].

During the 2003–2010 period, Brazil engaged in large market access initiatives that could not be concluded. At the beginning of the first term of President Lula, two parallel negotiations were at the top of the government agenda: the Free Trade Area of the Americas (FTAA) and the MERCOSUR-European Union (EU) negotiations. Such agreements would be instrumental in increasing Brazil’s insertion in global value chains, taking into account that the United States and the European Union are dynamic centers in various industries that could leverage Brazil’s participation in global and regional production networks.

Negotiations of the FTAA, however, were suspended in 2005, due to irreconcilable differences between Brazil’s and the USA’s negotiating approach and also regarding the scope of the agreement. Brazilian interests to maintain “policy space” to implement its industrial policies prevailed against offensive interests of part of the industry and the agribusiness sector. In parallel, the MERCOSUR-European Union negotiation, which in a way had been driven by the prospect of competition that would be generated by the conclusion of the FTAA, lost momentum in the following years. Negotiations resumed in 2010 and had relatively small progress to date.

In spite of these two large regional free trade initiatives, Brazil’s top priority continued to be the Doha Development Round of multilateral trade negotiations. The Brazilian government believed this to be the ideal forum to address key trade issues, such as greater market access for agricultural products in developed countries and subsidies reduction. Taking into
account the deadlock in the Round, there was little progress in terms of greater market access for Brazilian companies from 2003 to 2015. Brazil/MERCOSUR concluded extra-regional free trade agreements only with Israel (2007), Egypt (2010) and Palestine (2011). The FTA with Israel is the only one currently in force, the others still need to be ratified. MERCOSUR also signed limited preferential trade agreements with India (2004) and the South African Customs Union—SACU (2009). In all these agreements, liberalization applies only to goods, not including services or investments, which are core issues under the global value chains framework.

Regarding the negotiation of foreign investment protection agreements, Brazil remained dormant during a long period. Although in the early 1990s Brazil had signed 14 FIPAs that contained investor-state clauses, this model was considered inconsistent with the Brazilian constitution and the agreements never entered into force. The increase in the number of Brazilian companies investing abroad in the 2000s prompted the government to revisit the issue and develop a Brazilian framework for a “cooperation and investment facilitation agreement.” Brazil has successfully concluded agreements with Angola, Mozambique, Malawi, Mexico Colombia and Peru. This model has a state-state dispute settlement mechanism, and leaves more space for developing domestic regulations that could be challenged in the traditional FIPAs [21].

In light of the small level of success in the market access negotiations during the 2003–2015 years, the WTO dispute settlement system increased in importance for Brazil’s trade strategy. Brazil has been one of the most active participants of the WTO dispute settlement system. Since the establishment of the Dispute Settlement Body in 1995, Brazil has participated in 29 panels as complainant, 16 disputes as respondent and in 102 cases as interested third party [22]. Brazil has won some emblematic “victories” for the domestic exporting sector, such as the dispute with the United States regarding subsidies for cotton production (DS 267), the dispute regarding sugar exports subsidies granted by the European Union (DS 266) and the dispute on the rate of equalization on the USA’s imports of orange juice (DS 382).

Taking into account the third aspect of a GVC-oriented trade policy, the Brazilian government has not directly recognized the “heterodox” barriers to trade, such as infrastructure, support services and business environment. Although the government has implemented a large “Growth Acceleration Plan” geared towards transport infrastructure projects, the plan was not focused on exporters’ demands. Efforts to reduce red tape and improve Brazil’s business environment have not materialized, and the so-called “Brazilian cost” remains as a nontraditional barrier to trade as well as to the attraction of foreign direct investment.

Trade promotion policies — the last element analyzed in the GVC-oriented trade policy model — have been aimed at strengthening the relationship with other developing countries. Between 2003 and 2015, trade promotion efforts resulted in an increase in trade with Africa, Middle East and Asian countries. In this period, China emerged as Brazil’s main trade partner, surpassing the United States and absorbing 18.63% of Brazilian global exports in 2015. In contrast, traditional partners like the European Union and the United States have lost importance as a destination for Brazilian exports. In 2003, for instance, 22.8% of Brazilian exports went to the USA and 25.7% to the EU, while, in 2015, this share had decreased to 12.6 and 17.7%, respec-
tively. Exports to MERCOUR remained relatively stable. In 2003, Brazilian exports to the bloc accounted for 7.7% of total exports, while, in 2015, MERCOSUR imported 9.4% of Brazil’s total exports.

Brazil has focused in policies for fostering small and medium enterprises’ exports. Brazil’s Export Promotion Agency (APEX), however, has given greater attention to traditional trade promotion and intelligence tools. Market reports have not focused on production chains, and they have not developed guides or special mechanisms for linking SME with GVC’s leader companies. Similarly, the Ministry of Foreign Affairs has not oriented the commercial sections in embassies abroad to proactively seek supply opportunities with leader companies.

5. Conclusion: towards a repositioning in global value chains?

This chapter has argued that in the last 13 years Brazil has not adopted a proactive stance towards a greater engagement into GVCs. Taking into account that greater integration requires trade openness, improved market access, GVC-oriented trade promotion, and an expanded vision of international trade that integrates goods, services, investments and intellectual property, Brazil seems to only superficially commit to globalization. Brazil’s shallow integration is in part a result of trade policies aimed at protecting the domestic market and establishing a market reserve for Brazilian companies in MERCOSUR.

Recent research has demonstrated the positive economic outcomes of engaging in global value chains. A GVC-oriented trade policy can positively influence integration of domestic enterprises into GVCs, as well as attracting high value-added activities. In order to achieve the objectives of improving Brazil’s competitiveness and promoting a better insertion in the international economy, it would be recommend a reassessment of the policies aimed at protecting the domestic and regional market. In a world where industrial production is fragmented and geographically dispersed, Brazil continues to pursue a vision that it is still possible and desirable to internalize most of the tasks involved in the multiple steps of adding value to a product. It seeks to sell internationally a product totally “made in Brazil,” even at the expense of protecting inefficient industries.

Brazil’s new government of President Michel Temer (PMDB), which took power after the impeachment of the former President Dilma Rousseff in 2016, has given signs that it will shift the country foreign trade strategy towards greater integration. A revamped trade policy will be constrained, however, by external, domestic and MERCOSUR challenges.

In terms of external constraints, it would be important to highlight the following factors: (i) the delay in recovery of the international economy, (ii) the declining support for multilateral and regional free trade negotiations, (iii) the loss of an important window of opportunity for economic integration agreements (such as the failed FTAA negotiations and delays in negotiations between MERCOSUR and the EU), and (iv) the fact that Brazil is outside the major
regional trade liberalization initiatives, such as the Trans-Pacific Partnership (TPP) and other new-generation agreements.

Moreover, economic and commercial globalization in all its complexity acts as a systemic constraint for Brazil's insertion. Although Brazil seeks a new level of participation in international trade, it is reluctant to abandon practices and perceptions that only made sense in a context of international production of the last century. One of the main obstacles to a complete transition to a modern trade policy would be to adopt a more positive stance towards imports of raw materials, intermediate products and components, taking into account their key role in the production of goods for both domestic consumption and for reexporting.

Domestically, the most significant challenges are related to overcoming the historic protectionist orientation and pressures from organized industrial associations. Second, the misperception of the government in the sense that agribusiness and commodities are the main offensive interests in Brazil's trade liberalization negotiations, leaving the domestic industry linked to defensive interests of protection against a possible increase in foreign competition in the domestic market. Finally, additional challenges towards a greater participation in global value chains are linked to issues such as trade facilitation, reduction of red tape and logistics problems caused by deficiencies in trade infrastructure.

Among the challenges arising from Brazil's participation in MERCOSUR, the continuity of the 4+1 negotiating model (i.e., member countries cannot negotiate individually preferential trade agreements) for liberalization agreements with other regions seems to be the most relevant, as this mechanism becomes even more complex with the expansion of the number of MERCOSUR members. Moreover, other challenges include the deepening of the political and economic crisis in Venezuela, and how MERCOSUR will solve the problem of fully integrating the country into the bloc or reverting its accession process that was controversially approved in 2010.

In sum, Brazil has not adopted a GVC-oriented trade policy. This does not mean, however, that it has become an isolated country. Nevertheless, the mainstream mind frame during Lula da Silva's government and Dilma Rousseff's term favored the construction of Brazil's own model for economic development and international insertion, which had a limited level of success. Revamping Brazil's international trade policy will be key for recovering Brazil's economic development path.

Author details

Susan Elizabeth Martins Cesar de Oliveira

Address all correspondence to: susan@unb.br

University of Brasília, Brasília, Brazil
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