

## BRAZIL: INTERNATIONAL TRADE

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The purpose of this article is to outline multiple aspects of Brazil standing in the world economy and its trade policies. The paper reviews literature relating to multiple topics integral to Brazil's economy, including agriculture, information communications technology and the current standing of the economy. It also discusses Brazil's involvement in international trade, restrictions and tariffs it places on specific goods.

**Key words:** Brazil trade profile; Brazil tariff profile; trade disputes; agricultural sector; information communication technology; Brazil's «Embraer».

Brazil has been a WTO member for 25 years since the beginning of 1995. Brazil falls to the mid to late twenties in terms of the value of merchandising imports and exports in the year 2017. Also, Brazil has values of 23 on commercial services imports and 35 in commercial services exports [7].

If we look on the tariff profile of a country, the data shows the average import duty on all goods is 31,4%. It seems to be a protective country, whose domestic industry might be injured or threatened by import. However, this is not the case, as the %age of special safeguards actions is 0. So, there is no serious injuries for the industries. Moreover, interesting is the fact that Brazil's 2017 applied tariffs are entirely ad valorem, as NAV in %, which stands for non ad valorem duty, is 0 in both agricultural and non-agricultural sectors [8].

The tariff rates range from zero to 55%. The agricultural sector is considered as a strong one in Brazil. The country is popular worldwide for its cotton, coffee, sugar, animal products and tobacco. Therefore, it is not surprising that for these product groups Brazil does not provide other countries with duty-free import. On the contrary, there are the highest average tariffs for such product groups. They are 55.0%, 34.1%, 34.4%, 37.8%, 37.7%, respectively. This leads to a little share in imported products (up to 0.7%) and, consequently, to little intra-industry trade.

On the other hand, non-agricultural sector faces different approach from Brazil. The product groups' share in total import is high, they are clearly in demand. As such, the share of duty-free products is also high. For example, the %age of duty-free goods in import for non-electrical machinery is 20.6, for minerals and metals – 37.0 and for petroleum it reaches even 99.4. It is logical, as manufacturing products faces the highest import in Brazil.

It is, thus, clear that on average tariff for agricultural sector is likely to be greater than for non- agricultural sector. The data proves this, as on average

tariff is 35.4% and 30.8% respectively. Moreover, 22.3 % of non-agricultural imports enter the country duty-free, whereas for agricultural imports the %age is only 2.1.

Moreover, Brazil faced the protection from its major trade partners. Brazil's export to Argentina in non-agricultural sector is duty-free. It is so, because in addition to well-known MERCOSUR and LAIA agreements, they signed their own FTA on 29 Jun 2016. Mexico also does not impose high tariffs on non-agricultural goods as well, because of MERCOSUR agreement. These two countries are not the main partners in the agricultural sector as they produce pretty much the same goods. The U.S. imposes the least amount of restrictions on the Brazil's exports in both categories. At the same time Japan, the European Union, China and Russia seem to be quite protectionist [8].

It is also important to bear in mind that Brazil has dealt with multiple trade disputes. In total, Brazil has been the complainant 33 times and the respondent 16 times. In the situation where Brazil filed the dispute, the countries targeted were the United States, the European Union, Canada, Turkey, China, Mexico, India, Argentina, Peru, South Africa, Indonesia, Thailand, the Philippines, and Sri Lanka. When filing a dispute, Brazil seems to try to protect a lot of its agricultural products, such as sugar, fruit, cotton, and livestock, and raw production materials, such as steel, iron, and gasoline. This shows that Brazil seems to be very protective of these sectors. This would make sense as Brazil's economy is very heavily based in these services, and foreign intervention could hurt the domestic producers.

Ironically, this protectionism is thrown back at Brazil with those who file disputes against them. One of the main items found in these disputes is automobiles, specifically when talking about disputes filed by the European Union, the United States, and Japan. This is because automobiles are a big part of these countries' domestic production and these countries wish to protect these industries from foreign investment that might hurt domestic workers and capital owners. Furthermore, there seems to be a few disputes about import pricing, payment terms, and taxation levied against Brazil. This could be because Brazil tries to make it harder for international firms to enter their market when their domestic producers struggle to keep up with developed nations such as the United States and the European Union [9].

When examining Brazil's economy, it is easy to see why they have had such a thriving agricultural sector since their inception. Coupling together the great climate and cheap labor mentioned earlier, Brazil has seen great success with its agricultural exports, especially within the past few years: Brazil grew its gross domestic product 1% in 2017 and 1,4% in 2018 [1]. Additionally, according to the OECD, Brazil sets specific policies in order to support its domestic farmers, including minimum market price regulation, direct gov-

ernment purchases and rural credit, which provides credit to domestic farmers, both commercial and family-owned, at preferential interest rates. Furthermore, the Brazilian government also has policies related to agricultural land zoning and crop insurance [1]. Looking at all of this it is easy to see exactly why Brazil's agricultural sector has developed so well.

Moving on from the agricultural sector, Brazil has a high level of industrial development, which is confirmed by the presence of the aerospace complex "Embraer". At this time Brazil Embraer's shareholders approve merger with Boeing. Under the terms of the partnership, Embraer will hold 51% of the joint venture's shares, which means that Embraer's business will remain under Brazilian control. The agreement will create mutual benefits and increase the competitiveness of both Embraer and Boeing, as they want to beat their competitors – the Canadian Bombardier and the European Airbus [3].

An interesting fact is that the ICT market in Brazil is very large and produces 4% of Brazilian GDP, because of the public authorities' active IT usage. There are some successful examples in Brazil, such as e-voting system, electronic reporting to the police and electronic communication between government and population [2]. Moreover, Intellectual Property Protection Technology is generally supported by Brazil, but they have their own limits, therefore, international companies buy local companies or set up theirs instead of using license agreements [2].

An important role in the development of the country belongs to foreign capital, which supports the economic development of the country. However, the business environment is hampered by significant bureaucracy, government intervention in the form of taxes and corruption issues. In particular, the huge corruption scandal engulfing state-owned oil company Petrobras which plunged the economy into recession has heightened investor caution towards Brazil over the short term [4].

Moreover, not all the Brazilian firms are internally oriented, which can be explained by the government's taxation system implying 50% taxation alleviation for enterprises entering foreign market. By default, tax burden constitutes 35% of total payroll [6]. It claimed to be there as new center-right government is now in power with "fake" liberalism in trade. Moreover, current government begins to assume a leadership role in the region of South America and would like to be more flexible and "market-friendly" signing up its bilateral Trade Agreements, even though Brazil is a part of BRICS and MERCOSUR [5].

It is, therefore, clear that Brazil has comparative advantage in the agricultural sector. The highest duties were all the products in the agricultural sector. The analysis over the different trade disputes that Brazil has been involved in showed that Brazil was the complainant over twice the amount of times they

were the respondent. The industrial and ICT sectors are also of high importance for Brazil, however, some issues within the country might hold the country back. According to the presented facts and unfavorable conditions, which are due to high external debt using a lot of foreign capital, Brazil is more internally oriented. Therefore, it is still a developing country, highly industrialized, though. So, Brazil is continuing to develop, and it was very intriguing to go through and analyze this aspect of the country.

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