Serie Reformas de Política Pública 3

A POLITICAL ECONOMY ANALYSIS OF IMPORT TARIFF POLICY IN BRAZIL: 1980-1988

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ECLAC / Government of the Netherlands

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Santiago, Chile, 1993

LC/L.733
May 1993

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PREFACE

The objective of the Regional Project on Policy Reforms to Increase the Effectiveness of the State in Latin America and the Caribbean (HOL/90/S45), which ECLAC is executing with cooperation from the Government of the Netherlands, is to identify reforms that allow the States of the region to implement effective policies for pursuing the interrelated goals of macroeconomic stability, changing production patterns for attaining sustained growth, and social equity.

With this objective, the project seeks to analyse actual processes of public policy reform, from the perspective of an explicit view of State reform and how it relates to interest groups and social actors, in the context of the challenges facing the countries of the region during the current phase of their development, and the new functioning of their economies.

To achieve that objective, reform processes in different areas of public policy are analysed in a number of countries in the region that have undertaken such reforms. The areas selected are: tax reforms, privatization of public enterprises, reform of trade regimes, labour reforms and reforms in areas of social policy. The countries chosen are: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile and Mexico.

In turn, comparative analyses —between countries— are made of reforms carried out in each of the instrumental areas selected, for the purpose of drawing lessons applicable to each policy area, on the basis of the different national contexts.

Finally, analyses of reform processes in each country are integrated into a multidimensional view of the reform of the State taking place in each of them, in order to draw conclusions about the determinants and possibilities of State-reform strategies in Latin America and the Caribbean.

I. INTRODUCTION*/

Economic theory often lags behind real facts. International trade theory is no exception to this generic rule. The shortcomings of the available theoretical tools to deal with important factors like the role of imperfect competition, increasing returns to scale and administered nontariff protection are only some of the most well known examples.

Recent analyses of international trade flows in the last decade and of the likely trends of trade in the coming years have put emphasis on the new characteristics of the international scenario. These include the geographical reallocation of productive structure in several industries, new forms of competition, and new ways of interfering with trade flows. It is often considered that this new picturing reflects by and large a situation made possible after GATT's Tokyo Round of multilateral negotiations: import tariffs of the industrial countries were lowered to unprecedented levels, at the same time that other instruments —like the Subsidies and Antidumping Codes, among others— were adopted. Time has shown that the sometimes excessive and unjustified use of these instruments have led to new possibilities in restricting foreign trade.

A new field of research started to be explored, trying to identify the rationale behind the use of such instruments and the agents that benefitted most from the imposition of the new barriers.

This kind of approach has not been used before to analyse the Brazilian experience. This is due in part to the difficulties in dealing with the complexities of the protection policy that follows from a number of special import regimes and intervening institutions. Since 1987, however, Brazilian authorities have adopted a more "transparent" approach to trade, that has led to a stronger reliance upon the role of tariffs and to the reduction of nominal tariffs.

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*/A former partial version of this work for the 1980-1986 period was published as Baumann/Morais(1988). I owe to Rubens Gazir of IPEA and Mauricio Bugarin of UnB the processing of information for the last two years.

The limited role of tariffs in determining Brazilian imports has not only reduced the stimulus to study its structure and the process of tariff making. It often led to disregard two important roles that nominal tariffs have always had: it actually did affect imports by some sectors, and it was an important reference for domestic oligopolies to set their prices in the domestic market, even without being threatened by competing imports. Furthermore, it has been quite common to think that, given the overall protectionist bias of the economy, one would expect systematic demand for high tariff levels in those sectors where tariffs were binding.

This paper aims at analysing the process of tariff making in Brazil during the last decade, based on the primary data of the agency responsible for fixing the tariff rates. We adopt a political economy approach so that the sectors and the agents that have benefitted from the tariff changes can be identified. In the following section we present a brief overview of the so-called political economy of protection, the next section presents a short description of the tariff policy in Brazil, and the fourth section provides the relevant empirical evidence. Summary and conclusions are given at the last section.

II. THE POLITICAL ECONOMY OF PROTECTION

The literature on the theory of protection is not only extensive. McCord (1970) shows that since early last century the argument about protectionism versus free trade had become one of the items of the economic policy agenda in England.

Theoretical treatment of protection against trade and its effects can be considered as having (at least) three phases.

Early propositions had strong orthodox flavour and dealt in separate with the gains accruing from opening the economy to the international market and the distortions that follow from tariff charges on imports. Neoclassical argument thus conceived allows the analysis of specialization in trade and the effects upon factor prices (J. Meade (1955), H. Johnson (1958), W. Stolper, P. Samuelson (1941)). According to this view, the only kind of protection that could be justifiable are temporary protection to infant industries and the optimum tariff, to be adopted by economies that are large enough to affect international markets.

This approach leads to some questions like those related to the evidence that despite all the costs brought about by tariffs, authorities in almost every country often adopt some type of barriers to trade. In the 1960s international agencies have sponsored comparative studies of trade policies in different countries (Little, Scitovsky, Scott (1970), Balassa and Associates (1971)). At the same time, and heavily influenced by the empirical evidence that came out from these comparisons, a new theoretical field gained momentum, emphasizing normative aspects of the theory of protection. It turned out that a new economic rationale emerged to justify the use of tariffs when the shortage of public funds was binding: contrary to previous theorizing, governments were accepted to being forced into giving protection to selected sectors, instead of providing incentives to production, as earlier theory would recommend. Theory recognized the existence of a real world set of second-best policy options (Corden (1974)).

These theoretical tools —however important to help evaluate the effects of a protectionist policy— can not explain the existence of a number of barriers to trade, as well as their sectoral distribution. The appraisal of a given structure of protective devices requires an evaluation of the domestic and the external factors that determine such structure. This calls for a political economy type of approach.

The related literature suggests several perspectives of analysis. The central aspect to stress is that the process of defining a given structure of protection follows from two determining factors: the pressure from economic agents and the response, by government institutions, to these pressures (Tharakan (1979)).

This is where economic theory merges with other social sciences. In trying to isolate the determining variables some analysts stress the behaviour of specific pressure groups, on the basis of the capacity of certain groups to impose the adoption of policy measures which benefit their own production for the domestic market. Other analyses adopt an electoral approach and stress the number of voters that may benefit from the adoption of a given protective device, whilst one can alternatively evaluate a country's trade policy from the viewpoint of its role in the international market (large, hegemonic economies tend in principle to adopt a liberal approach to trade) (Goldstein (1986)).

The differences among the political processes in different countries lead to a diversity of explanatory models. The common point seems to be that these models implicitly depart from the evidence that the recent protectionist wave is mainly characterized by the widespread use of nontariff protective devices. This has specific consequences and is, to some extent, an outcome of the original GATT mechanisms.

As stressed by Nelson (1981), GATT's contracting parties have from the beginning agreed in principle that if a given country adopted protective measures this would also mean the onus of justification for doing so. Such onus has been transferred —in several countries— to the economic agents that demanded protection. The outcome of this process is, on the one hand, that national State officers often act in multilateral negotiations as representing the interests from the private sector of their countries, whilst domestically one witnesses the growth of related burocratic institutions to which the demand for protection should be addressed, and which are in charge of defining the level of protection to be granted.

These mechanisms lead to an additional distinction between tariffs and nontariff barriers, in the sense that the former are often set via political processes of changing the related legislation, whilst for the adoption of nontariff measures the level of protection is largely defined via administrative mechanisms. This is what has become to be known as "administered protection".

This process obviously makes the resulting structure of protection less transparent, but it can also be argued (Nelson (1981)) that the burocracy imposes itself well-defined rules and procedures, which make the decisions more easily foreseeable than in political negotiations, thus reducing the costs for the sectors demanding protection, as well as imposing limits to the decisory power of the burocrats.

From the international viewpoint the format of this new protectionism —which requires in increasing proportions such arrangements like the voluntary export restraints— allows for the accommodation of the interests of both the exporting and the importing countries and it may be even argued that this by itself is not an obstacle to world trade growth.Increasingly specialized trade structures could in principle cope with this kind of selective negotiation: interdependence of productive systems as reflected, for instance, by intra-industry trade, is an example of potential room for accommodating national interests.

In the remaining part of this work we adopt this type of approach to analyse the changes that occurred in the nominal tariff schedule of Brazil during the 1980-1988 period.

III. AN OVERVIEW OF TARIFF POLICY IN BRAZIL

The basic tariff structure and tariff-setting mechanisms for the period in analysis dates back to 1957 when Law 3244 set the basic tariff schedule and created the public agency that would be responsible for implementing it: the CPA, *Conselho de Política Aduaneira*, later (1979) transformed into *Comissão de Política Aduaneira*.

CPA's structure has suffered several changes during these three decades but for the relevant period for the present purposes its main decisions were taken on regular meetings by 13 representants from Ministries and other government agencies, and 3 representants from the private sector (producers'syndicates from the industrial sector, from agriculture and from commerce).

Among its several duties in administering import policy, CPA was incharged of authorizing the imports of specific items under special import regimes, its officials negotiate bilateral trade concessions, it coordinates the basic structure that puts into practice the mechanisms set by the Subsidies and Antidumping Codes, apart from defining new tariff levels. Needless to say, we concentrate the analysis on the latter; during the period of analysis CPA was allowed by law to increase nominal tariff rates as much as 60 percentage points above their basic level set by the 1957 schedule, or reduce them as much as 100 percentage points. Decisions were taken for a given period of time (often three months) but were frequently renewed.

As already mentioned, the basic tariff schedule remained virtually unchanged since 1957.[1] It is worth mentioning, however, that the external shocks of the early 1970s led to the adoption, in 1974, of surcharges (in some cases as high as 200 percentage points) that were added to the basic tariff rates. These additional rates were partially reduced after 1983.

The second half of the 1970s has also witnessed the adoption of a number of additional nontariff barriers that have certainly affected the effectiveness of the tariff schedule. In 1987 the government started a process of redesigning the whole trade policy, which comprised significant changes in tariff schedule, a reduction of the number of items at the list of forbidden imports, more flexible import financing requirements and a more flexible administration of annual import programs that firms were required to submit at the beginning of each year.

Furthermore, trade policy reform comprised also the creation of administrative capacity to put into practice the mechanisms required by the Subsidies and Antidumping Codes signed at GATT's Tokyo Round.

In 1988 a new and more expressive set of changes of the trade policy took place. Several special import regimes were eliminated, as well as many indirect composite tax on import goods. At the same time, the whole tariff schedule was modified, for the first time since its adoption, in 1957.

In 1989 a second tariff reform took place, with further reductions of import taxes for inputs and capital goods. The outcome of these two rounds of tariff reform is a more homogeneous tariff schedule, with lower average tariff rates, as reflected in the following figures:

	Before 1988	After 1989
Nominal tariff rates	(%)	(%)
simple average	51	35
median	45	35
extreme rates	0-105	0-85
standard deviation	26	21

Source: MINFAZ, *Comissão de Política Aduaneira*

This higher uniformity of nominal tariff rates notwithstanding, the level of effective protection rates seems to have remained quite significant and less homogeneous: estimates by FUNCEX, based on the tariff schedule resulting from the 1988 reform indicate a range of effective rates of protection between 8.5% and 114% for specific sectors, with an average (weighted by import value) of 46.6% and a standard deviation of 26.9%.

The last moves in this process of redefining import policy measures took place on June 1990, when the Finance Minister announced a broad, new approach to trade policy, as well as an overview of a future industrial policy. Quantitative and administrative controls on imports have been eliminated and a new tariff schedule is expected to be gradually put into practice until 1994, with an average nominal tariff rate of 20% (against the present 35%) and a tariff range of 0-40% (compared with the present 0-85%).

All these moves have several consequences, with a far more significant role to be played by import tariffs than before, when a number of other barriers were actually binding. This calls for the analysis of tariff policy making, a topic that has been seldom dealt with in the literature on Brazilian trade policy.

IV. THE POLITICAL ECONOMY OF PROTECTION IN BRAZIL

The quite extensive literature on trade policy in Brazil has seldom dealt with the analysis of tariff structure, and even less with the process of determining tariff levels and the agents that demand protection. This is partly due to the fact that nontariff protection and a number of special import regimes have been far more important in restricting import value than nominal tariff rates.

As referred above, this situation has changed recently. Imports made under no special regimes, and affected by tariff rates altered by CPA accounted in 1986 for 22% of total (non-oil) import value. According to the previous Section, changes in trade policy in more recent years are likely to have increased this share and therefore the importance of tariffs as the binding factor to importers.

This by itself would recommend an study of tariff making. But the importance of such theme is emphasized furthermore by the evidence that a limited set of producing sectors have often demanded changes in tariff rates —what means that for the firms in those sectors nominal tariff rates were throughout the period considered here an important factor in determining costs or market price levels—[2] and this has not been sufficiently explored in the literature.

Before we go further into analysing the relevant information some general comments should help to link actual tariff policy making process in Brazil with the above considerations about the political economy of protection.

First and foremost it should be stressed that the present analysis is quite limited in the sense that a study that aims at identifying interest groups that have benefitted from the several policy measures which affect foreign trade should take into account a mapping of the decisions of the tens of government agencies that have some type of influence upon sectoral imports and exports. In many cases —in the period considered here— international transactions depended upon domestic policies and specific agencies could even veto presumably harmful exports or imports.

Also, the simultaneous existence —until the 1988 reform— of several import regimes, defined upon the type of products to be imported, the importing agent or the demanding sector, makes it obviously more difficult to identify the sectors that have benefitted from the trade policy as a whole.

Finally, additional shortcomings from the present analysis stem from the fact that it deals with nominal tariff rates, without referring to the import value of each product. This admittedly may lead to distortions. But it was not possible to overcome this difficulty because, among other factors, for several products trade statistics are presented in an aggregate form. This was quite frequent for Chemicals: in most cases the import figures were grouped into a generic (non-specified) classification.

It seems nevertheless useful to adopt this approach for the analysis of the processes that have been submitted to CPA, demanding changes in nominal tariff rates. Apart from indicating a methodology that is apparently appropriate for the analysis of the post-reform period, it allows a picturing of the sectors –and the agents in each of those sectors– that were most affected by CPA's decisions.

The period of analysis was determined both by the availability of information[3] and by the option for concentrating the analysis in a period when several projects for the production of basic inputs set in the second half of the 1970s entered full operation. These projects were implemented in industries like Petrochemicals, Cement, Pulp & Paper, Fertilizers, Capital Goods and others, and are likely to have had significant impact on the domestic productive structure (Castro/ Souza (1985)). Presumably, this would lead to systematic demand for higher protection levels by domestic producers of import competing goods.

The object of analysis were the products (8-digit classification of NBM –*Nomenclatura Brasileira de Mercadorias*) that made part of the processes analyzed by CPA and which have had their import tariff rate changed in the years 1980 to 1988. As referred before, CPA's concessions were granted for a limited number of months. In some cases, one same product benefitted from such concessions more than once a year. In such cases, they were considered only once, in order to avoid double counting.

We have considered only those processes that actually led to changes in nominal tariff rates. In other words, the research did not take into account other areas of CPA's action, as described before. It is worth emphasizing that the percentage of approval is quite high, among the processes submitted to CPA's plenarium. In 1980-1986, for instance, we found that over four-fifths of the processes had a favourable decision.[4]

In order to facilitate the analysis and help identify possible indications of sectoral concentration the related products were aggregated by NBM chapters (2-digit classification). For the demanding sectors we have adopted an "ad hoc" procedure based on the (rather detailed) sectoral classification used by *Revista Visão* for its annual ranking of the largest firms ("*Quem é Quem*") and added some specific

sectors that have systematically submitted a large number of processes to CPA in the years 1980-1988.

Table 1 shows the degree of dispersion of the sectors affected by CPA's decisions, as measured by the number of NBM chapters to which the products that had their nominal tariff rates changed during that period belong.

It turns out from this table that the number of chapters affected by import tariff changes presented low variation during the first half of the decade. In 1986 —largely as a consequence of the *Cruzado* Plan— and in the following year that number increased markedly, falling again in 1988. This does not mean that the same NBM chapters were included in these movements. What these figures indicate is that there has been an intensification of the demand for tariff changes after 1986 and that this was coupled to a diversification of products classified in different NBM chapters.

These figures call for the analysis of related matters, such as the sectors that were affected by such movements and the number of cases of increase or reduction of tariff rates.

Table 1
NUMBER OF NBM AFFECTED BY IMPORT TARIFF CHANGES - 1980/1988

Year	Number of NBM Chapters
1980	35
1981	36
1982	38
1983	35
1984	38
1985	35
1986	58
1987	49
1988	30

Source: Secretaria Técnica da CPA

In order to answer the first of these questions we have isolated the NBM chapters that have concentrated the largest number of products affected by tariff changes in 1980-1988. About two-thirds of all the processes analysed by CPA in this period refer to products classified

as Food, Mineral Fuel, Inorganic and Organic Chemical Products, Fertilizers, Plastics, Leather & Skin, Iron & Steel, Non-Ferrous Metals and Musical Apparatuses & Sound Equipment. Table 2 shows the basic figures.

Table 2
PERCENTAGE COMPOSITION OF PRODUCTS AFFECTED BY IMPORT TARIFF RATE CHANGES BY NBM CHAPTERS - 1980/1988

NBM Chapters	1980	1981	1982	1983	1984	1985	1986	1987	1988	1980-1988
1 to 4; 7 to 12; 15; 17-Food Products	6.7	2.9	2.0	1.7	3.9	2.2	10.0	8.0	5.3	5.5
27-Mineral Fuel	5.1	6.4	5.4	3.0	3.0	1.1	0.9	0.8	0.6	2.1
28-Inorganic Chemical Products	6.2	9.9	5.9	7.6	6.9	4.7	4.4	3.8	5.4	5.5
29-Organic Chemical Products	8.4	11.6	27.9	33.1	23.7	16.3	19.0	17.2	33.3	22.2
31-Fertilizers	17.4	6.4	2.5	3.4	3.4	2.2	1.7	1.6	1.4	3.3
39-Plastics	7.3	8.7	7.4	4.7	4.7	4.2	5.9	3.8	2.7	5.0
41-Leather & skin	3.9	4.1	-	5.5	7.3	5.0	5.5	5.8	-	4.0
73-Iron & steel	18.5	4.7	1.0	0.4	3.0	0.8	7.2	6.4	0.2	4.3
74 to 81-Non Ferrous Metals	5.1	5.2	4.9	3.0	4.3	1.4	5.9	2.2	1.4	3.3
92-Musical Apparatus, Sound equipment	1.1	12.2	10.3	8.9	9.1	14.1	2.0	7.2	5.4	7.4
Other chapters	20.2	27.9	32.8	28.8	30.6	47.9	37.6	43.2	44.3	37.4
Total	100	100	100	100	100	100	100	100	100	100

Source: Secretaria Técnica da CPA
Note: Total figures may not correspond to the average of each row due to roundings.

As said before, figures in table 3 refer to the number of items, and do not reflect actual import value. Also, it is worth noting that in every year these chapters correspond to over 50% of the total number of products, and hence the sectoral analysis may concentrate on them.

For the 1980-1988 period as a whole the last column shows that by and large Organic Chemical Products was the most affected sector, accounting for over one-fifth of the total number of products. A closer examination of the yearly data suggests, however, sectoral differences that are worth emphasizing.

Food Products, for instance, had a significant participation in 1986 and 1987, when it is known that as a consequence of the *Cruzado* Plan excess demand for wage goods has led to additional imports. Also noticeable are the figures for Fertilizers and Iron & Steel, which were quite expressive in 1980, and have fallen to marginal percentages throughout the period.

This sectoral concentration may have several explanations. It can be argued, for instance, that in a period marked by the simultaneous start-up of several large projects —as the late 1970s and early 1980s in Brazil— it would be reasonable to witness demand for protection based on some variant of the "infant industry" argument, and more intensely so in those sectors where these new projects belong. On the other hand, these same new projects could lead to higher demand for imported raw materials and basic inputs, in order to make possible the production of those intermediate goods that used to be acquired at the external market (negative trade balance effects of import substitution). In this case, there would be an intensification of the demand for reduction in trade barriers.

Figures presented so far have therefore to be complemented by some information with regard to the direction of these changes in tariff rates. We have to know the extent to which these sectoral trajectories reflect increases or reductions in these rates. Table 3 gives a rough idea of the general trends.

Table 3
NUMBER OF PRODUCTS GRANTED IMPORT TAX EXEMPTION, INCREASED OR REDUCED IMPORT TARIFF RATES - 1980/1988

Year	Exemption	Reduced Rate	Increased Rate
1980	100	56	25
1981	24	114	14
1982	17	147	16
1983	29	177	25
1984	70	147	12
1985	100	56	17
1986	100	349	6
1987	83	461	12
1988	3	463	42
1980-1988	526	1 970	169

Source: Secretaria Técnica da CPA

According to data in table 3 in every one of these years the number of nominal tariff rate increases is quite small, in comparison to the number of reduced rates and tariff exemptions granted. This difference is particularly intensified in the last three years.

It is also worth noting that the number of products with increased tariff rates is not only low but has actually fallen until 1987 (the atypical 1986 figures notwithstanding) . This could be an indication that the recent process of import substitution of basic inputs had, among other effects, increased the demand for reducing the cost of imported inputs and raw materials.[5]

The figures for 1988 show a different picturing, with the largest number of products affected by increased tariff rates in any single year in this period. This certainly is an outcome of the tariff reform adopted that year: the end of special import regimes, and the general reduction in tariff levels have led to a reinforcement of the importance of tariffs in determining imports by several sectors; also, in the immediate period following the reform a number of processes were submitted to CPA, so that the new tariff rates for some specific products could be more appropriately defined.

Before we go into the analysis of which sectors were most affected by these movements it seems helpful to complement this overall picturing of the whole process with some information about the agents that have actually benefitted from the tariff changes. Table 4 presents the basic data.

Figures in table 4 show that by and large most of the processes leading to nominal tariff rate changes in 1980-1988 were submitted to CPA by producers' associations. This seems a positive outcome, given that any such decision by CPA affects all the imports of specific products during a given period of time. This type of procedure has indeed been explicitly stimulated by government officials. It should also be noted that this has not inhibited individual firms from submitting their own requests: the number of products affected by CPA decisions following the demand by private firms has actually increased in the last years of the period, 1988 in particular (again reflecting specific post-reform adjustments).

It is noticeable that among the private firms the foreign owned ones have systematically had more products affected by tariff rate changes (almost twice as much, in the total period) than national private firms. This could reflect either a more active role of foreigners or —more likely— the sectoral concentration of the tariff changes, which will be discussed later on.

The second most active agent, according to table 4, is the set of official institutions, which comprise ministries, sectoral government agencies and CPA's secretariat itself.[6] These comprise the set of public institutions not directly related to the productive process.

Table 4
NUMBER OF PRODUCTS AFFECTED BY IMPORT TARIFF RATE CHANGES
BY DEMANDING AGENT - 1980/1988

Year	Producers Syndicate	Firms			Official Institutions	Embassies & consulates	Other
		State Owned	National Private	Foreign Owned			
1980	85	1	10	22	57	0	3
1981	45	3	9	37	69	0	9
1982	76	6	14	37	68	0	4
1983	108	4	9	49	62	0	5
1984	60	6	26	39	92	3	6
1985	152	5	32	38	133	0	1
1986	144	9	33	49	199	10	14
1987	270	8	34	57	57	6	67
1988	119	2	84	157	149	0	5
1980-1988	1 059	44	251	485	886	19	112

Source: Secretaria Técnica da CPA

A rough analysis of data in table 4 might suggest that the tariff structure is largely inefficient, given the frequent processes submitted by the State asking for changes in a tariff schedule that is mainly adopted under the responsibility of the State. This makes it clear that the analysis of these data require additional information with regard to the direction of the tariff changes, the sectoral concentration of the affected products and the reasons that were alleged to support the demand for change.

A heterogeneous set of government agencies like this comprise institutions that deal with domestic food supply —and which are likely to systematically ask for tariff exemption— but also includes other agencies in relation to which the direction of the demand for changes is not easily predictable: sectoral agencies may want to raise barriers so as to protect domestic producers or reduce tariffs for imported inputs and raw materials.

One last comment on the data presented in table 4 has to do with the two last columns, that show the number of products whose tariff changes were motivated by demand from embassies and consulates and by other (mainly philanthropic) institutions. It is interesting to note that here, too, the demand was quite intense in 1986 and 1987, as differently from the rest of the period, and among the several reasons for that one could list the demand effects following the heterodox

economic chocks, bilateral negotiations and perhaps the beginning of a more liberal approach towards the imports of some products.

These informations are better evaluated when we consider also the domestic producing sectors that have been affected by these tariff changes. For that matter we have classified each demanding agent (every firm or producer's association) that have submitted a process to CPA in this period according to the previously described classification of the demanding sectors. When the process was initiated by demand from an official agency the sectoral classification of the demanding agent followed the sectoral classification of the main affected product, according to CPA's reports.

Table 5 shows the sectoral variations of tariff rates, comparing the actual rate on the tariff schedule (TAB -*Tarifa Aduaneira do Brasil*) with the one in vigour after CPA's decision. Due to the relatively high degree of concentration illustrated previously, the analysis deals only with the nine most important set of products, grouped by demanding sectors.

Figures in table 5 are consistent with those of table 3: all but three cases (Chemical products in 1980 and 1981 and Agricultural Pesticides in 1981) refer to tariff reductions. In some cases the margin of tariff reduction is quite significant, bringing the resulting rate to zero. This is the case, for instance, of the products demanded by the domestic suppliers of Food at the beginning of the decade and of Leather & Skin products in several years.

One important point to keep in mind in analysing these figures in table 5 is, however, that they refer not to single products but to simple averages of the tariff rates of the products imported by each sector. Nor should these figures be taken as referring to homogeneous groups of products: the 8-digit products that make each of these groupings may and actually do vary among different years. This explains why, for instance, one same group of products has its rates varying in different proportions in two separate years; one cannot blame CPA for using flexible criteria, in this sense.

It is also interesting to note from table 5 that for some sectors the margin of tariff reduction is never as intense as in other sectors. Compare, for instance, the tariff rates faced by the producers of Chemical products with those for Food products or the ones for Leather & Skin products. Not only we find a non-systematic presence of the latter; in none of these nine years have the importers of Chemical products benefitted as much as those of Leather & Skin in terms of cost reduction.

Table 5
AVERAGE IMPORT TARIFF RATE OF THE AFFECTED PRODUCTS, BY DEMANDING SECTOR 1980/1988

	1980		1981		1982		1983		1984		1985		1986		1987		1988	
	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After	Before	After
Food products	82	0	82	0	71	4	82	0	74	4	45	1	46	1	32	1	27	2
Agric. Pesticide	25	12	32	50	31	6	32	8	31	5	32	7	31	6	27	7	34	8
Fertilizers	8	1	45	0	-	-	40	5	26	0	26	0	25	0	22	1	36	1
Non-ferrous metallurgy	35	10	35	10	23	6	21	4	22	3	33	6	41	1	35	0	44	12
Iron & steel	33	0	26	1	30	2	39	6	16	5	28	0	28	0	32	5	41	15
Printing & publishing	55	0	92	40	54	24	52	25	55	0	52	1	51	0	47	2	53	8
Chemicals	32	43	37	41	40	28	31	22	55	34	44	29	46	22	44	16	42	33
Pharmaceuticals & veterinary products	44	29	40	11	46	14	43	6	49	19	35	7	36	6	35	10	36	4
Leather & skin	35	0	24	0	-	-	56	0	57	0	42	0	44	0	29	0	-	-

Source: Secretaria Técnica da CPA

Summarizing the findings on this table we could say that the sectors that have benefited most from tariff rate changes were the producers of Food products, Chemical products, Leather & Skin and Iron & Steel. The frequency of the processes submitted by these producers and the magnitude of the concessions that were granted to them suggest that either nominal tariffs were a binding factor in determining their imports or else an important referential for setting the internal prices of their products. This leads to the two related questions of the magnitude of the tariff changes and the reasons that were alleged to support the demand for those changes. Tables 6 and 7 present the last sets of evidence in this regard.

Table 6
SIMPLE AVERAGE IMPORT TARIFF RATE OF THE AFFECTED PRODUCTS 1980/1988

Year	Average import tariff rate Previous	After Change
1980	56	23
1981	76	24
1982	76	21
1983	74	24
1984	67	18
1985	46	8
1986	46	6
1987	37	7
1988	43	17

Source: Secretaria Técnica da CPA

Data in table 6 confirm —for all the products involved— the previous results obtained in tables 3 and 5: there has been in these nine years an overwhelming tendency to reduce nominal tariff rates. It should be noted that up to 1984 average tariff reductions led to figures that corresponded to approximately one-third of the original tariff schedule. In the second half of the decade, however, more intense pressure —or a more liberal approach to imports— have led to far more intense proportional reductions in the tariff rates. This obviously resulted in the tariff reform of 1988, with the already referred marginal adjustments in the second semester of that year that made aggregate figures of tariff reductions less pronounced than before.

Table 7
NUMBER OF PRODUCTS AFFECTED BY IMPORT TARIFF RATE CHANGES ACCORDING TO THE REASONS (*) ALLEGED BY THE DEMANDING AGENT 1980/1988

Year	Reasons (*)				
	A	B	C	D	E
1980	87	68	20	0	3
1981	75	54	38	0	5
1982	133	57	31	2	3
1983	143	57	31	2	3
1984	119	83	13	12	5
1985	279	71	8	1	2
1986	248	177	7	19	7
1987	304	156	5	3	32
1988	316	43	31	0	126
1980-1988	1 704	751	176	42	185

Source: Secretaria Técnica da CPA
(*) A= Non-existence of similar domestic production.
B= Insufficient domestic production.
C= Protection to domestic industry.
D= Improving bilateral relations with other countries.
E= Other reasons.

These results are rather unexpected, if one takes into account recent trends in Brazilian trade policy, with its tendency to raise barriers to imports. A partial explanation for this outcome can be obtained from the analysis of the reasons that were alleged to support the demand for tariff changes in each case. Each process submitted to CPA's plenarium has a (in most cases explicit) justification of the reasons why each specific tariff change is being demanded. These reasons can be grouped as five main cases: a)to allow for the imports of those products for which there is no comparable domestic production; b)to allow for the imports of products the domestic supply of which is insufficient to meet demand; c)protection to domestic industry; d)diplomatic interest in improving trade relations with other countries; e)other (less important or less specified) reasons. Table 7 presents the number of products affected by tariff changes granted in accordance with each of these reasons.

By and large, the most significant number of cases refer to imports of goods for which there is no comparable domestic production. For the period as a whole the number of products with tariff rates altered on the basis of this alleged reason accounts for well over all other products together. It is also remarkable that the number of

affected products increases over time. This (and previous sectoral evidence) is consistent with the hypothesis that there has been an increase in the demand for imported inputs following the start-up (during this period) of several large scale projects of intermediate products.

The second more significant group of products in table 7 refer to tariff changes meant to facilitate the imports of those products for which domestic supply is not sufficient to meet demand. It should be noted that the figures are particularly expressive in 1986 and 1987, when the combination of heterodox economic shocks, poor climate conditions and a more flexible approach to imports have led to large imports of food and other inputs.

The third column of table 7 also brings some information that is worth emphasizing: the number of products affected by tariff changes on the basis of protection to domestic industry has decreased systematically throughout the period. If one does not take fully into account the figure for 1988 which —like the one in the last column— largely reflects the already referred marginal adjustments that followed the tariff reform, it turns out that either for most sectors nontariff barriers were actually limitating imports or the degree of competitiveness of the domestic production is not as low as is often feared. As a matter of fact, the immediate outcome of the tariff reform has not been an import boom, and the extent to which this is explained by the lasting barriers, or by income or price effects is still not fully determined.

If we disaggregate the information in table 7 by type of products (not shown here) it turns out that one may identify two groups of products that are closely related to the main reasons for demanding tariff changes.[7] A first group comprises those products of which there is no comparable domestic production; these are mainly Organic Chemical Products, Plastics and Musical Apparatus & Sound Equipment. The (overwhelming) presence of the former two is consistent with the hypothesis of the demand for new inputs resulting from previous investment in the Chemical sector.

The second group of products —Mineral Fuel, Leather & Skin, Fertilizers, and Iron & Steel— typically depend upon the availability of natural resources or the domestic supply conditions; most of the cases are hence linked to reason B, the insufficiency of domestic production.

V. FINAL REMARKS

This work has set out to provide a new vision of the process of tariff setting in Brazil, adopting an approach that seems useful for the coming years, when the role of tariffs in determining imports is likely to increase, after recent trade policy reforms. The systematic evaluation of CPA's primary data allowed an appraisal of the main tendencies of the tariff changes that occurred in 1980-1988, and the identification of the sectors and of the agents that benefitted most from such changes.

It came out clearly that —in spite of the common view about the protectionist bias of Brazilian trade policy— the demand for reducing nominal tariff levels was the predominant characteristic of that period. The intensification of such demand in the second half of the decade can be explained in part by the specific macroeconomic conditions that led to excess demand in some sectors, specially food. But the relative number of products affected by tariff reduction throughout the period suggest more deeply-rooted reasons that may be linked to the start up of the basic input projects set in the second half of the previous decade. Sectoral concentration on Chemical products and Plastics and the concentration of demand by the producers in these same sectors reinforce these suspicions.

These processed data allowed furthermore an identification of the sectors and the agents that have benefitted most from the reduction of import costs that follow from lower tariff levels. A different picturing appears at the beginning and at the end of the decade, once again due to the demand by the producers at the Chemical industry. More than anything else, these data allowed a vision of the increasing evidence of the inadecuacy of the tariff schedule, that led to the 1987-1989 reforms.

Conventional analytical tools used to evaluate a given tariff structure concentrate at the identification of existing intersectorial biases as reflected, for instance, in the different effective protection rates. In a situation where tariff changes may be granted via burocratic administration it is possible to go one step further and identify the main beneficiaries of the marginal changes in the tariff schedule, even temporary ones. One hopes that the present analysis illustrates the feasibility and the importance of such approach.

Notes

[1] New products were obviously added to the basic structure during these thirty years, thus requiring the definition of the corresponding tariff rates. As a matter of fact, the product classification schedule is updated every year.

[2] In a closed economy like Brazil, oligopolies are often concerned about nominal tariff rates not for import purposes, but as a reference to help define a floor for the market prices of their production.

[3] Data had to be processed in order to obtain a homogeneous product classification throughout the period, due to changes in NBM, the Brazilian product classification schedule.

[4] This certainly would suggest another field of research on the politics of the decision making process.

[5] It also reflects the more trivial fact that for most sectors nontariff barriers were binding, so that there was no need for tariff protection.

[6] A number of processes are proposed by CPA's secretariat. They often refer to, say, systematic tariff exemption for the imports of food, the renewal of former concessions, tariff concessions following bilateral or multilateral negotiations and others.

[7] That is, data show that more than half the number of these products are systematically linked to each of these reasons.