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BRAZIL: DEVELOPMENT POLICY FOR EXPORTS OF MANUFACTURES */

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*/ Preliminary version subject to changes, both in substance and form.

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/FOREWORD

FOREWORD 1/

This study forms part of an analysis of the experience of those countries which have made most progress in respect of a development policy for exports of manufactures. Its basic object is to transmit this experience to other countries of the region that request the Economic Commission for Latin America (Comisión Económica para América Latina - CEPAL) for advisory assistance in the designing and formulation of policies or strategies of this kind.2/ At the same time, it is intended as a contribution to the elucidation of the problems involved through comparison of the experiences of developing countries in different regions, at a meeting to be held under the joint sponsorship of CEPAL and the International Bank for Reconstruaction and Development (IBRD).3/

Of course, the analysis also makes some attempt to meet the present requirements of the Brazilian economy in this field, as a supplement to the vast stock of experience built up by the government planning and decision-making agencies and their intensive thinking around events and policies, which is reflected in many publications. Thus, the development of a common knowledge of the problems will facilitate co-operation at a time when the difficulties of the international situation are setting up formidable obstacles to the continuance of the exceptional growth rate attained by Latin America's exports of manufactures during the early 1970s. These exports are already playing an important - and it might be said an irreversibly important - part in the provision of current foreign exchange income and in raising the level of internal economic activity, so that the

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1/ Provisional text for comment, subject to changes of substance and style.

2/ CEPAL/UNDP Project RLA/73/053: Export Development Programme.

3/ Santiago, Chile, 5-7 November 1976.

/complexity of

complexity of development and industrialization policy is increasing, and it is becoming clear that industrialization policies which place the emphasis alternately on import substitution and export promotion are inappropriate. At this more advanced stage of the industrial development of the Latin American countries, mutual knowledge of problems and exchange of experience will undoubtedly facilitate a harmonization of policies whereby a better contribution can be made to external equilibrium, to the determination of the degree of openness advisable for each national economy and to the dynamization of regional co-operation procedures.

The analysis is based on the research carried out by the Instituto de Planejamento Econômico e Social (IPEA), including some studies prepared in collaboration with CEPAL. No attempt has been made to up-date it in the sense of covering the same ground with more recent information, since the effort required would be out of all proportion to the new results obtained. Only in relation to the basic objective has there been some re-examination of aspects of the subject with which the Brazilian experts are abundantly familiar, but which are essential to a full understanding of the patterns followed by the successful expansion of exports of manufactures during the past ten years.

The first step, then, must be to break down export values in order to analyse the differential behaviour of the various types of products: the concentration or diversification of exports by products, geographical destination and sectoral origin; their significance in relation to industrial output; the participation of the various types of enterprise; and the relative importance of exports of manufactures in external accounts and international trade. All this is the subject-matter of the first chapter entitled "The development of exports".

A second chapter analyses the forms taken by the "Promotion of exports of manufactures". It outlines the general features of economic policy during the past decade (1964-1974), and then goes on to describe and analyse the development of industrial export policy through the instruments used and their effects.

Four annexes comprise a detailed list of main sources, a note on the concept of "manufactured product" and another on the group of principal exporter enterprises, and 25 tables presenting the data used.

/I. DEVELOPMENT

I. DEVELOPMENT OF EXPORTS

1. Export expansion 4/

(a) General observations

In 1974 the value of Brazil's total exports in current prices amounted to 8,000 million dollars, or nearly six times more than in 1964, having increased at annual rates of 10 per cent during the period 1964-1969 and 28 per cent in the following quinquennium. Although high rates have been maintained, basically as a result of rising prices, the exceptionally dynamic movements recorded in the years 1972 and 1973 have slackened since 1974.

A major factor in so noteworthy an expansion was constituted by the radical changes that took place in the structure of exports, of which manufactures 5/ came to represent a steadily increasing proportion, although it was still primary commodities that made the biggest contribution to their growth. Thus, external sales of manufactures attained the respectable sum of 2,300 million dollars (see table 1).

(b) The effect of prices

The price index of total exports doubled in the course of the decade 1964-1974. In other words, during that period exports almost trebled in real terms.

Even more enlightening are the indexes broken down by category of goods for the period in which export development policy assumed a more organic form; i.e., taking 1968 as a benchmark, since towards the end of that year the policy of minidevaluations of the cruzeiro was introduced, and in 1969 a carefully-constructed set of tax and financial incentives began to be applied in good earnest.

4/ See Annex C, tables C-1 to C-4, in the Spanish text.

5/ See the appended note setting forth the criteria adopted in the present study for the purpose of defining the concept of "manufactured product" (Annex B).

/Table 1

Table 1

BRAZIL: EXPORT STRUCTURE AND TRENDS, 1964-1974

	1964	1969	1974	1969/1964 Annual rate of growth	1969/1964 Contribution to growth rate	1974/1969 Annual rate of growth	1974/1969 Contribution to growth rate
Exports							
Millions of dollars FOB	1 429.8	2 311.2	7 951.0				
Percentage	100.0	100.0	100.0	10.1	100.0	28.0	100.0
+ Primary commodities (percentage)	85.4	77.7	60.4	8.0	63.3	21.7	53.6
- Green coffee (percentage)	53.1	35.2	10.9				
+ Semimanufactures (percentage)	8.0	9.1	8.0	12.9	10.9	24.6	7.1
+ Manufactures (percentage)	6.3	12.3	29.2	26.0	23.8	52.2	38.2
+ Others (percentages)	0.3	0.9	2.4	33.6	2.0	57.5	1.1

Source: CACEX, Relatório Anual, several years (see Annex C in Spanish text, tables C-3 and C-4).

/In the

In the first place, primary commodities whose prices showed significant improvements at some time or other during the period reversed the trend extending from the quinquennium 1964-1969. These commodities, together with increasingly large volumes of exports of iron ore - at prices which took a definite turn for the better only as from 1973 - safeguarded a rising income level which had been jeopardized by the steady deterioration of the coffee position in both relative and absolute terms.

Semi-manufactures, in their turn, maintained their share in export earnings by virtue of price increases from 1973 onwards, for while at first they followed an upward trend, like manufactures, though at a more moderate pace, sales of these products dropped, along with those of primary commodities, in 1971, and after a brief recovery, their volume significantly contracted in 1974 and 1975.

In contrast, manufactures, which played an outstanding role in the provision of foreign exchange and in the diversification of the pattern of exports, kept up a high annual growth rate in terms of sales volumes (almost 30 per cent between 1968 and 1975), but at price levels which rose at a lower annual rate, than those of primary commodities (9 per cent as against 13 per cent) or those of the developed countries' exports of manufactures (10 per cent). Even so, their prices climbed steadily, without the fluctuations typical of primary commodities.

(c) Diversification

At the level of the major aggregates of the classification prepared by the United Nations Conference on Trade and Development (UNCTAD) - primary commodities, semi-manufactures and manufactures - the diversification of the structure of exports is remarkable, the participation of semi-manufactures remaining fairly constant and the importance of manufactures increasing at the expense of commodities. Among the latter, coffee's loss of preponderance is worthy of note.

/However, primary..

However, primary commodities still kept in line with the dynamic behaviour pattern of exports, although their contribution to the rate of expansion declined. External sales of semi-manufactures, which during the quinquennium 1964-1969 expanded faster than total exports, continued to increase over the next five years, but at a lower rate than total exports, so that they too reduced their participation in the overall dynamic trend. On the other hand, manufactures maintained rising rates of expansion throughout the decade, thus greatly enlarging their share in the aggregate growth rate of exports.

Accordingly, it would seem that the success achieved by Brazilian exports in the decade 1964-1974 was based not only on the prior existence of a broad and diversified structure of industrial production which made it possible to implement a promotion policy for exports of manufactures, but also on certain changes in the pattern of agricultural production, since this sector was prompt to meet the demands of an expanding external market.

2. Principal products 6/

The structure of exports at the product level continued to show an extremely high degree of concentration. During 1974, out of 3,665 eight-digit items in the Brazilian Trade Nomenclature for which exports were recorded, 52 alone accounted for 75 per cent of the total value of external sales. In 1968, however, a similar percentage of total exports had been represented by only 12 products, and during recent years manufactures and semi-manufactures have definitely joined the group of major export items. A breakdown of this principal group indicates that a significant diversification of the products exported has taken place.

Notable as is the broadening and diversification of the universe of products contributing three-fourths of Brazil's exports, no less striking are the maintenance of extreme concentration on primary commodities and the highly diversified development of exports of

6/ See Annex C in the Spanish text, table C-5 and the explanatory note thereto.

/manufactures. Almost

manufactures. Almost all the 52 products that provided 75 per cent of exports in 1974 were closely linked to primary agricultural and extractive production. Only three of them fell under the head of transport equipment, two under that of electrical equipment and one under that of statistical machines, while three were products of the iron and steel industry. That is, only nine came from the more modern and dynamic industrial activities, accounting for 3.4 per cent of total exports. Moreover, exports of primary commodities are included almost in their entirety (95 per cent) in this group of principal products, as are 71 per cent of semi-manufactures and 74 per cent of manufactures; so that the remaining 3,613 items in the Brazilian Trade Nomenclature (the largest representing 20.5 million dollars and the smallest 9 dollars) would seem to be an approximate indicator of the extreme diversity of industrial products exported.7/

In 1968, green coffee, although the proportions it represented were decreasing, was still indisputably in the lead with 41 per cent of total exports, while the other 11 products accounted only for the remaining 34 per cent under consideration. The two semi-manufactures included - sawn pinewood and cocoa butter - were traditional export items linked to equally traditional agricultural activities. Similarly, the one and only manufacture - soluble coffee - was a traditional agricultural product processed by manufacturing industry, but only very recently incorporated into the export pattern.

During the next few years, to this 75 per cent of Brazil's exports were added a few primary commodities - traditional, more recently introduced, or rather more highly processed -; semi-manufactures and manufactures based on the transformation of natural resources and traditional agricultural products; and, mainly in 1974, manufactures from what are termed the dynamic industries.

7/ It has of course been taken into account that thanks to the characteristics of the products themselves and of their production processes, and to statistical requirements, the nomenclatures in common use in international trade need few items for primary commodities and even for some semi-manufactures.

/3. Destination

3. Destination of exports 8/

(a) Diversification of markets

The decade 1964-1974 witnessed an appreciable diversification of the geographical destination of Brazil's growing exports, the opening-up of new national markets and the restructuration of sales to the countries members of the Latin American Free Trade Association (LAFTA).

The first symptom of this diversification of markets is the marked decrease in the relative importance of sales to the United States, as against a small increase in that of exports to Western Europe. 9/ The countries of Eastern Europe, with which Brazil's trade balances are positive, also reduced their participation in its external sales. The markets of Japan and of the African countries, for their part, gained ground, concurrently with the adoption of a deliberate course of diplomatic and commercial action; in conjunction, they corresponded to 58 per cent of the Argentine market in 1964, whereas by 1974 they slightly outweighted the LAFTA market. The countries of Asia and the Middle East, with Australia and New Zealand, in the aggregate, stepped up their imports from Brazil at rapid rates. Within the American continent, Canada's share contracted a little in relation to 1964, whereas that of the Central American and Caribbean countries increased at the highest rates of all.

Throughout the decade Brazil's sales to the LAFTA countries kept up growth rates slightly higher than those of total exports. But this expansion of its exports to each and all of its associates in LAFTA coincided with a significant restructuration of markets during the quinquennium 1969-1974. In the course of this period, the value of Brazil's exports to its leading buyer nearly doubled, but the proportion of sales to LAFTA that they represented dropped from 67 per cent to 33 per cent. The national market in the area that was

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8/ See Annex C in the Spanish text, tables C-6 to C-12.

9/ Western Europe includes all the European countries members of the Organization for Economic Co-operation and Development (OECD) plus Yugoslavia.

second in importance in 1964 had become the seventh by 1974. With the exception of these two countries - Argentina and Uruguay - and exluding also that of least relative significance - Ecuador -, all the LAFTA members increased their purchases from Brazil at significantly high annual rates: between 31 per cent and 84 per cent, as against an annual growth rate of total exports of 28 per cent during 1969-1974. This restructuration of buyer markets was reflected in the enhanced importance of the countries of the Andean Group, which in the aggregate absorbed nearly 40 per cent of Brazil's sales to LAFTA.

This diversification, however, did little to solve the problem of bilateral disequilibria with the developed countries, aggravated as it was in 1974 to a worse degree than could be ascribed to transactions with the petroleum-producing countries.10/

(b) Export structure by markets

The differences in the dynamic trends of exports of primary commodities, semi-manufactures and manufactures described above are reproduced in relation to the various markets of destination. Exports of primary commodities were channelled mainly towards the developed countries, especially those of Western Europe. The same was true of semi-manufactures, although LAFTA's relative importance as a market perceptibly increased and that of the United States improved. Manufactures, on the other hand, were exported primarily to the United States, the members of LAFTA and the countries of Western Europe.

As regards the structure of Brazilian exports by primary commodities (60 per cent), semi-manufactures (8 per cent) and manufactures (29 per cent), the bias in favour of the first group was strongest in those consigned to Western and Eastern Europe, Africa and Japan, and somewhat less so in the case of the United States market, while the emphasis was definitely reversed in respect of sales to LAFTA,

10/ Dercio Garcia Munhoz, "Desequilibrios bilaterais, origen dos problemas externos", in Coyuntura Econômica, Vol. 29, Nº 12, December 1975, Fundaçao Getúlio Vargas, Rio de Janeiro, Brazil.

/Canada and

Canada and the Central American and Caribbean countries (primary commodities 24 per cent, semi-manufactures 9 per cent, and manufactures 66 per cent).

During 1974 the lion's share of exports (68 per cent) was shipped to the countries of Western Europe, the United States and Japan, which purchased 74 per cent of the primary commodities and semi-manufactures and 57 per cent of the manufactures exported by Brazil, so that the resulting structure leaned more towards the products subject to less processing (65 per cent primary commodities, 9 per cent semi-manufactures and 25 per cent manufactures).

As stated above, exports to LAFTA increased at a moderate rate, thus maintaining their relative importance, but within the framework of a drastic restructuration of markets. In any case, the foremost among the national markets was still Argentina's, both at the overall level and at that of primary commodities (55 per cent), semi-manufactures (68 per cent) and manufactures (19 per cent). The leading markets for primary commodities (95 per cent) were the temperate-climate countries - Argentina, Chile and Uruguay - and Venezuela; while Argentina, Venezuela and Uruguay were the markets of destination for 90 per cent of Brazil's exports of semi-manufactures. In contrast, the market for manufactures was more evenly spread over the ten ten countries. The countries signatories to the Andean Sub-Regional Agreement, which acquired a significance exceeding that of the Argentine market, absorbed about one-half of the manufactures exported by Brazil, one-fifth of the semi-manufactures and 30 per cent of the primary commodities.

The three temperate-climate countries together accounted for one-half of Brazil's exports to LAFTA, with a structure by type of product essentially different from that of total sales to the Area. Argentina's purchases were very evenly distributed among primary commodities, semi-manufactures and manufactures, whereas those of Chile and Uruguay showed a little more bias towards manufactures (slightly under 50 per cent). Venezuela's were distributed similarly to those of the Area as a whole, almost two-thirds being represented

/by manufactures.

by manufactures. In the case of the other six countries, manufactures constituted proportions fluctuating around 90 per cent of their total purchases from Brazil.

These variations to some extent correspond to the differences between the eleven LAFTA members as regards their degrees of development and the natural resources at their disposal. Similarly, the declining preponderance of Argentina and Uruguay was clearly a logical consequence of trade expansion, since these two countries had kept up a brisk trade with Brazil, by reason of the complementarity of their traditional agricultural production and the relative ease of communication between their ports. It must be noted, however, that the impact of the above-mentioned restructuration of markets was felt most strongly by manufactures, which showed growth rates substantially higher than those of total exports, especially those consigned to the six countries importing almost exclusively manufactures from Brazil: Paraguay and the members of the Andean Group, with the exception of Chile.

(c) Export structure of manufactures by markets

Table 2 shows the structure of Brazilian exports of industrialized products by their four main markets of destination. Although a little more than one-fourth of these goods are consigned to the countries of Latin America, nearly 60 per cent are imported by the developed countries. Another point to note is that sales to the developed world consist primarily of goods produced by the traditional industries; in contrast, Latin America purchases essentially intermediate and final products of the dynamic industries.

An analysis of Brazil's exports of chemical and metallurgical products, electrical and non-electrical machines and apparatus, and transport equipment, reveals that the participation of the LAFTA members and other Latin American countries considerably exceeds their share in industrialized products as a whole, and their resulting preponderance is very marked. Furthermore, these four groups of goods account in the aggregate for 443.7 million dollars and represent two-thirds of exports of industrialized products to LAFTA.

/Table 2

Table 2

BRAZIL: EXPORTS OF INDUSTRIALIZED PRODUCTS TO UNITED STATES, LAFTA, EEC, AND JAPAN[a/], 1974

	United States	LAFTA	EEC	Japan
Total value (millions of dollars at current prices, FOB)	818.5	680.4	723.2	118.1
Percentage represented by:				
Processed food products	22.5	1.5	29.0	5.7
Footwear	11.7	0.4	1.7	0.0
Wood industry	4.0	6.4	8.7	3.8
Oils and waxes	9.6	1.1	21.1	7.2
Natural and synthetic textiles	9.9	9.6	17.0	12.2
Chemical and related products (processed)	5.8	7.1	4.4	1.8
Iron and steel products	5.2	10.3	2.4	9.4
Machinery and apparatus and electrical equipment	17.7	28.2	3.8	25.6
Transport equipment	2.4	16.0	1.7	0.5
Others	11.2	19.4	10.2	33.8

Source: CACEX, Relatório Anual, 1974, pp. 54 - 57.

a/ The term "Industrialized products" as used by CACEX covers both semimanufactures and manufactures. The United States, LAFTA and EEC in the aggregate absorb 75.2 per cent of total exports of these goods; if Japan is added to the group, the proportion rises to 79.2 per cent.

/The structure

The structure of Brazil's exports of chemical products, whose main source is the traditional chemical industry, is very similar to that of manufactures as a whole, although with a higher degree of concentration in the LAFTA countries, the United States and Western Europe. LAFTA takes the lead only when menthol - a traditional export product - is exluded. Exports of metallurgical products consist essentially of rolled steel products and, in lesser proportions, tin and tools. In this case the structure by destination shows that the greatest importance attaches to the LAFTA market and the United States. The preponderance of LAFTA is intensified in the case of electrical and non-electrical machines and apparatus, while the relative significance of the European market is reduced, whereas the United States, Canada and Japan increase their share.11/ With respect to transport equipment, the Latin American market reasserts its leadership, with Africa coming second. Such exports are almost entirely products of the motor-vehicle industry, a fact which still more clearly highlights the relative importance of industrial activities connected with motor-vehicle production in the exports of the two last-named manufacturing sectors.

In consequence of the growth of exports linked to motor-vehicle production and to the restructuration of sales to LAFTA described above, the countries of the Andean Group have become relatively more important as a market than the other larger countries (see table 3).

11/ In this context the following points are worth noting: (a) approximately one-half of this sector's exports to the United States consists of radio sets for cars, and parts thereof; and (b) significant figures are recorded for internal combustion engines (Canada and Germany, in particular), parts thereof (United States), and statistical machines (Japan and Australia). The recent growth of such sales is probably closely linked to intra-firm operations.

/Table 3

Table 3

BRAZIL: EXPORTS TO LAFTA OF PRODUCTS OF THE DYNAMIC INDUSTRIES, 1974

Sector of origin / Market of destination	Chemical industry	Metal-working industry	Machinery and apparatus	Transport equipment	Total
LAFTA (millions of dollars)	48.5	95.3	191.3	108.6	443.7
Argentina and Mexico (percentage)	57.5	37.6	45.3	23.3	39.6
Uruguay and Paraguay	13.1	24.4	14.0	11.6	16.4
Grupo Andino (percentage)	29.4	38.0	40.7	65.1	44.0

Source: CACEX, Relatório Anual, 1974 (see Annex C in Spanish text, table C-10).

/(d) LAFTA

(d) LAFTA and export expansion

During the decade 1964-1974, Brazil's exports to LAFTA countries expanded slightly faster than those consigned to extra-Area markets. Imports from LAFTA, for their part, increased at a slightly lower rate than total imports. In this way, and through a restructuration of supplier markets less striking than in the case of exports, Brazil was able to maintain some sort of overall balance in its trade accounts with the Area.

In consequence of the differences in the dynamism of the exports of the eleven member countries, those of Brazil represented increasing proportions of intra-Area sales. Even so, intra-Area exports are now relatively less important for Brazil than for the other ten member countries.

With reference to the 21 Complementarity Agreements signed within LAFTA between 1962 and 1975, Brazil participated in 18 of them, basically with the two largest countries - Argentina and Mexico - and to a lesser extent with the other two countries in the southern zone, Uruguay and Chile. These agreements cover 1,634 products of the dynamic industries: chemical products (5 agreements), office and statistical machines (3), electrical machines, appliances and apparatus (9), and photographic equipment (1). It should be noted, however, that none of them relates to transport equipment, which is exported primarily to the countries of the Andean Group, and for which the highest growth rates are recorded.

Although all members of the Association make intensive use of the LAFTA Payments System, Brazil appears to do so appreciably less than other countries, relying rather on its own financing mechanisms.12/

12/ See Sintesis-ALALC, Nº 115, January-February 1976, Supplement Nº 12. Operations transacted under the LAFTA Payments System increased from 480 million dollars in 1969 to 2,290 million in 1974. The swing credit agreements signed between the Central Bank of Brazil and those of other countries totalled 59 million dollars, with a second line that may amount to 40 million more; while the Banks of Argentina, Chile, Peru and Venezuela joined the system with agreements which in the aggregate represent significantly higher figures.

LAFTA's trade liberalization programme and complementarity agreements cannot be said to have been direct determinants of the expansion of Brazil's intra-Area exports, since concurrently with them other procedures were adopted to facilitate trade. Outstanding among these seem to have been bilateral agreements between countries members of LAFTA, and the inter-enterprise agreements of a barter type endorsed by governments.

The institutional framework of LAFTA and its instruments to promote trade would appear to have proved insufficient in the circumstances for the full utilization of the existing potential. Inside and outside this institutional framework, the role played by the subsidiaries of transnational corporations operating in countries of the region has probably been an important determinant of Brazil's growing exports of manufactures to LAFTA. It should be noted that the corporations in question virtually control the industrial sectors covered by the complementarity agreements and those that are most dynamic, such as the motor-vehicle industry.

(e) The Generalized System of Preferences

The Generalized System of Preferences (GSP) came into force during the second half of 1971, so that as from the following year its influence should have made itself felt in the behaviour pattern of Brazil's exports of industrialized products to the developed countries that agreed to join the system.13/ Apart from the quantitative and time limitations applied, the complexity of the scheme sufficed to prevent it from achieving such important initial results as UNCTAD's original proposal might have been expected to yield by 1974. The degree

13/ The six founder members of the European Economic Community (EEC), Japan and Norway brought the scheme into force during the second half of 1971; Denmark, Finland, Ireland, New Zealand, Sweden, the United Kingdom, Switzerland and Austria did so in the early months of 1972. Denmark, Ireland and the United Kingdom replaced their systems by that of the EEC in January 1974 - the same date at which Canada brought its own into force. The United States' scheme has just come into operation as from 1976.

/of dynamism

of dynamism of exports of manufactures from the developing countries would seem to reveal the inadequacy of the preferences granted, both quantitatively and as regards the ways in which the scheme is being implemented.

The information available is not up-to-date enough to be very satisfactory, but it provides some indications of how little the GSP has meant for Brazil's exports of manufactures, although the country appears to have made intensive use of the EEC preferences. Studies begun by CEPAL show that up to 1973: (i) EEC's imports from Brazil under the GSP scheme increased at a considerably lower rate than Brazilian exports of manufactures to the Community; (ii) EEC imports from Brazil comprising sensitive and semi-sensitive products not benefiting under the scheme - i.e., exceeding the stipulated quota - grew exceptionally fast; and (iii) if the latter imports were added to those covered by the scheme, the annual rate of expansion of the resulting total would be similar to that of Brazil's exports of industrial products to the Community. It would seem, therefore, that increased access to the EEC market was based more on Brazil's competitive effort than on the GSP.14/

In the case of Japan, exports of industrialized products were less significant, although their growth rate was high. It would seem that here again the GSP had little influence on the development of Brazil's exports of manufactures, especially in view of the action taken in the diplomatic and commercial fields with the aim of stepping up economic relations between Brazil and Japan.

14/ In this context, a more detailed analysis should be made of the list of non-sensitive products that are really imported, since it would include significant operations between subsidiaries of transnational corporations.

/4. Sectoral

4. Sectoral origin of exports 15/

(a) General observations

As can be seen from table 4, exports of industrialized products 16/ come mainly from what might be termed traditional industries processing agricultural raw materials. More than half consist of food products, footwear, wood products, oils and textiles, while in addition most of the exports of the chemical industry are assimilable to this category. Nevertheless, another feature that should be noted is the increase in the participation of the machinery and apparatus and transport equipment industries, with exports closely linked to the production of motor vehicles, electrical apparatus and office machines, and, generally speaking, with a manifest predominance of parts or components over final products.

15/ See Annex C in the Spanish text, table C-13. For a satisfactory analysis of export trends by sector of origin, the data for the numerous (8-digit) items in the Brazilian Trade Nomenclature would have had to be brought into line with the Standard International Trade Classification (SITC), Rev. 2. The resources to hand made it materially impossible to tackle such a task. Nor was there any similar classification available, with the exception of those published by IPEA in its Relatorio de Pesquisa, No. 14 (p. 125) and No. 22 (p. 94), which, however, only go up to 1972 and are not homogeneous in the concept of manufactured product adopted. Thus, in dealing with the subject recourse was had to various arrangements of the information prepared by CACEX and presented in its Relatorio Anual, as well as to the material contained in several IPEA studies published in its Relatorio de Pesquisa. Use was also made of a study by CEPAL's Industrial Development Division entitled "Las exportaciones de manufacturas en América Latina: Informaciones estadísticas y algunas consideraciones generales" (E/CEPAL/L.128), 22 January 1976.

16/ The term "industrialized product", as applied by the Carteira de Comercio Exterior (CACEX), comprises both semi-manufactures and manufactures.

/Table 4

Table 4

BRAZIL: EXPORTS OF INDUSTRIALIZED PRODUCTS BY SECTOR OF ORIGIN, 1973 AND 1974

(Millions of dollars at current prices, FOB)

	1973		1974	
	Value	Percentage	Value	Percentage
Industrilized products a/	1 941.5	100.0	2 955.2	100.0
Food products b/	352.0	18.1	544.3	18.4
Footwear c/	93.5	4.8	120.3	4.1
Wood d/	203.2	10.7	222.7	7.5
Oils and waxes e/	213.5	11.0	272.6	9.2
Natural and synthetic textiles f/	309.1	15.9	424.3	14.4
Chemical products g/	78.9	4.1	151.9	5.1
Iron and steel products h/	118.3	6.1	165.2	5.6
Electrical and non-electrical machinery and apparatus i/	211.8	10.9	454.6	15.4
Transport equipment j/	91.2	4.7	191.4	6.5
Others k/	265.1	13.7	408.0	13.8

Source: CACEX, Relatório Anual, 1974, p. 41 (see Annex C in Spanish text, table C-13).

a/ Semimanufactures and manufactures.

b/ Soluble coffee (21 per cent), cocoa butter and oil (18 per cent), preserved meat and meat extracts (29 per cent), refined sugar (11 per cent), concentrated orange juice (11 per cent) and others (10 per cent).

c/ 24 million pairs in 1974. During 1965 these exports totalled 165 million dollars.

d/ Sawnwood (60 per cent), pulp (16 per cent), veneers (10 per cent) and furniture and others (14 per cent).

e/ Castor oil (49 per cent), essential oils, babassu and ground-nut oils and carnauba wax (48 per cent).

f/ Yarns, textiles and made-up textile articles of cotton (68 per cent), or of synthetic and man-made fibres (18 per cent), silk and woollen yarns (4 per cent) and sisal cord and rope (8 per cent).

g/ Menthol (31 per cent).

h/ Iron alloys and cast-iron (50 per cent), common steel non-flat rolled products (18 per cent), steel for rolling (8 per cent), plates (6 per cent), steel alloys (4 per cent).

i/ Internal combustion engines for motor-vehicles (9 per cent), typewriters (5 per cent), calculating-machines, cash registers, etc., and parts thereof (7 per cent), computer equipment and parts thereof (9 per cent), radio sets (18 per cent), electronic valves (4 per cent), electric self-starter for motor-vehicles, electric isolators, condensers, and other electrical appliances (5 per cent), telephonic apparatus (2 per cent), electric generators, motors and transformers (2 per cent), household sewing-machines (3 per cent), earth-moving machinery (2 per cent), hoists and winches (2 per cent), machine-tools (3 per cent), refrigerating equipment (2 per cent), pumps and motor pumps for liquids (1 per cent). The products grouped under these generic heads account in toto for about 78 per cent of the sector's exports.

j/ Parts and accessories for motor vehicles (23 per cent), lorries and station-waggons (16 per cent), motor-vehicles, complete and for assembly (15 per cent), omnibuses and taxibuses (8 per cent), tractors (7 per cent), others (31 per cent).

k/ Including tin (5 per cent), tools and cutlery (5 per cent), other non-ferrous metals (3 per cent), natural and synthetic rubber (4 per cent), paper, board and manufactures thereof (8 per cent), printed matter (3 per cent), glass and manufactures thereof (4 per cent), precious metals and manufactures thereof (7 per cent), petroleum products (11 per cent) and others (50 per cent).

/There are

There are two significant aspects of the behaviour pattern of the various sectors during the decade 1964-1974 (see table 5). In the first place, it is noteworthy that the sales made by the sectors providing about 80 per cent of foreign exchange export earnings expanded more slowly than total exports, while the most dynamic trend was shown by a miscellaneous group of other sectors of production. The relatively least dynamic aggregate is the agricultural sector - including textile fibres - and the related manufactures, whose participation gradually declined, although during the second quinquennium external prices were more favourable and the goods exported showed an increase in their value added. The group that was relatively most dynamic included the other manufacturing industries and mining, although a special individual trend was followed by the transport equipment sector, which was the only one to reduce its exports in the course of the first quinquennium, but expanded them at very rapid rates during the next five years. Secondly, the behaviour of the sectors whose participation in the export pattern increased becomes more dynamic with the advance from primary activities to more complex industries, coinciding with the well-known classifications which place production sectors in order of dynamism. In other words, what are commonly called dynamic industries made their contribution to the expansion of exports in the fashion proper to them. Lastly, it must be repeated that the industrial component of exports whose sector of origin was identified as agriculture substantially increased.

(b) Trends in main sectors 17/

Table 5 speaks for itself with respect to the essential role played by the agricultural sector and its manufactures in the provision of current external income, for although its participation in exports has decreased, it still accounts for more than half their growth.

17/ For further details see Annex C in the Spanish text, table C-13, and the notes to table 4.

/Table 5

Table 5

BRAZIL: DIFFERENTIAL EXPORT TRENDS BY SECTORS OF ORIGIN

	1964	1969	1974	1969/1964 Annual rate of growth	1969/1964 Contribution to growth rate	1974/1969 Annual rate of growth	1974/1969 Contribution to growth rate
Exports							
Millions of dollars at current prices, FOB	1 429.8	2 311.2	7 951.0	10.1	100.0	28.0	100.0
Percentages	100.0	100.0	100.0				
Sectors of origin whose participation deteriorated							
Agriculture and agricultural industrialized products	87.6	83.7	72.6	9.1	77.2	24.4	68.2
Sectors of origin whose participation improved							
Mining	7.5	8.3	10.1	12.4	9.8	33.4	11.0
Chemical industries, paper and board, printing, non-metallic minerals and others	2.4	3.0	4.6	15.1	4.0	39.4	5.3
Basic metal-working, capital goods and durable consumer goods	2.5	4.9	10.8	25.9	8.9	50.0	13.9

Source: CACEX, Relatório Anual, several years (see Annex C in Spanish text, Table C-13).

/Noteworthy, too,

Noteworthy, too, is the increase recorded in the proportion of agricultural production which has undergone some kind of industrial processing. The most striking case is that of leather footwear, which has absorbed the increment in production of its raw material and has almost entirely replaced exports of raw and tanned hides. This development has been supplemented by large-scale exports of frozen, chilled and processed meat, though in the last few years the familiar restrictions imposed by the major purchasers have been adversely affecting this branch of trade. Sales of soluble coffee, which began to acquire importance in 1966-1967, expanded very quickly up to 1970-1971, after which they remained in the lead among exports of manufactured products. The wood industry, in which the species used were diversified and the value added of its exports was increased, showed a less expansionist trend in the quinquennium 1969-1974, when its participation in total exports deteriorated, no doubt as the consequence of the growth of the domestic market, the depletion of forest resources and the increasing tendency to replace wood by other products. Another traditional export industry whose sales expanded appreciably faster than total exports was oil production; here castor-oil retained its leadership and kept up a steady rate of growth, together with essential oils, carnauba wax, ground-nut oil and - a more recent addition - babassu oil. Orange juice and by-products of the milling and processing of ground-nuts and soya beans for oil also played an outstanding role; so did the sugar industry, which exported increasing proportions of more highly-processed kinds of sugar, as well as other products of milling and distilling (molasses).

The textiles sector - raw materials and manufactures -, which is heavily dependent upon cotton, naturally followed a behaviour pattern similar to that described in the foregoing paragraph. In this case the structural change in favour of manufactures was exceptionally marked: during the five-year period 1964-1969 exports of textile manufactures were virtually insignificant although increasing, whereas by the end of the next quinquennium they had climbed to 69 per cent, as against 31 per cent of raw materials.

/Among the

Among the sectors that enlarged their share in exports was the chemical industry, which, with its widely diversified output, did not base this improvement on the characteristically dynamic products. It was precisely these which figured largely among imports of the products of the chemical industries.

The mining sector also kept the growth rate of its export values slightly ahead of that of total exports. This trend was based almost entirely on the increasingly voluminous sales of iron ore, which rose from almost 10 million tons in 1964 to 21 million in 1969 and 59 million in 1974. During 1975 this became the foremost export product, with 909 million dollars and 72 million tons.

Exports from the metallurgical industry were somewhat unstable in their behaviour, although continuing to pursue an upward trend. This behaviour pattern was homogeneous throughout the sector (steel-making, tin, tools, cutlery, metal articles and other non-ferrous metals), in which steel products accounted for rather less than 80 per cent. The metallurgical sector could not of course increase its exports to a more notable extent, since it developed within a framework of booming domestic demand, which forced up imports of steel and non-ferrous metals.

Exports of machinery and apparatus and parts thereof reflected the characteristic diversity of the producer sector, but with some degree of concentration on electrical and office equipment and internal combustion engines, while a considerable proportion, which can be estimated at about 35 per cent, was destined for the motor-vehicle industry. A growth rate for these exports appreciably exceeding that of total exports has been achieved through a change in their structure by type of good. In 1974 more than 50 per cent of exports were lumped together under the generic heading "Others", which now comprises barely 30 per cent. Machines and equipment for office use achieved their greatest dynamism in the first quinquennium, when they led expansion in the sector, while electrical machinery and apparatus maintained their share, and markedly increased it as from 1971, becoming

/the biggest

the biggest item (40 per cent) with the highest growth rate in the second quinquennium. Road machinery (machinery for extraction, embanking, excavation or drilling), originally as important as office machines, kept up a high rate of external sales, but the proportion they represented gradually dwindled. Machinery for lifting, loading, unloading and shifting (winches, cranes, hoists) showed the highest growth rate in the sector during the first quinquennium and the lowest during the second, so that its participation in exports is slightly less at present than it was originally. A similar behaviour pattern was followed by exports of pumps for liquids, while external sales of machine-tools, although they maintained a high rate of growth, dropped as a proportion of the sectoral total from 9 to 3 per cent. The diversity of the goods exported shows that so far there are no signs of specialization by line of product in this sector, which includes the manufacture of almost all capital goods.

External sales of transport equipment were of very little significance during the quinquennium 1964-1969, and even declined. The most outstanding items were parts and accessories for motor vehicles, together with sporadic sales of omnibuses, as well as repairs and minor construction works in the dockyards. Shipbuilding lost relative importance during the next quinquennium, but gained in value and significance in 1971 and 1972, when three freighters for bulk cargo were exported to Liberia and Portugal, and again in 1973, with the sale of two smaller cargo boats to Liberia and Panama and 50 shallow draught vessels to the United States. The present preponderance of motor vehicles and farm tractors and parts thereof is due to the noteworthy expansion that took place during the second half of the decade under analysis, particularly as from 1972. Parts and accessories increased their relative participation, despite the boom in sales of finished units and units for assembly, which rose from an average of 157 motor vehicles in 1964-1969 to 48,982 in 1974. From what has been said in this and in earlier paragraphs on the destination and type of goods exported, it can be inferred that the external sales of the dynamic industrial sectors were very largely based on the motor-vehicle industry.

/5. Exports

5. Exports and production 18/

(a) Evolution and structure of the product

During the last twenty-five years the Brazilian economy has expanded steadily at rates much higher than the growth rate of the population, and the proportions of value added in the production of goods and in that of services have remained stable. Within the latter sector an outstanding feature is the increase in the participation of basic services, while among the sectors producing goods radical structural changes can be observed. Thus, mining seems to have doubled its contribution to the gross domestic product, and its share in exports is still of little significance, although it has increased. The agricultural sector in its turn, while maintaining growth rates higher than that of the population, has gradually but considerably reduced its participation in the gross domestic product, and likewise in total exports. In contrast manufacturing industry, which on an average, grew at an annual rate of 8.5 per cent between 1950 and 1975, increased its contribution to the gross domestic product and to exports.

(b) Exports and industrial production

The coefficient expressing the relation between the real value of exports and the gross domestic product has remained fairly stable throughout the last few years, hovering around 7 per cent. On the other hand, the relation between the real value of exports of industrialized products and the value added by the industrial sector rose steadily from 5.5 per cent in 1968 to 8.1 per cent in 1975.

18/ See Annex C in the Spanish text, tables C-14 and C-20.

Studies carried out at a lower level of aggregation show that in most sectors the participation of industrial exports in final demand was still very slight up to 1971.19/ Subsequent trends give no indication of a change in this state of affairs, although for some few enterprises exports may probably have constituted a sizable proportion of their transactions. Such a situation is patently complementary to the above-mentioned diversification of exports of manufactured products.

To sum up, exports of manufactures have represented a modest proportion of total production and of the output of each sector and have not constituted a significant source of industrial growth, despite the fact that they are now responsible for one-third of the real value of total exports. Nevertheless, a stoppage or slackening of their growth would have a definitely cramping effect on economic development, because of their increasingly notable share in the formation of the capacity to import.

19/ See IPEA/Research Institute (Instituto de Pesquisa - INPES), Relatório de Pesquisa No. 26, p. 158: "(...) The high proportions represented by some of the traditional sectors, such as wood, hides and skins, food products and tobacco are basically attributable to exports of industrialized products such as sawnwood, tanned hides or crude leather and rolled tobacco, in which the value added by industry is extremely small". Pp. 159 and 160: "(...) Despite the high growth rates of exports during the period, it would be an exaggeration to attach very much importance to the role played by exports as a factor in the rapid expansion of the industrial sector from 1968 onwards. In point of fact, the proportion of industrial output exported is significant only in the traditional sectors. In the dynamic sectors, which are responsible for most of the recent growth, it is still minute, and in the transforming industry as a whole it did not exceed 7 per cent in 1971.a/ What is more, many of the most dynamic exports came from the traditional sectors, whose contribution to the recovery and maintenance of industrial growth as from 1968 was, as has been shown, of very little significance".

a/ "Moreover, in view of the comprehensive concept of industrialized products adopted here, this percentage may be thought over-estimated."

/(c) Imports:

(c) Imports: their evolution and comparative structure

The growth of the Brazilian economy is still intimately dependent upon certain imports of strategic value for its industrial sector. Despite the exceptional dynamism displayed by exports of manufactured product, during the period 1964-1974 total imports expanded faster than exports and with a relatively greater increase of speed during the second half of the decade (see table 6). Thus, the development of exports of manufactures is called upon to meet new requirements, while at the same time fresh opportunities have been opened up for import substitution in respect of certain industrial inputs and capital goods.

Taking into account the high rates of economic growth, the period under study seems relatively rather short for the structure of trade relations with the rest of the world to have undergone substantial modifications on the basis of radical transformations of the structure of production, although some changes are observable in the composition of exports.

Within the framework of export expansion, the most dynamic trends corresponded to certain manufactures whose sectors of origin were agricultural production and the metal-transforming industries. Thus, appreciable changes took place in the structure of exports, although the bulk of external sales continued to be linked to the agricultural and mining sectors. This broadening of the market for the goods-producing sectors also took place within the economy, and induced a rise in import levels which pushed up import coefficients for the manufacturing sector as a whole and for each of the dynamic industries.20/ The value of new imports of goods from these dynamic industries was several times greater than that of new exports of the same products. Thus there was a substantial increase in the traditional heavy deficit on external accounts for the goods in question, with no essential changes in import structure.

20/ See IPEA/INPES, Relatório de Pesquisa, No. 26, pp. 133, 139 and 140. On p. 142 it is shown that the only sectors of origin of goods which represent larger proportions in the structure of exports than in that of imports are the wood, leather, textile, food and tobacco industries.

/Table 6

Table 6

BRAZIL: FOREIGN TRADE GROWTH RATES

	1969 / 1964	1974 / 1969
	Annual percentage rate	
At current prices		
Total exports (FOB)	10.1	28.0
Total imports (CIF)	12.9	44.6
Exports of manufactures (FOB)	26.0	52.2
At 1970 prices		
Total exports (FOB)	12.3	9.3
Total imports (CIF)	12.8	19.6

Source: CEPAL, on the basis of its own data and information supplied by CACEX (see Annex C in Spanish text, tables C-4 and C-15).

/During 1964

During 1964 exports were concentrated in non-durable consumer goods (food products) and raw materials (foodstuffs, textiles, wood and minerals), whereas imports consisted chiefly of raw materials (petroleum and wheat), capital goods and industrial inputs (iron and steel products and chemical products, fertilizers, non-ferrous metals and paper). Ten years later, in consequence of the development of exports of manufactures which included increasing volumes of industrialized agricultural products, and also because of coffee's loss of relative importance, the structure of exports appreciably altered, becoming more diversifed: the proportion represented by non-durable consumer goods decreased, and the products that gained ground were inputs (oilseeds and their by-products, cocoa butter, iron and steel products, cotton and synthetic yarns), capital goods (transport, telecommunications and office equipment) and durable consumer goods (radio receiving-sets and television sets, cutlery and hand tools, jewelry and sewing-machines for household use). Imports still comprised mainly capital goods and industrial inputs, as well as petroleum and wheat.21/

6. Exporter enterprises 22/

(a) General observations

The number of exporter firms increased during the decade under review, and by 1974 had reached 6,474. Only a few of these, however, were responsible for the bulk of external sales: in 1974, the 10 leading

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21/ In 1973, while two-thirds of exports consisted of primary commodities, more than three-quarters of imports were industrialized products. Imports of primary commodities were connected with unavailable natural resources and with the agricultural production typical of other climates. Thus they were concentrated in crude petroleum and wheat, together with certain food products (apples, pears, cod) and minerals (coal). Industrialized products included chiefly capital goods, products of the steel-making and chemical industries, non-ferrous metals, petroleum products and wood pulp for the manufacture of paper: i.e., products of the so-called dynamic industries. It should also be noted that during the period under consideration imports of consumer goods increased at very high rates.

22/ See Annex C in the Spanish text, table C-21, and Annex D (also in the Spanish text).

/firms covered

firms covered 30 per cent of exports, the next 10 accounted for 10 per cent, and 24 others, in the aggregate, for a further 10 per cent. In this small group of enterprises contributing half of Brazil's total exports, industrialized products were of minor though increasing significance: in 1972 only three firms belonged to the dynamic industrial sectors, while in 1974 the corresponding number was 7. A few Federal Government enterprises and several subsidiaries of transnational corporations accounted for a major proportion of the exports of this group.23/

The greater degree of homogeneity of primary commodities and semi-manufactures was compatible with larger-scale marketing and made for concentration in relatively few enterprises. In contrast, exports of manufactures were effected through a much bigger number of firms. This can be seen in table 7, which also shows how 85 per cent of the exporter firms were responsible for only 4 per cent of primary commodities, 6.6 per cent of semi-manufactures and almost 20 per cent of manufactures.

(b) Principal enterprises exporting manufactured products

The brisker growth of exports of manufactures was accompanied by a marked increase in the number of larger enterprises covering 50 per cent of external sales (see table 8). This effect became clearly apparent when the group was joined and leading positions were attained by certain firms which expanded their external sales at very high

23/ During 1974, the following was the situation recorded with respect to the 44 principal exporter firms:

Enterprises	Number	Percentage of total exports
Federal Government	4	24.5
Transnational corporations	14	11.6
Local private firms	26	13.9
	44	50.0

/Table 7

Table 7

BRAZIL: MISCELLANEOUS DATA ON EXPORTER ENTERPRISES WITH EXTERNAL SALES EXCEEDING ONE MILLION DOLLARS, 1974

	Primary commod-ities	Semi-manufactures	Manu-factures	Total
Exports (millions of dollars)	4 801.2	693.6	2 321.5	7 951.0
Number of firms that exported				
- Up to 35 per cent of total	2	7	29	13
- Up to 50 per cent of total	12	15	72	44
- Over 2 million dollars each	254	52	208	500
- Over 1 million dollars each	358	107a/	382	
Percentage of exports covered by firms that exported				
- Over 2 million dolars each	92.8	71.4	69.5	83.8
- Over 1 million dollars each	96.0	83.7a/	80.1	
Average exports (in millions of dollars) of each of the firms that exported				
- Up to 35 per cent of total	840.2	31.7	28.0	214.1
- Up to 50 per cent of total	200.0	21.1	16.1	90.4
- Over 2 million dollars each	17.5	8.7	7.8	13.3
- Over 1 million dollars each	12.9	5.0	4.9	

Source: CACEX, Relatório Anual, 1974.

a/ 93 firms exported between 400 000 and 1 million dollars, accounting for 9.7 per cent of exports of semimanufactures.

/Table 8

Table 8

BRAZIL: MAJOR FIRMS THAT EXPORTED 50 PER CENT OF MANUFACTURES, BY SECTOR AND TYPE OF ENTERPRISE, 1971 TO 1974
(Figures in brackets: number of enterprises; figures not in brackets: percentage of total manufactures exported)

	1971					1974				
	10 major firms	Next 10 firms	20 major firms	Next 26 firms	46 major firms	10 major firms	Next 10 firms	20 major firms	Next 52 firms	72 major firms a/
Total	23.97	10.62	34.69	15.57	50.16	21.23	9.00	30.23	19.99	50.22
By sector of origin										
Food and beverages	(6) 16.06	(2) 3.07	(8) 19.13	(7) 4.78	(15) 23.91	(4) 6.98	(6) 5.13	(10) 12.11	(11) 4.19	(21) 16.30
Textiles and made-up textile articles				(3) 1.44	(3) 1.44				(16) 6.41	(16) 6.41
Footwear				(1) 0.47	(1) 0.47				(1) 0.39	(1) 0.39
Wood industry		(2) 1.62	(2) 1.62	(3) 1.59	(5) 3.21				(4) 1.40	(4) 1.40
Paper and printing				(1) 0.61	(1) 0.61				(2) 0.81	(2) 0.81
Chemical, rubber and plastics industries	(2) 3.90	(1) 0.78	(3) 4.68	(2) 1.29	(5) 5.97	(2) 3.23		(2) 3.23	(6) 2.32	(8) 5.55
Steelmaking		(2) 1.82	(2) 1.82	(2) 1.38	(4) 3.20		(1) 0.88	(1) 0.88	(1) 0.44	(2) 1.32
Electrical and non-electrical machinery and apparatus	(2) 4.01	(2) 2.55	(4) 6.56	(5) 2.96	(9) 9.52	(2) 6.18	(1) 0.80	(3) 6.98	(9) 3.37	(12) 10.35
Transport equipment		(1) 0.78	(1) 0.78	(2) 1.05	(3) 1.83	(2) 4.84	(2) 2.19	(4) 7.03	(1) 0.28	(5) 7.31
Others									(1) 0.38	(1) 0.38
By type of enterprise b/										
Federal or state government enterprises	(1) 2.22	(1) 1.04	(2) 3.26	(1) 0.66	(3) 3.92	(2) 4.49	(-) -	(2) 4.49	(1) 0.41	(3) 4.90
Transnational corporations	(5) 11.09	(6) 6.32	(11) 17.41	(10) 6.09	(21) 23.50	(5) 12.74	(5) 4.57	(10) 17.31	(19) 6.87	(29) 24.18
Local private firms	(4) 10.66	(3) 3.26	(7) 13.92	(15) 8.82	(22) 22.74	(3) 4.00	(5) 4.43	(8) 8.43	(32) 12.71	(40) 21.14

Source: CACEX, Relatório Anual, 1971 and 1974.

a/ *The next 312 firms that exported over one million dollars accounted for 29.9 per cent of exports of manufactures. The remaining 19.98 per cent was covered by a numerous group of enterprises.*

b/ Of the firms that appeared in 1971 among the 20 leading enterprises only 8 remained in 1974. One government enterprise, 8 transnational corporations and 3 local firms dropped out of the group and 1, 7 and 4, respectively, joined it. It should be noted that two of the transnational corporations figuring in the group in 1971 had undergone a merger by 1971; in other words, it was really 6 corporations that left and joined this principal group. The transnational corporations entering the group belonged to the machinery and transport equipment sectors, and the other firms to the traditional industries, with the exception of one privately-owned steel mill. More precise data would doubtless have given a larger number of subsidiaries of transnational corporations, with the consequent loss of relative importance for local private firms. The concept of subsidiary includes both subsidiaries proper and associated enterprises.

rates as from 1970.24/ Between 1971 and 1974, the participation of government enterprises and the subsidiaries of transnational corporations was stepped up slightly, to the detriment of local private firms. Nevertheless, it was the mass incorporation of the last-named that did most to determine the numerical increase in the group; and as the 20 largest firms came to represent a rather smaller proportion, diversification occurred among the next of the enterprises making up 50 per cent of exports, and especially among the local private firms. Changes are also observable in the composition and order of importance of the 20 leading firms that accounted in the aggregate for 30 per cent of exports. Among these, the transnational corporations maintained their greater relative importance, the participation of government enterprises rose, and local private firms lost ground, notwithstanding that no essential modification took place in the numerical distribution, and that the preponderance of transnational corporations and government enterprises among the first 10 firms increased. Another feature was the growing relative importance of the dynamic industries, both among the 20 leading firms and among those responsible for 50 per cent of exports of manufactures.

24/ The most notable cases are those of the two firms of greatest importance during 1974, as against the two leading enterprises in 1971.

Exports 1971 (Millions of dollars)	Exports 1974 (Millions of dollars)	Position 1971	Position 1974	Product exported
0.1	89.2	- a/	1º	Radio sets of motor vehicles and transistors
1.7	80.4	68º	2º	Motor vehicles and parts and accessories thereof
24.9	31.5	1º	8º	Soluble coffee
16.9	20.4	2º	15º	Beef

a/ Exports effected by the first 189 enterprises amounted to over 500,000 dollars.

/In 1974

In 1974 most exports from the sectors producing food (soluble coffee and meat), chemical and rubber products, (menthol and rubber tyres), machinery and apparatus, and transport equipment were effected through the enterprises comprised in the group of 72 major firms. The other sectors, on the contrary, showed less concentration in respect of enterprises; a case in point is that of footwear, which was exported by no fewer than 100 firms, only one of them being included among the 72 leading exporters of manufactured products.25/

(c) Contribution to exports of manufactures in relation to nature and size of enterprise

The data utilized do not allow an exact quantification of the direct contribution to exports made by the various types of enterprise. Only with reference to government enterprises can easily demonstrable percentages be asserted: in 1974 they were responsible for about 26 per cent of total exports and for 5 per cent of exports of manufactures. Subsidiaries of transnational corporations, in their turn,26/ seem to have accounted for not less than 20 per cent of total exports and 40 per cent of external sales of manufactures. This makes national private enterprises responsible for over 50 per cent of exports: a result consistent with the repeated assertion that a large group of local firms covered a major proportion of exports of industrialized products.27/

25/ In 1974 exports of footwear accounted for 5.2 per cent of external sales of manufactures. Rather more than half were attributable to 26 firms, whose exports ranged from 9 to 1 million dollars' worth each. The remaining 58 million dollars were distributed among firms exporting less than 1 million dollars' worth each.

26/ With reference to their number and the extent of their activities in countries members of LAFTA, see C.A. Givogri, R. Gordillo, H. Palmieri, Empresas transnacionales que actuan en Argentina y sus vinculaciones en países miembros de la ALALC-1973, National University of Córdoba, Institute of Economics and Finance, Working Material Series No. 15. Out of the 487 transnational corporations that were operating in Argentina, with 768 subsidiaries, 309 did so in Brazil, with 668 subsidiaries. Of these 551 were concerned with industry and mining.

27/ See IPEA/INPES, Relatório de Pesquisa No. 29, p. 72.

/There is

There is also a lack of background material for promotional policy with respect to the minimum size for an enterprise exporting manufactures and to the relation between size of enterprise and incentives required. However, the analysis of information on the main exporter firms places national private enterprises of small and medium size at the heart of the concerns whereby a policy to promote exports of manufactures should be guided. The very fact that a major proportion of exports of manufactures is in the hands of a considerable number of national private enterprises is indicative of the great care that will have to be taken in attempting to improve the system of incentives so as to meet the changing external market conditions or the objectives of industrial development.

While the subsidiaries of transnational corporations have been responsible for a sizable proportion of exports of manufactures, no less a contribution to the formation of the capacity to import has been made by a large group of local private enterprises. It is fairly safe to assume that these would be the most severely affected by trade restrictions deriving from the falling-off in the developed countries' rate of economic growth and from their anti-inflation policies. These external restrictions also affect the subsidiaries of transnational corporations, but as their transactions form part of the parent firm's plan of operations, the success of government promotional action is largely conditioned by the extent to which it is compatible with the requirements for ensuring the corporation optimum profits at the world level. Very often the price of success is the extravagance of the incentives or subsidies which countries grant in a sort of concessional one-upmanship, egged on by project-makers. Government enterprises, in their turn, derive their importance in export trade from their concentration on certain primary commodities, while their participation in manufactures, slight though it may be, buttressed by the large size of the firms or institutions concerned. If the growth of Brazil's exports of manufactures is sustained, they will cease to constitute a marginal proportion of international trade, and national private enterprises will find themselves forced to accompany their trading.

/activities by

activities by more and more investment abroad, either in marketing organizations or in organizations for the production of goods. This is a further relative disadvantage vis-à-vis the transnational corporation with subsidiaries in Brazil, which will contribute to the concentration in such enterprises of a process of internationalization of capital that might weaken the government's capacity to promote development.

7. Exports and the balance of payments 28/

(a) The deficit on current account

Since 1960 Brazil's balance of payments has shown a chronic deficit on current account, financed primarily with compensatory funds during the earlier years of the period and with medium- and long-term loans as from 1966-1967. Such loans also assisted in the building-up of monetary reserves until the year 1973.29/ Concurrently with these trends in external accounts, the growth of the economy was uninterrupted, although fluctuating, as from 1955, and showed high annual rates from 1968 to 1974. More meticulous examination of the current account reveals that in the first two years of the period 1964-1974 there was a surplus which coincided with the application of stabilization policies and the consequent contraction of imports of goods, accompanied, however, by an increase in exports. From 1963 to 1970 the value of exports of goods stood higher than that of imports, and as from the following year a mounting deficit in FOB terms was generated. Thus, the current deficit originating in services spread to the goods account,

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28/ See Annex C in the Spanish text, tables C-22 and C-23.

29/ The net total inflow of external financing dropped to almost nil in 1964, was negative during the next three years, and rose from 431 million dollars in 1968 to 4,560 million in 1974. The net contribution made by loans represented 76 per cent of the total inflow in 1960, reached 95 per cent in 1971 and fell to 86 per cent in 1974 in consequence of a slowing-down in the rate of increase of loans and a reactivation of foreign direct investment.

/largely owing

largely owing to the forms taken by the rapid economic growth referred to above.30/ Movements in the services accounts, however, also helped to aggravate the increasing imbalance on current account, as is evidenced by the fact that the growth rate of purchases of non-factor services was higher than that of sales. Although during the quinquennium 1969-1974 net payments of interest and profits on foreign capital showed a lower rate of expansion than exports of goods, the increase in medium- and long-term external indebtedness means that bigger deficits on this account must be expected in the future. In other words, a growing imbalance on the services accounts has become a fixture, since there seems little chance of its retrenchment. Hence it is on the goods account that a reduction of the current deficit can be looked for, which will minimize the negative effects on economic growth and will be reflected in the simultaneous combination of import substitution in respect of industrial inputs and capital goods with the development of exports of manufactures.

(b) <u>The contribution of exports of manufactures to the formation of the capacity to import</u>

The contribution made by exports to current foreign exchange income has been considerable, as has been shown through the evolution of their values in current prices. But the large-scale absorption of external savings, especially in the form of loans, obscures the significance of the role they played, from 1968 to 1973, in the formation of the capacity to import and in the accumulation of international reserves. Current foreign exchange income increased at

30/ Setting aside the repercussions of the rise in petroleum prices, these increasing deficits on the goods account are one of the indicators of the opening of a new phase in the supposedly exhausted possibilities of the import substitution process. This has been recognized in the conduct of economic policy, but the maintenance of a dynamic export policy has been reaffirmed. Thus, on the supply side, new conditions seem to be taking shape for the development of exports of manufactures, which will call for smoother and more deliberate harmonization of industrial and export promotion policies.

/an appreciably

an appreciably lower rate than the inflow of external non-compensatory financing. In any event, the overall contribution of exports was also reduced by price trends for certain primary commodities, by coffee's loss of importance and by the relatively modest expansion of semi-manufactures. The same is not true of manufactures, exports of which recorded the highest growth rates of all and doubled their contribution to the formation of the capacity to import during the decade 1964-1974 (see table 9).

The increasing use of foreign savings, hitherto essentially in the form of loans, and the dynamic expansion of exports of manufactures would seem to have been the cornerstones of the external equilibrium which sustained the high rates of economic growth achieved from 1968 onwards. This is the characteristic feature of a period of transition which has made it possible to break through the vicious circle of the supposed exhaustion of import substitution possibilities, and open up new prospects for this process as a condition for continued growth on the bases just described.

8. Exports and international trade 31/

The upswing in the value of Brazil's exports during the past decade took place within a framework of booming world trade. Thus, although the participation of Brazil's external sales in total world exports increased, it was still of very little significance (1 per cent). Some primary commodities of course continued to be of outstanding importance in the international trade concerned. The same could not be said of industrialized products, except in a few instances very closely linked to certain primary commodities characteristic of Brazilian agriculture: for example, cocoa butter,

31/ See Annex C in the Spanish text, table C-24.

Table 9

BRAZIL: CAPACITY TO IMPORT, 1960-1974

	Current foreign exchange income			Servicing of foreign capital	Movements of non-compensatory funds	Errors and omissions	Capacity to import a/	Imports of goods and services	Balance b/
	Total	Total exports FOB	Export of manufacturing FOB						
	Millions of dollars at current prices								
1960	1 475	1 269	...	618	565	10	1 432	1 786	-379
1964	1 575	1 430	89	645	403	-217	1 116	1 330	-217
1969	2 662	2 311	284	980	1 494	-20	3 156	2 602	507
1973	7 160	6 199	1 465	3 209	5 922	354	10 227	7 783	2 344
1974	9 589	7 951	2 321	3 789	8 165	82	14 046	14 873	-957
	Percentage of the capacity to import								
1960	103.0	88.6	...	43.2	39.5		100	124.7	
1964	141.1	128.1	8.0	57.8	36.1		100	119.2	
1969	84.3	73.2	9.0	31.0	47.3		100	82.4	
1973	70.0	60.6	14.3	31.4	57.9		100	76.1	
1974	68.3	56.6	16.5	27.0	58.1		100	105.9	
	Annual percentage growth rate								
1969-1964	11.1	10.1	26.0	8.7	30.0		23.1	14.4	
1973-1969	28.1	28.0	50.7	34.5	41.1		34.2	31.5	
1974-1969	29.2	28.0	52.2	31.1	40.5		34.8	41.7	

Source: CEPAL, Statistical Division (2 June 1976).

a/ Capacity to import also includes allocations of Special Drawing Rights.

b/ Balance = Capacity to import - Imports of goods and services - private transfers = gross compensatory financing.

/castor oil,

castor oil, soluble coffee, and probably fruit juices and leather footwear (see table 10).32/ Against some of these, indeed, the developed countries are beginning to take protectionist measures.

If world trade had continued to expand on the same scale as up to 1973-1974, the insignificant participation of Brazilian manufactures and their wide diversification would have implied that no major problems of access to the markets of the industrialized countries were likely to exist. Of late, however, market restrictions have multiplied in consequence of the fall in the growth rate of the industrialized countries, of their anti-inflation policies and of the resultant slackening of world trade. These new external conditions are of course very different from those that made it possible for Brazil's exports of manufactures to score so marked a success, and are particularly sensitive to its continuance. As already pointed out, continuity in the growth of exports of manufactures is one of the three requisites for the stabilization of the balance of payments in conjunction with satisfactory rates of economic development. Furthermore, restrictions on access to markets are initially a threat to manufactures whose sectors of origin are the so-called traditional industries, and bear harder on local private enterprises than on the transnational corporations, whose operations are concentrated to a greater extent in the chemical and metal-transforming industries.

32/ No up-to-date international trade figures are available at a sufficiently low level of aggregation to permit of measuring the participation of the principal industrialized products exported by Brazil. An approximate indicator of the proportion they represent, however, is the relation between exports to the United States and imports from that country, and between exports to all markets of destination and United States imports and exports. It should be recalled that the United States' external trade represented one-fourth of world exports in 1973 and that Brazil sold 20 per cent of its total exports of semi-manufactures to this market and 30 per cent of its exports of manufactures.

/Table 10

Table 10

BRAZIL: PRINCIPAL EXPORTS OF INDUSTRIALIZED PRODUCTS TO ALL MARKETS OF DESTINATION AND TO UNITED STATES, AND UNITED STATES FOREIGN TRADE IN THE SAME ITEMS, 1973

(Millions of dollars)

	Exports from Brazil		Exports from United States		Imports from United States	Exports from Brazil to United States	Exports from Brazil
	To all markets of desti-nation	To United States	To all markets of desti-nation	To Brazil		United States imports	United States imports plus exports
						Percentages	
Overall total	6 199.2	1 122.4	70 223.0	1 903.4	68 656.0	1.6	4.5
Semi-manufactures a/	476.2	93.9	...	...	...		
Subtotal principal products b/	194.3	42.6	...	...	...		
Cocoa butter	47.7	8.6	-	-	32.0	26.9	149.1
Soya bean oil	23.8	-	150.1	-	-	-	15.8
Castor oil	122.8	34.0	2.8	-	41.9	81.1	274.7
Manufactures a/	1 465.3	432.1	...	...	...		
Subtotal principal products c/	780.8	273.6	...	...	...		
Processed meat	82.1	40.1	17.5	-	544.0	7.4	14.6
Fruit juice and pulses	67.6	7.7	87.4	-	42.4	18.2	5.2
Soluble coffee	99.9	45.0	14.8	-	102.4	43.9	8.5
Menthol	28.7	16.2	...	...	...	...	...
Cotton yarns and textiles	97.6	12.2	287.3	0.2	327.6	3.7	1.6
Clothing	82.3	16.9	286.9	4.3	2 167.5	0.8	0.3
Footwear	93.7	77.9	20.3	-	1 082.0	7.2	8.5
Office machines	39.6	7.8	2 084.4	45.1	914.6	0.9	1.3
Electrical machinery, apparatus and appliances	84.0	42.1	5 032.3	167.8	4 498.6	0.9	0.9
Television sets	17.2	13.4	158.6	1.0	541.3	2.5	2.5
Radio sets	17.0	16.3	37.3	0.4	767.5	2.1	2.1
Motor-vehicles for road use	70.9	7.9	6 030.0	71.3	10 046.0	-	-

Source: CACEX, Anuário do Comércio Exterior do Brasil - Exportação, 1973 and United Nations, World Trade Annual, 1973.

a/ Products are grouped according to the CACEX classification (see annex A in the Spanish text, note on the term "manufactures"). In the UNCTAD classification, oils are primary commodities.

b/ Comprising 40.8 per cent of semi-manufactures exported to all markets of destination and 45.4 per cent of those consigned to the United States.

c/ Comprising 53.3 per cent of manufactures exported to all markets of destination and 63.3 per cent of those consigned to the United States.

/The first

The first thought that occurs in considering the trends followed by exports of manufactures is that emphasis should be placed on support for exports of products of the dynamic industries, for local private enterprise and for trade operations with developing countries, especially those of Latin America. Perhaps the meridian of the new efforts made should pass through a constellation of these three forms of support, focussing especially upon the technological questions involved and the conflict of objectives implied. Broadly speaking, the products of the traditional industries are technologically similar to those processed in the developing countries, so that the terms of competition are stiffer. The products of the dynamic industries, on the other hand, besides representing a much smaller proportion of international trade, incorporate what has come to be called a technological lag, and have access to marginal fractions of the developed countries' markets, enjoying fairer terms when they are consigned to the developing countries. In the case of these products, too, commercial differences of some importance exist according to whether they are inputs in widespread use, parts, assemblies or final goods. While the capacity for adaptation and creation of technologies is increasing, equally in evidence is its marked subordination to the industrialized countries' capacity for innovation, which is transmitted more directly to the subsidiaries of the transnational corporations than to local private enterprises. Moreover, such corporations play a major role in the production and exports of these more dynamic sectors. Lastly, the expansion of trade with other developing countries, especially those of Latin America, is inconceivable on any terms but those of multilateral equilibrium with the limitation implicit in the common technological lag incorporated in the products traded. Nevertheless, the stepping-up of such trade would indoubtedly sustain, with fewer requirements in the way of imports from the industrialized countries, the aforesaid simultaneous processes of import substitution in respect of inputs and capital goods on the one hand, and, on the other, development of exports of manufactures.

/Export strategy,

Export strategy, however, should not fail to heed the outstanding importance of the markets of the developed world for the expansion of exports of manufactures: an importance that derives from the dynamism of their demand, from the chronic trade imbalance and form the need to alter the traditional patterns of trade.

Thus, new requirements will have to be met by export and industrialization policies, by action in the context of regional economic integration, and by co-operation between developing countries, as well as by negotiations to improve conditions of access to the markets of the industrialized countries.

II. PROMOTION OF EXPORTS OF MANUFACTURES

1. Economic policy (1964-1974)

(a) General outlines

During the early 1960s a slowing-down of the rate of economic growth coincided with high rates of inflation and a severe external bottleneck characterized by the stagnation of exports and smaller inflows of external capital. The administration of economic policy became increasingly complex in such conditions, aggravated as they were by structural disequilibria and socio-political conflicts. Then, in the new political and institutional framework established as from 1964, a start was made on the application of a set of measures designed to create conditions which, once consolidated, would give fresh dynamic impetus to development. These requisites were as follows: (a) control of inflation; (b) elimination of distortions in the price structure; (c) modernization of the capital market; (d) construction of systems of incentives whereby investment could be channelled into essential areas and sectors; (e) large-scale inflows of external capital; and (f) intensification of public investment in infrastructure projects and in the basic industries controlled by the Federal Government.

/To begin

To begin with, emphasis was placed on the first three aspects of the problem. Stringent cuts were made in public expenditure, although investment resources were not reduced, and the deficit was financed with adjustable loans. The tariffs of public utilities, which were mainly government services, were drastically increased, and revenue was augmented by means of a reform which made for more efficient tax collection. Restriction of credit to the private sector was accompanied by authorization to contract external loans for working capital. Wage policy was no less severe, implying a heavy reduction in the real value of wages which has not yet been recouped. Exchange policy, in its turn, sought to avoid overvaluation of the cruzeiro. As regards the modernization of the capital market, monetary adjustment was introduced into government securities, and was extended to other financial instruments, while machinery was established for reassessing the assets of enterprises. Legal regulations and tax incentives aimed at strengthening the stock market. Alongside the diversification and specialization of financing institutions, credit machinery was set up to encourage domestic demand for those goods which could be produced with the existing wide margins of idle capacity.

A beginning was also made on the construction of systems of incentives to regional development (Nordeste and Amazonas), tourism, exports of manufactures, reforestation programmes, etc. With the support of external public financing, work was continued on infrastructure projects already under way and others were programmed and launched, especially in the fields of electric energy production, construction of port facilities and road-building, urban infrastructure, and steel-making, mining and the petrochemical industries. In addition, the very liberal legislation promulgated to attract foreign investment yielded its effects as anti-inflation policy gave evidence of success and the rate of development began to recover.

The first step in the drive towards stabilization was to encourage utilization of the wide margins of idle installed capacity. By the late 1960s, with the control of inflation, the dynamization of development called for a stronger emphasis on investment incentives.

/The application

The application of tax incentives was generalized and the policies already pursued were improved in many respects; cases in point, towards the end of 1968, were the flexible exchange rate and the price control system.33/ Thus, with decreasing rates of inflation and real wages slowly recovering, a dynamic process of economic development took place, essentially on the basis of public-sector investment and production, the expansion of production of durable consumer goods (especially motor vehicles) and, complementarily, the diversified growth of exports and a few regional development programmes.

The redynamization of growth was of course conditioned by the extent to which the external bottleneck was relieved. To meet this requisite, development strategy aimed at securing the Brazilian economy a firmer footing in international trade. It contemplated the expansion and diversification of exports, the transfer of real resources from abroad through a marked increase in imports, and facilities for the tapping of external savings in the form of loans and direct investment. Thus, it was based on a neutral exchange policy, on the granting of tax and financial incentives conditional upon the export of manufactures, on a generalized reduction of tariff protection, and on regulations which provided ample guarantees to foreign investment and financing. In short, an attempt was made to speed up the rate of economic growth by the creation of conditions appropriate for substantial increases in the capacity to import and for its full utilization.

A brief analysis will next be made of import and industrialization policies, which are directly linked with promotional policy for exports of manufactures. The development of such exports was favoured by the neutral exchange policy whose evolution and significance will also be analysed at a later stage.

33/ The Inter-Ministerial Council on Prices was not empowered to fix prices, but its monitoring faculties were extensive and it possessed, indirectly, considerable capacity to penalize enterprises.

/(b) Import

(b) Import policy

From mid-1964 until the early months of 1967 import policy was based on the ad valorem tariff approved in 1957 (0 to 150 per cent), but with the elimination of the prior deposits on exchange operations, the auctions of import licenses and the multiple exchange rates by which it had been supplemented. Thus, the first step towards import liberalization was the gradual abolition or moderation of protectionist instruments other than the customs tariff. The exchange simplification process once completed, in March 1967 new regulations came into force respecting the criterion of similarity to domestic production and the import duty, which underwent an across-the-board reduction of about 28 per cent (duty rates did not exceed 100 per cent). Furthermore, protection was lessened by the exchange overvaluation which took place between the very widely-spaced adjustments of the rate of exchange. By the end of 1968, with the minidevaluations of the cruzeiro, protection had come to be based solely on the customs tariff, although it was a good deal lower than that deriving from the nominal rates. There was a proliferation of systems of import duty exemptions or reductions with various aims in view: drawback for exports of manufactures was combined with the benefits included in incentives to industrial development, import quotas for certain inputs proportional to the volume purchased on the domestic market, and the power of the Council for Customs Policy (Conselho de Política Aduaneira - CPA) to halve the duty rate on capital goods without domestically-produced counterparts. The minidevaluation (or crawling-peg) mechanism also operated in the same direction, inasmuch as the adjustments of the exchange rate lagged behind the rise in prices and sometimes their amount represented less than the domestic or international inflation differential.

This liberalization of imports formed part of the whole set of anti-inflation measures, and was aimed at making domestic industry face up to the need for an improvement in productivity and for more rational investment decisions. Import formalities were also simplified

/and anti-dumping

and anti-dumping measures were implemented ("standard of minimum value" and "reference prices"). In these conditions, and concurrently with the recovery of the growth rate of the economy as a whole and of the industrial sector, imports of capital goods, industrial inputs and certain other manufactures expanded to a marked degree. Accordingly, in March 1973 tariff duties were increased, with the exception of those applied to fuels and lubricants, which underwent a further reduction. The rise in the overall average level was a little over 25 per cent, so that the nominal rates remained lower than in the 1957 tariff, except in the case of consumer goods and metalic intermediate products.34/ (see table 11).

The increasing use of incentives to industrial exports and development based on exemption from import duties or their reduction meant that less protection was provided, especially for capital goods and industrial inputs.35/ This has severely affected the development of certain lines of production, but makes the present customs tariff levels more consistent with the need to increase exports of manufactures.

Recently, the big trade deficits shown in 1974 and 1975 have made it necessary to apply controls and limitations in the granting of the tax incentives described.

34/ The latter, in fact, to ensure the satisfaction of demand for steel products, were exempt from import duty in 1973 and up to 1975. Imports were concentrated in the three State steel mills and major purchasers were authorized to import one-half of their requirements directly.

35/ See IPEA/INPES, Relatório de Pesquisa, No. 22, p. 135. For capital goods, real tariff rates would seem to have been 40 per cent lower than the nominal rates in force between 1967 and 1973, a difference which has apparently increased. Furthermore, the similarity régime does not always constitute effective protection for the domestic producer.

/Table 11

Table 11

BRAZIL: IMPORT TARIFFS. NON-WEIGHTED AVERAGES OF NOMINAL IMPORT DUTY RATES

(Percentages)

	1964/1966	1967	1973	1973 / 1964/1966	1973 / 1967
				Percentage variation	
Total imports	54	39	49	-9.3	25.6
Non-durable consumer goods	73	54	84	15.1	55.6
Durable consumer goods	80	64	83	3.8	29.7
Fuels and lubricants	65	48	25	-61.5	-47.9
Metallic intermediate products	47	34	49	4.3	44.1
Non-metallic intermediate products	37	27	34	-8.1	25.9
Construction materials	62	44	47	-24.2	6.8
Capital goods for agriculture	32	25	31	-3.1	24.0
Capital goods for industry	49	36	44	-10.2	22.2
Capital goods for transport	55	42	47	-14.5	11.9

Source: IPEA/INPES, Ralatório de Pesquisa N° 22, pag. 134 and N° 26, p. 48.

/(c) Industrial

(c) Industrial development policy

Without under-rating earlier initiatives and measures, it may be asserted that only in 1957 was a deliberate industrial development policy formulated, of which the bases may be summed up as follows: (i) an effectively protectionist customs tariff; (ii) an exchange system which subsidized imports of capital goods and basic industrial inputs and liberalized financial transactions, thus facilitating returns on foreign capital; (iii) attraction of foreign capital for direct investment; (iv) an expansionist tax policy; (v) provision of incentives to regional development; (vi) a monetary policy which permitted the rapid expansion of bank credit and the increasing use of short-term external funds. In a setting so favourable to investment a broad and diversified structure of industrial production took shape, although with noticeable lags in import substitution in respect of capital goods and basic inputs, among other inter- and intra-sectoral distortions.

This industrial development pattern necessitated the formation of an increasing capacity to import to which the industrial sector itself did not contribute. Obviously, the favourable exchange treatment accorded to exports of manufactures between 1955 and 1959 was not compensatory enough for investment and production decisions to include the external market.

During the early 1960s investment and industrial production slackened their pace considerably, while at the same time a substantial change of policy took place. The liberalization of the exchange rate reduced import subsidies and the real rate of exchange for exports of manufactures dropped below the figure corresponding to primary commodities. The expansion of public expenditure was restricted and bank credit was reduced with a view to controlling inflation. After a vigorous spurt of foreign investment in certain dynamic industries whose production capacity was far from being fully utilized, the inflow of external capital diminished concurrently with the passing of legislation which established stricter controls over remittances of dividends.

/As from

As from 1964, industrial development policy was based on the liberal granting of across-the-board tax and financial incentives. To these must be added others designed to encourage exports of manufactures, which, although conditional upon sales abroad, had some effect on the aggregate operations of the beneficiary firm. Exchange policy did no more than provide a neutral framework, particularly from the end of 1968 onwards, since import policy was based on the ad valorem tariff and export policy on tax and financial incentives. The reorganization of the financial market, in its turn, provided larger supplies of resources through monetary adjustment, diversification and specialization of sources of financing and authorization to obtain foreign loans for fixed and working capital.36/ Long-term financing for fixed investment in the industrial sector was provided solely by the various special funds through public agencies and official banks. Tax incentives sought to cheapen the cost of capital. Purchases of goods from abroad were wholly or partly exempted from import duties, from the tax on circulation of merchandise (IICM) and - since 1970 - from the tax on industrialized products (IPI). Investors buying domestically-produced capital goods enjoyed the benefit of some of the incentives to exports of manufactures, in the same way as foreign purchasers, as well as of an accelerated amortization régime for income tax purposes. A large proportion of industrial investment was covered by these benefits.37/

36/ At first enterprises were authorized to borrow foreign currency in order to finance working capital. A large proportion of such funds were used to finance the production and sale of consumer goods. Later the authorization was extended to banks to enable them to refinance investment in fixed assets and working capital. The cost of obtaining and using such funds was lower than that of domestic credit, but tended to level up in consequence of certain restrictions on the increasing external indebtedness.

37/ See IPEA/INPES, Relatório de Pesquisa, No. 26, p. 21.

/The steel-

The steel-making, petrochemical, shipbuilding and motor-vehicle industries were the only ones whose expansion was under the control of the Federal Government, and for the first three specific programmes and incentives were established. The only other elements in the limited sectoral selectivity of industrial development policy were the 1967 Housing Programme, the tax incentives for certain regions and the network of national, regional and state development banks. Recently, in consequence of the large-scale imports of capital goods, non-ferrous metals and fertilizers,38/ the Economic Development Council (Conselho de Desenvolvimiento Economico - CDE) adopted measures to channel financing into capital formation in the equipment and basic inputs sectors. Inter alia, incentives to the purchase of domestically-produced equipment were increased, and so were the resources of the National Bank for Economic Development (Banco Nacional de Desenvolvimento Econômico - BNDE).

To summarize, industrial development policy was characterized by its breadth of scope and general applicability, except in the case of a few activities in which the public sector plays an important part. Essentially, it consisted in a permanent blanket subsidy to capital formation. Both characteristics are common to the phases of industrial development through import substitution and of promotion of exports of manufactures. Undoubtedly, the building-up of an internationally competitive industrial production structure will call for greater intra- and intersectoral selectivity in the granting of incentives, as well as their progressive reformulation.

2. Development of a policy for exports of manufactures

(a) General observations

As will be seen later, up to 1964 industrial export policy was based on the implementation of exchange policy, which was definitely favourable to it between 1955 and 1959, since the real exchange rate

38/ As early as 1972 the National Steelmaking Plan had to be reformulated since the domestic steel supply was manifestly lagging behind the growth of demand, as was later to be reflected in large volumes of imports.

/was appreciably

was appreciably higher for manufactures than for primary commodities. On many occasions, however, economic measures primarily designed for the attainment of other objectives became deterrents to the initiation and maintenance of exports of manufactures. At the same time, while intensive import substitution was being carried on and promoted, the Government showed keen interest in the development of such exports as one of the means of increasing the economy's capacity to import.39/

Probably, during the initial phases of the installation of the dynamic industries, the compensation required to induce entrepreneurs to include external markets in their investment and production decisions would have been unduly high. Thus, the coexistence of heavy subsidies to capital formation for import substitution with the compensation necessary to promote exports would have led to transfers of income which would have been economically, socially and politically intolerable. At more advanced stages of industrial development, with a lower level of tariff protection, with broader and more diversified financial markets and with a higher degree of efficiency in government activities and functions, a situation can be built up in which incentives to production and exports constitute a subsidy to capital formation more supportable for the economy as a whole. Such a situation, in which exports of manufactures could develop and their contribution to the formation of the capacity to import could increase,

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39/ Reference should be made here to the Working Group on Export Development (Grupo de Trabalho de Fomento as Exportaçoes - FOEXP), which in 1957 represented a first step towards formulating an export promotion policy, although its suggestions do not seem to have found expression in practical measures. Much the same happened in the case of development plasn which did not fail to underline the need for export expansion and diversification. The drawback régime was approved in 1957 and régime was approved in 1957 and regulations for it were established in 1961. These and other measures, in many instances, had regulations which made them inoperative. Current export policy has taken up most of the suggestions of a working group created by the Federal Government in May 1963, and formed by industrial entrepreneurs, with the aim of analysing expansion prospects for exports of manfufactures.

/seems to

seem to have begun to take shape with the consolidation of a broad and diversified structure of industrial production, whose development had been marked by severe intra- and intersectoral distortions resulting in the maintenance of wide margins of idle capacity. On these bases, and concurrently with favourable international trade trends, from 1964 onwards instruments for the encouragement of exports of manufactures were approved and implemented, becoming more extensive and more elaborate as the growth and diversification of the new exports raised fresh problems.

(b) The institutional pattern

In this connexion, the designing and implementation of policy measures was based on the simplification and standardization of administrative procedures and on a relative decentralization of decision-making. Although the traditional Ministries still existed, with the same areas of competence as before, economic policy decisions were taken by specialized councils, presided over and formed by the Ministers themselves, their representatives, or other government officials. Thus, the National Monetary Council (Conselho Monetário Nacional - CMN) was responsible for exchange, external borrowing and foreign capital policy; the Council for Customs Policy (Conselho de Política Aduaneira - CPA) for tariff policy; the Foreign Trade Council (Conselho de Comércio Exterior - CONCEX) for foreign trade policy, etc.

The executing agencies of the foreign trade policy laid down by CONCEX are basically the Foreign Trade Department (Carteira de Comércio Exterior - CACEX) of the Central Bank of Brazil and the Trade Promotion Department of the Ministry of Foreign Affairs. With the exception of a few specific functions pertaining to other public agencies, incentives to the export of manufactures are handled almost exclusively by CACEX, while diplomatic action in connexion with the expansion of trade is conducted through the Trade Promotion Department of the Chancellery.

/In addition

In addition to the functions proper to them, both the executing agencies mentioned above do an enormous amout of work in the field of trade promotion and information (market studies, publications, fairs and exhibitions, etc.), thus providing a service of great use to Brazilian exporters. Analysis of this important infrastructural feature is beyond the scope of the present study, and so is discussion of the large-scale public investment in transport, communication, ports and other basic services essential for dynamic export behaviour.

Attention must be drawn here, however, to the notable role played in many respects by diplomatic action consistent with the guiding principles of economic policy. Similarly, it may be noted that the essential executing agency for measures of the incentive type was not a bureaucratic body but a Banking institution, in close touch with the practical problems of export activities and supported by a vast network of agencies and financial resources.

(c) Broad outline of foreign trade policy

With the creation of CONCEX in 1966, the broad outlines of trade strategy were established, with the following basic aims:

(i) to increase the external competitive capacity of production in general and to step up participation in international trade flows, by the granting of various incentives;

(ii) to diversify the structure of exports, especially with a view to increasing the proportion represented by industrial products, and, in general, those with greater value added;

(iii) to diversify external markets and gain access to new ones; and

(iv) to ensure regular supplies, at stable prices, of the imported inputs and capital goods required for economic development.

The only general limitation to the expansion of exports would seem to have been the priority accorded to the domestic market: a fact which is reflected in the provisions adopted by the Government towards the end of 1973 in face of the rise in international prices of raw materials and the need to control internal inflation.

/Thus in

Thus in the granting of incentives manufactures were accorded markedly preferential treatment, although traditional exports were in no way discouraged.

(d) Instruments applied by promotion policy for exports of manufactures

The instruments for providing incentives to the export of manufactures were based on the granting of tax and financial benefits within the framework of an exchange policy designed to safeguard the stability of the real exchange rate.

These instruments were very generally applied in favour of all industrial enterprises exporting manufactures, since the regulations governing their use contained very few explicit elements of selectivity by sectors or products. Implicitly, the tax incentives did accord greater benefits to manufactures incorporating a higher value added and/or showing a higher coefficient of imported inputs. In the case of both types of incentive, the formalities involved were quite simple, although due consideration was given to the various characteristics and modalities of each operation, as well as to other ancillary activities whose efficiency and scope it was desired to increase.

The tax instruments eliminated or reduced internal taxation on manufactures for export, on presumed earnings from such exports, on imports of the necessary inputs and capital goods for the production of the goods concerned, and on the associated financial operations. They also included reductions of indirect taxes on internal operations by amounts representing variable proportions of the values exported.

The financial instruments ensured the availability of increasing official resources at low costs to finance the following: the working capital of industrial enterprises exporting manufactures; sales of capital goods and durable consumer goods to developing countries; exports on consignment and technical services; expenditure on commercial promotion abroad; and transactions between producers and trading companies.

/Once the

Once the rates for exports of manufactures were achieving steady and dynamic growth, new overall instruments for providing incentives were implemented, which, in amplifying and combining the existing tax and financial incentives, attempted to link them more consistently with an industrial and economic development policy of which the mainspring was the internationalization of the economy. These incentives were granted to special export programmes submitted by enterprises or formulated for given sectors by the economic authorities, to transfers of complete industrial plants to Brazil, and to trading companies. They sought to establish favourable conditions for the maintenance of the growth rate of exports of manufactures which had to make a major contribution to the stabilization of the external trade balance, by channelling them into the most dynamic branches of international trade: industrial inputs, parts and assembly kits produced by the metal-transforming and electrical industries, and capital goods. Furthermore, the granting of the incentive was made conditional upon the generation of certain effects in the domestic market.

The approval, implementation and improvement of the foregoing instruments marked characteristic and clearly differentiated stages in the development of industrial export policy. Between 1964 and 1968, the exemption of exports from internal taxes was approved and implemented, together with drawback, and a start was made on the granting of some financial incentives. These instruments operated in conjunction with an exchange policy which was not very satisfactory because of the great variations in the real exchange rate that took place in the course of each year, although the exchange rate in force for manufactures improved. Furthermore, the economy underwent a severe recession as the result of the application of anti-inflation policies, so that producers had wide margins of idle capacity which were used for export purposes, even if costs were only just covered.

During the period 1969-1972, economic and industrial development recovered and exchange policy maintained the real value of returns on exports by virtue of frequent periodical adjustments. Incentives to

/exports of

exports of manufactures then came into full force, since the profitability of such operations had also to be safeguarded. It was at this point that the system of tax credit (reduction of internal taxes for exporter firms) was introduced, together with financial incentives based on increasing resources, and the regulations for the various instruments providing incentives were improved and amplified.

As from 1973, the new overall instruments came into operation, through which the granting of incentives to exports was more closely tied to investment in the industrial sector.

In consequence of the heavy trade deficits incurred in the years 1974 and 1975, various measures were adopted to restrict imports and encourage domestic production of capital goods. Tax incentives to the export of manufactures became more flexible and more liberal, and financial resources for the same purpose were increased. The application of import duties as a stimulus to exports was tightened up. A Commission on Export Incentives (Comissão de Incentivos às Exportações - CIEX) was set up to make suggestions for the improvement of incentives, and a Foreign Trade Study Centre Foundation (Fundação Centro de Estudos de Comércio Exterior - CECEX) was established, whose first task was to analyse the existing system of tax incentives and propose amendments.

Tables 12 and 13 sum up the instruments used and their direct effects on sales prices, production costs, capital requirements and profits.

/Table 12

Table 12

BRAZIL: SUMMARY OF INSTRUMENTS OF PROMOTION POLICY FOR EXPORTS OF MANUFACTURES

Across-the-board instruments		New overall instruments
Tax instruments	Financial instruments	
1. Exemption from internal taxes for manufactures for export (a) IPI: Federal tax on industrialized products levied on all goods produced in the country and imported (b) ICM: State tax on circulation of merchandise, similar to the IPI (c) Others: All other taxes, duties or specific contributions affecting manufactures for export 2. Import duties (a) Drawback: Suspension of payment or exemption for imported inputs (without domestically-produced counterparts) intended for production of manufactures for export. Includes the corresponding suspension or exemption from payment of the IPI and ICM (b) Imports of capital goods: Reduction or exemption from payment of taxes on imports of capital goods intended for industrial enterprises assuming export commitments 3. Reduction of internal taxes (a) IPI tax credit: Reduction of amount due on domestic market operations by a proportion of the FOB value of manufactures exported (b) ICM tax credit: Ibidem. 4. Reduction of income tax (a) Reduction of taxable profits by a proportion equivalent to the percentage of the enterprise's total sales represented by exports of manufactures (b) Reduction or refund of tax on remittances abroad for royalties, technical assistance and interest on loans, conditional upon an annual increase in exports (c) Exemption from taxation at the source on remittances abroad for payment of agents' commissions (d) Domestic enterprises can compute expenditure abroad on sales promotion as part of their costs, and are exempted from tax on remittances abroad under that head 5. Tax on financial operations Exemption for all financial and insurance operations relating to exports of manufactures 6. Single tax on fuels and electric energy Full reimbursement of tax paid when it exceeds 2 per cent of the FOB value of exports of manufactures	1. Financing of production for export (a) Up to 180 days: The Central Bank allocates rediscounts to the commercial banks geared to the financing of the working capital of enterprises exporting manufactures. The terms are exceptionally favourable. In addition, the Banco do Brasil allocates increasing resources by means of revolving credits on current account, at relatively low cost. The Banco Nacional de Desenvolvimento Economico BNDE also makes the allocation of its loans conditional upon their use for the formation of working capital (b) Over 180 days: The Banco do Brasil, using special funds, finances the production of capital goods with a high unit value and a production cycle exceeding 180 days 2. Financing for exports (a) Short-term: Normal financing for 90 and 180 days provided by the commercial banks authorized to handle foreign exchange (b) Medium- and long-term: Administered by the Banco do Brasil through CACEX with special funds and IDB resources Capital goods and durable consumer goods: Terms of 1 to 5 years and over, and intended for developing countries Exports on consignment: Up to 1 year Exports of services: Over 180 days, with priority for operations including the supply of Brazilian products Trade promotion abroad: Including market studies, publicity, participation in industrial fairs, dispatch of samples, etc. Trading Companies: Special rediscounts for the financing of transactions between the producer and these companies, covereing the period during which the goods are on deposit under a special customs regime 3. Export credit insurance Political and special risks are assumed by the official institution on behalf of the Federal Government. The cost is relatively low	Up to mid-1972 the tax and financial instruments were very widely applied to all industrial enterprises selling part of their production abroad. At about that date regulatory principles were implemented which, while including the use of the existing tax and financial incentives, amplified them and granted them in conjunction, seeking: (a) To induce subsidiaries of transnational corporation to step up their exports (b) To attract to Brazil existing means of production which would be internationally mobilized in quest of the exploitation of comparable advantages (c) To induce national entrepreneur to set up trading companies for the mass export of the production of small- and medium-scale industrialists. In all cases instruments were linked to new investment and the Federal Government was empowered to employ them selectively so as to bring them into line with development policy priorities 1. Special export programmes (BEFIEX) These may be submitted by one or more industrial enterprises. They enjoy all benefits deriving from the tax and financial instruments used in the promotion of exports, as well as the following privileges: Imports of capital goods (not necessarily new) for initial investment and of inputs for production purposes are not subject to the requisite of non-existence of a similar domestic product Imports to replace capital goods can be brought in under the aegis of similar regulations in other industrial promotion regimes The effects of tax reductions (IPI and income tax) are amplified It is possible to ensure that tax instruments for promotional purposes will remain in force for a given minimum period 2. Transfer of entire industrial plants To Brazil, on condition that they were in operation in their country of origin and that their production would be essentially intended for export. They were exempted from import duty and, in addition, entitled to benefit by other incentives 3. Trading companies Establishment of a special customs regime to allow merchandise to remain on deposit with benefit of the tax and financial incentives to export Liberal exemption from income tax Amplification of financial operations exempt from the corresponding tax Facilities for commercial banks to make up the capital of such enterprises Special financing for their operations Possibilities for inter-company sales of merchandise on deposit under a special customs regime Reduction of taxes

Table 13

BRAZIL: DIRECT EFFECTS ON INDUSTRIAL ENTERPRISES OF INSTRUMENTS OF PROMOTION POLICY FOR EXPORTS OF MANUFACTURES

Direct effects	Across-the-board instruments		New overall instruments
	Tax instruments	Financial instruments	
Reduction of sales price abroad	1. Exemption from internal taxes on manufactures for exports IPI, ICM and others. 3. Reduction of internal taxes IPI and ICM tax credits 5. Exemption from tax on financial operations	2. Financing for exports 3. Export credit insurance	1. Special export programmes (BEFIEX) 3. Trading Companies
Reduction of production cost	2. Suspension, reduction, or exemption from payment of import duties 5. Exemption from tax on financial operations 6. Refund of single tax on fuels and electric energy	1. Financing of production for export	1. Special export programmes (BEFIEX) 2. Transfer of complete industrial plants to Brazil
Reduction of capital requirements	2. (a) Drawback (working capital) 2. (b) Reduction or exemption from payment of duties on imports of capital goods (fixed capital)	1. Financing of production for export (working capital) 2. Financing for exports (working capital)	1. Special export programmes (BEFIEX) 2. Transfer of complete industrial plants to Brazil 3. Trading Companies (working capital)
Increase in profits	4. Reduction of income tax		1. Special export programmes (BEFIEX) 2. Trading Companies

/3. Exchange

3. Exchange policy

(a) Background data

From the post-war years up to 1964 exchange policy underwent many and various changes, export policy being implemented almost exclusively through its rulings. On the one hand, the growing importance of coffee in the structure of exports always ensured that it was accorded special exchange treatment.40/ On the other hand, the primary concern of exchange policy was to maintain low import costs for capital goods and inputs required for the installation and development of the industrial sector. Thus, the changes in policy and its paramount objectives made it unlikely that an exchange rate would be established which could afford sufficient compensation to potential exporters of those goods in respect of which import substitution was being promoted. Nevertheless, while on many occasions the export exchange rate was lower for manufactures than for primary commodities, during a number of years - especially between 1955 and 1959 - exchange regulations were decidedly favourable to the former.41/ Three different periods are observable.

From the post-war years to Janaury 1953 a fixed exchange rate was maintained, together with strict controls, whence the constancy of the nominal exchange rate in force.42/ As internal taxes were

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40/ In 1952 coffee came to represent 74 per cent of total exports. Its participation fluctuated sharply during the next ten years, but pursued a downward trend (53 per cent in 1962-1964) which has contained up to the present time (10 per cent).

41/ See the estimates prepared by the Central Bank on the nominal and real exchange rates in force during the period 1949-1969, for exports of raw materials, food products (excluding coffee), minerals, and industrialized products (IPEA/INPES, Relatório de Pesquisa No. 14, pp. 32 and 33).

42/ What is meant by the nominal exchange rate is the current value of net income in domestic currency per dollar returned, and it is defined as the algebraic sum of the official exchange rate, the bonuses granted by product and the tax, exchange and port duties affecting exports. To obtain the real rate of exchange, the nominal rate was deflated by the appropriate internal price indexes.

applicable to the products exported and their incidence was less on primary commodities than on manufactures, for the latter the nominal exchange rate was about 10 per cent lower than for raw materials, foods and minerals. Naturally, the real exchange rate was gradually reduced to half its original value in consequence of domestic price trends. For these reasons, in conjunction with rising coffee prices, exports in general suffered a discouragement which was reflected in coffee's increasing participation and a drastic reduction in the value of external sales of other products.

The year 1953 witnessed two radical changes in exchange policy. The first of these, in January, was the institution of a free exchange market with a system of mixed rates, such that returns on coffee, cocoa, and some other traditional products had to be coverted entirely on the official market, instead of only partially as in the case of other goods. Towards the end of the year, the second change referred to introduced a system of multiple exchange rates. These were defined on the basis of the official rates in force since 1946, with surcharges for imports and bonuses for exports, frequently altered in order to make allowance for the effects of rising internal prices or fluctuations in those quoted on the external market.43/ Although as a result of these modifications exchange rates increased in nominal terms, in real terms they continued to fall during 1953 and 1954.

<u>During the years 1955 and 1959</u>, the nominal exchange rates for manufactures were markedly (up to 40 per cent) higher than those for primary commodities. Real rates recovered their 1950 levels for raw materials, foods and minerals, while for manufactures the rate climbed higher than in the years immediately following the war. This was because the exchange bonuses granted to industrialized products

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43/ Between 1953 and 1964 the exchange system also had to meet the need to attract foreign capital and its complexity increased with the regulations that facilitated frequent switch-overs from one set of norms to another. All that will be done here is to attempt to indicate the role played by exchange policy in relation to manufactures.

/considerably exceeded

considerably exceeded those assigned to primary commodities. In October 1958, moreover, the conversion of foreign exchange earnings on exports of manufactures was transferred to the free market.44/

Between 1960 and 1964, on the other hand, nominal exchange rates once again dropped about 10 per cent lower for manufactures than for primary commodities. For the latter, real rates continued to rise, while for manufactures they were stabilized at a level a little higher than that attained in the period immediately following the war. The relative advantages of industrialized products began to dwindle as financial incentives were granted to exports of minerals and exchange rates for primary commodities - except coffee, cocoa, and castor oil - entered the free market. During 1961 returns on these products also became negotiable in the free market, although they were subject to retentions.45/ These changes, which were aimed at unifying the exchange rate and making it more flexible, were in force for only a short period, since, during the next two years, social conflicts, inflation and economic stagnation gave rise to new forms of exchange control. Towards the end of 1963, a special bonus for exports of manufactures was established. A few months later, the new Government, with its policy of economic stabilization, gradually returned to a unified and felxible exchange system.

(b) The period 1964-1968

As from 1964-1965, export policy began to operate through tax and financial instruments. As the simplification of exchange rates proceeded, the implementation of export policy became quite distinct from that of exchange policy. The latter was conducted up to 27 August 1968 on a basis of fixed exchange rates with abrupt and

44/ During these years a process of exchange simplification was started. As from 1957 imports were subjected to an *ad valorem* tariff (0 to 150 per cent) which partly replaced the exchange surcharges under the system of multiple rates.

45/ Imports also were transferred to the free market, with the consequent increase in industrial costs.

/widely-spaced

widely-spaced adjustments. These adjustments were aimed at making allowances for internal inflation, and keeping up the level of the real exchange rate. The interval between exchange adjustments - approximately one year - was sufficiently long in relation to the growth rate of domestic prices to involve variations in the real exchange rates that caused a high degree of seasonal instability in imports and exports, as well as in movements of capital, which speculated in the consequent changes in real interest rate differentials.

The lifting of internal taxes on exports of manufactures allowed the nominal exchange rate for these products to rise again above the rate for primary commodities. Real rates deteriorated, although much more moderately for manufactures than for primary commodities. Thus, exports of manufactures would seem to have been essentially supported by the new instruments of export policy and by utilization of the wide margins of idle capacity.

(c) Stability of the real exchange rate

The lengthy intervals between exchange adjustments, between which there had been gaps of almost a year up to January 1968, were reduced on 27 August of the same year, and 28 days later a succession of adjustments began which on an average represented a devaluation of the cruzeiro in relation to the dollar by 1.5 per cent every 40 days.46/ The new exchange system sought to obviate the problems deriving from the widely-spaced and steep adjustments. Thus, a stable real exchange rate began to be maitained by means of small and frequent devaluations of which the amounts and spacing were always variable (see table 14).47/

46/ On 14 February 1973 the adjustment consisted in a revaluation (3 per cent). The buyers' rate closed at the end of 1973 at the same figure as at the beginning of the year, thanks to four other adjustments in the opposite direction.

47/ See the updated analysis of the Brazilian exchange system in Antonio Carlos Lemgruber, "O sistema cambial brasileiro e as taxas flutuantes", ("The Brazilian exchange system and its fluctuating rates"), Conjuntura Econômica, vol. 30, No. 5, May 1976, Fundaçao Getúlio Vargas. See also in earlier issues articles by Adroaldo M. da Silva, "A política de minidesvalorizaçoes" ("The policy of minidevaluations"), March 1975, and by Carlos von Doellinger, "Inflaçao e balanço de pagamentos - implicaçoes sobre a politica cambial" ("Inflation and the balance payments - implications for exchange policy"), January 1976.

Table 14

BRAZIL: EXCHANGE ADJUSTMENTS, 1965-1975

	Number of adjustments	Number of days adjustment was in force		Exchange rate adjustment (percentage)			Exchange rate a/ Cr./US$	Overall price index b/ (annual percentage increase)
		Lowest number	Highest number	Lowest percentage	Highest percentage	annual		
From 1 January to								
31 December 1965	1	454	454	21.64	21.64	21.64	2.2	
31 December 1966	0			0	0	0	2.2	38.2
31 December 1967	1	325	325	22.30	22.30	22.30	2.7	25.0
31 December 1968	5	20	57c/	1.37	1.89c/	18.90	3.805	25.5
31 December 1969	8	34	55	1.22	2.61	13.66	4.325	20.1
31 December 1970	9	14	56	0.65	1.91	13.75	4.92	19.3
31 December 1971	7	38	80	1.59	2.36	13.82	5.6	19.5
31 December 1972	8	23	69	0.81	2.66	10.36	6.18	15.7
31 December 1973	5	48c/	85	0.49	-2.98d/	0.0	6.18	15.5
31 December 1974	11	14	55	1.03	2.02	19.66	7.395	34.5
31 December 1975	14	12	43	0.91	1.92	21.97	9.02	29.4

Source: Banco do Brasil, Boletím, May 1976; Conjuntura Econômica, Fundação Getúlio Vargas, Río de Janeiro, several issues; International Financial Statistics, International Monetary Fund (IMF), Washington, May 1976.

a/ Buyer's exchange rate as at 31 December each year.
b/ Internal supplies.
c/ The biggest interval was really 236 days (4 January to 27 August). The devaluation on 4 January was 18.60 per cent and that of 27 August was 13.35 per cent; 28 days later the first minidevaluation was introduced.
d/ The biggest devaluation was 1.16 per cent.

/The adjustments

The adjustments took into consideration the evolution of internal and external inflation, as well as other factors such as export prices, interest rate differentials, the reserves position and overall balance-of-payments trends. There was, of course, no established formula for calculating the amounts and timing of the minidevaluations. Besides preventing speculation, the procedure for calculating the adjustments had to take into account the effects on trade produced by differences in the behaviour patterns of inflation and by the external value of the currencies of those countries which were most important in Brazil's external transactions, as well as the internal repercussions of changes in the cruzeiro value of the swelling external debt. The exchange adjustment procedure adopted as from 1968 was complementary to the monetary adjustment systems which were used internally.

This procedure - small and frequent adjustments of the exchange rate, pegging the cruzeiro to the dollar - was in line with the conditions prevailing in the international monetary system in 1968. But the latter has undergone appreciable modifications, since the developed countries are at present clinging to a system of fluctuating rates, and their rates of inflation have increased. In these new circumstances, the minidevaluation (or "crawling-peg") procedure finds itself under heavy pressure as regards its pace, intensity and sophistication. This pressure has been still farther strengthened in recent years by adverse trade-balance trends, by the growing external debt, by the fact that the dollar to which the rate is pegged is definitely recovering, by an international situation unfavourable to the expansion of exports, by a structure and level of imports that it would be difficult to reduce or alter, and by the already manifest slowing-down of economic growth.

The growth rate of domestic prices, which had pursued a declining trend up to 1973 and had cushioned the inflationary impact of the devaluations, speeded up during 1974 and 1975 much faster than in 1967-1969. Moreover, as long as the terms of trade improved - as they did up to 1973 except in 1971 -,48/ it was possible to neutralize the unfavourable effects of internal inflation on the trade balance by slowing down the minidevaluations. During 1974 and 1975, on the other hand, the terms of trade underwent a marked deterioration. Thus, although the equilibrium of the external sector was not based only on exchange policy, it necessitated more frequent and intensive minidevaluations.

Given the increasing complexity of the implementation of exchange policy, exchange adjustments naturally lagged behind price variations, and the amounts they represented were often smaller than the differences between internal and external inflation. Nevertheless, estimates of the average real exchange rate in relation to the currencies of United States, the European Common Market and Japan show a measure of stability up to 1972 and an improvement in 1973.49/

48/ It should be recalled that, starting from an exchange rate which stabilizes the balance of payments, devaluation by an amount similar to the difference between the increase in internal and in external prices maintains the parity of purchasing power only if the terms of trade remain unchanged.

49/ See the estimates prepared by Adroaldo M. da Silva, op. cit. The cruzeiro/dollar crawling-peg had kept the real dollar exchange rate somewhat lower than that in force during the months in which this exchange policy was first applied. Thus, broadly speaking, real exchange rates for the European Common Market countries and Japan gradually improved. In any event, it is unlikely that this differential incentive was the main determinant of the disparities in the dynamism of trade flows towards these developed countries.

/During 1974

During 1974 no major changes took place, and the probable subsequent deterioration will doubtless have been offset by the benefits resulting from the recent amplification and improvement of certain incentives to the export of manufactures.50/

Thus, from 1968 onwards exchange policy provided a satisfactory framework for the development of exports of manufactures by maintaining an approximately stable real exchange rate; although during the last two years of the period it had to rely on import restrictions to mitigate the recessive and inflationary effects of external factors unfavourable to the continuity of economic growth.

Attention should also be drawn to the appropriate conditions afforded by exchange policy for the tapping of external savings, since the interest rates differential adjusted by the inflation differential was kept positive, without the seasonal fluctuations recorded in earlier periods.51/

50/ The sound reserves position and the maintenance of attractive conditions for the inflow of foreign savings enabled economic policy to palliate the severely depressive effects of the deterioration in the external situation which began to make itself felt as from the last quarter of 1973. In this context, in face of the alternative of recession plus inflation, the fall in the real exchange rate - offset in some instances by increased incentives - does not seem to have constituted a very burdensome sacrifice for exporters. On the other hand, utilization of the new import substitution opportunities calls for direct incentives to capital formation in the appropriate sectors, if they are not to operate through the reduction of the real exchange rate.

51/ Real rates of interest were higher in Brazil than abroad. External interest rates, in their turn, did not always reflect the rate of world inflation. Moreover, devaluation continued to fall short of the interest rates differential. This incentive seems to have contracted during 1974 and 1975, concurrently with a slackening of the inflow of loans and an increase in direct investment. It should be recalled that the inflow of foreign capital enabled stabilization of the balance of payments to be combined with high rates of economic growth.

/4. Tax

4. Tax instruments

(a) General observations

Tax instruments to encourage exports of manufactures operate through all the Federal and the most important of the state taxes.52/ They consist in exemption from payment or reduction of taxation on imports of capital goods and essential inputs, production for export, related financial operations and presumed export earnings. An additional incentive is the reduction of the most important internal taxes by a varying proportion of the values exported.

Although the benefits granted are generally applicable to manufactures as a whole, they embody certain potential elements of selectivity which are making themselves more strongly felt as the incentives in question are modified, updated and improved. Moreover, while simple enough to apply, these instruments incorporate a variety of procedures adapted to the different characteristics of production and external marketing operations, as well as to those of complementary activities which it is also sought to encourage. The importance of the incentives is based on a reformulation of the tax structure which has considerably increased the efficiency of tax collection, and has thus made it possible to forgo some part of this larger reveneu.

In the case of import duties, the incentive directly subsidizes capital formation by making inputs and machinery cheaper, while at the same time production costs are reduced.53/ It seems to have been very intensively used in connexion with exports of manufactures having a high imported input content. The fact that exemption from payment of taxes is accorded to exports of manufactures in general places them on an equal competitive footing, so that price formation is based on input

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52/ See Annex C in the Spanish text, table C-25.

53/ The across-the-board application of exemption from import duties, as a means of encouraging industrial development and exports of manufactures, obviously has deterrent effects on the growth and progress of the more complex sectors such as that producing capital goods. To offset this result among other promotion measures, export incentives are granted to certain domestic market sales of capital goods.

/and factor

and factor costs and on productivity, irrespectively of the criteria by which internal tax policy is guided. This exemption might be considered not so much an incentive to export as the elimination of an obstacle, since at the international level the developing countries could hardly offer manufactures at competitive prices if they transfered the payment of their own internal taxes to the foreign purchaser. Moreover, such exemptions are in widespread use in international trade. In so far as indirect taxation tends to be concentrated on certain items - luxury goods, beverages, etc. - the relative importance of the exemption decreases; a case in point would seem to be the Federal tax on industrialized products (IPI).54/

On the other hand, tax credit on the two principal taxes - that on industrialized products (IPI) and that on circulation of merchandise (ICM) -, which consists in reduction of the tax payments really due on domestic market operations by a proportion of the value of exports, constitutes a blanket subsidy to enterprises exporting manufactures. Comparatively little advantage has been taken of the possibilities of imbuing it with a deliberately selective character related to policy priorities, since the tariff rates determining the amount of the benefit granted are dictated more by internal taxation criteria than by the need to encourage exports.

The other important incentive is constituted by the reduction of tax payments due on entrepreneurial profits. Initially, it was the only one established for a limited period of validity, a characteristic which it has retained, despite repeated extensions. In this type of subsidy too the degree of selectivity is very low.

54/ The IPI at present provides 41 per cent of Federal tax revenue, and income tax 29 per cent. The importance of the former has decreased and that of the latter has increased since 1969. The tax on circulation of merchandise (ICM) levied in the states of São Paulo and Rio de Janeiro, in the aggregate brings in much the same amount of revenue as the Federal IPI.

/(b) Import

(b) Import duties

The taxes payable on imports are the *ad valorem* import duties and the corresponding proportion of the tax on industrialized products (IPI).55/ The general régime establishes that imports are not eligible for tax exemptions or reductions if similar domestically-produced goods exist in specified conditions (*similarity régime*).56/ In many cases, however, incentive régimes for production and exports not only comprise exemption from or reduction of tax payment due on imported capital goods and inputs, but also waive the *similarity* regulations for such imports.

The use of the two forms of taxation on imports as an incentive to the production of manufactures for export was essentially based on three procedures: (i) drawback; (ii) tax exemptions or reductions for capital goods, conditional on a commitment to export; and (iii) exemption for capital goods and inputs, in terms of the increase in external sales.

Drawback. What is meant in Brazil by the drawback régime is the partial or total refund, suspension, or exemption from payment of import duties on raw materials, inputs and packing materials used in the production of other goods intended for export.

The 1957 Tariff Act instituted this system, for which the regulations were not formulated until 1961. Very little use was made of it, since it entailed the presentation of export plans or programmes.

Towards the end of 1964 and of 1966 new regulations were drawn up, establishing the three possible forms it might take, as listed above.

55/ It should be noted that the IPI acts as a multiple-rate value-added tax. Consequently, it increases the real protection for domestic production deriving from the import duty; the more highly-processed the good imported the greater the increase in the protection provided.

56/ The similarity (*similaridade*) régime dates back to 1938.

/The refund

The refund of the duty paid - drawback proper - is effected after shipment of the merchandise exported; and has proved to be the most suitable procedure for sporadic operations.

Suspension of payment - a form of temporary admission - necessitates the presentation and approval of an import-export plan, and can be used only by enterprises with supply contracts on credit terms, by habitual exporters or by subsidiaries of transnational corporations in intra-firm transactions. The most flexible procedure for habitual exporters seems to be exemption from payment, since it implies the replacement of inputs equivalent in quantity and quality to that used in the production of goods already exported.

Once admitted to the régime, imported goods also enjoy the benefit of exemption from the taxes on industrialized products (IPI) and circulation of merchandise (ICM), from the Renewal of the Merchant Marine and Port Improvement levies, and any others not corresponding to services actually rendered.

The drawback provisions themselves establish the régime of the "depósito industrial" ("industrial deposit") which allows the enterprise importing the goods concerned to transform them under customs control, and that of the "depósito aduaneiro" ("customs deposit" or bonded warehouse), where goods imported or for export can remain for periods of 1 to 3 years with suspension of tax payment.

Although an endeavour was made to simplify all the red tape required for recourse to the instruments of export promotion, the formalities relating to the drawback régime retain a measure of complexity basically needed to prevent the proliferation of fraudulent operations. Accordingly, some exporters abstain from using the system when they find it more burdensome than importing directly. This must undoubtedly happen in the case of occasional and small-scale exports, and goods in which the imported input coefficient is very low.

Save in a few exceptional cases, drawback is granted on condition that no similar domestic product exists.

Data relating to the application of the régime during the period 1969-1975 show the following trends: (i) in terms of value, duty-free

/imports increased

imports increased much faster than imports of industrial inputs;57/ (ii) the value of exports programmed on the basis of duty-free imports for use in their production rose at a much higher rate than that of total exports of manufactures; (iii) the duty-free import content in exports of manufactures followed an upward trend; and (iv) exports programmed under the drawback régime represented - though with some fluctuations - more than half the total exports of manufactures (see table 15). Consequently, the implicit bias in favour of those manufactures with a high imported input content would seem to have been accentuated by the intensive utilization of the drawback régime.

Imports of capital goods. During the year 1969 the economic authorities were empowered to lift or reduce taxation on imports of capital goods intended for the installation, expansion and re-equipment of industrial enterprises assuming import commitments. This franchise was granted in the form of suspension of payment, and on condition that no similar domestic product existed. During the first two years of utilization of these conditional incentives, 258 applications were approved, involving imports to a value of 47.4 million dollars, tax exemptions amounting to 16.9 million and export commitments for 89.8 million.58/ These data indicated a 27-per-cent reduction in the cost of the imported component of the beneficiaries' fixed investment.

In point of fact, this form of subsidy to capital formation has always been one of the investment incentives provided by the Industrial Development Council. In the programme of export incentives initially formulated, it was the only one that acted on fixed assets, although in an inchoate and generalized fashion. Later, under the system of Special Export Programmes (BEFIEX), it took on a broader, more selective and more integrated character.

57/ The value of duty-free imports under the drawback régime represented 2 per cent of total imports of industrial inputs, climbing to 7 per cent in 1974.

58/ See CACEX, Relatório Anual, 1971. Quantitative data were published for the years 1970 and 1971.

/Table 15

Table 15

BRAZIL: USE OF DRAWBACK REGIME

Year	Number of operations	Duty-free imports A	Programmed exports B	Exports of manufactures C	A/B	B/C
		Millions of dollars at current prices			Percentages	
1969	190	11.5	45.4	284.2	25.3	16.0
1970	627	42.8	197.8	415.9	21.7	47.6
1971	992	66.0	350.4	581.3	18.8	60.9
1972	1 159	111.0	496.9	911.7	22.3	51.4
1973	1 477	234.7	992.8	1 465.3	23.6	67.8
1974	1 200	333.8	1 101.8	2 321.5	30.3	47.5
1975	1 063	559.3	1 595.7	2 630.9	35.0	60.6
			Annual percentage			
1974-1969		96.1	89.2	52.2		
1975-1974		67.6	44.8	13.3		

Source: CACEX, Relatório Anual, several years.

/Incentives to

Incentives to expansion of exports. Towards the end of 1971 a new incentive was introduced which was to remain in force over the next three years for enterprises that expanded their exports of manufactures.59/ Thus, exemption from tax payments on new capital goods, inputs and packing materials was granted to an amount not exceeding 10 per cent of the annual increase in exports of manufactures; this benefit was not subject to the *similaridade* régime, and could be carried forward to the following fiscal years, up to the end of 1974. In exceptional cases, too, advantage could be taken of the incentive in advance, on the basis of an export commitment.

This was a circunstantial incentive, and, although no data on its utilization are available, the imports actually effected do not seem to have attained significant figures;60/ in a few special cases however, it may have constituted a substantial premium.

(c) Tax on Industrialized Products (IPI)

In actual fact, from 1960 onwards exports of industrialized products and their inputs were exempt from payment of the tax on consumption. This principle was not established as a regulation until the end of 1962, but the formalities involved were so troublesome as to curtail its use and effectiveness. Towards the end of 1964, the new consumption tax legislation reaffirmed the exemption, and, with the 1965 reform the tax was converted into the IPI, which is levied on all industrialized products, whether domestically-produced or imported. Reductions and exemptions from payment of the IPI, as well as its proportional rates, are determined by criteria relating to essentiality, value added and price- and income-elasticity of the

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59/ It should be recalled that during 1971 exports of primary commodities and semi-manufactures declined and those of manufactured products slowed down.

60/ During the three years in question they probably did not amount to 150 million dollars in all, assuming total utilization and an increase in the external sales of all exporters.

/product.61/

product.61/ It also acts as a value-added tax of which the rate is not uniform, since the taxpayer can claim credit for the amount of the IPI included in the value of the raw materials, inputs and packing materials. The corresponding exemption for exports 62/ began to produce its full effects towards the end of 1967, when its regulations were established, and shortly afterwards it was made more flexible by a system of tax suspension which facilitated the operation of trading companies in their function as middlemen.63/

As from 1969, exports of manufactures entitled the manufacturer or exporter to the so-called crédito fiscal (tax credit), i.e., a reduction of the IPI payment due on domestic market sales, or of other Federal tax liabilities if that proved insufficient.64/ Later on, authorization was granted for the transfer of this tax credit to subsequent fiscal years, to other establishments pertaining to the same firm, to associated firms, to other firms in payment for raw materials, or, should all these possibilities have been exhausted, to the acquisition of an "Export Tax Credit Certificate" for the payment of Federal taxes.65/ The amount of the reduction or tax credit was

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61/ Production of cigars and cigarettes, for example, accounts for almost one-thrid of annual IPI revenue; while food, pharmaceutical and veterinary products contributed less than 1 per cent during recent years.

62/ For tax purposes the definition of exports also covers: (i) sales on the domestic market to residents abroad (tourists) paying with travellers' cheques issued in cruzeiros abroad; and (ii) supplies of consumer goods to foreign aircraft and shipping at Brazilian ports.

63/ This is a matter of interest in relation to occasional exports and for small-scale producers who can obtain the benefit of the exemption by operating through trading companies.

64/ This deduction from a tax payment due is termed tax credit because of the way it is put into effect; out of tax payments already made, an amount equivalent to the deduction is re-credited to the taxpayer.

65/ Edict Nº 491 (5 March 1969) defines the benefit granted as a tax incentive in compensation for other internal taxes paid.

/determined by

determined by applying to the FOB value of the exports the IPI tariff rate corresponding to the product, limited to a maximum of 15 per cent.66/ The economic authorities were also empowered to establish for credit purposes the tariff rate for products on which the IPI was to be reduced or lifted, to fix differential incentive levels lower than 15 per cent, and to alter the ceiling in the case of metallic products, machinery and equipment (chapters 82 to 89 of the Brussels Tariff Nomenclature - BTN), and, exceptionally, on account of changes in the IPI percentages or market conditions. The systems excluded from its benefits processed coffee, sawn, lumber, and, later cigarettes.

The faculty of the economic authorities to use their discretion in operating on tax credit rates obviously tended to convert the system into a selective export incentive, since the IPI tariff rates were based on criteria guided by domestic market requirements. Thus, many provisions were established to determine the tariff rate for products liberalized, to raise it in some cases (though it was always kept below the ceiling), and, lastly, to maintain the prevailing rates for mass consumption goods, on which the tax was reduced as a means of controlling price increases on the domestic market.

Because of the definition adopted for the base value on which the IPI tax credit was calculated, during the first three years of application of the system it afforded greater encouragement to goods with a bigger imported input content. This situation has been

66/ The incentive is really more significant, since the tariff rate is applied to the CIF, C&F or C&I value, according to how far Brazilian insurance and/or transport services are used. In addition, when the exports are consigned to subsidiaries or associated firms abroad, and once the corresponding foreign exchange earnings have been determined, the base mentioned can be increased by the amount of the liquid profits accruing from the marketing of the product in the importer country. It is explicitly stated, moreover, that the tax credit is maintained in respect of the IPI on the use of raw materials, inputs and packing materials to which it is applicable. Lastly, apart from normal export operations, the incentive covers exports without exchange coverage representing Brazilian investment abroad, shipments to industrial fairs and exhibitions, and exports remitted on consignment. Only since July 1972 has the base value excluded inputs imported under the drawback régime.

/reversed, since

reversed, since the tariff rate determining the amount of the credit is applicable only to the value that has not benefited by drawback.

Tax exemptions and credit enable the producer to cut export prices considerably. But, with the marked reductions in the tax rates applicable to mass consumption goods, the IPI is becoming a tax on specific forms of consumption: tobacco, motor-vehicles, alcoholic beverages and luxury goods in general. Exemption is not an incentive, since it places all goods in a position for the formation of their export prices to be uninfluenced by internal taxation. Tax credit, in its turn, calls for modification of its selective character, still largely deriving from the criteria by which taxation is guided; a fact which will doubtless induce the authorities to revise the structure of tariff rates with the aim of increasing the efficacy of the incentive and limiting its cost to strictly essential levels.

(d) Tax on Circulation of Merchandise (ICM)

Up to the beginning of 1967 exports were subject to a sales and consignment tax which fell within the competence of the states and of which the incidence was multiple when the product had to cross several state frontiers. However, the more developed states had long before exempted exports of manufactures from this tax. During 1966 export taxes were placed under Federal jurisdiction and provision was made for a system of inter-state agreements to harmonize tax policies with the aim of establishing uniform tariff rates. The 1967 Constitution laid it down that states should be competent to institute taxes on circulation of merchandise with uniform tariff rates for internal and inter-state operations, while the Federal Senate was to fix the ceiling rates for these and for export operations. Moreover, only under inter-state agreements could exemptions be granted and revoked. The Constitution established that exports of industrialized products should not be subject to this tax on operations relating to circulation of merchandise (ICM).67/ As the ICM is not cumulative, the taxpayer can claim credit for amounts paid in the same or another state on raw materials and inputs.

67/ Under the Constitution of 24 January 1967, non-incidence of the ICM can be extended by law to other products.

/Towards the

Towards the end of February 1967, the industrialized products eligible for exemption were defined as those subject to the Federal tax on industrialized products (IPI). At the same time, export operations were facilitated inasmuch as merchandise was also considered as remitted abroad when it was delivered to trading companies, bonded warehouses and customs deposits. The maximum rate for export operations - from which manufactures were exempt - was fixed at 15 per cent.

In January 1970, the states agreed that they could grant exporter-taxpayers a reduction of the ICM (tax credit), which was implemented by the same method as had been approved a year and a half before at the Federal level for the tax on industrialized products (IPI). The tariff rates for tax credit were also the same as those of the IPI, with the ceiling set at 15 per cent, and were calculated on the basis of the FOB value reduced by that of imported components brought in under the drawback régime. Initially, the products ineligible for the tax credit were the same as those mentioned in the case of the IPI, plus sugar-cane, edible molasses, vegetable oils (except ground-nut, cotton and soya bean oils) and cocoa paste and cocoa butter.68/

The harmonization of tax policies and exemptions allowed the export process to flow more smoothly, but the exporter-taxpayers piled up more and more tax credits, especially in the less developed states or those with fewer resources. Thus, after adopting a variety of provisions aimed at making the ICM credits effective, the Federal Government decreed that they could be used for the payment of the IPI and empowered the Ministry of Finance to formulate other measures. Thus, part of the burden of the state incentive is being carried by the Federal treasury.

Here again, the ICM exemption and tax credit, with much the same characteristics as in the case of the IPI, permitted a significant reduction of the export price.

68/ Cocoa paste and cocoa butter were admitted to the tax credit régime during 1972. Individual states excluded other products according to the special conditions prevailing in each.

(e) Income tax

From mid-1965 the taxable profits of enterprises exporting manufactures were reduced by law in the proportion represented by the value of exports of such products in relation to the firm's total sales. The products which entitled exporters to this bonus were specified by the authorities in terms of the desirability of promoting their penetration into the international market. While this principle permitted selectivity by product, the list in force embraces a very wide range of goods.69/ Originally, the provision was intended to remain operative only until 31 December 1968; but one year after its approval it was extended to the same date in 1971, and this deadline has been successively put forward for 3, 2 and 4 years, so that the tax reduction will be applicable up to the end of 1980.

This deduction from the income tax payable by firms exporting manufactures may be increased in four different ways. In the first place, since 1969, these enterprises have been allowed to include in the computation of production costs expenditure abroad on promotion, propaganda and market studies, renting of premises for commercial exhibitions, fairs, and installation and maintenance of offices, agencies, stores and warehouses.70/ Furthermore, as from the following year remittances of foreign exchange under the heads mentioned above were entitled to reduction of or exemption from income tax 71/ on transfers abroad. Subsidiares of foreign firms are not eligible for

69/ A decree of the Ministry of Finance (Portária do Ministro de Fazenda GB-203, 17 June 1971) includes all the products comprised in 65 of the 99 chapters of the Brussels Tariff Nomenclature (BTN), and in 97 4-digit items out of the 208 included in another 19 chapters, entirely excluding only 15 chapters. Up to December 1973 only three insignificant changes had been recorded in this connexion.

70/ Between 1972 and 1974 CACEX approved 386 drafts of ex ante expenditure programmes, amounting to approximately 5 million dollars.

71/ Under the regulations exemption is granted.

/these two

these two benefits. Likewise since 1969, enterprises exporting manufactures have enjoyed the right to reduction or refund of tax payments on financial transfers abroad under the head of royalties, technical assistance and interest on loans. Such payments must be recorded in the Central Bank, the benefit obtained is variable, and is conditional upon exports being larger than in the preceding year and upon the maintenance of a given ratio - equal to or higher than 1 - to the amount of the remittances. Nor has income been taxed at source, since 1969, in the case of financial remittances in payment of commissions to agents abroad, and of interest and commissions abroad on the discounting of export bills of exchange and on credits obtained in connextion with pre-financing, financing and refinancing of exports.

(f) Tax on financial operations

This Federal tax, instituted at the end of 1966, was levied on all credit, exchange and insurance operations and on mobile bonds and securities. The National Monetary Council, authorized by law to make proportional tax reductions, gradually accorded exemption to operations in respect of export insurance and credit, insurance on international transport of merchandise, reinsurance and advances on exchange contracts, with the result that the export process became cheaper and simpler.

(g) Single tax on fuels, lubricants and electric energy

Since 1966 the legislation in force has provided for the refund of the whole of this tax to exporters of manufactures and extractive products eligible for the benefit, if the tax exceeds 2 per cent of the FOB value of the goods exported. It also exempts shipping under the Brazilian flag plying on international routes and obtaining supplies at Brazilian ports. This exemption was extended to foreign shipping in 1969 and to the Brazilian fishing fleet in 1970.

The exemption is obviously an important one for international transport costs, but its scope is limited in relation to production of manufactures for export.72/

72/ Revenue from this tax is based mainly on petrol.

/(h) Other

(h) Other taxes

Under legislation in force as from mid-1966, merchandise for export was exempted from all taxes, dues, emoluments and specific contributions to which it was subject. The provision excluded the export tax regulated by special legislation, specific exchange retentions (coffee and other products) and port dues payable for services actually rendered. It also established that storage rates should be waived for a maximum period of 15 days in the case of merchandise intended for export and deposited in areas under port jurisdiction.

5. Financial instruments

(a) General observations

The Foreign Trade Department (Carteira de Comércio Exterior - CACEX) of the Banco do Brasil was established towards the end of 1953 for the purpose of financing exports. During 1961, CACEX was authorized to license, finance and refinance exports of capital goods and durable consumer goods against medium- and long-term payments in convertible currencies. It was only in the course of 1966, however, that financial instruments began to operate effectively as incentives with the creation of an Export Financing Fund (Fundo de Financiamento a Exportação - FINEX) administered by CACEX. At the end of the following year rediscounting by the Central Bank was put into effect for the purposes of financing the working capital of enterprises exporting manufactures. Thus, by 1968 a system of financial incentives to production for exports and exports proper had taken shape, and was improved and expanded during the following years. It was complemented by a system of export credit insurance noted for its low cost.

The financial incentives consist in the priority given to allocation of credit on very advantageous terms to finance the production of enterprises exporting industrial products. To a lesser extent, and for terms of up to more than 5 years, financing is accorded to exports of durable consumer goods and capital goods consigned almost exclusively to Latin American and other developing countries. Direct financing for exports also covers sales on

/consignment and

consignment and the provision of technical services abroad. The scheme is completed by an extensive system of export credit insurance. The official resources applied have increased, and real interest rates are largely negative. The allocation of credit include some elements of selectivity by product and size of enterprise, and, apart from being conditional upon the effecting of exports, is based on bank criteria. It is worth noting that the motor-vehicle industry has absorbed increasing volumes of direct financing for exports.

It will be seen that the channelling of financial resources is more favourable to production than to sales, as regards both the amount of the resources allocated and their lower cost for the exporter. In other words, the incentives are primarily aimed at financing the capital formation of enterprises producing for export, and, in the second place, at facilitating sales of those products - such as capital and durable consumer goods - which are competitive in terms not only of prices but also of payment dates.

(b) Financing of production for export

Outstanding among the operations designed to finance the working capital of enterprises producing manufactures for export was the special rediscount granted by the Central Bank for that purpose to commercial banks authorized to deal with foreign exchange. As from 1 January 1968, the Central Bank provided such resources to an amount which initially represented 10 per cent of the normal rediscount and was afterwards gradually raised until it reached 65 per cent. Thus, allocation of the rediscount was increasingly oriented towards the financing of firms selling their products abroad. The operation was characterized by its flexibility and simplicity, by low rates of interest - actually negative in real terms - and by a discretionary element which enabled CACEX to channel

/funds towards

funds towards specific products.73/ In view of such favourable financial terms, intensive advantage was taken of this incentive, to which recourse was had for almost half the industrialized products exported. Thus, this rediscount mechanism financed during the production phase over 20 per cent of the value of the industrialized products exported (see table 16).

Since mid-1969, the Carteira de Comércio Exterior (CACEX) of the Banco do Brasil has used international FINEX resources to provide financing for the production of capital goods with a high unit value and production cycle exceeding 180 days.74/ Loan terms are advantageous because the cruzeiro value of the product is fixed at the time when the credit is granted, and because it is virtually possible to make sure of financing for the whole of the merchandise to be exported. The amount represented by such operations has steadily increased, and attained very substantial figures during the years 1974 and 1975. The number of operations has naturally been small, but the last year of the period it had climbed to 10 (see again table 16).

73/ On the basis of an export commitment on the part of the enterprise, and in the light of its previous record and of the allocation criteria in force, CACEX authorizes it to negotiate financing in whatever bank it prefers. Periods of up to 180 days are covered - or 240 in special lines - and the interest rates and commissions charged must not exceed 8 per cent per annum (in cruzeiros and without monetary adjustment). The rediscount rate charged by the Central Bank amounts to 4 per cent yearly. The sum to be financed is limited to a maximum of 80 per cent of the FOB value concerned. The special lines have been applicable to cotton textiles and footwear since the end of 1970, to small- and medium-scale enterprises since mid-1971 and to cocoa and cocoa products as from September 1972. Subsequently, to meet conjunctural difficulties, other industrialized agricultural products were also included (citrus fruit juices, castor oil and soya bean oil, etc.).

74/ In this specific case the financing covers about 80 per cent of the cruzeiro equivalent of the CIF value invoiced as at the date of the loan, at an annual interest rate of 8 per cent. Its duration varies from one case to another, and CACEX can increase the proportion financed if regulations in the buyer country stipulate advances of less than 20 per cent. An account will later be given of the FINEX operations directed essentially to the financing of export activities proper.

/Table 16

Table 16

BRAZIL: FINANCING OF PRODUCTION OF INDUSTRIALIZED PRODUCTS FOR EXPORT - SPECIAL CENTRAL BANK REDISCOUNT (RESOLUTION Nº 71/67)

Year	Special Central Bank rediscount (Resolution Nº 71/67)					Banco do Brasil b/ (financing for goods with a production cycle of)		Financing for production
	Exports licensed by CACEX				Financing a/			
	Number of licences issued	Total value (millions of dollars)	Average value (thousands of dollars)	Total value Exports of industrialized products (percentage)	Exports of industrialized products (percentage)	More than 180 days (FINEX)	Less than 180 days (own funds)	Exports of industrialized products (percentage)
						Millions of dollars		
1968					7			
1969					14			
1970					20	2.4		
1971		385		47	22	3.5	57.8	29
1972	1 259	580	461	48	25	4.2	85.3	32
1973	1 592	871	547	45	22	5.9	103.5	27
1974	1 599	1 104	690	37	18	34.7	131.6	24
1975	2 118	1 995	942	61c/	28	86.6	166.4	36

Source: CACEX.

a/ The amount financed was estimated by taking the sum of the balances -as at 30 June and 31 December in each year- of the refinancing granted by the Central Bank to the commercial banks in accordance with the mechanisms established in its Resolution Nº 71 (1-11-1967). See Banco do Brasil, Boletím, March 1973 and 1975. Conversion into dollars was based on the average annual exchange rate published by Conjuntura Economica, Fundação Getúlio Vargas, March 1976.

b/ The data supplied by CACEX in millions of cruzeiros were converted into dollars at current prices for the sole purpose of estimating the importance of the financing of production for export undertaken by the official bank system.

c/ In actual fact, the coefficient, was probably about 45 per cent, as nearly 30 per cent of the total value licensed was covered by special financing for exports of oils, orange juice and soya-milling by-products. Thus, if the same proportion were maintained in the financing allocated to these products, the coefficient for exports would fall to about 20 per cent.

/The Banco

The Banco do Brasil, using its own resources, and operating through its General Credit Department (Carteira de Crédito Geral - CREGE) finances production of manufactures for export by means of revolving credits on current account.75/ A great deal of use was made of these resources during the period under review, and their volume increased at high rates, while the large number of operations - from 500 to 840 yearly - shows how widespread was their application (see again table 16). With its own resources, too, the Bank - through CACEX - finances the production of goods for export by means of industrial credit certificates and credit on current account.76/ The same official institution also provides indirect financing through its Exchange Department (Carteira de Cambio) - in the form of advances on exchange contracts - and through CREGE, using the resources of a Fund for Democratization of Capital of Enterprises (Fundo de Democratização do Capital das Empresas - FUNDECE).77/

Lastly, the National Bank for Economic Development (Banco Nacional de Desenvolvimento Econômico - BNDE) provides basic industries and small- and medium-scale enterprises with financing to meet their working capital requirements for the production of manufactures intended for the external market. These are medium-term operations and the allocation of the funds is generally linked to financing of fixed investment.

75/ Periods of up to 180 days are covered, the resources being replaced with exchange liquidations, which makes new drawings possible. The maximum amount is the equivalent of the book value of liquid net worth at the date of the last balance, and the annual rate of interest is 18 per cent.

76/ For periods of 180 to 360 days, which can be extended if the flow of exports is maintained, and at an annual cost of 16.8 per cent (interest plus commissions).

77/ In this case periods of up to 36 months were covered, with 180 days of grace, at adjustable interest rates of 12 per cent per annum. Although these funds are not as advantageous as others that have been described, their allocation is facilitated for export enterprises. Approximately half of the FUNDECE resources are administered by the Banco do Brasil, and the rest by the regional and state development banks for the same purposes.

/As has

As has been shown, financing of production for export is characterized by an ample supply of official credit, relatively easy of access, and granted for periods appropriate to each type of operation, at rates of interest which are lower than the market rates and may even be negative in real terms. Furthermore, the allocation of these financial resources has been progressively geared to the effecting of exports. Thus in the period under consideration over one-fourth of the value of exports of industrialized products was financed on these terms during the processing phase.

(c) Export financing

Short-term export financing is normally handled by commercial banks authorized to conduct foreign exchange operations and the Exchange Department of the Banco do Brasil. It consists in advances on exchange contracts for terms of up to 90 and 180 days at varying annual interest rates (about 18 per cent).

Medium- and long-term financing is administered by CACEX with FINEX and Inter-American Development Bank (IDB) funds and a special rediscount for trading companies.

As already stated, in 1966 an Export Financing Fund (FINEX) was set up in the Central Bank with the aim of supporting external sales of durable consumer and capital goods. These funds were administered by CACEX and were allotted in dollars for terms varying from one to five years and at interest rates of 7 per cent.78/ From the time of its establishment, FINEX was supplied by IDB with a revolving credit

78/ They were also granted for terms of less than one year and more than five. Financing could not exceed 85 per cent of the invoiced value and covered insurance and freight contracted with Brazilian companies.

/line, against

line, against which funds allocated to Latin America were rediscounted. This form of financial support was expanded several times over until it amounted to about 20 million dollars; but the domestic resources furnished by the Central Bank steadily increased, and came to constitute the bulk of the financing provided. In this way, growing proportions of exports of capital and durable consumer goods were financed;79/ almost all were consigned to the Latin American countries - especially members of LAFTA -, and, to a lesser extent, and in line with the orientations of foreign policy, to the non-oil-exporting countries of Africa. The main flows of financing to LAFTA were channelled into countries that imported chiefly manufactures from Brazil.80/ A noteworthy feature was the increasing and preponderant share of the motor-vehicle industry in the total financed with FINEX resources (see table 17).

79/ During 1973 and 1974 this proportion of course decreased, despite the expansion of resources and loans, since the vigorous growth of exports of the goods in question was combined with the slow pace of reimbursement of loan funds resulting from the accumulation of long-term financing. It may be estimated that in 1975 the proportion of exports financed exceeded 20 per cent. For the same reasons - duration of loans, increases in domestic resources and growth of exports - IDB refinancing lost some of its relative importance, although the aggregate amount it represented was maintained.

80/ Financing for the Latin American countries was facilitated inasmuch as it was based on credit lines which CACEX allotted, using FINEX resources and its own modus operandi.

/Table 17

Table 17

BRAZIL: MEDIUM-AND LONG-TERM FINANCING OF EXPORTS

(CACEX, using FINEX resources)

Year	Nº of operation	Value financed by CACEX: Total (millions of dollars)	Per operation (thousands of dollars)	Consigned to: Latin America	Consigned to: Africa	Motor-vehicles and parts thereof	Value refinanced by IDB	Value financed: Exports of capital and durable consumer goods (percentage)
				Percentage of total				
1968	125	1.9	15.0					3.8
1969	238	8.2	34.0					11.3
1970	410	18.0	44.0	93.7	1.8	10.0	62.3	15.7
1971	591	25.4	43.0	83.1	15.6a/	11.0	49.2	16.0
1972	620	66.0	106.0	74.6	0.2a/	38.0	16.8	26.1
1973	717	43.0	60.0	98.5	0.6	40.0	9.4	11.7
1974	1 206	90.5	75.0	91.0	8.2	43.0	10.2	11.9
1975	2 042	236.6	116.0	85.9	10.6	52.0	2.5	

Source: CACEX.

a/ The figures for the year 1971 include the financing of shipments to Liberia, and in 1972 24.6 per cent corresponds to shipments to Portugal.

/As from

As from 1971, FINEX resources were also applied to the financing of exports on consignment, sales of services and commercial promotion abroad. In the first instance, the credits covered 180 days and were renewable for the same period, and could amount to 80 per cent of the CIF value. Between 1972 and 1975 thirteen operations were conducted, totalling approximately 1.5 million dollars. Financing of the sale of services abroad 81/ was granted for periods of over 180 days, priority being given to operations including supplies of Brazilian products for the execution of projects. Only two operations were actually carried out: one in 1971, for a paper mill in Southern Korea and another in 1974 for the Andean Development Corporation. Lastly, financing for commercial promotion of Brazilian products abroad lost its initial importance, no doubt because of the depressive international trade prospects. 82/ Although the operational volume of these three financing lines was of little significance in relation to total FINEX operations, it seems very important in respect of its own objectives.

From 1973 onwards, with the regulation of the activities of trading companies, credit facilities were extended to transactions between the producers and such companies, covering the period during which the merchandise was deposited under a special customs régime until it was marketed abroad.

81/ Technico-economic and engineering studies and projects, inspection of execution of works, and assembly services.

82/ Including market studies and analyses, dispatch of samples, propaganda material, publicity programmes, participation in industrial fairs, etc. During 1972 and 1973, 66 operations were conducted, amounting to 4 million dollars, whereas during the next two years the number of operations dropped to 27 and the amount financed to 1.4 million dollars.

/It should

It should be noted that export financing covers a considerably smaller proportion of external sales than financing allocated to production, and that its cost is higher. The flow of resources available, however, is large and increasing, and covers all commercial sales procedures. Moreover, it benefits the developing countries of Latin America and of Africa.

(d) Export credit insurance

The year 1965 witnessed the introduction of a system of export credit insurance which protected financial institutions and exporters against possible risks attendant upon the sales financed. For political and special risks liability was assumed by the Brazilian Reinsurance Institute (Instituto de Reaseguros do Brasil) on behalf of the Federal Government, while commercial risks were taken on by the private companie authorized to operate in this branch of activity. Negotiations are currently under way for the constitution of a Brazilian Credit and Guarantee Insurance Company (Companhia Brasileira de Seguros de Crédito e Garantía) which will specialize in accepting this and other kindred types of insurance. The number of operations has risen rapidly since 1968,83/ and this is the form of guarantee that predominates in IDB's refinancing of CACEX based on FINEX resources. Costs under the Brazilian system, moreover, would seem to be among the lowest in comparison with other countries.84/

83/ 196 in 1968 and 9,603 in 1975, according to data supplied by the Brazilian Reinsurance Institute. See also Brasil Exportação, 1974 Editora BANAS, S.A., for data showing that the sum of the liabilities assumed for political risks rose from 3.9 million dollars in 1968 to 30 million in 1972.

84/ See Brasil Exportação, 1974, op. cit.

/6. New

6. New overall instruments

(a) General observations

Up to mid-1972, promotion policy for exports of manufactures was characterized by the granting of across-the-board tax and financial incentives to industrial enterprises selling such goods on the external market. From that year onwards, while the blanket incentives were maintained, they were amplified and granted as an integrated whole as a means of inducing a more dynamic trend in the exports of transnational corporations proposing special export programmes in branches of activity determined by the economic authorities. At the same time an attempt was made, apparently without success, to channel towards Brazil the international reassignment of existing means of production which would be mobilized to exploit comparative advantages. The amplification of incentives was also directed towards persuading domestic entrepreneurs to set up trading companies for mass export of the production of small- and medium-scale industrialists. Lastly, for the first time, incentives were granted and programmed for specific sectors of industrial activity: the metallurgical, motor-vehicle and shipbuilding industries. Furthermore, quantitative restrictions were imposed on the export of inputs of agricultural origin incorporated in manufactures whose external sales were vigorously expanding.

The incentives provided by these new instruments were based on those already existing - and almost universally applied -, granted as an integrated whole with some additional features and special requisites, such as long-term export programmes, domestic content coefficients in production, etc. Their concession on broader lines and in the aggregate was naturally more closely linked to fairly important investment projects, and, therefore, to industrialization and economic development policy. Hence their effects cannot be fully appreciated until several years have gone by.

While these incentives were primarily designed to influence the transnational corporations, the formulation of measures to facilitate the development of trading companies represented an attempt to strengthen the export activities of private Brazilian firms, in particular those of smaller size. In the initial stage, owing to the slowness with which trading companies of this type were established, those constituted by government agencies and enterprises expanded so dynamically that it was possible to maintain some degree of external bargaining power for certain products. In addition, the incentives to the proposal of special export programmes by interested enterprises were used to establish sectoral programmes, so that the promotional effort was oriented with greater precision. Nevertheless, the objectives of the promotion drive represented by these new incentives are still stated in overall terms, although they leave the economic authorities plenty of room for selection of the products, sectors and firms to be benefited.

(b) Special export programmes (BEFIEX)

During the early months of 1973 the Committee on Concession of Tax Benefits to Special Export Programmes (Comissão para Concessão de Beneficios Fiscais a Programas Especiais de Exportação - BEFIEX) entered operation. Legislation passed during the preceding year made provision not only for the establishment of BEFIEX, but also for a new and expanded scheme of incentives to the export of manufactures.

Incentives could be granted under this new scheme to manufacturing enterprises or groups of enterprises which submitted special export programmes in line with the following purposes: (i) to stimulate expansion of exports of manufactures through the exploitation of favourable opportunities afforded by the international situation and resulting in increased liquid profits for Brazil; (ii) to improve industrial productivity by modernizing their plant and adopting new technologies; (iii) to ensure economies of scale in domestic industry, thus permitting access to external markets on competitive terms, with favourable repercussions on the level of domestic prices; and (iv) to take full advantage of the priorities established for those sectors with the greatest potential for gaining a foothold in external markets or best adapted to the requirements of the Federal Government's economic policy.

/The programmes

The programmes approved by BEFIEX, which had to be of sufficient duration to establish themselves in the international market, enjoyed all the export incentives applicable to any export enterprises, plus the following:

(a) Exemption from the import duty and IPI on imports of capital goods for initial investment and inputs for the execution of the programme approved. These imports are not subject to the *similaridade* régime, and in the case of inputs are limited annually to a maximum of one-third of net average annual income from the exports programmed;85/

(b) Inclusion of used capital goods in the imports admitted to this régime. Imports intended for the replacement of equipment and tools under these export programmes can enjoy similar franchises administered by the Council for Industrial Development (*Conselho de Desenvolvimento Industrial* - CDI);

(c) Possibility of transferring to other participating enterprises amounts of IPI tax credit that have not been used;86/

(d) Exemption from income tax on the proportion of profits attributable to exports of manufactures, amplified in three ways: (i) the supplementary income tax on remittances of profits abroad,

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85/ Although imports under the programme are eligible for tax exemptions even when similar domestic products exist, this concession has to be approved for each individual product by the Ministry of Industry and Trade (capital goods) or by the Council for Customs Policy (inputs). Moreover, total imports of inputs benefiting under special régimes (BEFIEX, drawback, etc.) must not exceed one-half of the FOB value exported. Net average annual income is defined as the difference between the FOB value and those imports of inputs which benefit under special régimes. This system maintains the incentive to the contracting of freight and insurance in Brazil, by allowing the total sum they represent to be added to the FOB value for tax benefit purposes.

86/ For the purposes of calculating the IPI and ICM tax credits, the tariff rates are applied to the FOB, CIF, C&F or C&I value as appropriate, after deduction of the imported inputs favoured by special régimes.

/after deduction,

after deduction, can be used for the payment of other Federal taxes; (ii) losses in one fiscal year can be deducted from profits during the next six fiscal years; and (iii) installation expenditure can be amortized during the first ten years of operation and in the fiscal years chosen by the enterprise;

(e) Possibility of ensuring a minimum period of maintenance of the tax incentives to exports of manufactures in force at the date of approval of the programme, conditional upon a minimum amount of new investment to be determined in each individual case.

As can be seen, this amplified version of the existing blanket incentives bases their selectivity on the discretionary powers of the economic authority to grant them on lines broadly designed to strengthen its industrial development policy. The basic objective of these programmes is to dynamize the export potential of transnational corporations already operating in Brazil or encouraged to do so by this and other régimes.87/ The system of incentives to these special export programmes allows of a virtually free flow of goods subjected to some form of industrial processing in different countries, thus facilitating association for production purposes with other firms or subsidiaries operating abroad. To complete the scope of the incentive, the cost of fixed investment is lowered and taxes on profits from international operations are lifted.

The very nature of the scheme, inasmuch as the incentives are linked to investment, means that it must be in force for a sufficiently long period before its results can be analysed; the interval since it came into operation is still very short, although it may be placed on record that under this system some of the most dynamic export operations in the last few years have been set afoot, as well as other major investment projects at an advanced stage of execution

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87/ In this context, the text of the regulations is non-committal; but thus it was officially established. See José María Vilar de Queiroz, Brasil, exportação e importação, APEC Editora S.A., Rio de Janeiro, 1975, 2nd edition; and Brasil exportação, 1974, Editora BANAS S.A., São Paulo, p. 188.

/or recently

or recently launched.88/ But, here again, it will be several years before judgement can be passed on the success of this promotional procedure, especially as regards the gaining of a firm foothold in the international market.

(c) Transfer of industries to Brazil

More or less simultaneously with the establishment of BEFIEX, it was decided that exemption from import duty and from the tax on industrialized products (IPI) should be accorded to imports of whole industrial plants - even if their composition included some products with similar domestically-produced counterparts - which had been in full operation in their country of origin and which, once established in Brazil, would produce essentially for export. The authorization of the transfer would specifically determine the possible use of other incentive instruments.

The objectives of this new incentive to production for export were related to those underlying the creation of BEFIEX, the aim being to channel towards Brazil international allocations and reallocations of means of production motivated by changes in the panorama of comparative advantages on which the existing international division of labour is partly based.

In response to the objections raised in Brazilian entrepreneurial circles, the original legislation was amended on stricter lines and the regulations sought to make it certain that output would be essentially destined for the external market. In any event, the incentive seems to have produced no effect.89/

88/ The Jornal do Brasil (5 August 1976) recently published a foreign exchange balance - provisional and from an entrepreneurial source - of operations under BEFIEX which shows in three years gross exports amounting to 587 million dollars and a net foreign exchange income of 457 million. Imports under the drawback régime (inputs) would seem to have represented 23 per cent of gross exports, while the other imports benefiting by drawback totalled 8.5 per cent. The same information was also published by the Gazeta Mercantil of São Paulo.

89/ According to press information, an initial operation has taken place in 1976, consisting in the transfer of a Portuguese plant manufacturing bale twine (see Jornal do Brasil, 8 July 1976).

/(d) Trading

(d) Trading companies

Towards the end of 1972 and during the following year a system of incentives to trading companies was instituted with the object of encouraging the mass marketing of manufactures and facilitating the external sales of small- and medium-scale producers.

In the first place, the provisions laid down ensure the producer the right to avail himself of the incentives in force for exports of manufactures when he sells to companies of this kind enrolled on a special register of exporters. Thus, the trading company purchases the goods at a price appreciably lower than that quoted on the domestic market and sells them abroad with a margin of profit which will depend upon its bargaining capacity, while the producer has nothing to do with the external marketing process. Secondly, to the orginary customs régime for exports, which confers the right to leave goods on deposit with suspension of taxation, is added a special customs régime for exports under which the goods can be deposited and tax incentives can be enjoyed before they are actually shipped abroad. Thus, for tax purposes, a manufacture on deposit in a trading company's bonded warehouse is taken as exported.90/

On the basis of these operational conditions, the trading companies can deduct from their taxable profits - up to the year 1977 inclusive - an amount equal to the difference between the FOB value of the exports (plus freight and insurance contracted with Brazilian firms) and the value paid to the producer. In practice, that is, if a trading company exports exclusively manufactures it will be exempt from income tax, and the larger the proportion of its import and export transactions that relates to manufactures, the less it will pay. Exemption from the tax on financial operations is also granted to all credit operations guaranteed by merchandise on deposit,

90/ The trading company is liable for all the tax benefits enjoyed by the producer, plus interest and monetary adjustment, if it resells the goods on the domestic market or if they are not actually exported within one year from the date of deposit.

as well as to those connected with the establishment, leasing, management and maintenance of bonded warehouses. The system of basic incentives is supplemented by the possibility of inter-trading company sales of goods on deposit.

The trading companies had to be set up in the form of companies with registered voting stock primarily under the control of Brazilian capital. The minimum capital was originally fixed at the equivalent of some 3 million dollars, and at half that sum where it was desired to encourage initiatives of acknowledged local or regional interest. With the aim of creating incentives to the majority participation of national groups, the commercial banks were authorized to use half a point of their cash reserves for subscribing shares in the trading companies and two points for financing national trading companies. With the same end in view, a special rediscount line was opened (about 100 million dollars) to finance purchases of manufactures, and the Banco Nacional de Desenvolvimento Econômico (BNDE) was authorized to use resources (about 30 million dollars) in support of trading companies based on domestic capital. So little recourse was had to the special rediscount that in mid-1975 its cost was reduced and the duration of loans was extended. At the same date and for the same reasons the two points of the cash reserves were replaced by a specific rediscount (some 200 million dollars) on favourable terms.

By the end of 1975, 27 trading companies were registered with CACEX, many of which were firms that had long been engaged in foreign trade and conformed to the terms of the system. The development of these companies' export operations during 1974 and 1975 reveals the great dynamism and outstanding importance of the recently-created companies under State control, and shows that four firms alone accounted for 85 per cent of the external sales of the whole group.91/

91/ The Banco do Brasil, through CACEX, set up the Companhia Brasileira de Entrepostos e Comercio (COBEC), in association with 54 state and private banks; this has become the principal trading company, with a vast chain of offices and warehouses.

/These operations

These operations amounted to 200 and 364 million dollars, respectively, in the two years mentioned, but most of them did not relate to manufactures. The firms that concentrated most on manufactures accounted for relatively small volumes.92/

The development of trading companies and their establishment in the market is a characteristically slow process. Moreover, subsidiaries of transnational corporations producing and exporting manufactures naturally do not require the services of such companies, since they have their own marketing channels. Hence, significant short-term results cannot be expected in the field of manufactures, since the suppliers of these trading companies are limited to the small- and medium-scale industrial firms. Hence, too, the official interest in encouraging Brazilian entrepreneurs to embark on this activity.

The incentive to induce trading companies to operate in connexion with the export of manufactures was considerably amplified during the early months of 1976, when it was decided that they should be eligible to benefit by the IPI tax credit system. As internal taxes are not levied on exports and these companies also effect imports, advantage can be taken of this new incentive by using the credit in payment of import duties and the IPI, as well as income tax on profits accruing from non-exempt operations. Thus the incentive assists the overall expansion of the company, provided that it exports manufactures under the aegis of the tax credit system.

(e) Sectoral export programmes

It was not until 1972 that the first sectoral incentives to exports of manufactures were implemented. In the first place, incentives relating to income tax were extended to mining companies controlled by domestic capital which processed minerals abounding in Brazil and exported half of their output at a minimum FOB value 50 per cent higher than the value of the crude ores.

92/ See Jornal do Brasil, 2 May 1976.

Secondly, rules were established for motor-vehicle manufacturing and export programmes enjoying incentives granted by the Industrial Development Council (Conselho de Desenvolvimento Industrial) and the BEFIEX system. Export programmes were to provide for attaining a minimum annual average of 40 million dollars over a period of 10 years. Manufacturing programmes, in their turn, were to reach specific domestic content indexes conducive to an industrial structure horizontally integrated with the producers of parts. Imports from LAFTA brought in on a reciprocal treatment basis were allowed to be included in the domestic content index up to a maximum of 5 percentage points. As already stated in connexion with BEFIEX, some of the dynamic export operations transacted in recent years were based on these incentives, and several programmes have been launched whose results and implications it is much too early to analyse.

(f) Restrictions on exports of agricultural products

During the year 1973, as a result of rising international prices, quantitative restrictions were imposed on exports of agricultural commodities with a view to controlling internal inflation and ensuring supplies for consumers and industrial users. Some exports were even banned, a case in point being leather, the raw material for the footwear industry, which is among those that have shown the most dynamic export trends in recent years.

These restrictions, rather than fitting into the framework of export incentives, reflect reliance on trade policy measures, however extreme, rather than on the traditional discriminatory exchange rate; exchange policy thus maintained its neutral character.

7. Aggregate effects of instruments used by industrial export promotion policy

(a) Characteristics of the instruments as a whole

It is usual - and an internationally accepted practice - for countries to exempt exported products from the payment of internal taxation, so that export prices are normally lower than those in force on any domestic market. Exports of manufactures from developing countries could hardly have been initiated and maintained without

/some extra

some extra compensation, the need for which - within certain margins - should be accepted as a trade practice to compensate for the relative disadvantages of the industrial sector in the developing countries vis-à-vis that of the developed world.

During the past decade, the instruments of Brazil's promotion policy for exports of manufactures were designed to provide compensation for the difference between domestic prices and the export prices in force in world trade, the level of which is determined by the developed countries. This compensation supplied by policy instruments consisted of a usual and accepted part, which was the more important, and another additional part which constituted the subsidy or incentive to exports.

The usual and accepted compensation was essentially based on exemption from internal taxes and other forms of taxation equally applicable to all products and to their sale and purchase on either the domestic or the foreign market. While it had some secondary effects on the internal structure of production, the drawback régime for inputs not produced by domestic industry also formed part of the usual and accepted compensation. This kind of compensation in no way implied a sacrifice of revenue.

Additional compensation was implemented through the reduction of tax payments and the allocation of financing out of public funds at less than market cost. It consisted mainly in reduction of the taxes on industrialized products (IPI) and on circulation of merchandise (ICM) due from enterprises on their domestic market operations. A smaller part was played by exemption from income tax on presumed export earnings. Financial incentives, whose quantitative importance was slight, were concentrated mainly in financing for the working capital of exporter enterprises, rather than for exports proper. This was an across-the-board concession granted virtually without reference to any criterion of selectivity by products and sectors, except that indirectly deriving from the use of the IPI tariff structure to quantify deductions from internal tax payments (IPI and ICM). Nor, in practice, was any limit set to the term for

/which these

which these incentives were to remain in force. Thus, the additional compensation meant that the states waived a portion of their tax revenue and that the profitability of the official banking system was reduced. This kind of indirect subsidy to industrial enterprises exporting manufactures was not entirely a fiscal sacrifice, thanks to the dynamic growth of the economy and the fact that Federal income has represented increasing proportions of the gross domestic product. In consequence of the tax reform and the increased efficiency of tax collection, the Federal Government secured a growing supply of resources which enabled it, in practice, to base the promotion of exports - as well as that of certain types of investment - on the easing of the tax burden for industrial-exporter enterprises instead of for all tax payers.

The usual and accepted component of the total compensation places all producers alike in a position to form their export prices in relation to their input and factor costs and to their productivity. The additional compensation indirectly introduces an element of selectivity by products, contained in the internal tariff structure; so that the resulting sum total of the incentive does not necessarily meet the requirements of foreign trade policy, generating undesired transfers of income and reactions in buyer markets, or understimulating potentially dynamic products or sectors.93/ Further undesired effects are generated by the instruments of promotion policy through the lack of selectivity in the allotment of benefits which is determined by their primary objective: the expansion and diversification of exports. The wide application of the drawback régime 94/ would

93/ The amount whereby IPI and ICM payments are to be reduced is determined by applying the IPI tariff structure, with a maximum rate of 15 per cent, to the value of exports FOB Brazil. The corresponding income tax deduction is uniformly applied to all products. In the case of financial incentives the institution granting them exercises some degree of selectivity.

94/ See table 15.

/suggest that

suggest that at the present stage of industrial development, the promotion instruments in the aggregate have especially encouraged products with high coefficients of imported inputs.

As has been shown, the instruments used by promotion policy provide compensation by acting directly on the process of export price formation - both in production and in marketing -, on the capital requirements of enterprises and on their profits (see table 13). Most of these instruments exert their influence directly through the cost of production and the formation of the external sales prices, and to a lesser extent through working capital requirements. There were virtually no policy instruments designed to act through investment until the approval of the incentives to Special Export Programmes, for which the regulations were not really brought into force until 1973 and which had little influence during the period under consideration in the present study. It was precisely up to that year that the instrumentation of industrial export promotion appears to have been divorced from industrial development policy. The new overall instruments implied a lesser degree of indiscrimination in promotional policy, since they linked the granting of benefits to investment-export projects submitted by industrial enterprises and trading companies, although they were still based on the same tax and financial instruments.

It should be recalled that in addition to their great lack of discrimination, the tax incentives do not represent a real disbursement on the part of the Federal or state treasuries, so that the granting of their benefits encounters no specific quantitative limitations. This kind of subsidy - widely applied in Brazil and other Latin American countries - militates against the more efficient utilization of fiscal resources, since it establishes virtually no budgetary controls or limits for their allocation. This is not the case with the financial incentives, which have been subject to the ex ante limitations of monetary and financial programming that specifies the amount of resources to be earmarked for the Central Bank's rediscount operations and for the Export Financing Fund (FINEX).

/The paramount

The paramount objective of the policy pursued has been the expansion and diversification of exports, and its implementations has been subordinated to this end. Its instruments have been almost indiscriminately applied to all industrial products and sectors, and the granting of their benefits has been facilitated inasmuch as no limits are set to the hypothetical sacrifice of revenue. Nor were these benefits made directly conditional upon the attainment of other important objectives of Brazil's economic policy, such as increased employment and regional development. It was decidedly unlikely that export promotion policy would be of any efficacy in relation to those objectives, especially in view of the very modest participation of exports of manufactures in the total and sectoral industrial product.

Although the character of the instruments has not been altered, during 1975 and 1976 their quantitative impact was modified in some respects. The sharpening of the upward trend of prices, the international situation - unfavourable as it was to the expansion of sales - and the reaction of some buyer countries in the developed world prompted these changes. Thus, the IPI rates affecting essential and mass consumption goods were reduced or eliminated. At the same time, the former rates were maintained for the purposes of calculating internal tax reductions. Later, to forestall the application of compensatory duties in developed countries, the gradual abolition of the system of deductions from internal taxes (IPI and ICM tax credit) was programmed in respect of enterprises exporting footwear, leather handbags, soya bean oil and leather. The incentive was increased, on the other hand, for exports of motor-vehicles. Import conditions too underwent a change, with the improvement of levels of protection in 1973 and the import restrictions imposed in recent years.

Thus, a transitional situation has grown up which will no doubt evolve towards progressive modification of the system of promotion policy instruments, with the aim of adapting them to the new requirements faced by the development of exports of manufactures.

/In view

In view of these new requirements, importance will probably be gained by measures directly bearing on capital formation, which will assist the industrial sector to take its place on a competitive footing, in the most dynamic international trade flows.

(b) Quantitative aspects of the instruments question

The ratio between the price of Brazilian manufactures on the home market and the export price of the same goods in international trade is an effective measure of the minimum level that must be reached by the compensations which export policy instruments provide in order to place Brazilian production in a position to compete.95/

According to estimates for 1970, the domestic price of Brazilian manufactures had to be reduced by 39 per cent in order to make their export prices FOB Brazil equivalent to export prices FOB-other countries. In the case of manufactures that were really being exported, the reduction necessary was only 28 per cent. These hypothetically necessary minimum compensations recalculated on the basis of export prices FOB-Brazil would be 65 and 39 per cent, respectively (see tables 18 and 19).

95/ In other words:

(i) Domestic price Brazil - compensation = external price FOB-Brazil;

(ii) Domestic price other exporter countries - compensation = external price FOB other exporter countries;

(iii) External price FOB Brazil + freight, insurance and other expenditure = CIF price buyer countries = external price FOB other exporter countries + freight, insurance and other expenditure.

/Table 18

Table 18

BRAZIL: QUANTITATIVE ESTIMATES OF SELECTED EXPORT INCENTIVES, 1970

	1970 (percentage)
Percentage relation between the estimated amount represented by selected export incentives and the FOB value of exports of manufactures	17.24
IPI tax credit	5.87
ICM tax credit	5.40
Exception from payment of income tax	2.72
Financing of production	3.17
Financing of exports	0.08
ICM Estimated average proportional rate	17.00
IPI Estimated average proportional rate	6.00
Percentage relation between average internal prices of exportable industrial production and prices of the same products in international transactions a/	124.91
Ibid., for total industrial production a/	148.00

Source: IPEA/INPES, Relatório de Pesquisa, Nº 14, pp. 138, 183 and 184.

a/ This is really an approximation to the relationship in question, estimated on the basis of average tariff protection percentages. "Prices" in international transactions would thus include costs of transport to Brazil

/Table 19

Table 19

BRAZIL: HYPOTHETICAL COMPENSATION REQUIREMENTS FOR EXPORT OF MANUFACTURES AND EFFECTS OF SELECTED PROMOTIONAL INSTRUMENTS

(Percentages of export values FOB - Brazil, 1970)

	Total for industrial products	Industrial products actually exported
Hypothetical percentage reduction of domestic prices of Brazilian manufactures required to place export prices FOB-Brazil on a level with export prices FOB-other countries a/	39	28
Percentage relation between hypothetical price reduction required and export price FOB-Brazil a/	65	39
Impact of main incentive instruments, as a percentage of value FOB-Brazil of exports of manufactures a/		40
Exemption from internal taxes (IPI and ICM)		23
Reduction of taxes (IPI and ICM tax credit and income tax reductions)		14
Official financing		3

Note: Domestic prices of manufactures exported = 1.2491 external prices CIF Brazil =
= higher domestic price (24.91) + external price CIF Brazil (100) =
= higher domestic price (24.91) + external price FOB country of origin (90)
freight and other expenditure (10) = 1.3878 external price FOB country of origin.
0.72056 domestic prices of exported manufactures = external price FOB country of origin
Similarly:
Domestic prices of Brazilian manufactures = 1.48 external prices CIF Brazil
Domestic prices of Brazilian manufactures = 1.644 external prices FOB country of origin.
0.60812 domestic prices of Brazilian manufactures = external prices FOB country of origin.
In both cases freight, insurance and other expenditure were estimated on the basis of their incidence on the CIF value of Brazilian imports from all markets of origin, petroleum excepted. See Anuário Econômico - Fiscal, 1974, Ministry of Finance, Federal Revenue Department, CIEF.
The minimum compensation is based on the assumption that transport and marketing expenditure has the same incidence on Brazilian exports and on exports from other countries. Probably, its incidence is greater on Brazilian sales to developed countries than on exports from one developed country to another. Possibly, therefore, the necessary level of compensation should be higher than the estimate suggests. On the other hand, it may be somewhat less, since it was calculated on the basis of average tariff protection of which full advantage is never taken by local producers.

a/ See table 18.

/In quantitative

In quantitative terms, the estimated effect of the main instruments for promoting exports of manufactures in 1970 attained a similar proportion: 40 per cent. The other instruments, whose repercussions on the export price were more indirect and more difficult to quantify, doubtless added very little to this proportion. It may therefore be said that in the aggregate manufactures really exported received the compensation they hypothetically needed in 1970. A major part of the incentive derived from internal tax exemptions, and the implicit fiscal cost amounted to only 17 per cent of the FOB value of the manufactures exported.

But the tax and financial instruments in force afforded a level of compensation higher than was actually utilized by the manufactures exported in that year. It was precisely the products to which the biggest incentives were available that expanded their exports most dynamically between 1970 and 1974. They included products of the traditional and of the dynamic industries; of sectors essentially transforming local raw material and of sectors with high imported input coefficients.96/ An estimated measurement of the hypothetical effects of the tax incentives, based on the assumption that the same rate of return was maintained for internal and external sales, establishes the possibility of an average reduction of 36 per cent in domestic prices (see table 20). If in addition the effect of the official financial incentives were taken into account, the level of compensation hypothetically required for the industrial sector as a whole would be attained. Thus, it may be considered that during the first half of the 1970s the tax and financial instruments of industrial export policy afforded the requisite compensation for the industrial sector.97/

96/ The level of compensation and incentives to the sectors producing machinery was not one of the highest; nevertheless, their exports showed rapid rates of growth.

97/ The inclusion of tobacco manufactures leads to over-estimation of the effects, since shortly afterwards this sector was excluded from the additional internal tax reductions (IPI and ICM tax credit). It may be assumed that this over-estimated figure allows for the effects of the financial instruments.

/Table 20

Table 20

BRAZIL: HYPOTHETICAL EFFECTS OF TAX INSTRUMENTS FOR PROMOTION OF EXPORTS OF MANUFACTURES, 1971

	Product	Percentages of		
		Reduction of domestic prices a/	Total tax compensation b/ / Export value FOB	Tax incentive c/ / Export value FOB
1	Canned and preserved food products	32	47	16
2	Sugar	30	43	13
3	Confectionery	32	47	17
4	Meat, dairy produce, cereals and other food products	25	33	9
5	Beverages	58	138	39
6	Oils and fats	29	41	13
7	Tobacco products d/	84	525	37
8	Thread and yarn	32	47	13
9	Textiles	41	69	27
10	Knitwear	41	69	27
11	Clothing	40	67	26
12	Sacks, bags and linen goods	29	41	13
13	Footwear	43	75	34
14	Lumber	26	35	11
15	Wood products and furniture	47	89	39
16	Wood pulp	29	41	14
17	Paper and paper products	43	75	32
18	Printed matter and publications	39	64	27
19	Leather	32	47	16
20	Leather products (except footwear)	46	85	35
21	Rubber products	45	82	33
22	Plastics	46	85	35
23	Synthetic products	35	54	19
24	Chemicals	29	41	13
25	Chemical products	45	82	30
26	Petroleum products	20	25	6
27	Non-metallic minerals	37	59	24
28	Glass and glass products	35	54	21
29	Iron and steel	36	56	27
30	Non-ferrous metals	28	39	11
31	Metal castings	29	41	13
32	Metal products	36	56	21
33	Agricultural machinery	31	45	17
34	Non-electrical machinery	36	56	22
35	Electrical machinery	33	49	19
36	Household appliances	41	69	27
37	Shipping	36	56	21
38	Railway rolling-stock	28	39	12
39	Motor-vehicles	46	85	32
40	Bicycles and motorcycles	46	85	35
41	Aircraft	29	41	14
42	Precision instruments	45	82	33
43	Miscellaneous	48	92	39
	Average	36	56	20

Source: Prepared by CEPAL on the basis of estimates by Helmut Hesse, "Promotion of Manufactured Exports as Development Strategy of Semi-Industrialized Countries: The Brazilian Case" Weltwirlschaftliches Archiv. Journal of the Kiel Institute of World Economics, 1972

a/ Hypothetical proportion by which domestic prices were reduced through the application of all tax instruments, on the assumption that domestic market operations and exports maintained the same margins of profit.

b/ Hypothetical proportional relationship between the reduction-effect of domestic prices deriving from the application of tax instruments and the resulting external price FOB Brazil.

c/ Hypothetical proportional relationship between the reduction-effect of domestic prices deriving from the utilization of IPI and ICM tax credits and the reduction of income tax; in other words, the relation between "sacrifice of revenue" and the FOB value of exports of manufactures.

d/ Since July 1972 tobacco products have been excluded from IPI and ICM tax credits, bringing down the average figure.

/In short,

In short, the first estimate shows that the impact of tax and financial instruments in the aggregate offset the higher internal price of domestic products which were really being exported. The other establishes that the regulations in force determined a somewhat higher level of compensation, covering the whole of the industrial sector: a benefit of which ample advantage would seem to have been taken during the early 1970s. Approximately two-thirds of the total compensation corresponded to exemption from internal taxes: i.e., to its usual and accepted component. Only the remaining third constituted an implicit subsidy which the authorities provided by waiving part of a vigorously growing tax revenue. That is, the hypothetical fiscal sacrifice apparently amounted to only 20 per cent of the FOB value of exports of industrialized products: a proportion far lower than the import tariff rates. The annual value of this additional compensation was more than absorbed by the annual increase in exports, and represented 0.4 per cent of the total gross domestic product, 1.6 per cent of the value added by the industrial sector, and less than 4 per cent of the revenue from Federal taxes and the state tax on the circulation of merchandise (ICM).

Another point to note is the wide variety of incentive and total compensation levels, which did not derive from a deliberately selective policy but from the use of the IPI structure as a quantitative yardstick for tax incentives. For a more satisfactory evaluation of promotion policy in relation to the development of the industrial sector, these different incentive levels should be weighted by some appropriate index which would measure the comparative disadvantage at which each sub-sector of production was placed. In any event, it is a striking fact that the tax incentive granted to footwear, leather manufactures and furniture should be appreciably higher than that received by machinery, motor-vehicles and precision instruments. This manifestly inconsistent policy of giving more encouragement to traditional sectors - presumably the most competitive -, is beginning to be rectified by means of progressive reductions of certain incentives, although they are motivated by the reaction of some buyer countries in the developed world.

/Just as

Just as the instruments that provided the usual form of compensation directly influenced export price formation, most of the impact of the incentive instruments was channelled along the same lines. By no means negligible, however, were their effects on profits and on working capital requirements.

A comparison of trends in exports of manufactures with the general outlines of foreign trade policy reveals a high degree of success in the attainment of the objectives proposed: the increased diversification of exports and the expansion of external sales of manufactures were notable. The cost to the Treasury does not seem to have been particularly high as long as exports maintained rapid rates of growth. The changes that took place during 1975 and 1976 have undoubtedly reduced the level of total compensation and of its components, and together with the increased influence of the new overall instruments, make a substantial difference to the picture of quantitative effects that has been presented here.98/

98/ The changes on the import policy side also influence, although indirectly, the total sum of quantitative effects. The rise in nominal tariff rates in 1973 constituted an acknowledgement of the low level of real protection provided by the 1967 tariff structure in conjunction with across-the-board application of exemptions from import duties. The restrictions imposed in 1975 and 1976 are of a conjunctural type, and form part of the measures designed to reduce the big external trade deficit.