

**THE INTERNATIONAL FINANCIAL
CRISIS AND BRAZIL IN THE DOHA
DEVELOPMENT ROUND**

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Introduction

The international financial crisis that began in mid-2008 caused much economic turmoil in various areas, including international trade. One question that has been on the minds of trade negotiation specialists is whether this economic slowdown will have a destructive impact on the Doha Development Round (DDR) negotiations that had been moving forward, though slowly. It remains to be seen whether the end effect will be positive in terms of bringing congruence and political unity in closing this round soon or whether it has delayed any significant progress in the Geneva talks for a couple of years or more.

Even though the economic crisis has shaken the Brazilian economy and created pressure to promote some small protectionist measures, the serious dedication of the negotiators and emphasis placed in the multilateral talks, together with the expected benefits to the country makes it unlikely that the negotiators will back down from the negotiations so easily. Nonetheless, the emphasis placed by the US on sectoral negotiations in the NAMA (Non-Agricultural Market Access) modalities has brought a conundrum to the WTO talks.¹ This impasse will only be resolved if the US government's proposal is removed, or significantly appeased, and the negotiations continue using the previous framework. The political costs, efforts and time from the WTO members will be extremely high if a new negotiating format were designed to take into account this new proposal.²

This paper will present the Brazilian perspective on the international financial crisis and the impact on the national economy and implications for its negotiating positions in the WTO. Firstly I will cover the leadership capacity of Brazil in coordinating with other countries in the negotiations, then analyze the policy learning from previous crises (during the Uruguay Round), and show how international trade fits in the national development plans and the impact of the current crisis. All these items allow for a better understanding of what is at stake for the Brazilian negotiators and economy, while illustrating the domestic factors that should come into play during the strategy formulation of the Brazilian trade policy.

Part 1: Short-term positions: what does the crisis tell us about Brazil?

1. The Brazilian negotiating position before the international crisis

Agriculture

The Brazilian government's position at the Doha Round has remained relatively stable over the negotiation period since 2001 (see Table 1).³ An aggressive stance has been taken on the three pillars of the agriculture talks: market access, domestic support and export subsidies. While the proposals were adapted to suit the demands of the allies (i.e. G-20, Cairns Group, etc.) and the opponents (the developed countries), agriculture has

¹ This proposal of using critical mass to zero tariffs in 14 sectors is in the 4th revision of NAMA modalities text: TN/MA/W/103/Rev.3.

² Interview with an Itamaraty official; and "Tímido retorno dos Estados Unidos à OMC" Revista Envolverde, 14/05/2009.

³ Further reading: Veiga, Pedro M. (2005), Veiga, Pedro M. (2009), Revista Gleba 2008.

been the main area of interest to the Brazilian negotiators.⁴ There were three main reasons behind the Brazilian negotiators decision to place the agricultural sector at the forefront of discussions in Geneva. Firstly, there was the fact that the Agriculture Agreement of the Uruguay Round was cleverly designed by the developed nations to allow for various forms of manoeuvre in the national agricultural and trade policies that allowed them to maintain heavy support for their farmers. Secondly, Brazilian agriculture was and continues to develop formidably and gain competitiveness in the world, thereby allowing it to increase its exports to new markets, especially if trade barriers were lowered in the Doha Round agreement. And lastly, the initial elaboration of the Doha Round objectives clearly stated that it sought to promote the development of the poorer members of the organization. Considering that the agricultural sector of these nations are of greater relevance than in other nations, it naturally lead to the understanding that agricultural trade liberalization, together with the removal of unfair subsidies in the developed world, would promote such development (Braga, 2005; Conforti, 2004). Nonetheless, most LDC's would not gain much in export opportunities and would initially need to pay more for agricultural imports due to the rise in prices after removal of subsidies of the developed countries (FAO, 2005 and 2007).

After the Asian financial crisis of 1997 and 1998, the Brazilian economy felt its impact the following year and adopted a floating exchange rate for its currency, the Real. The sudden devaluation of the Real from a level of close parity to the dollar to a 3:1 exchange rate made Brazilian products a lot more attractive in foreign markets. This was one of the main reasons for the growth in Brazilian exports after 2000 (Alves and Targino, 2006; Veiga, 2008). This also made foreign trade become an interesting area in economic terms, giving more impetus to the Brazilian government's interest in a new Round of trade negotiations in the WTO.

Table 1: Brazil's Negotiation Demands in the DDR

Area	Priority	Demand	How far current Proposals meet this demand
Agriculture	essential	Priority area in the negotiations.	This area has drawn the most attention and has been most difficult to negotiate.
Tariff cuts	essential	Aggressive cuts. Minimal number of exceptions (Special and sensitive products; SSM)	Satisfies the demands for greater market access. The scope for exceptions (SP, SSM, etc.) allows for noteworthy limitation of market access to the developing markets.
Subsidies	essential	Significant reductions in global spending limits (Aggregate Measure of Support) for the developed countries.	Partially meets the national interests.
Export Subsidies	essential	Complete elimination of export subsidies.	Agreement to eliminate by 2013.
Industry	essential	Differentiated treatment as a Customs Union in the	Current proposal is in line with the demands of the Mercosur countries

⁴ Veiga (2007).

		tariff cuts.	
Tariff cuts (NAMA)	essential	Tariff cuts using Swiss formula with a higher coefficient, or a lower coefficient with more flexibility to have lower cuts for 'sensitive' products.	Tariff cuts using Swiss formula index between 20 and 25 for developing countries, with varying levels of flexibilities. The option of selecting 14% of TL as sensitive offers the flexibility necessary to adapt the cuts to the differences in national tariffs of the Mercosur countries. Representatives of Brazilian industry have supported these proposals.
Sectoral negotiations	non-relevant	No interest in sectoral negotiations.	The failed attempts by developed countries to move forward with this in WTO is in line with national interest.
Services	negotiable	Allow countries to choose sectors to liberalize using the 'positive list'	Currently meets national interests.
Intellectual Property	non-relevant		Implementation measures of IP issues are still to be clarified.
Trade Facilitation	non-relevant	Improvement in rules and orientation for facilitating trade	Currently meets national interests.

In Agriculture, the main demands of the Brazilian negotiators of Itamaraty (Ministry of Foreign Relations)⁵ were taken into consideration during the drafting of the modalities negotiation text, except for the flexibilities (sensitive and special products; safeguards), over which much discussion emerged on the level to be accepted in the modalities text since 2006. In general terms, while the private sector has placed aggressive demands in the negotiations, the representatives of the small farmers and sustainable farming have been resistant by demanding greater exceptions to the market opening proposed, channelling their interests through the Ministry of Agrarian Development (MDA).⁶ The topic of restricting agricultural subsidies was heavily demanded by Brazilian negotiators and the last proposal on the table of the US and the EU capping level (during the Geneva talks in July 2008) was considered satisfactory, within the negotiating text. Although the option for countries (both developed and developing) to select a number of products as 'sensitive', thereby applying a smaller tariff cut, was accepted by Brazilian negotiators, they sought to have a small limit of products that could receive this treatment.⁷ The option for developing countries to choose a number of products to be labelled as 'special' was also regarded with caution because Brazilian exporters are

⁵ Brazil is one of few countries in the world where the trade negotiators are part of the Ministry of Foreign Relations, which deals with all international matters of the country.

⁶ The Ministry of Agrarian Development (MDA) is a ministry that deals with family and sustainable farming and land reform issues of agriculture.

⁷ Interview with an Itamaraty official. The concern here is the high probability that most of the products selected by key importers like the E.U. and the US would be exactly those products of greatest interest to Brazilian exporters. Nonetheless, there are some supporters of using these instruments in the MDA.

increasingly selling their products to these markets.⁸ The third item of concern to the Brazilian negotiators is the Special Safeguard Mechanism (SSM) that protects the markets from an import surge or a sudden drop in the price of an imported agricultural good. Although it will substitute the existing safeguard mechanism (SSG) and only developing countries will be able to use it, if the trigger level is too low, the developing countries could be blocking their markets from international trade too hastily. Considering the growing export potential of these markets for Brazilian agriculture, these mechanisms would be another threat to these exports. And so, the Brazilian negotiators were focusing their efforts in clarifying the latter two issues that were causing much quarrel and discussion both within the G-20, group of developing countries, and the G-77, group of developing and least-developed countries (LDC).

The Brazilian leadership arose from its negotiators excellent qualifications and negotiating skills, the growing economic importance of the Brazilian economy and the negotiators constant defence of the developing countries' interest and unyielding stance as a representative of these economies. As stated above, the capacity of the Brazilian negotiators for analysing the proposals in the agricultural negotiations and seek ways to avoid having the developed nations use loopholes in the agreement later on, unsurprisingly placed them in a position of leadership in these talks.

Industry

In the case of industry, the Brazilian government has taken a more defensive position (see Annex 1). Considering that the national industry is only competitive in a few sectors, there was much preoccupation that the new agreement would result in a market opening that brought intense foreign competition to various sectors. Among the concerns, the foreign producers have certain advantages that place them in a favourable position such as those available to the developed countries and China, like credit at low interest rates, larger domestic markets, special tax treatment for industrial activities and higher Research and Development investments. Some Brazilian sectors are better prepared to compete internationally, such as the clothing and footwear industry, paper mills, certain types of chemical industries, specific machineries and other sectors. These have pondered the proposal of sectoral negotiations in the Doha Round, when this was proposed by some developed countries. However, since the negotiations did not move forward, the Brazilian negotiators preferred to disregard this path and continue in the NAMA (Non-Agricultural Market Access) talks.

The initial demands were to use high coefficients in the Swiss formula for tariff cuts. Initial coefficient ran around 35, in line with other developing countries. Yet this number fell as the negotiations proceeded, finally falling to a level between 19 and 23, and 8 or 9 for developed countries. While there was much resistance from industry groups, the negotiators of Itamaraty began to accept this level as an exchange for a more ambitious tariff and subsidy cut in agriculture.⁹ In 2007, the Brazilian government noticed that certain flexibilities were necessary in order to adapt the cuts to the situation of the Mercosur's Common External Tariff (CET). Some member countries of the customs union have exemptions from this common external tariff for specific products.

⁸ For instance, Brazilian agriculture exports to Indonesia have grown over recent years and if this country were to label some of these imported products as 'sensitive', the quota that would be created could seriously limit the volume of Brazilian exports.

⁹ Interview with an Itamaraty official. Observatório Social (2006); CUT (2005).

This means that a uniform cut would not work for these exceptions since applying a final CET to all products would represent a significant reduction for the exception's tariff. Ideally, these exceptions would receive a lower percentage cut or would be allowed to continue remaining above the CET. Therefore, Mercosur began to demand flexibility for a certain number of tariff lines. After much discussion in the NAMA negotiations, this request was accepted after the same demand was supported by other groups such as the South Africa Customs Union (SACU), resulting in a proposal that allowed all developing countries to choose whether they wanted this flexibility or not.

The last proposal on the table allowed each country to choose from the following: (i) a cut using coefficient 20, with 14% of tariff lines having a cut of half the normal percentage; (ii) a cut using coefficient 22%, with 10% of tariff lines having a cut of half the normal percentage; or (iii) a cut using coefficient 25, with no flexibilities. The Mercosur negotiators choose the first option, whereby they have some flexibility in having a lighter cut for 14% of their industrial tariff lines. This proposal was also accepted by Brazilian industry groups, who perceived the benefits of having this flexibility of choosing a portion of products that would have a smaller cut, even with a coefficient that would lead to higher overall tariff cuts.

Even though the international financial crisis has created much discomfort and complaints from industry, in terms of trade only specific demands have been made which are not directly related to the multilateral negotiations. The main demands are antidumping measures, countervailing measures and greater control of imports in order to avoid illegal smuggling of products. The MDIC had begun investigations on the need for antidumping measures for Chinese footwear products on 31st December of 2008. Trade with Argentina has been impacted by a few protectionist measures like antidumping taxation and removal of automatic licensing of imports from the neighbour for specific products.¹⁰

The domestic support and opposition to each of these positions

In industry, there was an initial hesitation to engage in the NAMA talks due to the fear from national industrial sectors of the impact of opening the borders to foreign competition. Indeed, Brazil lacks good infrastructure (logistical and financial) and proper sector policies that offer financing options, tax exemptions or training to guarantee sufficient skilled labor to industry. Part of this fear is also rooted in the market opening of the early and mid-1990's, as will be explained later on, where such supportive policies were ignored and the economic consequences were significant forcing various industries to shut their doors.

Nonetheless, as the Doha Round proceeded, industrial groups began to take a more proactive stance. Certain associations like Federation of Industries of the State of São Paulo (FIESP) and the Confederation of National Industries (CNI) prepared economic studies that allowed for better proposals to be forwarded to Itamaraty.¹¹ They were

¹⁰ Similarly, Argentina applied the same measures as well as export quotas. Bilateral trade has fallen 36% in the first semester of 2009. (Políticas anti-crise argentinas exigem novo arranjo do comércio bilateral: <http://ictsd.net/i/news/pontesquinzenal/48219/>)

¹¹ "O processo de liberalização comercial num ambiente econômico", FIESP, 01/06/2004; Observatório Social (2006), and Observatório Social (2005).

better able to map the economic implications of the proposals discussed at the WTO and so clarify their demands and concerns, placing real economic figures in their requests for smaller NAMA tariff cuts. On the other hand, Itamaraty and president Lula's government were becoming increasingly concerned in signing the deal as soon as possible, eyeing the economic benefits of opening the agricultural markets and bringing stringent disciplines to the agricultural subsidies of the developed world. President Lula has placed the Doha Round negotiations on high priority since entering office. Two reasons explain this: his intent of coordinating a group of developing countries and defending their common interests, and seek the economic gains of greater exports by improving the playing field of agricultural trade. His government noticed the trend in Brazil's increasing exports and, together with perception of gaining a prominent role in international politics, placed all his bets on this forum for trade negotiations. A factor to be considered is the political orientation of key figures in Itamaraty, such as Samuel Pinheiro Guimarães and Marco Aurélio Garcia, who are hesitant to negotiate with developed countries like the US and the European Union, giving priority to developing countries and so the multilateral negotiations would allow for greater support from other developing countries while resulting in the market opening of 153 countries. This stance has been criticized by trade scholars and several private sector leaders (Veiga, 2007), in the sense that other trade agreements were not pursued by Itamaraty. Nonetheless, the president's desire of having Brazil gain status in the international arena, where Itamaraty has been trying in areas like the UN Security Council, topics of labor rights and forging partnerships with developing countries, and considering the long-established international respect and admiration of Itamaraty in trade negotiations, the Doha Round was perceived as an interesting route. The expected economic gains also acted as a stimulus, in terms of overall benefits of increasing agricultural exports and increasing the exposure of industrial sectors at an 'acceptable level', together with the characteristic of Brazil's exports having numerous destinations, without much concentration in specific regions.

It is curious that the labour groups, such as CUT (*Central Única dos Trabalhadores*), have been more defensive with regards to the WTO negotiations, showing much preoccupation with the economic impacts to national industries, using similar arguments of the industry groups.¹² These groups have not been as active in analysing the potential implications of the Doha Round and have not looked at the possible gains from any resulting growth in agribusiness which involves numerous industrial sub-sectors such as transportation, machinery, food processing, among others.¹³

2. The observable changes in policy since the crisis until now

Initially, by considering the aggressive stance of the Brazilian negotiators in the agricultural negotiations of the Doha Round, one would be quick to state that their position was highly unlikely to change during these times of global economic instability. Further, knowing that the Brazilian officials were satisfied with the last

Reunião da Coalizão Empresarial Brasileira (CEB):

<http://www.abipla.org.br/artigos/reuniaocoalizacao20040525.htm>

¹² Instituto Observatório Social, 2005; "Propostas para NAMA sufocam o desenvolvimento", 02/08/2009, CNM/CUT, www.cnmcut.org.br/sgc_data/publicacao/pdf/pub127.pdf; "Doha e o agronegócio"

14/08/2008 <http://www.mst.org.br/node/5996>

¹³ These groups have not considered any possible agreement in the GATS mode 4 of international labor mobility, where national skilled labour would be able to accompany investments abroad in areas that demand such labour, such as engineering, mining, and construction

negotiating proposal, and with the low level or even absence of import threats to the agricultural sector makes it seem very unlikely that the goals of the negotiators would change.¹⁴ Looking at the NAMA negotiations however, the economic climate may have given rise to concerns regarding the preparedness of the national sectors to handle the new tariffs that would result from the negotiations.

The Brazilian government has reacted in a few ways to the global financial crisis in the field of trade policy. Among them, the government passed a legislation which raised the applied tariffs for certain products, within the list of exception to the CET, to last for a few months. This was the case for specific types of steel¹⁵, and the MDIC has proposed raising the tariff for textile products and dairy products¹⁶, and the ministry has threatened raise other tariffs in response to the stimulus packages approved in the US and the EU¹⁷.

Another measure was the legislation passed by the Ministry of Commerce and Development (MDIC) which removed the automatic licensing procedure for numerous products, thereby requiring a previous request for the import license from the importers. Although this seems like a small modification, the change affected 60% of total Brazilian imports¹⁸, adding a bureaucratic step that delays the transaction, thereby incurring higher costs and a longer delivery period of the imported product. Several trading partners, especially its Mercosur neighbours, were quick to criticize this measure, labelling it as protectionist.¹⁹ This reaction caused much commotion in the government ministries and the president's office. This measure was clearly not in line with President Lula's statements regarding the Doha Round and the need to avoid protectionism during the financial crisis. Since this legislation was not officially published, the President quickly demanded that it be revoked, which happened on a few days later²⁰. A formal note was published by the MDIC cancelling the measure, yet no formal explanation was given. The Minister of the MDIC stated in an interview that the measure was taken for statistical purposes, due to the divergence of import data among two Ministries.²¹ However, the idea of controlling the volume of imports during the initial months of 2009 was not easily accepted as a good explanation for the measure. The Minister had to later deny any intention of reducing imports to protect specific national sectors during these difficult months.

¹⁴ Interview with an Itamaraty official. BBC "Brasil aceita nova proposta para Rodada de Doha" 25/07/2009. http://www.bbc.co.uk/portuguese/reporterbbc/story/2008/07/080725_dohafinalsexta.shtml

¹⁵ "Camex eleva imposto de importação para sete tipos de aço", 5/06/09. <http://www.parana-online.com.br/editoria/economia/news/377093/>

¹⁶ It should be noted that the reason for raising dairy tariffs is to counter the growing imports of milk powder and other products that have been exported from the EU and the US with export subsidies. National producers have pointed out that these imports are flooding the market and are imported through other Mercosur countries whose tariffs are lower. "Projeto para elevar algumas tarifas divide Mercosul", Valor Econômico 23/07/2009 <https://conteudoclipppingmp.planejamento.gov.br/cadastros/noticias/2009/7/23/projeto-para-elevar-algumas-tarifas-divide-mercosul>

¹⁷ "Brasil ameaça elevar tarifas contra onda protecionista", 26/06/2009.

http://www.aduaneiras.com.br/noticias/noticias/default.asp?m=1¬icia_id=108866

¹⁸ AmericaEconomia, 27/01/2009 "Brasil aperta a fiscalização de 60% das importações"; <http://direitoaduaneiro.blogspot.com/2009/01/retrocesso-no-comercio-exterior.html>

¹⁹ "Crisis tests Latin America's free-trade commitment", World News, 02/04/2009 <http://www.stabroeknews.com/2009/news/world/04/02/crisis-tests-latin-america's-free-trade-commitment/>

²⁰ "Governo desiste de restringir importação", Folha de S. Paulo, 29/01/2009.

²¹ Valor "País recorre a licenças prévias de importação para conter déficit", Raquel Landim, 27/01/2009.

Also, the *Medida Provisória 451* was reformulated in April 2009²² implementing the integrated drawback (*drawback integrado*), which joins all drawback mechanisms into one legislation and exempts the imports from paying tariffs of material used in the manufacturing stages of exported products, easing the tax burden on exports. CAMEX (Brazilian Chamber of Foreign Trade) approved this legislation and stated that it would help give more liquidity to the exporters who were having trouble finding financial resources for their exports. This agency sought to increase export financing available, such as its request for the approval of a R\$ 700 million loan from the BNDES to the Aerolíneas Argentina to purchase 20 aircrafts from Embraer, a move that was also seen as support to the Brazilian firm.

Considering that Lula's government as placed much emphasis on the Doha Round and not closed any other significant trade agreement during the 7 years of presidency, one is led to believe that Itamaraty is very eager close an agreement before the end of the government's period in the end of 2010. Indeed, it would be appealing for President Lula to sign an agreement during this period, assuming the terms serve national interests, to debunk the growing criticisms over their trade policy strategies.

Part 2: Does Brazil act as a BRIC?

The recent evolution of Brazil's leadership and coalition building at the DDR

Industry

In the case of industry, the Brazilian negotiators were not as effective in their proposals nor did they play a such leading role in the discussions of Geneva, taking a more aligned position with the other developing countries. Within Mercosur, Brazil had put efforts into convincing Argentina of the need to be more flexible in the NAMA discussions. Argentina's economic situation and increasingly protectionist stance meant Mercosur had to resolve their 'family issues' at home before going to Geneva. Indeed Brazil accepted and defended some of Argentina's negotiators demands, such as the higher degree of flexibility for customs unions tariff cuts.²³

More recently, the Brazilian position was shaken after certain measures were adopted in industry that were perceived to be protectionist by the developed countries and China. The measures include new antidumping measures, countervailing measures, greater control of imports in order to avoid illegal smuggling of products, and additional bureaucratic steps in the import procedures. China is a serious concern to both the Itamaraty and the Ministry of Industry (MDIC), especially to the latter. The growing industrial Chinese imports have caused much worries in national industry and numerous requests to analyse possible dumping practices or illegal import measures. The response has been the application of anti-dumping measures and increased control over Chinese containers arriving at the main ports. Needless to say, the Chinese have criticized these measures and caused stress in bilateral relations. From Itamaraty's viewpoint, the diplomatic relations with China needs to aim at long-term partnerships (such as the

²² Ministério da Receita Federal. DOU of 2/04/2009. 'Portaria Conjunta RFB/Secex nº 1' <http://www.receita.fazenda.gov.br/legislacao/Portarias/2009/PortariaConjunta/portconjuntaRFBSecex001.htm>

²³ Interview with Frederico Meira (FIESP) on 04/08/2009.

bilateral technical cooperation agreements signed, and the recognition of China as a market economy in its accession to the WTO), while keeping China on-board the current modalities negotiations.

Agriculture

The Brazilian trade negotiators have been very active in the Doha Development Round ever since its inception. Several factors explain this, such as: the excellent communication and negotiation skills of Itamaraty's staff, the recent growth in foreign investments and the population's improved perception of market opening to foreign trade, growing importance of exports (especially agricultural), and the country's growing economic importance in the continent. While international trade has traditionally had a small role in the country's economic agenda over the past decades, this was slowly changing in the early 2000. Exports began to grow for most sectors, especially in agriculture, and this item gained importance in the government's agenda. New policies were introduced to facilitate exports, such as tax exemptions, new export finance mechanisms, among others.

Even though the country's foreign policy has always sought to open markets of the developed countries for many products and reduce subsidies given to industry and agriculture, this new momentum of expanding agricultural exports gave more impetus to these efforts. More studies were made analysing the cuts in tariffs and subsidies of the Uruguay Round and how effective these were in terms of creating export opportunities for Brazilians.²⁴ These studies indicated the loopholes that some developed countries were using to avoid opening up their markets to agricultural imports. All this effort helped fine-tune the demands to be made and a strategy for negotiating with the developed counterparts during the agricultural talks in Geneva. New technical groups were created within the ministries (of Foreign Relations; Agriculture; and Industry). For instance, the Technical Working Group of the Ministry of Agriculture, created in 2003, decided that an institute had to be created to provide better technical support to their analysis of agriculture issues.²⁵

The Brazilian negotiators firmly supported the new proposals of the Doha Round of focusing on the development aspects of the trade negotiations, with special emphasis on agriculture. Throughout the first discussions in the WTO, Brazil negotiated with other developing countries to join forces and put greater pressure on the developed nations to reduce agricultural subsidies, both domestic and export, and open their markets to food imports. The Brazilian efforts focused on the three items that affect the competitiveness of Brazilian agricultural exports, i.e. market access, domestic support and export subsidies. According to one of Brazil's trade negotiators, more pressure was placed on domestic subsidies given by the US, the EU and Japan since these affected some key items, like cotton, soybeans, sugar and rice which Brazil is a large exporter of. A sign of this, beside the various statements made by the President, Luiz Inácio Lula da Silva, or the Minister of Foreign Relations, Celso Amorim, is the decision to challenge the cotton subsidies of the US and sugar export subsidies of the European Union. This attitude and

²⁴ Guimarães (2005), Veiga e Rios (2008), Moraes (2000), D'Ávila (2006)

²⁵ The Institute for International Trade Negotiations (ICONE) was created in 2003 as an initiative from key persons in the Ministry of Agriculture, MDIC, Itamaraty and private sector representatives. Although the private sector funded most of the institute's research, the government's technical working group was the main beneficiary from its findings during its initial years.

cooperation with other developing nations lead to the creation of the G-20 in August of 2003, a group of developing countries, including, among others, China, India, Argentina, South Africa, Indonesia and Thailand, most interested in agricultural liberalization of the developed world.

Even though the group had a diverse composition, and there were initial doubts on its survival, the G-20 managed to remain intact throughout the Cancun Ministerial (when it was created in 2003), the Hong Kong Ministerial (2005), up to today. According to a representative of Itamaraty, it is believed that the participation in and creation of the group helped to align the different positions of domestic groups in Brazil, since its external receptivity among distinct developing groups gave it more legitimacy that stood above the squabbles between the aggressive and defensive domestic groups. Brazil had a leading role in this group, together with India, and helped formulate proposals that were discussed with the others, including in areas of subsidy cuts, selection process of the sensitive and special products, among others. Brazil has had to mitigate its aggressive stance on the two pillars of domestic support and market access during the Round in order to accommodate the interests of the other G-20 members. Even though there has been some conflict of interest among the member countries with regards to new proposals of flexibilities of sensitive and special products, Brazil has continued to emphasize the need to reduce the applicability of these instruments in order to effectively reduce market barriers for agricultural products from developed countries. Unfortunately, this has been the issue that was never conciliated within the G-20 and which eventually resulted in a lack of agreement on the last proposal made by the DG of the WTO in the last gathering in Geneva in July of 2008.

The G-20 became a key group of countries in the negotiations, which helped place Brazil and India in the FIP (Five Interested Parties) group that would discuss key points with the DG of the WTO seeking to unlock and bring progress to the talks. It should be noted that Brazil insisted that India participate in these exclusive talks, despite the US's reluctance, in order to bring more legitimacy to whatever was accorded within this group and in the view of the other G-20 members. Brazil also helped formulate the Framework, together with the other FIP countries, by encouraging discussion meetings.²⁶

In the negotiations of 2007, when the talks collapsed on July 29 after the FIP failed to reach an agreement, there has been some discussion regarding the Brazilian negotiator's stance with the other G-20 members. It has been questioned whether they abandoned the coalition during the last few days of the meetings in Geneva. The information that has been stated by Itamaraty is that they continued defending the G-20's proposals, yet had considered the proposals placed by the FIP's (except for India) to be interesting and acceptable, including to the other G-20 members. Therefore, while the Brazilian negotiators sought to close the deal, India was not interested in the conditions placed on the table for the SSM. The problem seems to be that G-20 members had not reached an agreement on SSM and so it was highly unlikely for India and Brazil to reach a common understanding in the negotiations of the five key members of the WTO. Therefore, Brazil maintained its coalition with the other developing countries of the G-20, but not on certain items with the G-77 countries who were more protectionists in agriculture.

²⁶ Interview with an Itamaraty official.

Part 3: Policy learning and development strategy during periods of crisis

Looking at the reasons behind the Brazilian negotiators behaviour during the economic crisis period at the end of the Uruguay Round may shed some light on the positioning of Itamaraty during the current financial crisis. The Brazilian delegation accepted some items of the Uruguay Round agreement that were initially thought of as unacceptable and critics say the government, together with many other developing countries, ended up offering more than they ought to in this agreement. While these negotiators sought to have an agreement with the 'traditional' items of market access and trade regulation and facilitation measures in the deal, additional areas like services (GATS), intellectual properties (TRIPS), agricultural subsidies and SPS/ TBT rules were eventually included. The question that remains is to what extent the economic crisis in the early 1990's had a determining influence on the Itamaraty's officials accepting the overall agreement.

In order to understand the forces behind the Brazilian trade policy formulation during Uruguay Round, it is first necessary to understand the context of the Brazilian economy. The Brazilian government had high foreign debt during the 1980's and sought ways to alleviate the pressure from high costs involved through a renegotiation of the debt. Also, the industrial policy of import substitution was suffering growing criticisms from different groups who considered these policies to be no longer sustainable and not in line with a strategy of integrating Brazil into the global and modern economy. There was also some conflict between the ministries responsible for devising the country's trade policy, i.e. the Ministry of Foreign Relations and the Ministry of Finance. These forces acting together help explain how the Brazilian trade policy was designed during the Uruguay Round and the positioning in the negotiations.

The biggest concern of the Brazilian government during this period was how to repay the substantial debt, they had accumulated in loans from developed nations, at favourable conditions. The US accepted offering more favourable renegotiating conditions of these loans to developing countries through its Baker Plan, signed in 1985. Some believe this offer was tied with specific demands, including pressure on Brazil to liberalize its market and acceptance of including new topics in the GATT negotiations of the Uruguay Round (Guimarães, 2005). Further, in order to control inflation, the government sought lowering tariffs as a way to pressure domestic prices to stabilize due to the lower prices of imported goods. During this same period, the industrial policy of protecting the market with high tariffs and discouraging imports of industrial goods was suffering increasing pressure both nationally and internationally²⁷. While the foreign pressure came from the Washington Consensus policy recommendations from the financial institutions like the World Bank, Inter-American Bank (IADB) and International Monetary Fund (IMF), the private sector and economists from large investment banks demanded a greater opening of the Brazilian economy. The existing policy incurred heavy costs to the government through specific subsidies, heavy investments in industrial sectors where costs were comparatively higher than from foreign suppliers and high costs to national companies when these imported specific parts with high tariffs, where substitutes were non-existent or very costly. This

²⁷ Nassuno, M. "Pressão externa e abertura comercial no Brasil", *Revista de Economia Política*, vol. 18-1. jan-fev/1998; Veiga, Pedro M. (2006).

protectionist stance was losing its reasoning due to the changing global situation of increasing globalization. Ideally, the change in policy should be done with much planning and careful designing of supportive policies to minimize the negative impacts of market liberalization.

A few trade specialists that analyzed Brazil's trade policy during the Uruguay Round point to a slight clash of ideals between Itamaraty and the Ministry of Finance (Guimarães, 2005; Veiga, 2007). These show that each ministry had certain priorities and orientation for trade policy, often with noticeable differences. Some key legislation encompassing the liberalization as the path to bringing economic development to Brazil were implemented during President Collor's period (1991-1992).²⁸ President Collor's decision to support a faction within Itamaraty with a more open commercial policy orientation, and by placing two key persons from outside the Ministry (Francisco Rezek e Celso Lafer) helped shape the way for the adoption of these new policies (Vigevani and Cepaluni, 2007; Guimarães, 2005). It is believed that Itamaraty lost some power in foreign policy-making during the first years of the 1990's to the Ministry of Finance (Ministério da Fazenda) due to the critical importance of reducing foreign debt, together with the plan to lower inflation through increasing access of imported goods, and to the elected government's politics (Sarney and Collor) (Guimarães, 2005).

Considering the relatively independent status of Itamaraty, the pressure from private sector to abandon the import substitution policy may not explain the change in trade policy. Considering the significant weight of Brazil's foreign debt and the politics surrounding it, it seems more reasonable to believe that the Ministry of Finance did gain space in the trade policy formulation during the early 1990's and that the presidential impetus to 'modernize' the country and integrate it with the rest of the world resulted in a position of more acceptance and approval of the Uruguay Round negotiating text. Even so, the opening of the national market in the early 90's was heavily criticized by academics and economists and many Brazilians became traumatized from the unemployment and fierce foreign competition that ensued. So, while the economic crisis in the early 90's only impacted the Brazilian stance in the Uruguay Round negotiations in terms of tying the government to the conditions and implicit demands placed by the lenders of the developed countries, the resulting liberalization had a traumatic effect on the economy. The reason was not the trade liberalization itself, rather the lack of proper planning and the lack of economic instruments to support the private sector in adapting to this transition. Among the problems: there was a frequent change in the tariffs for various products, there were no federal programs promoting Brazilian exports, as well as few financing mechanisms and no national industrial policy to develop the sector and prepare it for the competition from abroad.

The importance of domestic stakeholders in Brazil on multilateral trade negotiations

In the late 1980's, the Brazilian economy was slowly letting go of its import substitution policy that had been followed during the previous three decades. Part of this policy required maintaining a highly protective domestic market through high tariffs,

²⁸ These policies were initially drawn during the previous government of President Sarney (1985-1990), yet it was Collor who approved them and was criticized for this abrupt opening of the country's borders. The measures included opening borders for machinery in order to allow for gains in scale of production to turn the sectors more competitive, reduced the national content requirements of projects financed nationally, and zeroed tariffs for machinery without national production (FEE/RS, v. 18, n. 3, 1990).

especially for industrial products, while investing in the development of the domestic industry. Needless to say, this orientation and thinking was deeply rooted in certain political parties, industrial trade associations and labour unions. These groups were quick to raise the nationalism flag whenever any border opening policies were discussed in government. The voice of these groups continued to be loud during the 1980's and much of the 1990's. Within this group were several parties considered more leftist-socialist that defended the working class, such as PT, PSOL, PCdoB, PDT and PSB. among others; as well as industry associations with defensive positions like CNI (Confederation of National Industries), FIESP, CUT (Central Labour Union), among many others. These groups placed much pressure on the government during the 1990's whenever trade agreements were being discussed. Nonetheless, their arguments were not always effective with the diplomats of Itamaraty, meaning that their influence was greater when conducted through the prevailing executive government.

The main domestic debates in Brazil regarding global trade and national development

As explained previously, the area of international trade has traditionally been regarded with much apprehension and anxiety by Brazilians. This vision changed somewhat only after the economic context allowed for an expansion of exports, especially for agricultural products in the early 2000's. So, in fact international trade gained a role of growing importance in the discussions of economic development. While still seen differently than in the Asian countries, where exports were perceived as the major economic force to allow for the development of the country, the expansion of Brazilian exports to new markets took on a role of helping foster economic growth, improve the competitiveness of companies, create more jobs and counter any stagnation in the Brazilian economy.²⁹ Nonetheless, there are difficulties that continue to cause headaches to the negotiators who want to open the borders: intra-Mercosul issues of non-uniform common external tariff, significant political discussions among the members, lack of consistency of national and regional legislation, and hesitation of negotiating new trade agreements with third countries; and there are several industrial sectors that do not have scale for producing at competitive levels, nor are they prepared for competing internationally.³⁰

The learning from the crisis of early 1990's for Brazilian trade policy was that it becomes harder to defend your national interests at the negotiating table during such periods because the other countries will be more reluctant to open their markets significantly and that your bargaining position is impaired when you are in political debt to the other countries (eg. as a borrower of important government loans). As was the case, the demands placed by the developing countries during the Uruguay Round negotiation were not finding solid ground as the developed countries were directing the negotiations in their own interests (by including additional topics of services, intellectual property, etc.)(Veiga, 2008; Batista, 1992). Also, the financial debt of several developing countries, including Brazil, to these developed countries limited the formers' ability to negotiate effectively, due to the indirect pressure from the lenders, to compensate for their lender's 'generosity', which permeated the talks (Guimaraes,

²⁹ This is reflected in various government statements and in Lula's speeches; Alves and Targino (2006); Contri (2005).

³⁰ These sectors include: automobiles sector, chemical industry, high-tech machinery and equipment, electrical goods, textiles and footwear, where the latter three sectors suffer specifically from cheap and undervalued imports from India and China.

2005). The context is different in the current financial crisis for Brazil because the country is currently in a much better financial situation, with very little foreign debt.³¹ This gives the Brazilian trade negotiators more space for negotiations, especially since the country's applied industrial tariff levels are much lower than during the Uruguay Round, meaning that the cuts will not result in much perforation of the tariffs, which is the main fear of the Brazilian industrial sector.

The DDR fits well within the national trade policy of increasing exports and expanding market access for agricultural products, while limiting and challenging the agricultural subsidies of the developed nations. This explains why Itamaraty has placed the multilateral negotiations at the core of the country's trade policy. Several times Foreign Relations minister Celso Amorin has stated that the Doha negotiations were the core of national trade interest while the bilateral and other negotiations were merely 'options'. Nonetheless, after the various halts in the multilateral negotiations, a growing number of critics have been pointing out that placing all bets on the Doha Round has turned costly, as other nations sign trade deals while Brazil remains without any, significant, trade agreement (Veiga, 2005).

Even though the Brazilian government has faced some criticisms over the recent legislations that were implemented, but revoked, aiming at curbing imports, the position and statements made by Itamaraty and President Lula continue to be of condemning protectionism during this economic crisis and increasing efforts of closing the Doha Round as soon as possible. Therefore, the demands made by the national sectors continue to find space in strategy formulation of Itamaraty, even though the latter must place these demands within the current context of the financial crisis. Also, the government has condemned some stimulus packages adopted by countries, like the US, that discourage imports from Brazil.

Conclusion

The political and macro-economic contexts of Brazil during the previous multilateral negotiations and the historic context of the economy explain the positioning of the trade negotiators during the Uruguay and the Doha Round. The two main factors that explain the positioning of Brazilian trade negotiators are: a trade policy that had been devised to open the Brazilian market significantly which was approved by President Collor, during the Uruguay Round, and the floating exchange rate of the Real which made Brazilian exports more competitive abroad, during the Doha Round, together with the high international agricultural commodity prices (Veiga, 2007). Both of these made the trade negotiators participate actively during the multilateral talks, all the while defending national interests of key sectors. The Brazilian leadership undertaken during the Doha Round in the agricultural topics can be attributed to the strong interest in this sector that has grown fast over the past decade, thereby becoming more politically relevant among the trade policy developers. Its better technical capacity allowed it to lead, together with the Indian negotiators, the G-20 group of developing countries in questioning the agricultural subsidies, while seeking significant tariff cuts, thereby allowing developing countries to gain more room in international agricultural trade.

³¹ It should be noted, nonetheless, that the internal debt, i.e. through government bonds, has risen over the years, substituting the foreign debt.

While the economic crisis of the early 1990's influenced the negotiating proposals of the Itamaraty during the Uruguay Round somewhat, it did not cause any major changes in the positioning of the Brazilian interests in Geneva. The Brazilian government, like other developing countries, was pressured into accepting the proposals, which were designed mainly by the developed nations, and dreaded being left out of the overall trade agreement. Also, the current global financial crisis has caused more worries and concerns to arise in the domestic markets, however, the significant interest and engagement of the Brazilian government means little will change in terms of demands, unless the modalities texts proposals are changed.

In case the positions of the WTO members remain the same over the coming months, the Brazilian position will also remain unchanged and the negotiators will continue striving to close the deal soon. The impression one has from reading news articles and according to the opinions of a few Brazilian trade specialists, it seems unlikely for progress to take place over coming months considering the recent implementation of protectionist policies by some countries, the emerging pre-eminence of climate change topic in the multilateral negotiations, and the lack of significant political leadership by countries like the US, the E.U. or Japan. The recent meeting in New Delhi where key WTO negotiators gathered to resume negotiations decided to have a meeting in Geneva on the 14th September in preparation for the upcoming G-20 meeting in Pittsburgh (Bridges, 8/9/2009). According to an Itamaraty official, the meeting in Geneva resulted in the decision to prepare a work plan in order to close the Doha Round by the end of 2010, as well as growing political momentum to engage most member states in the negotiations.

In a scenario where the demands from the developed countries (and possibly some developing countries) in the negotiations change, the Brazilian stance in the negotiations will try to resist any changes, to the extent possible, the negotiated modalities text. Assuming, for instance, that the US and the E.U. make stricter demands in the industrial area, as is being the case with the US's proposal to have sectoral industrial negotiations, it will be a clear affront to all the efforts placed so far by all members of the WTO in elaborating the modalities text. This has been the reaction from most developing countries, which have refused to deviate from the current text as it would throw all efforts to waste, take more time and possibly pressure the developing countries into granting much industrial market opening in exchange for the existing or even lighter cuts in agriculture. According to a negotiator of Itamaraty, it is out of the question for them to consider the American proposal for sectoral negotiations. Further, in this situation, the Brazilian negotiators could begin to lose interest in the Doha Round and begin to focus in other trade agreements, which is already happening³². It is hard to expect any progress in the negotiations to occur the current context, unless the US removes its new proposal of sectorals. That is, unless the talks reach a point where the other developed countries support the proposal and some key developing countries end up agreeing to the idea, in order to close the overall agreement. Nonetheless, this is very unlikely to happen considering that most developing countries already considered the

³² Celso Amorim states in a newspaper article (25/07/08, "Nem Brasil vê Doha como prioridade", Folha de SP) that Itamaraty would focus more on other trade agreements, and no longer saw the Doha Round as a priority. The minister had already stated that the new priority was bilateral agreements after the breakdown of the WTO negotiations in July of 2008 (revista Exame, 29/07/08).

NAMA proposals to be significant, and the fact that China, India, Indonesia and others are not as enthusiastic about signing the deal 'at any cost'.

Similarly, a scenario where the developed nations agree to larger cuts in the limits of subsidies and greater cuts in tariffs would only be viable if significant concessions were given by the developing countries in other areas, such as NAMA cuts, intellectual property rules or services. Again, this seems very unlikely considering the development goal of the Doha Round where agriculture has been at the center of the talks and the other topics have been left aside till the next Round. The controversy surrounding these new topics are higher for the developing and LDC's than the resistance of the developed nations in cutting their agricultural subsidies. Nonetheless, it is more feasible to include one area, for instance of GATS in having all members include additional services sub-sectors in their positive lists, whereby their borders are opened and national legislation changed to allow for greater foreign participation. Although this would add a few months (or longer) of talks to the negotiations, it could create more room for the developed countries to convince their national constituents and government to accept the existing modalities text. While a few developing members may show signs of flexibility in this area, it is very unlikely that the Brazilian negotiators would accept this, considering the strong criticism surrounding the idea of opening some services sectors that are considered strategic (health and education) or where protection remains (petroleum, insurance and financial services).

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