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BRAZIL: INTERNATIONAL TRADE OPPORTUNITIES AMONG ECONOMIC REGIONAL BLOCS

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I - INTRODUCTION

The Brazilian economy is now facing a major challenge. The decisions made and the actions taken now by Brazilian policy makers will decide the future economic and political importance of Brazil. If they choose correctly, Brazil will experience stable growth, balanced development throughout the country, better income distribution, and a more competitive economy. The real challenge to Brazilian policy makers is to implement the necessary changes quickly so that they can be effective in a business environment that is changing swiftly and becoming more internationally oriented. Multinational corporations increasingly dominate the global economy through their financial and investment decisions. The formation of global markets and regional trading blocs throughout the world is another major trend. By the end of this century, these blocs will have formed new international economic and trading relations, establishing new global trade patterns and, consequently, a new global balance of power. Any nation not already enmeshed in this network of financial and trading relations and political power will simply not be part of the global decision-making process, and will suffer the consequences.

The term globalization is widely, but imprecisely, used. It is not clear whether globalization refers to a macroeconomic phenomenon or is an extension of the theory of the firm. In some cases, globalization refers to a stage of development, and in others to a sequence of stages. Where globalization is more concerned with the firm, much of the use of the terminology is concerned with differentiating the globalized firm from the multinational. It is not clear whether the global firm grew out of the multinational firm or how it was achieved during the last decades. However, all the relevant evidence related to globalization issues suggests that there has been an irreversible shift in the global structure of many industrial sectors, such as textile, automobile, footwear, and others. In spite of the lack of precision in defining globalization, we perceive that the stimuli for global markets result from the nature and the stability of the international political-economic agreements reached among leading nations. Without carefully enforced international agreements and sustained international peace among the major nations, global markets cannot function for long. That global markets are emerging in different parts of the world reflects the stability of these international agreements. We believe that the international balance of power agreements made during this century aided the formation of global markets, as well as shaped the structures of global firms.

Few countries in the world are immune to global competition. In this context, globalization is a process of stages by which internal or external firm structures are reshaped in such a way that their individual advantages and disadvantages become part of the global firms' strategies.

It is impossible for Brazil to grow if it ignores the size, structure and strategies of global firms, which are based on the stimuli of the global markets mentioned above. Brazilian policy makers, responsible for the country's social and economic development, cannot overlook the interests that international firms have in the country's attitudes towards and willingness to provide: open trade, qualified labor, technologically advanced manufacturing, ecological protection, intra-industry trade preferences and concessions, a mature democratic system, and more favorable economic rules and laws favoring the flows of foreign capital etc.

The formation of global markets is not merely an academic proposition; it is a matter of vital concern for the political and economic survival of many emerging countries in the western hemisphere. Stimuli from global markets causes the formation of regional markets, and the eventual success or failure of these markets. The speed and strength with which the various components of global markets are converging to consolidate regional economies, trading agreements and preferences, can be frightening to policy makers and economic agents in emerging countries such as Brazil. This new approach to trade is forcing most countries with similar cultural and ethical values to strengthen their political alliances in order to sustain their market alliances and to protect their industrial and technological developments. The alliance of trading partners influences international political power balances. From the beginning of the next century, a country's trade partners, by creating regional trading agreements and preferences, will determine its pattern of economic growth and thus its social welfare and development. This decade will be critical for Brazil: the alliances it makes with its chosen trading partners will determine its pattern of economic growth, and thus its social welfare and development.

Until the 1980s, Brazil was able to sustain its trade policy by diversifying exports without establishing long-term partnerships that could help strengthen its international trade position. International commerce was important only in so far as it could improve the balance of payments and not because of the international relations that could be forged with trading partners. Nowadays, regional trading partners are becoming more important than ever before. Brazil is aware of the new international economic order and of relations among the leading nations. Because of these changes, Brazil has started to create its own economic regional bloc with its South American neighbors - Argentina, Uruguay and Paraguay - to form the MERCOSUL, Mercado Comum do Sul. The agreement was signed in 1991 and MERCOSUL began to operate freely in January 1995.

In 1990, the USA launched NAFTA, a free trade agreement among USA, Canada and Mexico. NAFTA started functioning in 1994. At the beginning of this decade, the North American government presented a broad proposal for the creation of a free trade zone among the countries of the Americas, the "Initiative for the Americas", which aims at the economic integration of the hemisphere, from Alaska to Patagonia. This initiative was politically confirmed at the Miami Summit in December 1994.

During 1990, the two Germanies, East and West, were reunited after the collapse of the Soviet Bloc. Since then, the climate of the European economy has undergone great changes with the creation of the EEA, European Economic Area, a quasi-common market among the countries that constitite the EFTA, European Free Trade Association, and the EC, European Community. Europe`s most recent innovation is the European Union, which is planned to become a common market with free circulation of goods, people, services and capital. At the present time, different EU members have conflicting ideas about the development of the EU. England sees the EU as a confederation of nations which will permit the free circulation of goods, people, trade and services, but it does not see it as a monetary union. England believes that the EU should become stronger by coordinating foreign trade and foreign policies and issues pertinent to the region`s military defence. It also prefers to enlarge the EU by admitting some East European countries, Poland, Hungary and the Baltic countries. England`s proposals have received support from most of the small EU countries. England wants to reduce Germany`s hegemony in the region.

On the other hand, Germany and France have quite different ideas of whether to enlarge or deepen the EU. The Germans´concept of the EU is based on the appreciation of different countries´development and encouragment of short term economic growth within the European Community. German leaders see Europe organized to include prosperous and economically backward regions, forming different inter-European regional blocs. In some way, German's fluctuating between broadening politic and economic ties with some european countries, and deepening these teis with chosen countries according their stage of economic growth. France prefers to deepen the integration of the European Community in order to tie Germany closer to European political and economic decisions. France wants to consolidate the European Community instead of enlarging it, thus losing political and economic strength with respect to other emerging prosperous European countries. In the short run, if the EU members cannot reach agreement on a concrete plan for further consolidation, the union will only function only to produce collective political decisions, rather than act as members joined in a monetary union.

The USA is fast moving towards the formation of its own free trade zone. The "Initiative for the Americas" is an important stratagy for the region´s economic development and should have significant, positive effects on the economy. In addition, the US has been trying to tighten its commercial links with developing Pacific Basin countries through the creation of APEC - Asian Pacific Economic Cooperation. This initiative was confirmed at the Jakarta Summmit in 1994. APEC was formed because the countries involved saw the need for better coordination of investments and the technological and trade flows that are increasing in countries like Japan, NICs, ASIAN and China. Therefore, the EU cannot ignore the steps that the USA has taken towards enlarging its trading and technological interests around the globe, particularly in Latin America.

The countries that constitute the MERCOSUL have responded to the USA´s "Initiative for the Americas" by proposing the creation of SAFTA-South American Free Trade Area- which, in its initial outline, is a trading zone without barriers composed of all South American countries. This new free trade zone aims at consolidating South American countries´ economic and political power so that they will have more bargaining power when negotiating with NAFTA. In this respect, MERCOSUL will profit from any concrete trade negotiation with the EU, since this would strengthen their negotiating position with the common market. MERCOSUL has few trade advantages with the EU when comparted to NAFTA markets.

These propositions of creating regional economic blocs, not yet well orchestrated, intend to promote more trade, ramping commercial preferences, and increase the international political and economic leverage of emerging nations with the developed commercial world. There has been some dispute among Latin American countries trying to establish their correct ranking in global trading relationships. For example, Argentina has clearly made an independent move towards NAFTA. Argentina has tried, by any means possible, to make an alliance with the USA, thus becoming part of NAFTA, regardless of MERCOSUL foreign policies towards NAFTA. So far, its efforts have been in vain; the USA has instead invited Chile to join NAFTA. It is interesting to note that, although Chile is not a member of the MERCOSUL, it has shown an increasing interest in joining this common market. It seems that Chile´s international trade policies reflect clearly our argument that MERCOSUL countries should consider joining NAFTA to gain stronger presence in international and EU markets, thus eventually gaining international competitive trade advantages.

These issues will be examined in our paper. It is irrelevant whether or not Brazil and MERCOSUL are labled "small global traders". The important point for these countries is that increasing ties with NAFTA´s economic, financial and commercial markets, as well as its technological development, should be part of the main strategy for MERCOSUL regional economic and political development. Trade with the EU could be a mere tactical step towards the globalization of the regional competitive opportunities. There are markets, such as China, Asia and Japan, and others, that Brazil's international trade policies should be targeted to explore eventually market niches. We will develop most of these issues in parts IV, V, and VI.

In this article, we raise some global and domestic questions about the trade options and opportunities that will face the Brazilian economy in the last years of this century. Should Brazil concentrate all its efforts on the development of the MERCOSUL, which is a new experience in "deep integration," or should it promote its economy as a "small global trader", without strong political and trade ties in the South American continent? Since Brazil is the major player in the MERCOSUL, it must influence its final decision as to whether this small community of developing countries should lead the creation of the SAFTA, a process of "shallow integration", aiming at a free trade zone in South America.

Should MERCOSUL try to establish a free trade agreement with the European Union, or should these Latin American countries negotiate only commercial agreements with Europe, even though their commercial advantages are very limited , given the commercial restrictions that the EU is imposing on foreign trade in the area? Should Brazil reverse the trend of its foreign policies to aid the USA in promoting the process of hemispheric integration including NAFTA? We can certainly argue that, until the beginning of this decade, Brazil did not give much importance to foreign trade as a crucial part of its development. Commerical barriers and domestic market protection from international competition were part of the government policy to isolate the country from the rest of the world. Can Brazil still promote social and economic development if it remains a nation isolated from global and regional markets? Is it possible to indicate which regional markets should be considered of long-term, and which of short-term importance to the country´s foreign trade policies? Our study intends to shed some light on these questions, a light that is greatly needed. Brazil´s present policies are ambiguous, although the country seems to see itself and to function as a "small global trader". We do not believe that Brazil has to confine its foreign policies to those of a small global trader, a peripheral country. On the contrary, the nation must face the new options and opportunities available to the traders in new global markets. It must be an actor in new political and trade alliances with regional markets that can promote, provide and sustain its social and economic development. Only if Brazil develops links with other markets can it receive the transfers of capital, technologies and management knowledge of large scale production that are necessary to respond to global markets´ demands for quality goods. We foresee that, if Brazil´s foreign policy makers do not implement policies which promote industrial development by tightening political and trade alliances within the Americas' hemisphere, global firms will have the economic and political power to stunt Brazil´s economic, and thus its social development.

II - NEW CHARACTERISTICS OF INTERNATIONAL TRADE

In the last few years, the international economy has undergone a deep transformation. An understanding of some of the characteristics of the current world order is necessary to successfully analyze the different policies which Brazil could pursue in entering the international arena. Some of them will be briefly presented showing which are the most stable opportunies for Brazilian foreign trade growth.

Change from a bipolar model to a multipolar model

The first new characteristic of the current global situation is the shift from a bipolar model to a multipolar model. The bipolar model that prevailed in previous decades, led by the United States and the Soviet Union, collapsed with the Berlin Wall. Another model is taking over: the multipolar model with the EU (European Union), USA, Japan, Russia and China leading the new world order. In the new economic order, the great powers - EU, USA and Japan- also compete to be the leader of the international trade.

The world, which used to be analyzed within a model of well defined polarities, now has to be assessed under a much more complex model, where the polarities are not yet defined (Lafer, 1994). The consequence for international trade has been that the USA lost its roles of leader and arbitrator, leaving room for commercial conflicts among the great powers.

Formation of Regional Trading Blocs

The second new characteriatic is that the ideal of multilateralism, which stood for the participation of all countries in the discussion of international issues, was also heavily damaged by the formation of three great regional blocs: the European Bloc with EU and EFTA, the North American Bloc with USA, Canada and Mexico, and the Asian Bloc with Japan, the NICs, the ASEAN and China.

These blocs have several forms of integration: the EU is a common market with free circulation of goods, people, services and capital, having common policies and supranational authorities; NAFTA is an area of free trade with free circulation of goods and services only, and the Asian Bloc is an area of united economic interests with coordinated investments, technology and export activities.

Since the formation of these blocs is very recent, it is still impossible to predict whether they will favor the growth of inter-bloc protectionism and liberalization of commerce inside blocs only or, conversely, adopt a strategy of free competition. With the conclusion of the Uruguay Round and the creation of the WTO - World Trade Organization, the hypothesis of open spaces seems to be more likely.

The figures that show the performance of these blocs are surprising. The European Bloc, the North American Bloc, and the Asian Bloc, including only 31 countries, account for the astonishing proportion of 85% of all exports world-wide, reaching an estimated US$3.8 trillion (GATT, 1994), and 48% of that is traded intra-bloc, i.e., inside each of the three great trading blocs.

Trade Under Preferential Agreements

The third new characteristic is that the ideal of liberalization of international commerce, with equal opportunities for all countries of the world, has been placed in jeopardy.

International trade has created privileged trading arrangements among regions, including preferential tariffs, generous import quotas, sector agreements and bilateral negotiations to settle commercial conflicts.

The EU created its preferential zone with EFTA countries, Central and Eastern Europe countries, Mediterranean countries and their former colonies in Africa, the Caribbean and the Pacific. The USA created a free trade zone with Canada and Mexico , keeping privileges with the Caribbean countries and Israel. Japan, the NICs, the ASEAN and, lately, China, have strong common interests in areas such as commerce, technology and investment. They also share the common objective of increasing their exports to the major world markets, i.e., EU and USA. MERCOSUL itself is another example of preferential commerce among members.

Data from the World Bank show that 50% of industrial goods are already internationally traded through preferential agreements between certain countries and zones (World Bank, 1992).

Trade Under Managed Sector Agreements

The fourth new characteristic is the birth of trade managed by sectors. Analysis of the External Trade Policy of the big leaders of the regional blocs shows that a considerable part of international trade is practiced under agreements made between enterprises or governments of the exporter and importer countries.

The export restraining agreements known as VRA - Voluntary Restraint Agreement are becaming more and more common in foreign trade. Recently, the USA started to negotiate the VIE - Voluntary Import Expansion, which are forced import agreements. Both are the results of excessive use of trading instruments that compel partners to keep their flow of trade at a certain level through managed agreements.

Such agreements reach important sectors: textiles, via the Multifiber Agreement due to expire in 10 years; steel, via the Multilateral Agreement on Steel that is presently being negotiated and the VRA on steel between EU and USA, now suspended; eletronic appliances via VRA on from the Asian Bloc to the EU and the USA; and the automobiles , via the VRA from Japan to the USA and EU.

Another kind of managed trade refers to bilateral sector agreements, such as the one on semiconductors and auto-parts between the USA and Japan. Besides restricting exports to the USA, it establishes a 20% import quota of American products by Japan, in a typical VIE.

GATT estimates that about 40% of international trade is done under these so-called "voluntary" agreements (GATT - Trade Policy Review, EC, USA, Japan).

Though forbidden by the World Trade Organization's new Agreement on Safeguards, nothing can prevent the direct negotiation of such agreements by trade associations of different countries, instead of the governments of these countries.

Globalization of the Economy

The fifth new characteristic represents one of the greatest changes in today's world: the globalization of the financial, investments, production and consumer markets. This creates another kind of international trade, the "intra-industry trade", i.e. among corporations and industries themselves. GATT estimates that intra-industry trade already accounts for 50% of the international trade between

European countries and the USA. In 1992 it amounted to 59% for the USA total trade (GATT, TPR-US, 1994).

The relevance of multinational corporations has been growing considerably. UNCTAD data show that the total revenue in 1992 for multinational corporations in industrial businesses amounted to US$4.5 trillion. It is estimated that multinational corporations already account for 50% of total international trade (UNCTAD 1993).

In short, the formation of regional blocs, the preferential trading among countries, the globalization of the economy and trade managed by sectors are the new characteristics of international trade. They define the international strategy of the major partners in world trade.

The options available to Brazil in choosing its Policy of International Trade should be analyzed in view of these new characteristics.

III - THE CURRENT SITUATION OF INTERNATIONAL TRADE

Before analyzing the options Brazil has in forming relationships with different international trade blocs, it is important to emphasize the role of each one of the main actors in trading activities.

The European Bloc, the North American Bloc and the Asian Bloc play important roles with respect to the formation of global markets, and MERCOSUL and SAFTA must be contrasted with them.

TABLE 1 - International Trade of Merchandise by Blocs and by Selected Countries - 1993 (billion)

	EXPORTS		IMPORTS	
	US$	**%**	**US$**	**%**
WORLD	**3,752**	**100**	**3,705**	**100**
EUROPEAN BLOC (EU+EFTA)	**1,539**	**41**	**1,535**	**41**
EUROPEAN BLOC (Extra 12)	**724**	**19**	**756**	**20**
. EU (TOTAL)	**1,336**	**36**	**1,343**	**36**
. EU (INTRA EU)	815	22	779	21
. EU (EXTRA EU)	521	14	564	15
. EFTA	**203**	**5**	**192**	**6**
NORTH AMERICAN BLOC	**640**	**17**	**790**	**21**
. USA	465	12	603	16
. CANADA	145	4	137	4
. MEXICO	30	1	50	1
ASIAN BLOC	**958**	**26**	**866**	**23**
. JAPAN	362	10	242	7
. CHINA	91	2	103	3
. NICs+ASEAN	505	13	521	14
SOUTH AMERICA	**92**	**2**	**89**	**2**
. MERCOSUL	**55**	**1**	**46**	**1**
EB+NAB+AB/TOTAL	**3,160**	**85**	**3,166**	**86**

SOURCE: IMF 1994

The European Bloc accounted for 41% of world exports, if intra-bloc exports (between the 12 member-nations) are counted, and for 19% if only exports outside the EU are considered. It also accounted for 41% of the imports if trade intra-EU is included and for 20% if trade extra-EU is excluded. The value of the intra-bloc trade was already 72% (see **Table 1**).

The North American Bloc accounted for 17% of world exports and 21% of world imports. It is important to point out that the American government's statement that NAFTA is the biggest exporter bloc in the world is not correct. In fact, since it is a free trade zone, NAFTA cannot be compared with the EU (14% of exports), but with the European Bloc, which is a quasi-common market between the EU and EFTA. NAFTA accounted for 17% of the world exports in 1993 and the European Bloc (EU + EFTA) accounted for 19% of exports. The value of NAFTA trade intra-bloc was 33% of its global exports.

The Asian Bloc accounted for 26% of world exports and 23% of world imports. The value of the trade intra-bloc was 41% of its global exports.

South America accounted for 2% of the world exports and 2% of world imports. MERCOSUL accounted for 1.4% of the world exports and 1.1% of world imports.

TABLE 2 - Intra-Blocs Exports - 1992

	Exports(%)
North American	33.4
European Bloc	71.9
Asian Bloc	40.5

SOURCE: GATT 1993 (developed by ISN -South-North Institute)

IV - BRAZIL'S RELATIONSHIPS WITH THE REGIONAL BLOCS

In order to analyze Brazil's performance in relation to the different regional blocs, it is necessary to take a look at its foreign trade over the last few years.

Data on exports were obtained through export licenses in the Data Bank of DTIC - Technical Department of External Trade of SECEX - Secretary of External Trade. Data on imports were obtained from the Internal Revenue through DTIC. Information was grouped by regional blocs to show the importance of the different groups as trading partners of Brazil.

The blocs were so defined:

European Bloc: EU and EFTA
North American Bloc: USA, Canada and Mexico
Asian Bloc : Japan, NICs, ASEAN, China
South America: South American countries
MERCOSUL: Brazil, Argentina, Uruguay and Paraguay
Rest of the world: all other countries

IV. 1 - BRAZIL'S EXPORTS

1. Evolution of Brazilian Exports

Brazilian exports grew from US$20.1 billion in 1980 to US$38.7 billion in 1993. This meant a 93% overall growth during this 12-year period; exports grew 95%. From 1991 to 1992 Brazilian exports grew by 13% and from 1992 to 1993 by 8%, compared to a global growth rate of only 4%. If Brazil's exports had followed the world exports' growth rate, they would have reached the US$40 billion level (Table 3).

Brazil's performance in 1992 and 1993 improved greatly compared to the previous situation of stagnation that existed in 1990 and 1991, when exports dropped from US$34.3 billion in 1989 to US$31.4 in 1990 and US$31.6 billion in 1991.

TABLE 3 - Brazil : Foreign Trade - (US$ million)

Year	Exports	Imports	Balance
80	20,132	22,936	-2,804
81	23,293	22,090	1,202
82	20,175	19,395	779
83	21,899	15,428	6,470
84	27,005	13,907	13,098
85	25,639	13,167	12,471
86	22,348	16,053	6,294
87	26,223	15,049	11,174
88	33,789	14,603	19,186
89	34,382	18,257	16,125
90	31,413	20,661	10,752
91	31,620	21,041	10,579
92	35,862	20,554	15,308
93	38,704	25,695	13,009

SOURCE: SECEX - Dada from March 94 (Developed by ISN)

2. Brazil's Exports by Blocs

In 1993, Brazil's most valued partner was the European Bloc, to which Brazil exported US$10.4 billion or 27% of its total exports. Within the European Bloc, the most important group was the EU with US$9.9 billion (Table 4).

The second most important partner was the North American Bloc to which Brazil exported US$9.3 billion or 24% of its total volume. The most important country was the United States which accounted for US$7.9 billion.

TABLE 4 - Brazil's Exports by Blocs (US$ billion)

	1980	1989	1990	1991	1992	1993
European Bloc	6.8	11.4	10.5	10.4	11.1	10.4
North American Bloc	4.2	9.6	8.6	7.5	8.5	9.3
Asian Bloc	1.6	5.3	5.0	5.4	5.3	5.8
South America	3.0	3.1	2.7	4.2	6.5	8.2
- MERCOSUL	1.8	1.4	1.3	2.3	4.5	5.4
Rest of the world	4.6	5.1	4.5	4.2	4.7	5.0
World	**20.1**	**34.4**	**31.4**	**31.6**	**35.9**	**38.7**

SOURCE : SECEX - Data from March 93 (Developed by ISN)

TABLE 5 - Brazil: Exports - Percentage per Blocs

	1980	1990	1991	1992	1993
European Bloc	33.8	33.6	32.8	30.8	26.8
North American Bloc	20.6	27.4	23.7	23.6	24.1
Asian Bloc	8.0	16.0	17.1	14.7	15.0
South America	14.8	8.6	13.2	18.1	21.1
- MERCOSUL	9.0	4.2	7.3	11.4	13.9
Rest of the world	22.7	14.5	13.2	12.8	13.0
World	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE : SECEX - Data from March 93 (Developed by ISN)

European Bloc

Looking at the distribution of Brazilian exports among regional blocs, we can see that , Brazil has increased its exports to European countries from US$ 6.8 billion in 1980 to US$ 10.4 billion in 1993 **(Table 4).** Its exports have shown steady growth. In 1993, within the European Bloc countries, Brazilian exports were divided as follows: Netherlands US $2.5 billion, Germany US$1.8 billion, Italy US$1.3 billion, Belgium-Luxembourg US$1.1 billion, France US$788 million, Spain US$675 million, Portugal US$270 million, Greece US$98 million, Ireland US$60 million and Denmark US$103 million. The six EFTA members bought US$502 million worth of the Brazilian exports.

North American Bloc

It is important to point out that Brazilian exports have been losing ground in the American market. In 1988, they were US$9.6 billion, but by 1992 they had dropped to US$ 7.5 billion, although they reached US$ 9.3 billion in 1993. Mexico, in contrast, has been growing in importance to the US. Its exports went from US$274 million in 1986 to US$1.1 billion in 1992 and US$995 million in 1993.

Asian Bloc

In 1993, Brazilian exports to the Asian Bloc were US$5.8 billion and growing. Among the Asian Bloc countries, Brazilian exports were divided as follows: South Korea , US$538 million, Taiwan, US$588 million, China , US$779 million, Thailand , US$289 million, Hong Kong , US$ 331 million, Malaysia , US$244 million, Singapore, US$267 million, the Philippines, US$205 million and Indonesia, US$256 million.

Latin America and MERCOSUL

Chile, Paraguay and Uruguay are the most important countries for Brazilian exports. In 1993, Brazil exported, US$1.1 billion to Chile, US$961 million to Paraguay and US$775 million to Uruguay, but the most significant foreign trade has been done with Argentina.
Brazili's most important foreign trade partner in South America is Argentina. In 1993, Brazil exports to Argentina were US$3.7 billion. This is remarkable when compared to 1990's exports of US$645 million . The potential value of Argentina's market for Brazilian exports is approximately US$8 billion. Therefore, the present volume of trade couild easily double by the year 2000. These figures are possible because of the creation of MERCOSUL. In 1980, Brazil's exports to this region were only US$1.8 billion, and almost 13 years later the exports have risen to US$5.4 billion. In South America, Brazilian exports grew 262% during the last 13 years: an annual growth of 9%. It is possible that by the year 2000, export values will be nearly to US$ 20 billion, which will represent a 10% rate of growth. This will be twice what the country presently exports to the European Bloc (**Table 4**).

The Rest of the World

Brazil exports to many other countries, but only several of these buy a significant amount of goods. In 1993, Saudi Arabia imported US$420 million from Brazil , Iran US$ 257 million, Nigeria US$239, Australia US$207 and Egypt US$175 million. These countries are the most important within this classification.

At the aggregate level, it is important to observe the evolution of Brazilian exports among the different regional blocs. It is also relevant to observe the distribution of these exports among different countries during the last 13 years, a period in which the existance of regional blocs was not as important it will be in the next century. It will be interesting to see how the development of regional blocs, with their systems of tariffs and quotas regulating imports , will affect

Brazil's exports. Their influence can already be seen in the changes in Brazil's exports during the last years (Table5).

Total Brazilian exports to the North American Bloc fell from 31% in 1984 to 24% in 1993. The percentage of total Brazilian exports bought by the European market varied from 26% in 1984, to 33% in 1990 , to 27% in 1993. Brazilian exports to the Asian Bloc went up from 8% in 1980 to 15% in 1993, representing an increase of 10% yearly.

South America went from 14.8% in 1980, to 18% in 1992 to 21% in 1993; and MERCOSUL went from 4% in 1985 to 11% in 1992 to 14% in 1993, with the same rate of trade growth as the Asian Bloc.

3. Brazilian Exports by Blocs and Value Added

One way of analyzing the level of value added to export products is through their classification into basic and industrialized products and dividing the industrialized products into semi-manufactured and manufactured.

Products so classified in the export list according to value added are:

Basic: iron, manganese and aluminum ore, raw coffee, tea, sugar, soy, soy meal citrus pulp, chilled or frozen meat, cashew-nuts, Brazil nuts, tobacco leaves, pepper, frozen lobster and fish, raw cocoa, precious stones, asbestos, raw cotton, carded ramie, granite, fresh and dried fruit.

Semi-manufactured : non-alloy iron and steel, raw iron, iron alloy, raw aluminum, wood pulp, sawn wood, tanned hide, soybean oil, cocoa butter, crystal sugar, raw tin, wool, cocoa paste, tanned fur and hide, seed extract.

Manufactured: electric machines and appliances, mechanich machines and appliances, engines, chemicals, footwear, auto parts, vehicles, transport, materials, steel products, paper, plastic, gasoline, apparel, textiles, yarn, tiles, plywood, aluminum, glass, furniture, precious stones, lamps, costume jewelry, integrated circuits, orange juice and other fruit juices, refined sugar, processed meat, cigarettes, freeze dried coffee, refined oil, candies, preserved vegetables fruits and plastic.

Brazilian Exports by Value Added

In 1992 , Brazil exported US$35.9 billion worth of goods, of which US$8.9 billion were in basic products and US$27.0 billion was in industrialized products. Of these, US$5.8 billion worth were semi-manufactured and US$21.2 billion worth were manufactured. Growth rate over the past 12 years was under 4% for basic products, compared to 137% for industrialized, 142% for semi-manufactured and 136% for manufactured products (**Table 6**).

TABLE 6 - Brazil: Exports by Value Added (US$ billion)

	Basic (a)	Semi-manuf. (b)	Manuf. (c)	Indust. (b+c)	Total
1980	8.6	2.4	9.0	11.4	**20.1**
1990	8.7	5.1	17.2	22.3	**31.4**
1992	8.9	5.8	21.2	27.0	**35.9**
Growth % (1980/92)	3.5	141.7	135.6	136.8	**78.6**

SOURCE: SECEX - Data from March 1994 (developed by ISN)

TABLE 7 - Brazil: Exports by Value Added (%)

	Basic (a)	Semi-manuf. (b)	Manuf. (c)	Indust. (b+c)	Total
1980	42.8	11.9	44.8	56.7	**100.0**
1990	27.7	16.2	54.8	71.0	**100.0**
1992	24.8	16.2	59.1	75.2	**100.0**

SOURCE: SECEX - Data from March 1994 (developed by ISN)

The destinations of Brazilian exports in 1992 by blocs and by value added were as follows:

Basic Products : 55% went to the European Bloc, 11% to the North American Bloc, 4% to South America, 3% to MERCOSUL, 18% to the Asian Bloc. The European Bloc's share was stable, the North American Bloc's fell and that of the Asian Block reached 20% in 1986. The European Bloc was the largest importer of basic products.

Industrialized Products: 23% went to the European Bloc, 28% to the North

American Bloc, 23% to South America, 14% to MERCOSUL, 14% to the Asian Bloc. The European Bloc's share reached 27% in 1990, but fell in 1992. The North American Bloc's share reached 38% in 1987 and also fell in 1992. So, the blocs' share in the industrialized products exports is balanced, but the North American Bloc is still the largest market of the Brazilian industrialized products.

Semi-Manufactured: 28% for the European Bloc, 17% for the North American Bloc, 6% for South America and 35% for the Asian Bloc. In 1986, Brazil exported 31% to the USA, but during recent years, the Asian countries have become the most promising market for Brazilian semi-manufactured goods .

Manufactured: 22% for the European Bloc, 31% for the North American Bloc, 27% for South America, 17% for MERCOSUL and 8% for the Asian Bloc. During the last decade ,there have been some changes in the manufactured goods exported by Brazil. In 1987, the country exported 40% of its manufactured goods to the North American Bloc, and this downward trend indicates that manufactured goods have lost some market share in North America. Moreover, the share of manufactured products exported by Brazil to MERCOSUL has increased greatly. In 1990 , the MERCOSUL markets imported 6% of the total manufactured products exported by Brazil, and two years later they imported 17%. In short, these data show that the largest market for the Brazilian manufactured products is still the North American Bloc, but that the MERCOSUL market is gaining importance

TABLE 8 - Brazil: Exports - Shared by blocs and by value added (%)

	Basic	Semi-manufactured	Manufactured Basic	Industrialized
European Bloc	55.2	28.3	21.6	23.0
North American Bloc	11.0	17.1	30.8	27.9
Asian Bloc	17.9	35.6	7.8	22.7
South America	4.3	6.3	27.2	14.3
- MERCOSUL	3.5	4.1	16.9	13.8
Rest of the world	11.6	12.6	12.6	12.6
World	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

4 - Brazil Exports by Blocs and Product Groups

Brazilian exports can also be divided into several large groups of products according to the NBM-SH (Brazilian Merchandise List - Harmonized System) classification.

Food/tobacco/beverages (I to IV in the NBM-SH): Products of animal origin: livestock, meat, fish, dairy produce, eggs; vegetable products: plants, vegetables, fruits, coffee, tea, cereals, starch, wheat, grains, seeds, gum; animal and vegetable fats and oils; food products, beverages and tobacco: processed meat, sugar, cocoa, flours, processed cereals, dough, fruits and vegetables preserves, alcoholic and non-alcoholic beverages, tobacco.

Mineral Products (V) : Salt, sulfur, gypsum, quicklime, cement, ore, fuel, mineral wax.

Chemical Products (VI): inorganic, organic, pharmaceuticals, fertilizers, paints, essential oils, soaps, waxes, glues, gunpowder, photographic products.

Plastic and Rubber (VII).

Footwear and leather (VIII and XII): Footwear, hats, umbrellas, fur and leather goods.

Wood and coal (IX): wood, cork and wood craft

Paper and cellulose (X): paper and printing

Textile (XI): yarn, fabric and apparel

Non-metal minerals and precious metals (XIII and XIV): Stone crafts, tile and glass; pearls, precious stones, precious metals.

Common metals (XV): Iron and steel, copper, nickel, aluminum, lead, zinc, tin, tools.

Electric machinery and equipment (XVI).

Transport material (XVII): transport vehicles, automobiles, tractors, aircraft, boats.

Instruments (XVIII): optical, photographic, measurement and control instruments.

`*Others* (XIX to XXI): Arms and ammunition, various merchandise: furniture, lamps, toys, sporting goods; art objects.

Exports to each bloc were broken down according to the composition of the export list , thus showing what sort of products each bloc imports from Brazil.

The value of Brazilian exports to the European Bloc was US$11.2 billion. The most important products were food, tobacco and beverages, followed by minerals and common metals (the ones used for making steel and aluminum). The export list is mostly composed of products with little value added.

The value of the Brazilian exports to the North American Bloc was US $8.5 billion. The most important products were: machinery and equipment, food, tobacco and beverages, and footwear, followed by common metals (the ones used for making steel and aluminum) and transport materials (automobiles). The list is diversified and composed mostly of higher value added products, which means better market value and profit margins. These sorts of trade advantages are found only in the North American markets.

The value of the Brazilian exports to the Asian Bloc was US$5.3 billion. The most important products were: common metals (iron, steel, aluminum), minerals (ore), and food (meat, soy complex, coffee). The list consists mostly of low value added products.

The value of the exports to South America was US$6.5 billion. The most relevant products were: machinery and equipment, transport materials (vehicles) and common metals such as steel, iron and aluminum.

The same distribution occurs in the exports to MERCOSUL that bought US$4.1 billion worth of Brazilian products. The list is diversified but with greater concentration of higher value added products.

The value of the exports to the Rest of the World was US$4.7 billion. The most important products were: food (meat, sugar, cocoa) and common metals (those used for making steel and aluminum). The list consists mostly of low value added products.

TABLE 9 - Brazil: Exports to the European Bloc - 1992

Products	US$ million	%
Food/Tobacco/Beverages	4,821	43.2
Minerals	1,214	10.9
Chemicals	484	4.3
Plastic/Rubber	147	1.3
Footwear/leather	516	4.6
Wood	276	2.5
Paper	570	5.1
Textiles	435	3.9
Non-met.minerals/Precious metals	161	1.4
Common metals	1,170	10.5
Machinery/equipment	739	6.6
Transport material	503	4.5
Instruments	37	.3
Others	90	.8
Total	**11,162**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISn)

TABLE 10 - Brazil: Exports to the North American Bloc - 1992

Products	US$ million	%
Food/Tobacco/Beverages	1,622	19.1
Minerals	415	4.9
Chemicals	380	4.5
Plastic/Rubber	210	2.5
Footwear/leather	1,161	13.6
Wood	134	1.6
Paper	229	2.7
Textiles	426	5.0
Non-met.minerals/Precious metals	135	1.6
Common metals	1,046	12.3
Machinery/equipment	1,631	19.2
Transport material	937	11.0
Instruments	88	1.0
Others	100	1.2
Total	**8,514**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 11 - Brazil: Exports to the Asian Bloc- 1992

Products	US$ million	%
Food/Tobacco/Beverages	871	16/4
Minerals	934	17.6
Chemicals	268	5.0
Plastic/Rubber	74	1.4
Footwear/leather	97	1.8
Wood	6	.1
Paper	193	3.6
Textiles	140	2.6
Non-met.minerals/Precious metals	37	.7
Common metals	2,347	44.2
Machinery/equipment	174	3.3
Transport material	164	3.1
Instruments	8	3.1
Others	2	.0
Total	**5,314**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 12 - Brazil: Exports to South America - 1992

Products	US$ million	%
Food/Tobacco/Beverages	514	7.9
Minerals	197	3.0
Chemicals	513	7.9
Plastic/Rubber	451	6.9
Footwear/leather	84	1.3
Wood	34	.5
Paper	264	4.1
Textiles	397	6.1
Non-met.minerals/Precious metals	122	1.9
Common metals	999	15.3
Machinery/equipment	1,184	18.2
Transport material	1,627	25.0
Instruments	57	.9
Others	75	1.1
Total	**6,517**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 13 - Brazil: Exports to MERCOSUL - 1992

Products	US$ million	%
Food/Tobacco/Beverages	412	10.0
Minerals	149	3.6
Chemicals	335	8.1
Plastic/Rubber	305	7.4
Footwear/leather	37	.9
Wood	25	.6
Paper	174	4.2
Textiles	247	6.0
Non-met.minerals/Precious metals	68	1.6
Common metals	513	12.4
Machinery/equipment	707	17.1
Transport material	1,076	26.1
Instruments	28	.7
Others	52	1.3
Total	**4,128**	**100.0**

SOURCE: SECEX - Data frome 1993 (Developed by ISN)

TABLE 14 - Brazil: Exports to the Rest of the World 1992

Products	US$ million	%
Food/Tobacco/Beverages	1,580	33.6
Minerals	478	10.2
Chemicals	130	2.8
Plastic/Rubber	190	4.0
Footwear/leather	61	1.3
Wood	128	2.7
Paper	242	5.2
Textiles	93	2.0
Non-met.minerals/Precious metals	72	1.5
Common metals	733	15.6
Machinery/equipment	296	6.3
Transport material	225	4.8
Instruments	15	.3
Others	458	9.7
Total	**4,700**	**100.0**

SOURCE: SECEX - Data from 1993 (Developed by ISN)

5. Brazil's Exports by States

São Paulo State represents 34% of Brazil's GNP (US$ 470 billion) and 23% of the total population in the country (145million). It also has an impressive amount of exports: US$ 13 billion which is equivalent to 36% of Brazil's total exports in 1992. The São Paulo State's industrial production represents 42% of the country's total production . Its infant mortality rate, which shows the effectiveness of public health care policy, is decreasing. During the period from 1970-1975, the infant mortality rate in the State of São Paulo was 86 per 1,000 born alive. This rate dropped to 26 per 1,000 born alive in 1993 , while the rest of the country still showed a higher level of 61 per 1,000 born alive. The level of energy consumption per capita is higher than that in many other countries, such as Portugal, Argentina, Israel and Republic of Korea. The State of São Paulo energy consumption per capita was 1.7 kg of oil equivalent, in 1993. This amount is almost the double of the country's per capita energy consumption .

In the past, the State of São Paulo was by far the most important exporter state. Nowadays, other states , such as Rio Grande do Sul, Minas Gerais and Espirito Santo are increasing their exports (**Table 15**).

Global exports grew 91.5% during 1980-92. Brazil's exports have not increased to the same extent, growing only 80% during this period . São Paulo State's lower growth rate of 67.5% compares unfavorably to the rate of other States such as Rio Grande do Sul, Santa Catarina and Minas Gerais. These data clearly show that other regions in the country are challenging São Paulo's export leadership (**Table 16**).

The distribution of the destinations of exported goods differed between goods coming from São Paulo and those coming from Brazil as a whole. In 1992, Brazilian and São Paulo Satate exports were distributed as follows:

Regional Bloc	Brazil	São Paulo
European	31%	25%
North American	23	28
Asian	15	8
MERCOSUL	11	16
South America	18	27

This table shows that Brazil's most important importers are the European and the North American Blocs, while São Paulo State's significant importers are South America, North America, and then, the European countries. There are some other relevant differences between São Paulo and Brazil which are related to the contents of technological exports . This issue will be discussed in section 6.

TABLE 15 -Brazil: Exports by States and Regions- US$ billion

	1980	1985	1990	1992
World	**2 031.0**	**1 963.0**	**3 487.0**	**3 731.0**
Brazil	**20.1**	**25.6**	**31.4**	**36.2**
São Paulo	8.0	8.6	11.4	13.4
Rio G. do Sul	2.1	2.7	3.4	4.4
Santa Catarina	.9	1.0	1.5	1.8
Parana	2.0	1.8	1.9	2.1
Rio de Janeiro	1.2	1.7	1.5	1.9
Espirito Santo	.0	1.0	1.4	1.7
Minas Gerais	2.1	3.0	4.6	4.8
Regions				
South	4.9	5.5	8.8	8.3
South-East	12.2	14.2	18.8	21.8
North-East	2.3	2.5	3.0	3.0
North	.6	.5	1.8	1.8
West-Central	.1	.2	.6	.7

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

**TABLE 16 - Brazil: Exports by States and Regions
Rate of Growth (%)- 1980-1992**

World	**91.5**
Brazil	**80.1**
São Paulo	67.5
Rio Grande do Sul	109.5
Santa Catarina	100.0
Paraná	5.0
Rio de Janeiro	58.3
Espírito Santo	88.0
Minas Gerais	128.6
Regions	
South	69.4
South-East	78.7
North-East	30.4
North	200.0
West- Central	600.0

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

6. Brazil's Exports by Technological Content

UNCTAD has developed a classification for products according to their technological content as follows:

High Technology Content: airspace, computers, electronics, pharmaceuticals, precision instruments, electric and mechanic machines, fine chemistry, precision mechanics, automobiles.

Medium Technology Content: chemistry ,rubber, plastic, paper and cellulose.

Low Technology Content: Non-metal minerals, foods, beverages, tobacco, oil refining, metallurgy, metal products, editing and printing, wood and furniture, textile, footwear and leather.

TABLE 17 - Brazil and São Paulo: Exports by Technological Contents (Average 1991-1992) %

	Brazil	São Paulo
Low	67,8	47,7
Average	11,9	14,5
High	20,3	37,8

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

In 1992, according to the UNTAD technological classification, Brazil's exports consisted mostly of low technology content products, which accounted for 68% of its total exports. The majority of exports from São Paulo consist of medium or higher technology products: airplanes,automobiles,machinery and equipment, chemicals, plastics and electronics. The majority of Brazil's exports are such low technology products as: foods and beverages, minerals, textiles, shoes and metallurgic materials.

IV.2 - BRAZIL'S IMPORTS

Brazilian imports amounted to US $23 billion in 1980 and US$25.7 billion in 1993 , which represents an 11% increase in nominal terms, or a little less than a 1% rate of annual growth . Imports of rose US$20 billion in the early '80s, fell to US$15 billion from 1983 to 1988 and rose again in 1989. These figures reveal that although the Brazilian economic policies for growth and development pretended to open the economy, it has actually remained extremely closed . The Imports share of importsin the GNP fell from 9% in 1989 to 5% in 1993.

1. Brazil's Imports by Blocs

Brazil's most important imports during the last decade were from the European and the North American blocs, which each contributed 27% or US$6.9 billion worth of the imports in 1993. Within the North American Bloc ,the most important partner was the United States with US$6.0 billion in 1993, which shows how unimportant the other members of the bloc are for Brazilian exports. From the European Bloc , Brazil imported almost the same amount as it had from the North American Bloc, In 1989, Brazil imported US$ 4,8 billion which represented 26% of the country's total imports. Germany provided the largest amount of imported goods , at US$2.3 billion, followed by Italy with US$1.0 billion , and then France with US$690 million.

The third important regional bloc for Brazilian imports was South America with US$4.4 billion followed by the "Rest of the World", with US$4.6 billion in 1993. The imports from the "Rest of the World", the Middle East, fulfilled a great portion of Brazilian oil demands.

TABLE 18 - Brazil: Imports by Bloc of Origin (US$ billion)

	1989	1990	1991	1992	1993
European Bloc	4.8	5.3	5.7	5.5	6.9
North American Bloc	4.5	5.0	5.7	5.7	6.9
Asian Bloc	1.6	1.7	1.8	1.7	2.9
South America	3.1	3.4	3.5	3.3	4.4
- MERCOSUL	2.2	2.3	2.3	2.2	3.3
Rest of the world	4.2	5.3	4.5	4.4	4.6
World	**18.3**	**20.7**	**21.0**	**20.6**	**25.7**

SOURCE: SECEX - Data from March 1994 (Developed by ISN)

TABLE 19 - Brazil: Imports by Blocs (%)

	1989	1990	1991	1992	1993
European bloc	26.2	25.6	26.8	26.7	26.7
North American Bloc	24.8	24.2	26.9	27.7	26.9
Asian Bloc	8.8	8.3	8.6	8.3	11.3
South America	17.2	16.3	16.5	16.0	17.0
- MERCOSUL	12.0	11.2	10.8	10.7	13.0
Rest of the world	23.1	25.7	21.2	21.4	18.1
World	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: SECEX - Data from March 1994 (Developed by ISN)

2. Brazil Imports by Blocs and Products

The value of the Brazilian imports from the European and the North American Blocs were significant and quite well balanced during 1983-1993 (Table 18) . European imports, which amounted to US$ 5,7 billion, machinery and equipment accounted for 31% of the total and chemicals about 24%.
The imports from the North American countries totalled US$ 5.6 billion. The most relevant products were machinery and equipment, which represented 31%, chemicals at 17% and minerals at 14%.
In 1991, the imports from Asian Bloc were US$1,8 billion. The product distribution was similar to North America's, and the most important products were machinery and equipment: 52%.
Finally, the imports from the South America Bloc represented US$ 3.5 billion, and food/tobacco/beverages (36%) and minerals (22%) were the most important product purchased. The MERCOSUL countries, representing 65% of Brazilian imports from the South American Bloc, sold the the country US$ 2,3 billion of goods, mainly food/tobacco/beverages and textiles.
In 1991, imports from the Rest of the World were US$4.5 billion worth. Minerals, principally oil and its sub products ,accounted for 80% .

TABLE 20 - Brazil: Imports from the European Bloc - 1991

Products	US$ million	%
Food/Tobacco/Beverages	612	10.8
Minerals	104	1.8
Chemicals	1,337	23.7
Plastic/Rubber	215	3.8
Footwear/leather	35	.6
Wood	5	.1
Paper	145	2.6
Textiles	110	2.0
Non-met.minerals/Precious metals	75	1.3
Common metals	335	5.9
Machinery/equipment	1,990	35.2
Transport material	359	6.4
Instruments	299	5.3
Others	31	.5
Total	**5,650**	**100.0**

Source: Secex - Data from March 1993 (Developed by ISN)

TABLE 21 - Brazil: Imports from the North American Bloc - 1991

Products	US$ million	%
Food/Tobacco/Beverages	457	8.5
Minerals	792	14.0
Chemicals	948	16.8
Plastic/Rubber	306	5.4
Footwear/leather	16	.3
Wood	1	0.0
Paper	206	3.7
Textiles	81	1.4
Non-met.minerals/Precious metals	65	1.2
Common metals	204	3.6
Machinery/equipment	1,763	31.2
Transport material	395	7.0
Instruments	381	6.7
Others	15	.3
Total	**5,653**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 22 - Brazil: Imports from the Asian Bloc-1991

Products	US$ million	%
Food/Tobacco/Beverages	69	3.8
Minerals	103	5.7
Chemicals	122	6.7
Plastic/Rubber	116	6.4
Footwear/leather	29	1.6
Wood	1	.0
Paper/cellulose	9	.5
Textiles	56	3.1
Non-met.minerals/Precious metals	17	.9
Common metals	83	4.6
Machinery/equipment	940	51.9
Transport material	80	4.4
Instruments	170	9.4
Others	17	.9
Total	**1,812**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 23 - Brazil: Imports from South America - 1991

Products	US$ million		%	
	South Am.	MERCOSUL	South Am.	MERCOSUL
Food/Tobacco/Beverages	1,259	1,153	36.3	50.8
Minerals	771	61	22.3	2.7
Chemicals	247	193	7.1	8.5
Plastic/Rubber	98	78	2.8	3.4
Footwear/leather	143	139	4.1	6.1
Wood	23	22	.7	1.1
Paper/cellulose	73	24	2.1	1.1
Textiles	278	249	8.0	11.0
Nonmetal. Min./Precious met.	35	17	1.0	.7
Common metals	240	49	6.9	2.2
Machinery/equipment	168	156	4.8	6.9
Transport Material	111	111	3.2	4.9
Instruments	11	9	.3	.4
Others	8	8	.2	.3
Total	**3,464**	**2,268**	**100.0**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

TABLE 24 - Brazil: Imports from the Rest of the World - 1991

Products	US$ million	%
Food/Tobacco/Beverages	189	4.2
Minerals	3,547	79.5
Chemicals	392	8.8
Plastic/Rubber	5	.1
Footwear/leather	21	.5
Wood	1	0.0
Paper	13	.3
Textiles	45	1.0
Non-met.minerals/Precious metals	2	.1
Common metals	46	1.0
Machinery/equipment	110	2.5
Transport material	50	1.1
Instruments	37	.8
Others	3	.1
Total	**4,462**	**100.0**

SOURCE: SECEX - Data from June 1993 (Developed by ISN)

IV.3 - CONCLUDING REMARKS

From the data that were presented and analysed here, one may draw some conclusions about the nature of past Brazilian import-exports activities that should not repeated in the future. If they are, the country will not be able to overcome the bottleneck related to its structural backwardness: socially unfair income distribution, lack of firm commitment to improve its international competitiveness, insufficient supply of goods and services , a shortage of the capital, technology and management knowledge necessary to implement large scale of production. Brazil's past international trade activities do not necessarily indicate the path it should choose in order to increase its international competitiveness, as well as its stable and sustained economic growth and development.

In respect to Brazilian exports, the most important partners have been the European Bloc, the North American Bloc and South America. The North American Bloc's share in the Brazilian exports has been stable, while the European Bloc's has decreased and South America's has increased significantly since of the creation of the MERCOSUL. Regardless of the stability of demand or the size the export share that a particular economic bloc has, the most important aspect to be considered is the nature of the products being demanded. This demand will determine the country's comparative international competitiveness related to its foreign trade policies. The decision to open a country's economy to international market competition is not a simply question of political desire: it deals with the country's market share competitiveness based on products with high technological contents (value added).

Brazilian exports to Europe consisted mainly of low technology products such as farm products (43%) and minerals and ore (11%). In contrast to products bought by Europe, Brazilian exports to North American Bloc were composed of higher value added products (high technology content) such as machinery and equipment (19%), transport materials (11%), metals (12%) and manufactured foods (19%). Exports to South American countries also consisted of technologically advanced produsts, such as transport material (25%), machinery and equipment (18%) and metals (15%).

Given our initial premise about foreign trade policies, that on efficient opening economy should concentrate on increasing its international market share of high technology products, Brazil's best opportuniies seem to be in the North American Bloc.The North American and the European Blocs are important and stable suppliers for Brazilian import market, but South America's market share is increasing. The products that have been imported from these countries are mostly machinery, equipment and transport materials.

V. CURRENT POLICY TOWARDS INTERNATIONAL TRADE

The Brazilian decision to open its economy has not been an even and continuous process. For many years, a vague desire to open the Brazilian economy existed among some policy makers and politicians, but almost no effective policies supporting these ideals were implemented. However, during the last decade, starting in l987, various political decisions were taken which made the process of opening the Brazilian economy irreversible.

Brazilian foreign trade policy has been a consequence of other economic measures taken to meet the priorities of the moment, such as generating foreign currency reserves by reducing imports, or sustaining high levels of exports through a variety of aggressive strategies.

During the import substitution phase, government policy consisted of banning the entry of foreign products to help the development of domestic industry. There was strict control over imports and high tariff barriers to protect local interests, as well as a strong system of supporting exports through means of subsidies and other financing aids.

During the 80's , when the foreign debt crisis occured, Brazil adopted rigid policies in order to generate foreign currency reserves at any cost. This translated into support for exports and strict limits on imports in order to improve Brazil's balance of payments - current account.

Brazil started opening its economy in 1991, when several measures were implemented to increase the country's competitiviness. External tariffs were reduced from an average of 50% to 20% from 1991 to 1994. A list of particular product , subject to lower trade tariffs, will be introduced which will lower the average tariff rate from 25% to an average of 10% in 1998. Since Brazil is the most important commercial partner of the South American countries, all these procedures were also aimed at making the MERCOSUL a feasible common market after the year of its inauguration, 1995.

The Objective of the Current Trade Policy

The current Brazilian external trade policy aims at increasing the efficiency of the production and marketing of goods and services by integrating the country into the international economy . This will be accomplished by giving foreign markets ,both importers and exporters, easier access to Brazilian products and markets (Report of the Government of Brazil in GATT, TPR- Brazil, Vol. II, p.199, 1992).

Brazil gave high priority to a successful conclusion of the GATT Uruguay Round with important agreements the reduction of existing protection, especially in areas of interest to developing countries.

Under the New Industrial Policy and External Trade Policy announced in 1990, the government has set the objective of liberalizing imports through reducing tariff protection and eliminating non-tariff measures,The objective is to gradually expose the domestic economy to international competition.

Government support for exports tries to increase the value added of exports, and to identify new markets through exports financing, simplification of export procedures, modernization of infra-structure and review of tariffs.

The main changes were the following:

- reformulation of the foreign exchange regime which now floats freely in the interbank market,
- review of the protectionist scheme, by increasing the exposure of Brazilian products to international competition, and letting tariffs be the main instrument of protection,
- reformulation of the exports' promotion policy by significant elimination of fiscal incentives,
- increased transparency and efficiency of the decision making process related to the External Trade Policy through a far-reaching reform of government institutions and simplification of norms and procedures.

Structural reforms aiming at stabilizing inflation were implemented and, at the same time, the external debt was renegotiated . The External Trade Policy plays an important role in this effort as it increases competition and lowers domestic prices. Liberalization aims at cutting investment costs and strengthening exports' competitivity through easier access to more efficient inputs.

In the agricultural sector, the old model of self-sufficiency and exporting surplus was replaced with a new model that stressed increased international competitivity, improved quality and quantity of domestic supply and better control and defense of the environment.

In the industrial sector, the objective is to increase competitivity through special programs such as the Program of Industrial Competitiveness.This program helps to increase modernization through measures such as tax and fees exemption for the acquisition of machinery and equipment, and accelerated depreciation and deregulation of ports.

The computer sector was opened to international competition by eliminating non-tariff restrictions. The sector's policy includes: reduction of the protection to products under market reserve; openness to foreign technology; adoption of a tariff policy in the area of components, and a plan for developing of the sector that sets the main targets to be pursued.

Brazil is an important actor in the multilateral negotiations at GATT and it backs the strengthening of the multilateral system and liberalization of international trade. Brazil's main objective at the Uruguay Round was the reduction of barriers and easier access to markets, especially reducting protection to the agricultural sector of developed countries which impairs exports in this sector.

Basic Points of the Current International Policy

The most important points of the current policy on Brazil's entry into the international economy are the support of multilateralism and consolidation of MERCOSUL.

Brazil has always been a supporter of multilateralism , with the participation of all countries in international negotiations, especially in the commercial area. Moreover, it has always been interested in strengthening GATT so that it can better function as the regulator body of international trade, and the manager of conflicts between developed and developing countries.

In compliance with GATT's principles, Brazil defends trade liberalization which is best accomplished by freely opening markets to all countries and by deregulating trade, which is now restrained by countless preferential agreements and sector arrangements that exists mainly among the most developed countries. In GATT's jargon, Brazil defends the principles of the most favored nation that establishes non-discrimination among nations. According to that principle and in view of Brazil's exports which reach a great variety of markets, Brazil has adopted the policy of defending its condition of "global trader", i.e., a country that trades with all other countries in the world and has no interests in making special agreements or getting closer to any one of the great blocs being created.

Having seen the obvious sucess of the trade blocs formed in the late '80s and early '90s, Brazil started to create its own trading bloc, MERCOSUL, in partnership with Argentina, at first, and later with Uruguay and Paraguay. In 1993, Brazil launched the idea of a free trade zone with its South American partners, SAFTA, based on MERCOSUL itself.

At this point, supporting multilateralism and consolidating MERCOSUL are the essence of the official policy to introduce Brazil into the international economy.

VI - INTERNATIONAL TRADE OPPORTUNITIES OPEN TO BRAZIL

Analysis of Brazil's options in its External Trade and International Policy should include new elements in addition to the well known requirements of support to export activities and protection against unfair imports derived from opening the market.

As a matter of fact, analysis of international relations shows that it is not enough to have a good export strategy to gain the world market because international business scene has already created its own model: production has been globalized, the world has been divided in trading blocs, a network of preferential agreements has been created among countries, in addition to managed trade between industrial sectors.

In view of the new international picture, Brazil has to re-examine its true interests, keeping in mind four major options:

- To continue the policy that Brazil is a "small global trader" that must be kept equidistant from the three existing large regional blocs and concentrate its strategy on the formation of the common market, MERCOSUL.

- To enlarge the integration process in South America, creating SAFTA - South American Free Trade Zone, a free trade area based in the reform of ALADI - Latin American Association of Development and Integration.

- To explore the opportunity proposed by the European Union and start negotiations towards a new economic agreement that can, in the future, be transformed into a free trade zone agreement.

- To adopt a new policy derived from a deep analysis of the costs and benefits of different integration, that of Brazil leading MERCOSUL towards a hemispherical agreement covering the whole of America in a free trade area.

One important step is to point out the interests of the major regional blocs in relation to Brazil and the Brazilian interests in relation to those regional blocs. The costs of such a policy would certainly be high, since it would require a complete adaptation of all Brazilian institutions and corporations to the new context.

VI.1 - THE INTERESTS OF THE REGIONAL BLOCS IN BRAZIL

According to their international trade activities the main regional blocs are the European Bloc, the North American Bloc and the Asian Bloc. Currently their interests and priorities can be summarized as:

European Bloc

In the late '80s Brazil and South America imagined that the EU, leader of the European Bloc, would radically change its position towards to the region due to the entry of Portugal and Spain into the EEC.

However, apart from new cooperation agreements covering several political matters, negotiations between the EU and Brazil on two essential subjects, opening markets and increasing new flows of investments and financing, have hardly moved forward.

Brazil's only privilege is the GSP - General System of Preference, but it is running the risk of having some of its products excluded from the new program since they are about to reach the upper limits of market shares.

The volume of resources for financing and supporting South America has grown, but these resources were sent to the least developed countries in the region.

As to the foreign debt, in the late 80's the EU Commission tried to politicize the issue, but it was told by the state members that this subject would be the prerogative of individual governments rather than a Community issue. As European banks followed the leadership of American banks, the biggest creditors, nothing was achieved.

After 1986, the EU reappeared in the international scene as a great economic power due to its Internal Market, which allowed the free circulation of people, merchandise, services and capital. Its role in the world became increasingly important, not only because of the dimensions of its market, but also because of the possibility of new agreements for commercial cooperation, investments and technology.

The EU now faces novel challenges:

- Firstly, to increase the integration establishing the political and monetary unity negotiated in Maastricht in 1992 which went through a difficult process of ratification by local parliaments or national referenda. Monetary unity is under dispute after the crises of 1992 and 1993 which led to the change of the floating exchange rate from 2.25% and 6.0% to 15%. The United Kingdom and Denmark have already negotiated the option to stay out of the system of monetary unity due to go into effect in 1997. It is quite impossible that different European countries could possibly adjust their economies to complete European monetary integration. There are different ideas on how the EU integration should work out. Germany, UK and France see EU monetary, economic and political integration accruening at different rates. These country understand that it is possible to integrate countries which have similar levels of economic and industrial development, income distribution, wage levels and labor institutions, but even so, these countries do not foresee monetary integration. The EU is facing a difficult dilemma as to whether it should impose " deep integration" and consolidate where possible or to move towards adopting new members into the community.

- The second challenge is to broaden the Union with the introduction of new members such as Austria, Sweden and Finland beginning in 1995. In addition to these, the Central European countries and Malta, Cyprus and Turkey are "standing in line", since they see membership in the EU as ensuring economic and political stability.

- The third challenge is the construction of a Defense and Security Policy to protect against serious problems such as mass immigration, drug traffic and organized crime, as well as threats such as terrorism, political fanaticism resulting from the growth of the conservative right, and religious fanaticism originating from the growing Islamic fundamentalism inside and outside their borders. Another potential source of danger is the renewal of old ethnic rivalries that undermine the concept of nation state on which the whole construction of Europe is based.

As to the External Trade Policy, the EU has established a complete system of commercial preferences and economic concessions which is aimed at creating an enlarged economic bloc under its influence. The privileged countries are:

- Central and Eastern Europe countries, with whom, through the European Agreements, the EU has created a long-term zone of free trade, which is not reciprocal at the moment, including farm products, textiles and steelworks.

- The Mediterranean countries that also want a zone of free trade with the EU, in addition to the cooperation agreements they already have, and an augmention of the current trade on farm products and textiles.

- Africa, Caribbean and Pacific countries, former European colonies, that have special arrangements with the EU through the Lomé Agreements of commercial, economic and financial cooperation. Their trade is also concentrated on farm products, textiles and minerals.

It is important to point out that the EU has been demonstrating new interests towards the MERCOSUL initiative. The political will to negotiate tighter links with MERCOSUL already exists, since this common market represents the second effective experience of " deep integration" as the EU intends to consolidate. This political commitment is clearly demonstrated in the Joint Declaration between the Council of the EU and MERCOSUL, signed in December 1994. But it is important to emphasize that the EU only showed some interest towards Latin American countries after it learned about of the USA's new strategy in the region. In fact, the EU is afraid of losing access to this region, which is an important market for its more value added products.

However it is more relevant to analyze how the new EU association and commercial cooperation agreements with its privileged trading partners could affect Brazilian and MERCOSUL exports to the EU, since they are preferential zones while Brazil is not. At the moment, the principal products of interest to Brazil, food and agricultural products, will stay out of the negotiations.

Brazil cannot have false illusions about its current situation. The EU priorities are concentrated on Europe and Africa. Data on exports from the EU to South America (3%) and on imports by the EU from South America (5%) speak for themselves. In short, EU interests in South America will be very difficult to establish and very complex to negotiate.

This analysis reveals that the Brazilian products exported to the EU are classified as being low value added, and will certainly suffer commercial restraints from the European community in the near future. This indicates that Brazil's foreign policies should not rely on access to EU markets to ensure international prosperity and domestic absorption of foreign capital, technologies , direct investments, and the industrial management expertise necessary for large scale of production. The negotiation between MERCOSUL and the EU will be difficult. Both partners have their own agendas and individual needs, yet at the same time they depend on each other to promote their mutual economic growth and social prosperity. However, MERCOSUL members face an additional challenge, they must simultaneously restructure their economies so that their countries can develop and prosper.

Asian Bloc

The interests of Japan and the Asian Bloc in Brazil are also marginal. In the '70s Japan had a certain interest in Brazil as it seemed to complement Japan's shortage of natural resources. But since the crisis in the '80s Japan's interest has declined. At the moment, one of the most noticeable characteristics of the Asian Bloc is the solidarity that marks its international performance. Investment decisions and export operations coordinated by the Japanese government and trade associations are common.

Japan's actions in the NICs and, lately, the actions of both of them in the ASEAN member countries and in China, show that the investment decisions in that area have already been made. The decision is to build a production bloc and create a regional bloc of common interests to jointly face the European Bloc and the North American Bloc.

Another important piece of information is that intra-bloc trade is growing. This shows the strength of the commercial interests in the region. Japan and the NICs supply the other members with investments and technology while ASEAN and China supply the former with raw material and cheap labor.

So, even though the Asian Bloc is a growing market, Brazil will have to face competitors from all over the world who are trying to get a share in that distant market, whose cultural habits are very different from the west's.

The North American Bloc

Over the last years, the USA foreign policies have been developed along three different paths:

At the internal level its trade policy is characterized by a selective protectionism, reaction to pressures from the least competitive industrial sectors, combined with a recessive economic environment. The sectors protected are: automobile, electronic, computer, steelwork and textile. Another characteristic is the unilateralism against any action considered unfair to USA trade. This immediate retaliation is in disagreement with GATT's principles. There is strong protectionism in the agricultural sector, both in production and foreign trade.

At the regional level, the USA leads the formation of the North American Bloc, which is trying to create a free trade zone through NAFTA, and is now leading effort for the creation of a hemispherical integration.

At the multilateral level, the USA was the greatest supporters of GATT's Uruguay Round, defending multilateralism and trade liberalization, and introducing new issues in the GATT system: agriculture, textiles, services, intellectual property and investments.

In short, what the USA defends in multilateral speech is not exactly what it actually practices.

The original proposal to create the Bloc of the Americas, formalized in the "Initiative of the Americas" in 1990, and reaffirmed in the Miami Summit, involves three basic elements: trade in goods and services, investments and intellectual property rights.

The underlying reasons for the proposal were based on an evaluation that the USA must strenghten its international position, using this new Bloc of the Americas to confront the European Bloc and its preferential partners in Central Europe and Africa, Japan and the Asian Bloc.

In addition, the USA has several other reasons for being intersted in closer integration with Latin America. Such interests are linked to the following issues:

- The rise of new worldwide leaderships

The USA already acknowledges that it no longer holds hegemony in the world. When it was the superpower in the bipolar model,it found the defense of multilateralism and trade liberalization to be the most interesting strategy. But the USA has lost world trade leadership to the EU in both imports and exports. It has also lost leadership in the technology of several products to Japan. The USA has changed from the leading foreign investor into an international and internal debtor with a considerable trade deficit.

- The loss of traditional markets by the USA

The USA ,as leader of the western world, used to set the rules of the trade game and could hold a privileged position in the markets. Now the world leadership is also claimed by the EU and Japan, both of who have been developing their own zones of influence.

The United States has been losing ground to the EU in North Africa, Central and Eastern Europe and sub-Saharan Africa. Japan has been gaining market share in the Pacific Basin and in China. Only the Middle East and Latin America, which historically have always been under the influence of the USA, are left. The USA is also losing ground in the Islamic countries concentrated to the south of CIS - Community of Independent States and the Arabic countries, the Middle East and North of Africa. Incidentally, Islam is opposed to capitalism and communism, and seeks an alternative in their own roots.

- A new theme for the dialog between the USA and Latin American

At the moment, with the end of the cold war, the USA needs a new reason to relaunch the dialog discontinued by the debt problem. The Integration of the Americas resumed the economic theme which overlaps the political theme since today's problems are of a different nature: drugs, immigration and the`environment. Integration was the theme chosen to restore the dialog.

- Commercial interests

Exports from the USA to LA have been decreasing each year. In view of the uncertainties of the world, the real interest of the USA is to regain a comfortable position through the integration of the Americas.

- Global interests

In the present context of trading blocs and increasing preferential practices, the formation of the Bloc of the Americas is of particular interest to the USA , as such a Bloc could be very useful for future negotiations with the EU and Japan.

In view of these facts it is clear that, despite all of Brazili's and South America's problems, there are shared interests in a new form of cooperation among the USA, Brazil and MERCOSUL.

VI. 2 - THE INTERESTS OF BRAZIL WITH EACH REGIONAL BLOC

The interests of Brazil with each regional bloc can be demonstrated with some special data, since Brazil's exports differ according to each bloc.

1- In 1993, Brazilian exports destinations were the following (in US$ billion and %) :

European Bloc	**US$10.4**	**27%**
North Amer. Bloc	**9.3**	**24%**
Asian Bloc	**5.8**	**15%**
South America	**8.2**	**21%**
Rest of the world	**5.0**	**13%**

These numbers show that Brazil's most important trade partners were the European Bloc and the North American Bloc.

2- If one considers the Bloc of the Americas by itself (the figures refer to North and South America only, since statistics from Central America are not available), the 1993 data indicate that the volume and percentage are the following (in US$ billion and %) :

Bloc of Americas	**US$17.5**	**41%**

Brazil's interests are more concentrated in the Bloc of the Americas, where almost half of its exports go .

3- Brazil's exports to the North American Bloc, by group of products, also reveal important information: when the list of exports is broken down into different products, one can see a greater percentage of these products is more technologically advanced (greater vcalue added).

European Bloc	**43% food**	**total: 65%**
	11% ore	
	11% common metals	

North American Bloc	**19% food**	**total: 75%**
	14% leather/footwear	
	12% common metals	
	19% mach/equip.	
	11% transp. material	

Asian Bloc	**16% food**	**total: 78%**
	18% ore	
	44% common metals	

South America	**8% food**	**total: 74%**
	8% chemicals	
	15% metals	
	18% mach./equip.	
	25% transp. material	

The data show that Brazil's exports to the North American Bloc and to South America are more diversified - food, footwear, metals, machinery, equipment and transport material, i.e., products of greater value added- than to other parts of the globe.

- The data show that Brazil's exports to the United States reached US$8.8 billion in 1988, but fell to US$6.9 billion in 1992 and rebounded to US$7.8 billion in 1993. Exports to the North American Bloc have been sustained, mostly by imports from Mexico.

- The analysis of the export record to Mexico shows that its most important components were transport material and machinery and equipment. The formation of the North American Bloc based on NAFTA will represent a substantial loss for Brazil since the USA will give preference to Mexico. Also, due to the rules of origin established by the North American Bloc Treaty, Brazil's exports to Mexico, or ultimately destined to the USA, will be seriously affected.

4. The kind of foreign trade practiced with different products shows others particularities:

- Price is the decisive factor of international sales of commodities such as foods, ore and metals. Phytosanitary considerations regarding foods are gaining importance. So, if the product is competitive it has a guaranteed market.

- It is also a decisive factor for stable trade among nations to have, at their trade agreements, products such as machinery, equipment, electronic. vehicles , auto parts and even textiles . These products are normaly subject to managed trade under quotas and agreements signed by industries of importer and exporter countries, and , sometimes , without formal acknowledgment of their governments.

5. The analysis of the most active international markets during the 1985 - 1990 period shows that the most dynamic sectors in different parts of the world are (Technology and Markets in the '90s, 1993):

- *World:* Machinery and equipment, textiles, chemicals

- *European Bloc:* Transport materials, machinery and equipment

- *North American Bloc:* machinery and equipment, textiles, paper and cellulose, chemicals

- *Asian Bloc:* Textiles, machinery and equipment, paper and cellulose

- *South America*: Machinery and equipment, textiles, metalwork, paper and cellulose, chemicals.

- The analysis demonstrates that Brazil's exports to the European and Asian Blocs are concentrated in products such as foods and minerals that do not belong to more dynamic categories. Exports to the North American Bloc and to South America are more concentrated in these dynamic categories, such as machineries and equipment, paper and cellulose, chemicals and textiles.

- The point of this analysis is to demonstrate the importance of gaining market share for dynamic products, and the danger of losing market share even for products that are not dynamic at this time.

6. One of the most important characteristics of the international trade today is its division of the world into blocs and the strong concentration of the intra-bloc trade. Also, the importance of preferential agreements among countries and regions is becoming more and more avident.

- This knowledge indicates the convenience of adopting an external trade strategy based in preferential links.

- Lacking a strong bloc in which to participate and having no preferential agreements, Brazil will have great difficult improving its external trade. Even more, it is hard to foresee the survival of external trading a country if its trading strategy is based solely on multilateralism , a strategy that is already being questioned world wide, and on participation in a small regional bloc, such as MERCOSUL, with, only 1.4% of the world trade.

- The products that Brazil exports,their destination and the rules adopted by Brazil's partners, demand a new external trade strategy, completely different from the current one. Brazil's interests indicate a strategy of increasing ties with the North American Bloc member countries, especially the USA and Mexico, through a process of continuous integration, to gain and guarantee markets for its products. This external competitivity will lead to the technological upgrading of Brazil's production system and employment of more skilled labor.

  Given the EU's new interest negotiating a new generation of cooperation with MERCOSUL, Brazil should establish its priorities.
  Even if the food and agricultural areas are eliminated from the first phase of the negotiations, the agreement could help Brazil to diversify its exports to this region.

- It is important to point out that a strategy improving commercial relations with the North American Bloc and the European Bloc would not mean abandoning already established markets or giving up the effort to open new markets in other areas.

7. Finally, Brazil should take advantage of the dynamic forces of today's world, which are trade, investments and technology, to restructure itself and become competitive to gain new markets and adapt itself to the open economy that will allow its entry into the international arena.

- Brazil has clear interests in becoming closer to the North American Bloc, through the negotiation of sector agreements among industries, since the formation of a bloc integrating the Americas will guarantee access to its most important products, which now belong to the category under managed international trade.

VII - CONCLUSIONS

Any economic development model that Brazil chooses must be able to improve the economy in two areas. It must rescue the country from decades of high inflation rates, poverty, and one of the worst income distributions in the world , but it must also address the very different needs of the modern industrial sector that already exists in the State of São Paulo and that is developing in some of the more advanced states. The country has one of the most sophisticated financial markets in the capitalist world, and the economic potential to became a leading country in hosting large direct foreign investment. Therefore, Brazil's economic development strategies have to be based on building a more open economy and establishing trade relationship with markets that give political and economical leverage to its targets: growth with economic stability, a more competitive economy , better income distribution, sound opportunities for direct foreign investments to guarantee incoming capital from global firms, as well as to foster foreign transfer of technology and management expertise to large scale of production .

Brazil faces new challenges at the end of this century. According to the strategies it chooses for social and economic development in a global economy, the country will define its pattern of development for the next century. Brazilian's mature democratic system will decide what sort of growth it might have in a world with greater stimuli for the development of the global firms within regional economic trading blocs around the world.

Foreign trade policy makers have to make firm political and economic alliances within the market of the Americas and with the European and Asian markets . However, these alliances must be developed within the context of a clear political framework that defines Brazil's strategy for reaching the targets mentioned above.

This article intended to give some basis for defining the options and opportunities open to the Brazilian economy as it globalises its means of production. In the context of the global economy and regional economic trading markets, the authors cannot agree that Brazil is a "small global trader", a country not commited to any regional trade alliances or agreements to promote regional social-economic growth. This is politically inconsistent and contradictory given that Brazil is the strongest economy in the South America and has total responsibility for the success of MERCOSUL. Brazilian foreign policy makers have not yet thought deeply about the intricate new world of the globalisation of the means of production, the process by which global firms decide where their capital should flow to create new jobs, income and wealth.

This paper was developed with the purpose of opening debate about the path that Brazil should take to grow in a world where multinational firms implement the new process of globalizing economic activities. At the same time, regional economic trading markets are being organized in order to promote global firms' interests and to protect its members' wealth, technological development and social progress.

Therefore, based on our observed data and analysis presented in this paper, it is possible to make some recommendations that will help Brazil emerge as a major economy and an actor in the global economy among the three super power economic blocs, North American, Asian, and European, that are responsible for 2/3 of the world trade.

1-Due to its weight in the international economy, Brazil has great interest in defining a new model of development. The prerequisites for such a definition are:

- to implement macro economic policies that create stability of prices, wages, and exchange rates ; balanced budget and interest rates compatible with the international financial markets .
- redefinition of the size of the state according to the tax burden accepted by the society
- redefinition of the functions and forms of State intervention

The new model will arise from abandoning the import substitution model and adopting a new form of economic growth based on new forms of international integration.

The new model aims at utilizing the dynamic forces of the world economy which are trade, investment and technology, as instruments to transform the internal industrial structure. Only then can Brazil generate a continuous increase in productivity by absorbing technology, enlarging the market, learning new forms of organization and management,and creating a better income distribution.

2-Brazil is interested in adopting a new strategy for its entry into the international economy. Such a strategy should be based on six points:

- enlarge and consolidate the integration of the MERCOSUL in the continent, deepening common market interests
- enlarge the free trade area with South American through ALADI
- negotiate a new level of economic cooperation with the EU

- try to conquer new growing markets, especially in the Asian Bloc
- start a closer relation with the member countries of the North American Bloc, through sector agreements, to regain lost ground and find new forms of partnership in investment and technology
- support a long term hemisphere integration policy to bring Brazil into the position of leader in the process of integration between South America and the North American Bloc.

In short, these are the new challenges open to Brazil an its international policy, and should be linked to a new vision of its foreign trade policy. The strategies to be followed are clear: Brazil and even MERCOSUL are too small to exist successfully as partners in the international arena, therefore, they need to construct a network of preferential agreements to survive in the context of global economies and global firms. Brazil and MERCOSUL have interests in a new level of agreements with the EU, but this partner has its own priorities and limitations . The relationship between Brazil and MERCOSUL with the USA and NAFTA are of a different order, because there are no other priorities or limitations. The process of a hemispherical integration is a pure gain to both partners. Brazil and MERCOSUL members should consider the hemispherical integration as being their main strategy , and their relations with other more limited and risky markets, such as the EU and Asian Blocs, as being part of tactical or market niches of the trading policies.

It is now time for Brazil and the United States to carry out a sound study of the costs and benefits of such an integration, and for Brazilian society to discuss openly the country's position within the new international political and economical order.

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