

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## WORKING PARTY ON STRUCTURAL ADJUSTMENT AND TRADE POLICY

### Exchange of Information on the Experience of all Contracting Parties with Regard to Structural Adjustment

#### Addendum

1. At the meeting of the Working Party on Structural Adjustment and Trade Policy on 2 July 1981, it was agreed that the secretariat should invite all contracting parties to provide by the end of 1981 the information required in Paragraph II(b) of the Annex to L/5120, taking into account the objectives outlined in Paragraph I of the Annex and the work already done (L/5177, paragraph 10). Paragraph II(b) of the Annex to L/5120 states that one of the tasks to be undertaken is "consistent with the GATT and the results of the MTN, an exchange of information and discussion on the experience of all contracting parties with regard to structural adjustment, along with an overall analysis of the experience".
2. Contracting parties were invited in GATT/AIR/1742 of 13 July 1981 to provide the requested information. The submission of Brazil is reproduced in the Annex to this document.
3. Some participants have underlined that, with a view to the usefulness of the exercise, they attach considerable importance to the fact that all members of the Working Party fulfil their obligation and make written contributions. These participants have also indicated that they would be prepared to participate in an examination of their contribution in the Working Party only when notifications of the other contracting parties participating in the Working Party have also been received.
4. Delegations which have not yet submitted information are requested to do so as soon as possible.

## BRAZIL

### I. Major changes in trade policies and economic structures of Brazil in recent years and the role of GATT

Economic development has represented in Brazil a complex process of growth and structural changes in its economic system. Along the last thirty years, the Brazilian economic system has become increasingly bigger and differentiated, as new sectors of production are coming to life and as the degree of specialization within the Brazilian economy is intensified.

Such process is mirrored in Brazil's import and export statistics which are available in the GATT. On the import side, consumer goods have been displaced by machinery and fuels; on the export side, the sluggish behavior of commodities' markets and prices was partially compensated by growing sales of light manufactures.

Brazilian trade policies in the last ten years have been severelly conditioned by two important factors: first, the increasing oil price as of 1973 has imposed continous pressures on the balance of payments situation; second,

rigidities in the import markets of the industrialized countries have made it impossible to balance such growing import expenditures by a corresponding growth in exports. As the performance of commodities' markets has its own parameters, the effort to redress the balance of the external sector of the Brazilian economy concentrated on the export of manufactured goods. There, however, a large number of trade opportunities did not materialized as it became clear that, under a variety of pretexts, limitations were imposed on the access of Brazilian manufactures to the markets of several industrialized countries.

It is important to underline that under the strains of very difficulty balance of payments conditions, Brazil's capacity to import is directly determined by the behavior of its exports. Brazil's import policies, within its rights as a developing country as spelled out in different provisions of the General Agreement, have basically been of a liberal nature. Existing restrictions do not reflect protectionist policies, but have been introduced temporarily according to Article XII of GATT, and to a large extent as a result of protectionist policies in the markets of industrialized countries. The adoption of liberal policies in those markets would necessarily enhance Brazil's balance of payment

situation, thus creating space for a more flexible approach to import policies.

Brazil, to the extent of its possibilities, consistently promotes imports from other developing countries, first as a member of the Latin America Integration Association - the former Latin-american Free Trade Association (LAFTA) - where special concessions are granted to less developed countries in the region; second, as a signatory of GATT's Protocol of 16.

## II. The growth of Brazilian exports and the need for structural adjustment in foreign markets

In 1980 the industrialized countries were the largest suppliers of Brazil's imports of manufactured goods, with a relative participation of 87 per cent of its import market, Western Europe having 43 per cent, United States 32,5 per cent and Japan 11 per cent. The same countries, however, bought in 1980 only 42 per cent of Brazil's export of industrialized goods, with 20 per cent going to Western Europe, 18 per cent to the United States and 4 per cent to Japan. It becomes evident that the developing countries, which buy half of the Brazilian exports of manufactures,

have been providing Brazil with the necessary exchange to keep the pace of its economic progress and to keep at their present levels its imports from the developed world. At the same time it becomes equally clear the importance of Brazil's capacity to import - and, in general terms, of the developing countries' capacity import - to sustain the level of the aggregate demand in industrialized countries at a time of depression.

In fact, as of 1963, the industrialized countries have, in percentual terms, been buying decreasing amounts of Brazilian manufactures. In the years of 1963, 1973 and 1980, Western Europe bought 30 per cent, 25.4 per cent and 20 per cent of Brazil's exports of manufactured goods, the participation of the United States dropping from 23.7 per cent in 1963, to 17.8 per cent in 1980 - with 26.2 per cent in 1973.

In those three years Brazil bought 49.7 per cent, 47 per cent and 43 per cent of its manufactured imports from Europe, and 34.5 per cent, 32.3 per cent and 32.4 per cent from the United States.

The two tendencies seem to confirm the widespread feeling that industrialized countries import markets have been responding with growing rigidities to Brazilian sales

of manufactured goods; the ensuing frustration is only partially reflected in Brazil's import figures, but it is already possible to identify trends towards a certain displacement in the sources of supply of manufactures to the Brazilian market.

It would be premature, at this stage, to break down the different obstacles that have been hindering the free access of Brazilian manufactures to the industrialized markets. It is enough to say that those can be grouped in at least four different categories: first, measures according to the law of GATT, and its Codes; second, ad hoc measures having no status under the GATT or its Codes; third, measures which represent an illegitimate use of the General Agreement, or the Codes; fourth, domestic measures which try to avert the autonomous play of market forces and the spontaneous process of structural adjustments fostered by market mechanisms.

For the purposes of the present exercise, although some measures may have legal basis, while others have not, all have the practical result of restraining the participation of developing countries in the markets of the industrialized world, with the above mentioned consequences. The problem of structural adjustment must then be tackled comprehensively

so as to identify all the elements which could favor positive change and growth in trade between the developing and the developed countries.

Although illegal measures must, as a matter of course, be disposed of, and the illegitimate ones analyzed and discussed in detail so as to establish their real conformity to the objectives of GATT, the issue of structural adjustment will have to go beyond present legal constraints to question the capacity of present policies and frameworks to encourage higher integration between the economies of developing and developed countries - an objective which, under the present circumstances, has been slackening.

Finally, it is not necessary to stress that, although manufactured goods provide the classical instance of problems related to structural rigidities in the developed economies, other sectors also, and in particular the agricultural sector, have been unduly protected from the dynamics of the international division of labour, with basically the same damaging effects over the export earnings of Brazil and other developing countries.