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BRAZIL'S PARTICIPATION IN LAFTA: 1962 - 1965

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I. Introduction

In emulation of the apparently successful example of the European Common Market, the major countries of Latin America have banded together for promotion of trade among themselves. Result is the Latin American Free Trade Association, commonly known as LAFTA^{1/}, which commenced to function on August 1, 1961. The original membership, and the one representing LAFTA for this study, was: Argentina, Brazil, Chile, Ecuador, Mexico, Paraguay, Peru, and Uruguay^{2/}.

Intra-LAFTA trade is promoted by lowering and eventually eliminating tariffs among member countries. Now, however, tariff concessions are being granted more slowly and with greater difficulty than is desired, and this situation represents and causes deep concern about LAFTA'S future. Suggestions for change have been many, ranging from: converting LAFTA into a common market (i.e. imposing common external tariff barriers), to dividing LAFTA into groups of a few countries each, to disbanding LAFTA completely^{3/}.

Brazil is LAFTA's most important member - being the largest in terms of population, area, national income, and foreign trade. This condition suggests that the viability of LAFTA, or a similar association, rests significantly upon the willingness of Brazil to participate. Brazil's willingness, in turn, depends upon the related benefit to Brazil.

The rationale for LAFTA is that participating countries benefit from attainment of LAFTA's prime objective, i.e.: to increase trade among member countries. The purpose of this study is to deter-

1/ In this study, the term "LAFTA" refers to that body of doctrine and agreements which constitutes the legal and political framework of the association.

2/ In addition to the LAFTA group of countries, there is also in Latin America another trading association which is known as the Central American Common Market and is composed of the five Central American republics.

3/ Recently at the Punta del Este Conference of April 1967, it was agreed to establish by 1983 a common market which will include almost all Latin American countries.

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mine if Brazil benefited, during the period 1962-1965, from membership in LAFTA. Determination is made by examining developments in Brazil's trade with the LAFTA region^{4/} in accordance with LAFTA's objective and with special reference to exportation of Brazilian manufactured products to the LAFTA region. If LAFTA should be eliminated or significantly changed in the future (as is now envisaged), Brazil's previous experience with LAFTA can serve as a useful lesson for forming Brazilian policy with respect to new trading arrangements.

In order to obtain a proper perspective of Brazil's participation in LAFTA, it is important to understand the policies and pressures which led Brazil to join with other Latin American countries in forming this trading association. Therefore, the study first provides a brief review of developments in Brazil's international trade and pattern of economic growth following world War II (Part II). Subsequently, there are presented: explanation of the form of analysis employed in this study (Part III), the specific results of the analysis (Part IV), and general conclusions (Part V).

II - Brazilian Foreign Trade and Economic Development^{5/}

At the end of World War II, Brazil appeared to be in a favorable position economically. Substantial international reserves had been accumulated during the war because of strong demand for Brazilian exports, while imports were necessarily limited by restriction of transportation and concentration on war production in the traditional manufacturing countries.

After the war, there was a large expansion of Brazilian imports. This expansion resulted at first from release of the pent-up demand occasioned by war-time deprivation and then from the increasingly lower prices of imports compared to domestically produced goods and services. For example, between 1946 and 1953 Brazil's exchange rate was held constant and there were no significant increases in related taxes while the cost of living more than doubled - thereby reducing the relative price of imports in terms of Brazilian money.

^{4/} The term "LAFTA region" is used in this study to indicate collectively all LAFTA countries excluding Brazil.

^{5/} A fuller treatment of this subject is found in: Diagnóstico Preliminar de Comércio Internacional, Escritório de Pesquisa Econômica Aplicada, Ministério do Planejamento e Coordenação Econômica, Rio de Janeiro, Brazil, November 1966.

Exports came to be hampered by competition from new suppliers (notably in Africa) of Brazil's traditional export products. Also, rising internal costs coupled with the fixed exchange rate were reducing export profits.

These developments led to trade deficits - causing severe balance of payments pressures. Initially, the trade deficits were offset through decreasing foreign reserves. Next, commercial, and later inter-governmental, etc., loans were obtained. When it appeared that the trade deficits were potentially of a persistent and long-run nature, quantitative and monetary import restrictions were imposed. In 1953, Brazil began an extensive series of devaluations which has raised the exchange rate from 18.38 to 2700.00 cruzeiros to 1 US dollar in 1967.

After each tightening of restrictions and/or devaluation there was some improvement in the balance of payments until the internal rate of inflation rose sufficiently to nullify the corrective influence of the new measure. And so the process has continued - with balance of payments pressures arising not only from trade deficits but also from need for repayment of past loans.

During the years following World War II, Brazilian participation in world trade has fallen. This trend is to be expected, in part, because of the recovery of war-torn economies since 1945 and the gradual return of the traditional major trading countries to their former positions. There has not been a significant shift in composition of Brazilian exports. However, there has been a notable change in composition of Brazilian imports. Consumer goods have fallen while production goods - both capital equipment and raw materials - have risen. This change in composition of Brazilian imports has occurred because of the massive program of Brazilian industrialization, which most markedly began in 1955.

Often this program is referred to as "import substitution" because the pressure of re-occurring balance of payments problems, to a considerable extent, motivated Brazil to industrialize in order to obtain through local production the types of goods for which import demand was being restrained. There was also present the wish to promote economic development through industrialization rather than take the alternative path of investing to expand export receipts and thereby obtain the desired goods.

Pessimism about achieving adequate development through emphasizing exportation was nurtured by: memories of the pre-World War II depression, for which dependence on international markets was blamed; apparent stagnation of export growth; and by the type of economic philosophy being promulgated by the United Nation's Economic Commission for Latin America^{6/}.

In order to follow Brazil's chosen path of development, barriers were placed against importation of products competing with domestically supplied manufactured goods. Exportation of some raw materials was limited in order to provide cheap inputs to local producers. Foreign capital and technology were encouraged. Importation of inputs required for industry was granted concessions through special credits and lower tariffs.

The emphasis of development was directed toward the internal market, which also accounts for the decline in Brazil's share of world trade. However, in spite of the effort toward self-sufficiency, Brazil's dependency on imports was increased.

The ratio of Brazilian imports to gross national product rose in real terms. Moreover, many imports came to comprise integral parts of the industrial process; so that a reduction of such imports would induce a multiple reduction in domestic production. Thus, Brazil's need to import increased because of industrialization.

Exports provide about 90% of Brazil's foreign exchange receipts. Allowing for external price changes, etc., the capacity to purchase imports with Brazil's exports was only slightly larger by the period 1959-60 than in the period 1947-48.^{7/}

By 1961, it was obvious that Brazil's exports had not kept pace with the general economic activity of the country and that industrialization was becoming increasingly dependent upon the imports for which exports were needed to earn foreign exchange.

Also apparent was the desirability to obtain for Brazilian industrial products a wider market than was available domestically.

6/ As an example of this philosophy, see: Prebisch, Raúl; "The Economic Development of Latin America and its Principal Problems", United Nation's Economic Commission for Latin America; Economic Bulletin for Latin America, Vol. VII, No 1, February 1962.

7/ Diagnóstico Preliminar de Comércio Internacional, op. cit., p 55

In addition to dependency upon exports in order to obtain needed imports, economic development through concentration on industrialization produces a second dependency upon exportation. After absorption of the initial internal demand (provided by blocking competing imports), further industrial growth is limited domestically to the rate of increase in the share of national income available for purchase of locally supplied industrial products. Therefore, exportation of these products must occur if industrialization is to grow faster than the related internal demand, and thereby remain the impelling factor in development.

Through exportation, industrial production reaches increased economies of scale faster than would be available from reliance solely upon increase of domestic consumption. This condition permits an earlier reduction in prices to the domestic consumer of those products also being exported. Exportation allows increased purchase of the products at home because of possible lower internal prices and because of the increased income generated by the exports. Thus, by exporting, industrial production, for both domestic and foreign markets, can expand at a pace faster than is the national economy; and in this way industrialization can continue to stimulate economic development.

However, by 1961, manufacturing costs were generally higher in Brazil than in countries which had industrialized earlier - as evidenced by the necessity for maintaining high import barriers in order to protect Brazilian industry. Although this condition might have discouraged direct competition by Brazil in the world market,^{8/} possibility for exportation of Brazilian manufactured products to a more limited market was offered with formation of the Latin American Free Trade Association.

LAFTA is supposed to promote - through the mechanism of mutual tariff concessions - exportation of manufactured and other products among member countries. By stimulating trade among a restricted group of countries, LAFTA may well provide a necessary "transitional stage" in the present process of a member country's industrialization. This transitional stage occurs after the period

^{8/} This is not to preclude the possibility exporting to the world by means of dual pricing - i.e. when revenue derived from exportation need cover little more than the marginal cost of those goods exported while all additional costs for total production are covered from sales in the domestic market, which is reserved for local producers.

in which a country's manufactured products can be sold profitably only in its own highly protected market and before the period when the manufactured products could be sold profitably under conditions of free trade.

Brazilian participation in LAFTA has offered the possibility for perpetuating Brazil's economic growth through industrialization. Included in the remainder of the study is examination of the extent to which LAFTA has furthered this possibility in accordance with Brazil's exportation of manufactured products to the LAFTA region.

III - Method of Analysis

Our interest is to determine LAFTA's effectiveness in development of Brazilian trade - particularly, exportation of Brazilian manufactures - with the LAFTA region. The task is complicated by many diverse and often divergent forces which simultaneously influence such trade and which largely arise because of internal policies and conditions in individual countries. LAFTA, being only a trading association, has no jurisdiction over such policies and usually no capability for controlling or offsetting most of the forces affecting trade, which include changes in: tastes, national income and its distribution, credit, administrative procedures and discretion, exchange rates, internal taxes and subsidies, and governmental expenditures.

In addition to influence from LAFTA tariff changes, Brazilian trade with LAFTA is strongly determined by these other forces - not only when they occur in Brazil and other LAFTA countries, but also when these forces occur in non-LAFTA countries, with which Brazil and the other LAFTA countries have trading relationships. It is impossible to isolate and to compensate fully for the influence of all these other forces on Brazilian foreign trade. But abstraction of all such influences is required in order to establish the precise effect on Brazilian trade which results from a LAFTA tariff change or set of changes. Therefore we are unable to relate LAFTA tariff and Brazilian trade changes specifically.

Nevertheless, we can approach obliquely some conclusion about the influence of LAFTA on Brazilian trade by determining: 1) if LAFTA has been ineffective with respect to stimulating sufficiently

Brazil's intra-LAFTA trade and 2) the possible LAFTA influence on the composition and balance of this trade. The analysis is divided into two steps. First, it will be determined whether Brazil's trade developments have been consistent with LAFTA's objective of promoting intra-LAFTA trade. Then will be examined the general composition and balance of Brazil's LAFTA trade in light of the possible influence exercised by LAFTA, as determined in the first step.

We shall consider that Brazil's trade developments are consistent with LAFTA's objective when: Brazil's trade with the LAFTA region increases (decreases) relatively more (less) than Brazil's trade with countries outside of LAFTA. In particular, variations in Brazil's LAFTA trade will be compared with changes in Brazil's: 1) total world trade and, 2) trade with non-LAFTA countries in Latin America, which are grouped under the heading "Other Latin American Countries" and hereafter designated in the text as the "OLA" region.^{9/}

In this analysis, Brazilian exports are classified broadly according to three categories: I Primary Materials, II General Food and Beverage Products, and III Manufactured Products. Together these three categories account for over 99% of total Brazilian exports.^{10/}

^{9/} Other Latin American Countries include: Bolívia, Venezuela, Costa Rica, Guatemala, Haiti, Honduras, Nicaragua, Panama, Dominican Republic, El Salvador, Dutch Antilles. As explained elsewhere in the text, Bolivia and Venezuela are not considered in this analysis as LAFTA members.

^{10/} Statistical data employed in this study were obtained from: Serviço de Estatística Econômica e Financeira (SEEF), of the Brazilian Ministry of Finance, which is responsible for collecting and publishing the official data on Brazil's international trade.

The relationship between the export classifications used in this study and by SEEF is as follows:

<u>Categories used in this study</u>	<u>SEEF Classification</u>	<u>SEEF Code Numbers</u>	<u>Example of Product Types</u>
I (Primary Materials)	Class II	(20000-29999)	Hides, wood, minerals, cotton, jute.
II (General Food and Beverage Products)	Class IV	(40000-49999)	Cereals, coffee, fruits, cocoa.
III (Manufactures)	Class V	(50000-59999)	Chemicals, drugs.
	Class VI	(60000-69999)	Machinery, vehicles, and related parts.
	Class VII	(70000-79999)	Tires, textiles, refined and formed metals, polished stones. (i.e. manufactures are classified according to main raw material employed)

For Categories I and II we shall compare trends between Brazilian exports to the LAFTA and OLA regions, Brazilian exports to the world (i.e. total Brazilian exports) do not provide in these categories a useful basis for comparison because of special marketing arrangements occurring outside LAFTA for certain products (e.g. coffee, minerals, etc.), which strongly influence Brazil's total trade figures. However, for Category III both Brazilian exports to the world and to the OLA region serve as bases for comparing trends of Brazilian manufactured exports to LAFTA.

For purpose of our export analysis, the OLA region probably provides, more than any other group of countries, conditions most similar to the LAFTA region. Variations in freight costs should occur proportionally for the two regions. Composition of imports, the domestic economies, and development stages of the countries within each region are roughly parallel. Absolute differences in effective import demands between the two regions are not important because the analysis rests on comparison of relative trends.

An example will illustrate how we wish to make use of such a comparison. Suppose that during a certain period Brazil's Category I exports to the LAFTA region rose 10% while Brazil's exports to the OLA region increased 5%. For this situation we can say that development of Brazilian exports conforms to what would be an effective influence by LAFTA on Brazilian trade. It should not be assumed that tariff reductions by LAFTA countries were responsible for this increase of Brazilian exports to the LAFTA region. What can be said is: 1) the pattern of change of Brazilian exports is consistent with LAFTA's objective and, 2) the export side of Brazil's intra-LAFTA trade has grown.

Now suppose that in the preceding example the numbers are reversed, namely: Brazil's exports to the LAFTA region increased 5% while Brazil's exports to the OLA region increased 10%. For this situation, development of Brazilian exports shows that LAFTA influence (if any) has been ineffective. Although the export side of Brazil's intra-LAFTA trade rose, the pattern of increase is inconsistent with LAFTA's objective.

Exports are examined first according to the three basic categories mentioned, and then manufactured exports are subdivided into three groups and examined similarly.

In order to evaluate possible LAFTA influence on Brazil's total balance of trade with the LAFTA region, comparison is also made between trends in Brazil's global imports from the LAFTA region and the world (i.e. total Brazilian imports). The OLA region does not serve as a satisfactory basis for import comparison because Brazilian imports from this region are dominated by one type of product (i.e. petroleum and its derivatives) - the importation of which is subject to special Brazilian policies.

Although Brazil's trade developments may be consistent with the basic LAFTA objective, this result can lead to a deficit in Brazil's LAFTA trade. For example, Brazil's exports and imports may both increase relatively more with respect to the LAFTA region than with respect to the region(s) of comparison. However, the import increase might exceed the export increase - leading to a LAFTA trade deficit for Brazil.

It may be that some LAFTA countries gain either temporary or permanent advantages at expense of other participating countries through lucky or astute bargaining for tariff reductions. Accordingly, some countries may be able to expand their exports to LAFTA more than other countries - which means that additional exports gained by some countries represent additional imports for other countries.

Of course, it cannot be expected that all LAFTA countries will constantly maintain favorable or neutral trade balances with the region. It must be expected that at least for periods of one or two years a country might experience trade deficits with the region. Some countries (or country) must have deficits if others have surpluses. Nevertheless, perpetuation of a LAFTA trade deficit should indicate, to the country suffering this deficit, need to examine the possible adverse influence of LAFTA and opportunity for acquiring improved trading conditions within the region.

It is not the purpose of this study to pass judgment on whether a LAFTA trade deficit (or surplus) experienced by Brazil was harmful or beneficial to that country. Our interest is to indicate when and in what direction Brazil's LAFTA trade balances may have been influenced by LAFTA.

Our analysis of Brazilian participation in LAFTA is based on a year by year evaluation for the period 1962 through 1965. Al-

though LAFTA was formed in August 1961, it is unlikely that influence of LAFTA on Brazilian foreign trade could be discernable for the later half of that year. For this reason, the analysis begins with 1962 - the first full calendar year of LAFTA's operation.

Venezuela became a member of LAFTA on October 1, 1966, after having earlier that year announced its intention to do so. On October 24, 1966, Bolivia officially expressed its desire to enter LAFTA and will probably attain this objective during the middle of 1967. These alterations - and their anticipation - in LAFTA's structure preclude extension of our present means of comparison to include 1966 in the analysis.

Yearly changes in Brazilian trade are measured from two bases: 1) the average for the six year period 1955-60 and 2) the preceding year. Thus for any given year a particular trade development is evaluated by a pair of changes. These changes sometimes show movements in opposite directions and often vary considerably in degree. For this reason a weighting system was employed in order to reconcile conflicts which arose from using two bases of measurement.

The "1955-60" base was considered the more important and was assigned the weight of .7 because of the desire to reduce possible distortions in trade trends caused irregular yearly movements. Use of the "previous year" base (weighted by .3) permits inclusion of short-run trends deserving of some consideration. For example, measuring a change from the "1955-60" base may show a decline while measuring the change from the "previous year" base may show an increase. This increase from the past year might reflect a substantial recovery from a depressed position in recent years and therefore deserves some credit in determination of the over-all trade trend.

Admittedly the weighting distribution is arbitrary and arises from the author's subjective evaluation of the comparative significance of the measurements utilized in the analysis. Mention is made where appropriate when different conclusions, from those cited in the text, obtain from varying the weight for the "previous year" base between .5 and .3.

IV - Results of Analysis

A - Consistency of Brazilian trade developments with LAFTA's objective of promoting intra-LAFTA trade

1. Exports. Table I shows the division of Brazilian exports into the three main categories and according to the regions used in our analysis. From this table it is seen that for the years 1962 and 1964 Brazilian trade developments were consistent with LAFTA's objective for all export categories. For these two years in all categories $L > 0$ signifying that Brazilian exports to the LAFTA region rose (fell) relatively more (less) than Brazilian exports to the OLA region. Also for 1962 and 1964 Brazilian exportation of manufactured products (category III) increased relatively more to the LAFTA region than to the world (i.e. $L > W$).

TABLE I
BRAZILIAN EXPORTS (BY MAJOR CATEGORIES) TO THE LAFTA AND OLA REGIONS
AND TO THE WORLD
1962-1965

YEAR	CATEGORY	LAFTA	OLA	WORLD	COMPARISON	COMMENT
1962	I	\$ 25.8	3.1	387	L > O	
		a - 35.2	- 82.4			
		b - 38.0	- 64.4			
	II	\$ 39.3	.1	792	L > O	
		a - 13.6	- 90.0			
		b - 43.4	- 75.0			
III	\$ 10.5	1.2	33.2	L > O & W		
	a 22.1	50.0	- 6.7			
	b 239.7	9.1	127.4			
1963	I	\$ 27.8	1.5	397	L > O	
		a 7.8	- 51.6			
		b - 33.2	- 82.8			
	II	\$ 39.0	.2	968	O > L	
		a .7	100.0			
		b - 43.8	- 50.0			
	III	\$ 8.8	4.4	37.3	O > L & W	
		a - 16.2	266.7	12.3		
		b 183.9	300.0	155.5		
1964	I	\$ 42.6	.3	432	L > O	L > W When weight of "a" < .5
		a 53.2	80.0			
		b 2.4	96.6			
	II	\$ 56.1	.2	921	L > O	
		a 43.8	0			
		b - 19.2	- 50.0			
	III	\$ 33.4	5.7	70.0	L > O & W	
		a 279.5	29.5	46.7		
		b 977.4	418.2	379.5		
1965	I	\$ 56.9	.2	487	O > L	O > L when weight of "a" < .48
		a 33.6	- 33.3			
		b 36.8	97.7			
	II	\$ 69.8	.1	987	L > O	
		a 24.4	- 50.0			
		b .6	- 75.0			
	III	\$ 68.6	5.0	109.5	L > O & W	
		a 105.4	12.3	36.1		
		b 2 112.9	354.5	650.0		

Key: \$ - in millions of U.S. dollars F.O.B.
a - percentage change from the previous year
b - percentage change from the related average for the period 1955-60
L - LAFTA region
O - OLA region
W - World (i.e. total Brazilian exports)

Source: Calculated from data obtained from:
Serviço de Estatística Econômica e Financeira,
Ministério da Fazenda do Brasil.

Brazilian trade developments for 1963 appear to have been inconsistent with LAFTA's objective. Although $L > O$ in Category I (primary materials), $O > L$ in the other two categories - particularly in the important category of manufactured products. If we consider only total exports (not shown in the table) to these regions then the result is: $W > L > O$; and $L > O$ only when the weight of the "previous year" base is less than .31. Because of the special interest for promoting exportation of Brazilian manufactures to the LAFTA region and the comparative weakness of this accomplishment in 1963, we conclude that LAFTA for that year did not contribute satisfactorily to stimulation of Brazilian exports.

In 1965, Brazilian trade developments were opposite those in 1963: $O > L$ in Category I, and $L > O$ in Categories II and III. In terms of total exports, $L > O & W$. Especially impressive in 1965 were Brazil's exports of manufactured products to the LAFTA region - which increased significantly greater than similar exports to the OLA region and to the world. By 1965, manufactured products had assumed an important share of total Brazilian exports to the LAFTA region - rising from a participation of 2.7% for the period 1955-60 to 35.4% in 1965. This increased importance of manufactured exports to the LAFTA region was sufficient in 1965 to allow the trade trend in this category to offset, and more, the trade trend of Category I exports. Therefore, on balance it is judged that 1965 developments of Brazilian exports were consistent with LAFTA's objective.

2. Imports. Imports and the related changes are shown in Table II. It is seen that for all years under review (i. e. 1962-65) $L > W$ - indicating that Brazilian imports from the LAFTA region increased relatively more than total Brazilian imports. This result is consistent with LAFTA's objective of promoting increased trade among member countries.

B. - Brazil's trade balance with the LAFTA region

Table III presents Brazil's exports to and imports from the LAFTA region, together with the related percentage changes of these trade flows. As shown in this table, Brazil had a negative trade balance with the LAFTA region for the first three of the four years under review. Furthermore, it is seen that in 1962 and 1963 imports increased relatively more (according to measurement from both basis)

TABLE II
BRAZILIAN IMPORTS FROM LAFTA AND THE WORLD
1962-1965

YEAR		LAFTA	WORLD	COMPARISON
1962	\$	128.6	1 475.0	L > W
	a	184.5	1.0	
	b	1.8	7.7	
1963	\$	163.9	1 486.8	L > W
	a	27.4	18	
	b	29.8	8.5	
1964	\$	168.0	1 263.5	L > W
	a	2.5	- 15.0	
	b	33.0	- 7.8	
1965	\$	190.4	1 096.4	L > W
	a	13.3	- 13.2	
	b	50.8	- 20.0	

Source: Calculated from data obtained from:

Serviço de Estatística Econômica e Financeira,
Ministério da Fazenda do Brasil.

Key: \$ - in millions of U.S. dollars CIF

a - percentage change from the previous year

b - percentage change from the related average for the period 1955-60

L - LAFTA region

W - World

TABLE III
BALANCE OF BRAZILIAN TRADE WITH THE LAFTA REGION
1962-1965

YEAR	VALUE IN MILLIONS OF US DOLLARS		PERCENTAGE CHANGE FROM THE BASE:				EXPANSION WAS RELATIVELY GREATER FOR
			PRECEDING YEAR		1955-60 AVERAGE		
	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	
1962	76	129	- 20.0	184.5	- 33.9	1.8	IMPORTS
1963	76	164	0.0	27.4	- 33.9	29.8	IMPORTS
1964	133	168	75.0	2.5	15.7	33.0	EXPORTS
1965	197	190	48.1	13.3	71.3	50.8	EXPORTS

Source: Calculated from data obtained from:

Serviço de Estatística Econômica e Financeira,
Ministério da Fazenda do Brasil.

than did exports.^{11/} As previously noted, LAFTA was ineffective in 1963 with respect to stimulating Brazilian exports to the LAFTA region and this circumstance contributed to Brazil's LAFTA trade deficit that year.

There was substantial expansion of Brazilian exports to the LAFTA region in 1964 and 1965, and for these two years exports increased relatively more than imports.^{12/}

Now let us combine the conclusions which have been reached so far from this and the preceding part of the analysis.

We determined that Brazilian trade developments for both imports and exports were consistent with LAFTA's objective in 1962, 1964, and 1965. In the first of these years, Brazil had a trade deficit with the LAFTA region. The cause of this deficit cannot be attributed to the ineffectiveness of LAFTA in stimulating Brazilian exports to the region - although this stimulation can be considered "too small" in relation to that received by imports.

In 1964 and 1965, trends of Brazil's trade development led toward a trade surplus with the LAFTA region.

On the other hand, Brazil's 1963 trade deficit with the LAFTA region was aggravated by failure of LAFTA to stimulate Brazilian exports in conformity with the basic objective of that trading association.

^{11/} It might be argued that a deficit in the trade balance arises because of increased transportation and related charges. In 1962, the proportion of these charges to the total CIF value rose 7% for Brazilian imports from Argentina (the only LAFTA country for which the related data are available) and rose 0.9% for Brazilian imports from the world. These figures indicate that an adverse effect to Brazil's LAFTA trade balance may have resulted from a relative increase of transportation, etc. charges placed on Brazilian imports from the LAFTA region. For 1963, the opposite conclusion is drawn since for that year there was an 11% fall in the proportion of these charges on imports from Argentina; while for imports from the world, the proportion of these charges increased 12%.

^{12/} Measuring from both basis provides the same conclusion concerning trends in Brazil's LAFTA trade balance for 1965. However, for 1964 the over-all conclusion is less obvious. Based on the preceding year, the degree of the 1964 export expansion greatly exceeded that for imports; while based on the 1955-60 average, exports increased relatively less than imports. Reconciling these two results (according to our weighting system) shows that the over-all increase in exports was relatively greater than for imports. The notable export recovery based on the previous year more than offset the understated change which obtains (as in this situation with the 1955-60 average) using a base with a value that lies between the starting and ending values of the year for which measurement is being made. Our conclusion for 1964 would only be reversed if the result from measuring according to the "previous year" base was weighted less than .19.

C. - Participation and composition of Brazilian manufactured exports to the LAFTA region.

Table IV shows the percentage participation of manufactures in Brazil's total exports to the three regions used in our analysis. For all of these regions, this participation increased markedly from 1962 through 1965.

Moreover, participation in exports to the LAFTA region rose relatively more than to the other regions for three of these four years (i.e. where $L > O \& W$). Thus except for 1963, the trend in composition (i.e. manufactured versus non-manufactured products) of Brazil's exports to the LAFTA region was consistent with LAFTA providing an effective mechanism for stimulating exportation of Brazilian manufactures within the region.

During the years under review, 1962-65 there occurred a significant change in the composition of Brazil's manufactured exports going to the LAFTA region - as is shown in Table V. Most notably, there was a sharp fall in the percentage participation of Class VI exports (i.e. machinery and vehicles). This fall was contrary to the trend of Brazilian Class VI exports to the OLA region; and although in the same direction, the fall in Class VI exports to the LAFTA region was considerably greater (in terms of relative change) than the decline of Brazilian Class VI exports to the world.

There are, of course, many possible explanations why Class VI exports going to the LAFTA region failed to maintain their previous participation. Nevertheless, the degrees of divergence from the trends of the two regions of comparison suggest that the cause might lie within LAFTA, itself.

In particular, it seems important to examine past tariff concessions, granted by the other LAFTA countries, in order to determine whether Brazilian industries supplying Class VI exports have obtained opportunity for entry into the LAFTA market equal to that of other Brazilian manufacturing industries. If not, then future tariff bargaining by Brazil might be directed toward correcting this imbalance - unless by foregoing tariff concessions for this one class of exports there is a more than compensating gain obtainable from tariff concessions for exports of other classes.

TABLE IV

PARTICIPATION OF MANUFACTURES IN TOTAL BRAZILIAN EXPORTS TO THE
LAFTA AND OLA REGIONS AND TO THE WORLD: 1955-60, 1961-65

(in percentages)

REGION		1955-60	1961	1962	1963	1964	1965
LAFTA	a	2.7	8.6	13.9	11.6	25.1	34.7
	b			61.6	- 16.5	116.4	38.2
	c			414.8	329.6	829.6	1185.1
OLA	a	10.5	17.6	27.3	70.5	90.6	91.2
	b			55.1	158.2	28.5	.7
	c			160.0	571.4	762.9	768.6
WORLD	a	1.1	2.5	2.7	2.7	4.9	6.9
	b			8.0	0	81.4	40.8
	c			145.5	145.5	345.5	327.3
COMPARISON				L > O & W	O > L & W	L > O & W	L > O & W

Source: Calculated from data obtained from:
Serviço de Estatística Econômica e Financeira,
Ministério da Fazenda do Brasil.

Key: a - Percentage of total Brazilian manufactures exported to the region.
b - Percentage change in participation from the preceding year
c - Percentage change in participation from the average of the period 1955-60.

L = LAFTA region, O = OLA region,
W = World

TABLE V
COMPOSITION OF BRAZIL'S MANUFACTURED EXPORTS TO THE LAFTA AND OLA
REGIONS AND TO THE WORLD: 1955-60, 1962-1965
 (in percentages)

MANUFACTURED EXPORTS BY CLASS* %		Y E A R S				
		1955-60	1962	1963	1964	1965
LAFTA	V	19.9	10.3	15.4	5.5	3.4
	VI	46.1	70.6	58.3	35.2	31.8
	VII	28.0	15.5	20.5	56.4	62.9
OLA	V	20.7	15.9	2.4	1.8	4.4
	VI	16.2	40.4	64.6	64.6	69.0
	VII	55.2	30.7	29.5	28.1	20.3
WORLD	V	62.3	44.6	44.5	25.1	13.2
	VI	13.7	36.1	28.4	26.1	26.4
	VII	19.9	16.3	23.6	45.9	57.5

Source: Calculated from data obtained from:
 Serviço de Estatística Econômica e Financeira,
 Ministério da Fazenda do Brasil.

* - Manufactures are sub-divided by class according to the SEEF system outlined in footnote 10.

Note: - These three classes represent about 95% of the manufactured products exported by Brazil.

V - Conclusion

From the foregoing results of the analysis, we find that development of Brazilian trade was consistent in 1962, 1964, and 1965 with: 1) LAFTA's objective of increasing intra-regional trade and 2) LAFTA successfully providing a means for stimulating exportation of Brazilian manufactured products. The results also indicate that LAFTA was largely ineffective in fulfilling these conditions for Brazil in 1963.

Furthermore, we find that the combined influence of LAFTA most likely contributed toward a deficit in 1962 and 1963, and a surplus in 1964 and 1965 in Brazil's trade with the LAFTA region.

It seems that on balance Brazil probably benefited from participating in LAFTA for the period of 1962-65 - at least with respect to development of Brazil's trade with the LAFTA region. Of special interest, the form of this development contributed to the opportunity for industrialization to continue as the prime impelling force in Brazil's process of economic growth.