The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

Papers in the series

All these papers and the final report can be found at: www.odi.org.uk/publications/briefing/doha

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7. Poverty impact of Doha: Brazil

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Trade liberalisation and poverty in Brazil

As a relatively advanced country, Brazil will be expected to liberalise its own trade in the Doha Round, as well as making requests for market access to other countries. It has extensive experience of such liberalisation.

In the early 1990s, Brazil engaged in unilateral trade liberalisation by dramatically reducing tariffs and non-tariff barriers. At the same time, it experienced profound changes in its political life as result of a democratisation process. Therefore, any attempt to use evidence from the past to isolate the impact of trade liberalisation on development, and more specifically on poverty, must avoid underestimating other key policy changes that have influenced the country's economic and social performance.

The Brazil report is based on certain premises. First, it shares the view that poverty cannot be reduced to an income measurement debate and that a multidimensional approach to poverty is essential. Nevertheless, it recognizes that in a country where a large share of the population (about 34%) is still below the poverty line, income continues to be a basic minimum reference for poverty analysis. Another reason to use income-based measures when examining the affects of trade liberalisation, is that the welfare gains can be better assessed against effects on income than effects on education or health.

Most of the achievements in social indicators can be attributed to specific public policies adopted in Brazil, rather than resulting from the move towards trade liberalisation. But both trade and policy effects are distorted by the grossly unequal income distribution.

While Brazil spends large sums in social programmes, these have tended to benefit the middle and upper classes, more than the poorest. The high regional and social inequalities mean that growth deriving from trade liberalisation will not be distributed equally, much less directed towards the poor.

These factors do not mean that liberalisation will bring no gains to the poor. But they must be taken into account when estimating the effects of trade liberalisation on poverty.

Brazilian research suggests that the effects from border prices to consumer prices and domestic prices for agricultural goods are not automatic. The role of large businesses means that some can use differentiated pricing, offering lower prices (or different qualities) for domestic consumption. So higher prices for exports need not be translated into higher prices for consumers.

Brazil's experience in the nineties demonstrated that unilateral trade liberalisation without corresponding market liberalisation – particularly in developed countries – for the products in which Brazil holds a comparative advantage can result in net urban unemployment. Although poverty is proportionally higher in rural areas, it is numerically concentrated in urban areas. Therefore, improvements in services such as sanitation, health and education are an essential element of any pro-poor policy. Health has been one area in which active government policies have improved conditions. The HIV programme, for example, has combined preventative actions with a generics drugs policy that significantly reduced the price of antiretroviral drugs.

Potential gains in the negotiations

Brazil has been an active participant in GATT and WTO negotiations since the 1970s (and is a founder member of GATT).

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It was a leading member of the G20, the group of major developing countries pressing for agricultural trade liberalisation, both at Cancún and in the negotiations between Cancún and the July 2004 settlement, and then became a member of the FIPS, the Five Interested Parties, US, EU, Brazil, India and Australia who led the July process. It used the G20 both as an instrument to secure a better agricultural framework and as a way of ensuring that its own and developing country interests were not left to one side.

Brazil's competitiveness in agricultural goods means that the country will benefit greatly from any future liberalisation of international agricultural markets. Agricultural goods, including processed goods, currently represent about 42% of Brazil's total exports; in recent years, this sector has played a key role in reversing Brazil's trade deficit. Although the agricultural export sector is agribusiness, based on large-scale farming and modern production techniques, the sector's positive performance has generated regional development. Poverty reduction in the Centre-West, for instance, appears to be related to the growth of the agriculture sector which has created employment in both rural and non-rural activities. There is some concern about environmental effects from this, but these could be countered by national action.

The problem of rural poverty in Brazil will not be resolved through trade liberalisation only. Extensive research indicates that in order to address this issue it is necessary that the federal and local governments work in unison and adopt a multidimensional approach to poverty. Improvement to infrastructure (the irrigation system, distribution facilities, and transportation) and access to credit are essential to incorporate the poorest into the market.

The services negotiations are an area where increasing competition from imports could bring positive gains to the population in general. The sector already accounts for 66% of the occupied population, and its expansion could then provide new employment opportunities. Given an adequate regulatory environment, services liberalisation would increase access and by increasing competition would probably decrease prices. The government's ability to improve the provision of services will depend on improvements in the regulatory framework, as well as trade reform.

In June 2004, Brazil made an offer in the services negotiations, covering business services, construction and related engineering services, tourism, cultural, and sporting services, and management services. It emphasised that it did not want to include any public services in order to be able to provide these 'in the manner that would best meet Brazil's national policy objectives' (statement by the Ambassador in the negotiations).

The agreement in August 2003 to allow developing countries without pharmaceutical industries of their own to import generic drugs from other developing countries could improve Brazil's exports, increasing national income, although it has no direct poverty effects.

Technical cooperation with other developing and Least Developed Countries could be a step towards a full utilisation of the opportunities opened by the agreement on how the rules on intellectual property (TRIPs) would be applied. These now allow developing countries to export generic drugs to countries without their own drug industry for major public health needs.

Other negotiations

Brazil is a member of MERCOSUR and is negotiating in the FTAA with the US and with MERCOSUR in the proposed EU-MERCOSUR Free Trade Agreement. But MERCOSUR is too limited a market to be a substitute for multilateral liberalisation. Since Cancún, both the FTAA and the EU-MERCOSUR negotiations have broken down (in spite of US declarations of optimism in autumn 2003 and EU, in spring 2004). Brazil has not been willing to go further with either without much improved access for its agricultural goods.

The government has started to promote the idea of increased trade among Brazil, China, India and South Africa, but only China is a significant market for it (see paper *South-South trade*). The principal barrier to trade with India is seen as lack of complementary products, not tariffs.

Conclusion

In summary, the Brazilian case illustrates that international trade liberalisation, particularly of agricultural markets, will yield important aggregate economic gains. It can also provide more incentives to investment in education, through higher demand for skilled labour. However, owing to the unequal distribution pattern in Brazil, it is reasonable to assert that these gains will not be neutrally distributed. The ability of the poor to access a larger share of these gains will depend on domestic policies. The present government's policies, including its stress on preserving its public services, suggest that some redistribution is possible.

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