

## **Le cycle de Doha: impact sur l'emploi au Brésil**

Alexandre de Freitas Barbosa

### *Résumé*

*Cet article retrace l'évolution de la politique étrangère brésilienne des années 1990 à la suite de la mise en oeuvre de politiques économiques libérales. L'auteur démontre comment, à la fin de la décennie et particulièrement pendant le régime de Luiz Inacio Lula da Silva (Lula), le Brésil entreprit une approche plus axée sur le développement. Les négociations actuelles avec l'Organisation mondiale du commerce (OMC) comportent pourtant la possibilité d'un accord qui ouvrirait le marché intérieur aux biens et services produits à l'étranger. L'auteur croit que l'impact sur le marché du travail pourrait être aussi dévastateur que celui ressenti par le Brésil dans les années 1990: une croissance du chômage accompagnée d'une transition vers le secteur informel, et d'une aggravation de l'inégalité. Pour le Brésil, abandonner la vraie protection de l'industrie et des services en échange de gains mineurs en exports agricoles n'aurait rien d'un résultat heureux aux négociations avec l'OMC, du moins en ce qui concerne le marché du travail.*

## **The Doha Round: Impact on Brazilian Employment**

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### *Abstract*

*This article traces the evolution of Brazilian foreign policy in the 1990s as a result of the implementation of liberal economic policies. It demonstrates how, at the end of the decade and particularly during the government of Luiz Inacio Lula da Silva (Lula), Brazil undertook a more developmentalist approach. Yet current negotiations with the World Trade Organization include the possibility of an agreement which will open internal market to goods and services produced abroad. The article argues the impact on the labour market could be as devastating as the ones experienced by Brazil in the 1990s: a rise in unemployment with a shift to the informal sector, and a worsening of inequality. To give away real protection in industry and services in exchange for small gains in agricultural exports, as an outcome of the WTO negotiations, would not be a good deal for Brazil, at least from a labour market perspective.*

### **Introduction**

This article critically examines the risks that would be faced by Brazilian society if the ongoing agenda of increased liberalization, pushed by developed countries in the Doha round of World Trade Organization (WTO) negotiations, were to be pursued. For Brazil, this would represent a second liberalization of the country's economy. Although some Brazilian scholars and business representatives argue that the country should trade protection in services and industry for access to foreign agricultural markets, the impact of such a political policy on jobs, income levels and job quality would be profoundly negative.

The article presents, in broad terms, the main dilemmas faced by Brazilian foreign policy makers in the 1990s, focusing on the Fernando Henrique Cardoso (FHC) and Luiz Inácio Lula da Silva (Lula) governments. An effort is made to describe the motivations behind the Lula government's decision to prioritize WTO negotiations which represented a departure from the pre-

ceding government's approach. The article then discusses the impact that the first wave of economic liberalization had on the level and quality of employment in the 1990s. Finally, the potential quantitative and qualitative impacts on the Brazilian labour market of a possible second wave of liberalization - in case the Doha Round follows the same path - will be analyzed, after undertaking a brief overview of the current WTO negotiations.

The trade strategy is evaluated in light of the possible outcomes it may bring to the configuration of the labour market. The dilemmas faced by Brazilian foreign policy in the 1990s, even if there were some novelties brought about by Lula's government such as the creation of the G-20<sup>2</sup>, still pose some threats to Brazilian society. In case the G-20 cannot offer a counter hegemonic alternative to the trade situation and an agreement is reached at the latest hour, the negative pressure on the country's labour market could leave a legacy that would be difficult to overcome.

Although the relationship between trade regimes and employment is examined in detail, the article stresses the strong influence of macroeconomic variables on labour market performance, as any direct association between trade and employment may lead to a biased understanding of the social and economic reality. The article also keeps in mind that the opening up of policy space for developing countries may impede their ability to execute home-grown development projects.

### **Brazil's Foreign Policy Position at the WTO: From Cardoso to Lula**

Brazil's foreign policy largely reflects the ambiguous position of a country with a highly complex continental economy, high resource potential in the agricultural, industrial and service sectors, yet alarming rates of poverty and income inequality. Soares de Lima (1990) attributes Brazil's complex foreign policy to the fact that some countries combine a high degree of competitiveness and international power with other characteristics strongly associated with their internal weaknesses. These nations comprise a new category, referred to as the intermediary countries (Sennes, 2000).

From the post World War II period until the end of the 1970s a number of factors assured a continuity in Brazilian foreign policy. There was a common assumption that the interna-

tional sphere should be managed in a way that did not jeopardize the possibilities for implementation of a national development project (Vizentini, 2005), despite the fact that the form of this project depended on the social support of the political forces in power at any given time. This approach has changed and even ruptured recently.

From the late 1980s through the 1990s significant changes took place in international power relations. On the one hand, the end of the Cold War and the increased dynamism of regional systems had a decisive impact on the geopolitical map. On the other hand, the acceleration of globalization, bringing new technological standards and a reorganization of production, was reflected in the economic dynamics. These new features, however, did not lead to an increase in the number of global institutions, policies and rules to manage this increasingly internationally integrated economy which would require at least an informal agreement between the world powers (Gilpin, 2002). The situation can be described as one of “global governance without global government” (Stiglitz, 2002), in which the multilateral institutions, together with a few representatives of the great powers, defend their own interests, while the global economy becomes diversified, deepening North-South contradictions and, at the same time, opening space for new emergent powers from the South.

These large scale movements gradually destabilized the basis on which Brazilian foreign policy was devised, as well as its political alignments and ideological foundations. The adoption of liberal economic policies contributed to this policy shift. In other words, the economic reforms undeniably created a growing tension with the traditional objectives of political autonomy. If at the matrix of Brazil’s relatively autonomous foreign policy, economic and political objectives were mutually articulated and reinforcing, in the current situation they appear increasingly more isolated. There is potential for overcoming this incoherence but the task requires both the acknowledgement of this problem and a sound political architecture committed to solving it, elements which are both lacking at the moment.

During the 1990s, the country’s aims, traditionally aligned with those of other developing countries, were gradually substituted by a new political approach that foresaw Brazil as an advanced developed country (Lafer and Fonseca, 1994). The

change was based on the concept that in the new international order, the ascending trajectories for the countries considered “emergent” are less tortuous, even if they depend on intense diplomatic action (Martins, 1998).

After years of resistance towards the acceptance of the international order, Brazil conducted a “cleansing of its foreign agenda”. Issues that previously were considered to be outside the field of negotiations – such as human rights, the environment, patent law, the nuclear program, computers – were rapidly advanced during the Cardoso government, changing the direction of Brazilian foreign policy (Sennes and Barbosa, 2005).

There was thus an attempt to mitigate the conflicts with the large international agencies and political powers. In this sense, adoption of a new economic agenda had particular importance, principally concerning policies aimed at expanding trade, attracting foreign investment and reducing protectionism and subsidies. Consequently, the objective of political autonomy was weakened by the acceptance of international regimes and institutions, while an active and gradual policy aimed at the construction of a regional space under the incipient leadership of Brazil attempted to regain part of the lost sovereignty.

The high priority accorded to the agenda of stabilization and internationalization of the Brazilian economy was accompanied by an approach that relegated political autonomy to a secondary level in the first Cardoso government (1995-1998). In the second Cardoso government (1999-2002), the end of the currency peg and the need to pay the foreign debt required a strengthening of the lost national sovereignty. In the next government of President Lula (2002-2006) these apparently contradictory objectives – a conservative economic agenda and a foreign policy with developmentalist underpinnings – were stretched to their limits without leading to a definitive break.

During the Uruguay Round negotiations (1986-1994), for example, Brazil opted to consolidate all of its tariffs and eliminate its non-tariff barriers, while failing to adopt protective mechanisms against unfair competition (Serra, 1997). It is worth remembering that while the developing nations were given 10 years to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Brazil needed only one year to change its national patent law. Brazil planned to distance itself, apparently definitively, from its past strategy of systematically

blockading the General Agreement on Tariffs and Trade (GATT).

Contributing to this new strategy was not only the dynamics of GATT during the Uruguay Round, but also the change in Brazil's perceptions and priorities that informed domestic economic reform. Since then, reinforcing the rules for opening trade, principally in the sectors where the country was competitive, and clarifying the mechanisms for solving disputes and addressing trade protection has proven to be priorities. Brazilian diplomacy has concentrated on issues such as agriculture and anti-dumping measures to the detriment of blocking from the agenda issues such as services and patents that were ultimately included in the WTO structure. It should not be forgotten that, until the beginning of the Uruguay Round, Brazil clearly preferred to act through alliances and participated strongly in a veto coalition whose main objective was to disallow the negotiation of the new issues mentioned above.

In fact, during the 1990s, the change in the country's economic priorities also altered its political alliances. Brazil came to strengthen its participation in the Cairns Group<sup>3</sup> (which was at first only informal), slowly shifting to regional coalitions such as Mercosur, which at this time was more a trade agreement with no concrete international policy. The first FHC government pursued this policy, which was first sketched out in the late 1980s, most fervently.

Brazil's foreign policy direction was directly affected by the external economic crisis of 1998, which culminated in the devaluation of the real (Brazilian currency) in January 1999. On the one hand, President Cardoso was forced to conduct economic diplomacy against his will (Almeida, 2004), negotiating financial assistance packages, as well as political support of Mercosur, taking a "tougher" position in trade negotiations both in the realm of the WTO, and in those established in the North American Free Trade Agreement (NAFTA) and the European Union (EU). This was evident in Brazil's increased use of the Dispute Settlement Body (DSB) of the WTO since the second Cardoso government.<sup>4</sup> However, in the realm of discourse, it has been suggested that the country should utilize its competitive advantages in agribusiness and cease defending the principle of special and differentiated treatment (Amaral, 2003).

After the launch of the Doha Round in 2001, Brazil's actions in the WTO followed patterns inherited at the end of the

Uruguay Round, but with some additional tactical moves. The country's negotiating tactic became bolder, but it did not resume its past alliance with the G-77.<sup>5</sup> Proof of this is reflected in the fact that the Brazilian government did not make radical objections to the "Singapore issues"<sup>6</sup>, unlike India (Abreu, 2003). The developmentalist discourse was subtly reinforced and a number of issues of traditional importance to the South were raised, such as TRIPS. Based on a coalition that included India, South Africa, the WHO (World Health Organization) and several global NGOs, Brazil confronted the lobby of multinational pharmaceutical companies and won support for the interpretation of TRIPS that public health should take precedence over economic interests.

If most of the elements of foreign policy continued to be the same in the Lula government as in the second Cardoso administration, they would now be articulated under a new set of priorities (João Paulo Veiga, 2005). In the Lula government, WTO negotiations, South-to-South relations and Latin American integration dominated foreign trade policy, reducing the impetus for negotiations in the realm of the Free Trade Area of the Americas (FTAA) and the EU. It was based on the hypothesis that the negotiating arena with the developed countries should be transferred to the WTO given that the superpowers had little desire to negotiate in the inter-regional sphere (Batista Jr, 2003).

The origin of the G-20 can be traced back before the Lula government, but the investment in this new alliance should not be seen as a natural result of the constant reformulation of the Cardoso government's foreign policy to an unstable world context. In fact, it represented a qualitative change in the formulation of foreign policy which would only become viable in the Lula government because of its domestic political coalition. Adopting a defensive position on issues such as investments, government procurement and intellectual property only made sense if the government was willing to launch a new strategy of building alliances. In the Cardoso government, this position was localized, topical and tied to a specific action as in the case of the policy to fight AIDS and to defend the generic drug law, confronting the limitations imposed by TRIPS.

Conversely, foreign policy in the Lula administration assumed that a focus on issue-based alliances such as the Cairns Group was very limited. While the issue of agriculture played a strategic role for the country, so too was the need to create a

block-type alliance between large developing nations to end the EU-US blockade. The G-20 began as a coalition that combined both elements (Pedro da Motta Veiga, 2006). Thus, by seeking a new alliance with a developmentalist profile, the Lula government did not return to a typical G-77 approach. It retained support for one of its priorities: agriculture. But Brazil had to yield, retreating from an exclusive focus on a generalized opening of agricultural markets for all countries. It accepted a dual-paced liberalization in agriculture, following the concept of special and differentiated treatment and considering the defensive demands of countries such as China, India and small developing countries from the G-33. In other issues, a more developmentalist stance predominated, like the reticence to discuss the “Singapore issues” and the support for the concept of “less than full reciprocity”.<sup>7</sup>

For some analysts, the capacity of the G-20 to effectively shape the WTO agenda remains to be seen given that it is a defensive coalition (Abreu, 2003). This point is usually advanced by the agribusiness sector representatives, for whom the G-20 should not divert its focus from agriculture (Rodrigues, 2007).

It is also important to emphasize that the Lula government took office in a climate of distrust in international markets. It, therefore, had little maneuvering room for its economic policy. The government attempted to recover the country’s foreign credibility by accepting the IMF’s recommended structural adjustments. Given this economic strategy, Brazil sought to raise the profile of its activities in the political realm and in trade negotiations. It, thus, attempted to counter its conservative position in handling economic policy with a vocal international position, manifesting a diplomatic activism in areas in which the Cardoso did not take a strong position. In other words, Brazil started to “speak loudly” at the WTO because it reduced its voice at the IMF, exactly when Argentina attempted to renegotiate part of its foreign debt.

The foreign policy changes made by the Lula government, however, did not represent a brusque change of course. It may be more suitable to characterize the current government’s foreign policy as one that reinforces the distance between a conservative economic policy and a foreign policy that addresses Brazil’s position in large international forums in harmony with other developing countries.

These different policies, on only apparently disconnected



fronts, may reflect an absence of coherence within the government's policy. Or, conversely, perhaps it reflects a rational policy from both negotiating groups inside the government (the economic/financial and the foreign policy/trade bodies). Depending on the course of negotiations at the WTO – which, despite its active role, Brazil is far from controlling – one of the sides could claim victory, and if the winner is the financial body, more harm than good would come to Brazilian society.

### **Lula's WTO Policy: an Agenda of Multiple Interests**

If Brazil's foreign policy depends, to a large degree, on the constitution of the G-20 and on the negotiating strategy adopted for this block to obtain "advantages" in the Doha round, it is no less true that the G-20 has depended on Brazil's negotiating position, which reflects a temporary balance between conflicting political forces on the national front inside and outside of the government.

The view widely held in international meetings and conferences that the Brazilian position in the WTO reflects exclusively the interests of agribusiness is overly simplistic. It cannot be denied that this sector applies pressure through the Ministry of Agriculture and Agrarian Policy (MAPA) or directly through research institutions financed by agribusiness. However, according to Pedro da Motta Veiga (2005), two other elements should be considered in order to understand the Lula government's investment in G-20. The strategy of the Lula government, contrary to that of Cardoso, sought to link foreign policy objectives to trade negotiations. The new priority became emphasis on South-South relations, while South-North negotiations required the maintenance of a suitable space to make the policies of industrial and technological development more viable. There has also been an attempt to get closer to social movements and important segments of the Workers Party (PT) that were discontented with the orthodox economic policy. In this regard, the foreign policy functioned for internal purposes as well. An example of this is the fact that Brazilian support, if not yet complete, for the G-33 proposal concerning special products and the special safeguard mechanisms, found support in the Ministry of Agrarian Development (MDA), controlled by the farthest left wing of the party.

The very complexity of the Lula government's foreign policy – the return to the North-South divide and the generic sup-

port, at least within the WTO, for space for developmentalist policies – explain, in some way, the creation of the G-20. Its structure is the result of the conciliation of complex interests existing among the countries that comprise the group, but also of those internal interests – both from the right and the left of the political spectrum – that shape Lula’s foreign policy.

However, the continuity of the G-20 will be affected if the options required for pursuing the negotiations pit Brazil against the other countries, as well as pitting various groups within the country (like agriculture and industry business representatives, trade and financial government bodies and social movements) against one another. Actually, the position of the Lula government at the WTO reflects the country’s fragile balance of domestic power, which could be weakened if it opts for a “viable” round, one which considers the resistance of developed countries and assumes that the costs for Brazil can be compensated for through internal policies. Therefore, if it is true that foreign policy serves as a counterpoint to the economic model maintained by the first Lula government – as it does not suffer from budget limitations and finds support and legitimacy from some segments of society and from the bureaucracy of the Ministry of Foreign Affairs (Soares de Lima, 2005) – domestic political tensions that lie behind this position may also arise. That may not happen only if developed countries, particularly the US and members of the EU, stick to their narrowly defined interests and do not allow the Doha Round to be concluded.

The principal internal opponents to the G-20 came, at the group’s inception, from agribusiness, free trade economists, academics and foreign policy makers from Cardoso’s government. Some argued it was a mistake to concentrate all trade policy efforts in the WTO, while others condemned forging a coalition with governments that not only had defensive positions in agriculture, but also in services and industrial goods, thus not favouring Brazil’s so-called comparative advantages. If the G-20 is no longer being questioned, its defensive strategy is, stemming from the very heterogeneity of the countries that compose it (Jank, 2003).

With the redefinition and refinement of the WTO agenda in 2004 – leaving aside new themes and giving priority to market access (that involve agriculture, industry and services) – the developed countries have once again established the agenda of the

Doha negotiations. They also increasingly have had to negotiate with the new coalitions of developing countries (G-20, G-33 and G-90).

Just before the Hong Kong meeting, the free trade proponents in the Brazilian government – those concentrated in the Finance Ministry who supported Brazil’s involvement in the FTAA negotiations – released a document in August 2005, setting up the main conditions for a round of trade negotiations that would be beneficial for Brazil. The text assumes that the Doha Round depends on a “negotiating effort” of developing countries such as Brazil and forecasts the “end of Mercosur”, arguing that the trade tensions between Brazil and Argentina has proven the block’s inability to establish workable proposals. It, thus, does not recognize that the most technologically intensive sectors tend to have their exports more concentrated in Mercosur, nor admit the important role of the Common External Tariff (TEC)<sup>8</sup> for attracting investments from multinationals and for providing opportunities to enhance intra-regional productive chains.

These two general premises are only justified when considering the principal objective that motivated the Finance Ministry team: the promotion of a second generalized opening of the Brazilian economy designed to raise productivity levels. The report argues that tariff reductions – independently from the current macroeconomic conditions of interest and exchange rates and the differences in competitiveness between Brazil and the rest of the world – will inevitably have “positive impacts on the productivity of companies and the Brazilian economy” (Ministério da Fazenda, 2005).

In reality, the Finance Ministry document suggests creating a new sort of FTAA with increased Brazilian exports, especially in the most capital intensive sectors, not only to the United States, but to the entire world, including China. Implementation of the policies outlined in the report would, however, actually lead to an increasingly regressive specialization of the Brazilian industrial structure: a combination of “maquiladoras” with natural resource intensive industries, reducing the industrial park to a few competitive sectors and companies (IOS, 2005).

The Finance Ministry document does not consider the fact that a significant portion of Brazilian trade is conducted between multinational companies acting in deeply oligopolistic markets. The reduction in tariffs can decrease incentives to invest

in some countries which would become new potential importers, concentrating a large portion of production in those that have a greater combination of advantages (including currency, internal market and participation in regional agreements). The position outlined in the report would serve to weaken the negotiating position of the Brazilian government – that considered the interests of agribusiness, but was undertaken by the Ministry of Foreign Affairs with the participation of the Ministry of Development, Industry and Commerce (MDIC) – which to a large degree defended the position of Brazilian industrialists.

The MDIC (2005) prepared its own report on the agreement which was based on the following assumptions. The report maintains that a significant portion of the trade gains due to the reduction of tariffs would be channeled to multinational companies producing imported goods. The presence of intra-firm trade is clear in the list of the 11 most important industrial products imported by Brazil from developed countries (MDIC, 2005). Instead of providing cheap products, the profitability of the multinationals would be increased, generating jobs and technology outside the country. In this way, the MDIC does not question the possibility of reducing tariffs for some products, and admits that this policy could make sense if inserted into an industrial policy. According to the MIDC report, “the tariff should be the one suitable for the country at a given time” (2005). The policy space – the ability to adjust tariffs according to the productive needs of the country - could not be compromised. MIDC further acknowledges that contrary to developed countries, the majority of developing countries do not have mechanisms to promote their industries, such as quantitative restrictions and subsidies. They also have difficulty creating and sustaining research institutes and organizations responsible for setting technical norms and regulations. Much of the protection in developing countries tends to be tariff-based (Chang, 2005).

The position of the National Confederation of Industry (CNI) is similar to that of the MDIC. According to a report from the Coalizão Empresarial Brasileira (Brazilian Business Coalition), the national industrial sector “does not have offensive interests in the multilateral negotiations” (CEB, 2005). The CEB defends greater transparency in the protective structure of industrial goods, the bounding of tariffs and the harmonized treatment of non-tariff barriers, which can open new markets for Brazilian

products given that many developing countries still have protectionist practices in some sectors. The CEB report also emphasizes that manufacturing associations such as ABIT (Brazilian Textile and Apparel Industry Association), Eletros (Brazilian Consumers Electronics Association) ABINEE (Brazilian Electrical and Electronics Industry Association) and Abimaq (Brazilian Machinery Builders' Association) manifest the need for higher coefficients for the Swiss formula being discussed in the Non-Agricultural Market Access (NAMA) negotiations (CEB, 2005).

Evidence indicates that the interests of these sectors have been considered by the Ministry of Foreign Affairs. During the mini-ministerial meeting in the first week of November 2005, it accepted the possibility of reducing the average bound tariffs for industrial goods by half – to a coefficient of 30, with an expansion of flexibilities (percentage of goods that would have a waiver in the application of the coefficients) – if the EU would promote an average cut of 54 per cent for agricultural products and the US reduced its domestic support to agriculture (Valor Econômico, 8 November 2005).

Workers tended to be even less supportive of an attempt to lower tariffs in order to satisfy developed countries' demands. The Central Única dos Trabalhadores (CUT) [Single Workers Trade Union], defended the current foreign policy implemented by the Ministry of Foreign Affairs, which was based on the strengthening of Mercosur and of the South American Community, the advancement of the Brazilian role in South-to-South relations and the questioning of the terms of the FTAA and of the Mercosur agreement with the European Union (CUT, 2005a). CUT also expressed concern that the NAMA negotiations could lead to a return to the pre-devaluation situation of 1999 when Brazilian trade deficits with Europe and the United States were enormous, and also weaken the recent recovery of trade within Mercosur, concentrated in industrialized products (2005a). The union warned that the negotiations could affect the level and quality of employment in the manufacturing sectors which account for 2 million jobs (CUT, 2005b).

More recently, despite the fact that Brazil is part of NAMA-11, the group of G-20 countries that criticize developed country demands for developing countries to drastically reduce tariffs on industrial goods, the international press has reported the willingness of the Brazilian government to increase the offer in

NAMA to a coefficient of approximately 20 – not far from the rate of 15 proposed by the Finance Ministry in 2005.

The Brazilian Business Coalition met in February 2007 and expressed concern about the rapid reduction of tariffs and the reduced space for flexibilities in the event that the proposal from the developed countries was accepted. CUT, meanwhile, signed a document with other trade unions that comprise the NAMA-11,<sup>9</sup> asking their governments to remain firm in their positions. It also sent a letter to Foreign Minister Celso Amorim (6 February 2007) criticizing the actual course of the negotiations which has promoted the generalized opening of the industrial sector in developing countries in exchange for limited benefits in the agricultural sector, if there are any at all.

It is important to emphasize that the Brazilian position in the service sector negotiations, until now, has not met the developed countries' demands, even when compared with the NAMA negotiations. Brazil's position in regards to services does not open up the financial and telecommunications sectors, and in the education and audiovisual services sectors it has decided to withdraw from plurilateral negotiations. The government opens up the services sector in mode 3,<sup>10</sup> with some restrictions in market access and national treatment existing in other sectors. In mode 1, there is a lack of concession in the large majority of sectors. In mode 4, it acts as a *demandeur* (claimant) together with India.

The Brazilian government has been collaborating with other developing countries in the discussion on the domestic regulation of services to allow governments wider margins in domestic economic regulation. They have been working on the definition of rules for competition and subsidies and the universalization of goals and standards for suppliers in the private sector (IOS, 2006). Risks exist, however, especially as various developing countries, particularly Brazil, could suddenly offer additional concessions in the service negotiations, after the dispute between NAMA and agriculture is resolved. The Ministry of Foreign Affairs has declared that it could make new offers in order to adapt to what has already been liberalized nationally (Azevedo, 2007a).

To sum up, the relative internal consensus, on the left and right, about the leading role Brazil had taken at the WTO negotiations has begun to fade as Brazilian social actors, business representatives from agricultural and industrial sectors and the representatives of various spheres of government assume increasingly

conflicting positions regarding the position outlined by the Ministry of Foreign Affairs.

### **The First Liberalization of the Brazilian Economy in the 1990s**

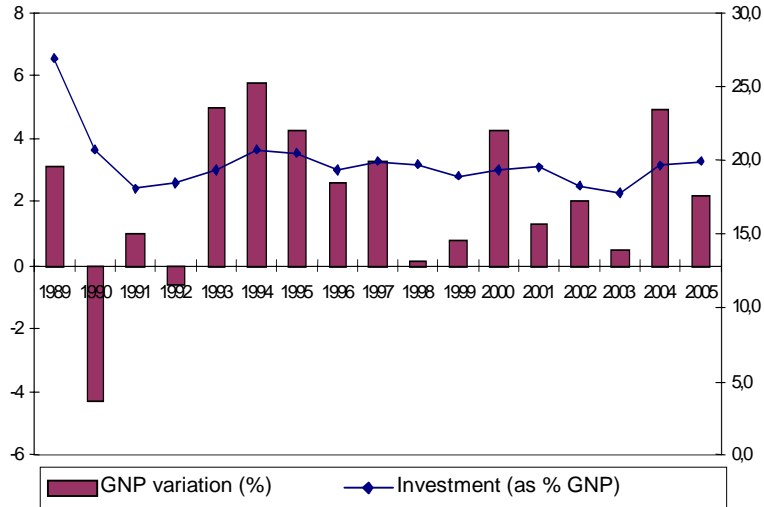
The 1990s can be considered a watershed in Brazilian economic history. Unlike the 1980s, which were marked by high inflation rates and economic stagnation as a consequence of the foreign debt crises, a change was promoted in the model of integration into the world economy and in the role of the State, triggering a new macroeconomic dynamics. From 1940-1980 Brazil grew and diversified, attracting multinational companies and becoming an exporter of dynamic products. This contributed to the organization of the working class and the rise of a new middle class, despite the growing levels of income inequality and the lack of generalized access to social rights.

During the 1990s, as economic growth indicators (the investment rate and the levels of informality and unemployment) reveal, modernization of consumption standards and technologies for elite segments were accompanied by a weakening of industrial structures and a deepening of social exclusion (Furtado, 1998). Brazil was marked by high interest rates which were justified, in part, by the indiscriminate opening of the economy to short-term capital and by the increased value of the national currency from 1994-1998, which required the government to seek financing to cover the current account deficit. Monetary policy thus became captive to the whims of the international economy. During the past 15 years, only in 1994, 2000 and 2004, did the country's economy grow at a rate above 4 per cent. In these same years, the investment rate reached a peak – quite low it is important to note – of 20 per cent of GDP, which soon dropped (see Graph 1).

The combination of high interest and exchange rates had a strong influence on the industrial and agriculture sectors, which are more dependent on financing and were strongly hit by competition. The average growth of industrial production from 1990-1999 was lower than 1 per cent a year, while agricultural production rose 2.3 per cent a year, both substantially lower than their historic standards. Meanwhile, the service sector grew a bit faster than the national average (at 1.8 per cent a year) (see Graph 2). A process of relative de-industrialization of the Brazilian economy was noticed with increased specialization in some

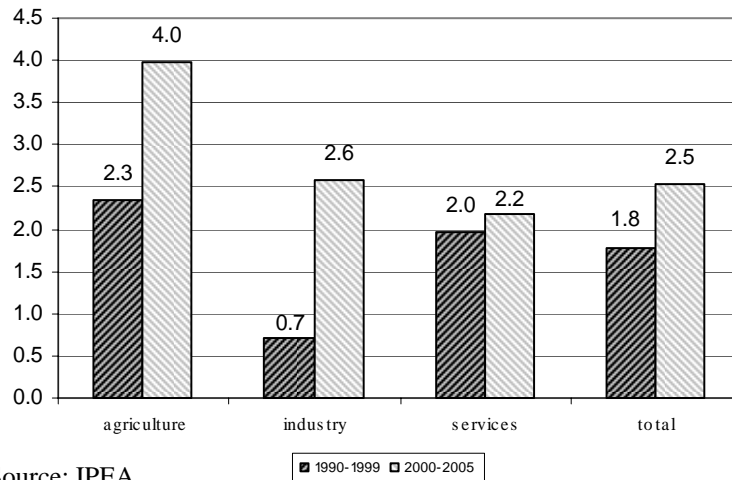
sectors like the agribusiness and natural resource-intensive industries.

**Graph 1: Investment as a % of GNP and Variation of Brazil's Real GDP: 1989-2005**



Source: IPEA

**Graph 2: Average Annual Growth of Total and Sectoral GNP in Brazil: 1990-2005**

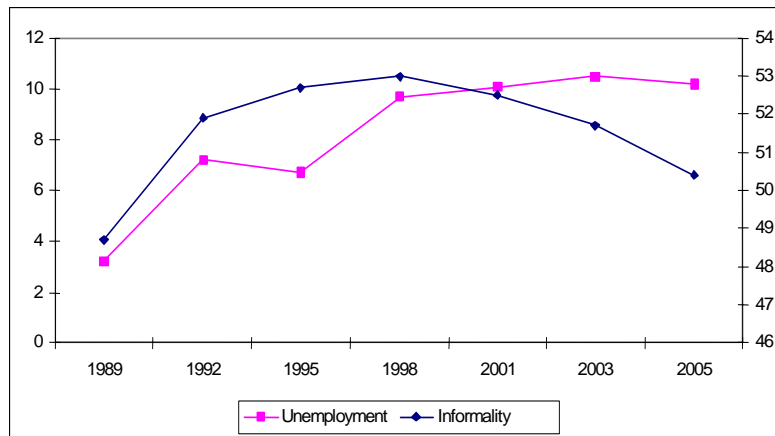


Source: IPEA.



In this context of economic instability, high interest rates and competitive pressure on domestic production, the labour market responded with increased open unemployment, which grew from 3.2 per cent in 1989 to 9.7 per cent in 1998, and an expansion of informal labour from 49-53 per cent in the same period (Graph 3). The total number of unemployed rose four times in this period, leaving the country at the end of the decade with the world's third largest unemployed population (Pochmann et. al., 2004). In addition, open unemployment accounted for only one third of all workers with a highly precarious position in the labour market (Barbosa, 2006).

**Graph 3: Unemployment Rate and Level of Informalization in Brazil: 1989 - 2005**



Source: IBGE (PNAD) and IPEA

The theoretical debate about trade liberalization and employment is quite complex. The main problem of the empirical analyses is that, together with the opening of the economy, other factors affect the performance of the labour market, such as macroeconomic variables, employment policies and technological factors. The recently published joint document by the ILO and the WTO argues that, “in the long run, efficiency gains should lead to a positive employment balance” and limited supply in underdeveloped countries can be overcome by means of “aid for trade” policies (Jansen and Lee, 2007). However, at no time does

this document discuss trade patterns and productive specialization trends and their impacts on the quality and level of employment. It is as if the unrealistic free trade assumptions that revolve around the Ricardian doctrine<sup>11</sup> continue to shape the analysts' frame of mind in a world in which trade is actually controlled by multinational companies and with the active use of industrial, trade and technological policies by the developed countries, even though they appear to disregard this paradox (Chang, 2005).

Stiglitz and Charlton (2005) argue that the hypothetical and unrealistic assumptions of conventional economic theory present a choice between free trade and autarky. In practice, however, there is a wide spectrum of concrete possibilities that define the various trade regimes. The benefits of liberalization depend, according to these authors, on the particular national circumstances of an individual country and on gradual implementation of these policies (Stiglitz and Charlton, 2005). In Brazil, however, the opening of the economy did not follow the pattern suggested by Stiglitz and, therefore, had a negative impact on employment, especially in the industrial sector, via increased imports and regressive specialization on low-value added sectors in a context of stagnating domestic demand. The liberalization also did not reduce salary inequality between skilled and unskilled workers as forecasted by traditional theory (Ventura-Dias, 2005).

Table 1 shows the performance of the principal variables of manufacturing in two sub-periods, between 1990 and 1999, in which 2 million jobs were eliminated. Most of the job loss occurred between 1990 and 1994, when there was a low growth of industrial GDP and high levels of trade liberalization. Between 1995 and 1999 the opening of the economy was accelerated by the overvaluation of the Brazilian currency which harmed industrial production and was also affected by high interest rates. Although industrial productivity expanded 40 per cent, it occurred through a minimal increase of industrial GDP and a large job cut. In 1998, the Brazilian trade deficit in industrial goods exceeded US \$10 billion. It was concentrated in the developed countries which benefited from the reduction of the tariff levels to a lower level than what was agreed to in the Uruguay Round.

**Table 1: Tariffs levels, Production, Exports and Employment in the Manufacturing Sector**

	1990 – 1994	1995 – 1999
Avg. tariff levels in Industry	Fell from 45.6% in 1989 to 14.3% in 1994 (fall of nearly 70%)	Rose gradually until reaching 16.8% at the end of the period
Industrial output	Annual expansion of 2.1%	Annual expansion of 0.3%
Industrial exports	Annual expansion of 5.4%	Annual expansion of 2.1%, with trade deficit in the sector in 1998 of US\$ 10 billion
Industrial employment	Accumulated drop of 13.7% (1.320 million jobs lost)	Accumulated drop of 7.3% (600 thousand jobs lost)
Macro-economic Context	Structural adjustment and recession followed by economic recovery and surge in consumer spending in 1994	Overvaluing of the currency with high interest rates and decreasing levels of economic growth

Source: IOS, 2005

In terms of industrial employment, a trend toward increased precariousness has occurred, particularly in metropolitan regions. The level of informality in these regions jumped from 16.5 per cent to 29.3 per cent between 1991 and 1999 (Ramos, 2002). At the same time, in the agricultural sector, the Population Census database reveals a drop of more than 3 million jobs in agriculture between 1991 and 2000. That is nearly a 26 per cent drop in employed labour, most of which is concentrated in family agriculture (IBGE).

The service sector, in turn, responded to the demand for employment, generating formal and informal jobs at both high and low levels of income and training. From 1992-2001, the commercial and services sectors generated 12.7 million new jobs, while the agriculture and industrial sectors continued to have losses (SDTS, 2003). At the end of the period, the services and commercial sectors accounted for nearly 70 per cent of formal jobs, 64.3 per cent of wage-earners without contracts and 52 per

cent of non-salary jobs (Table 2).

Therefore, while the industrial labour market became more precarious, the service sector became more formalized due not only to an expansion of social services and low-skill services, but also due to the process of sub-contracting in the most modern activities of the tertiary sector. Nevertheless, this sector has continued to be characterized mainly by informal employment. It is not by chance then that it is the sector with the most uneven distribution of income, when compared with industry and agriculture (Cardoso Jr., 1999).

**Table 2: Distribution of Employment by Occupation and Sector in Brazil: 1989 and 2001**

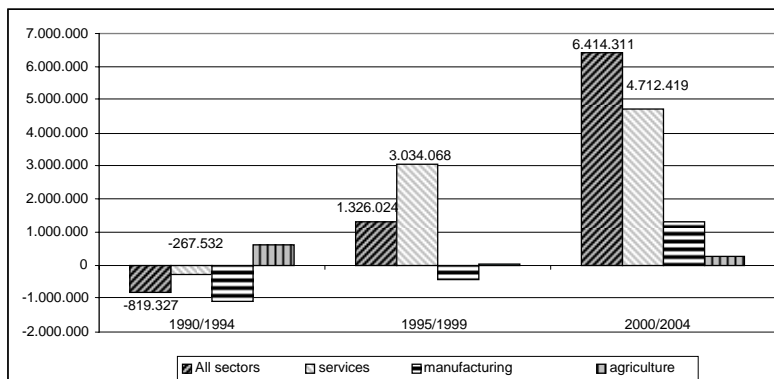
Type of Occupation	1989			2001		
	Agriculture	Industry*	Services and Commerce	Agriculture	Industry*	Services and Commerce
Salaried jobs	13.1	29.4	57.5	9.0	23.4	67.6
With contract	4.8	38.1	57.1	3.6	26.8	69.6
No contract	25.2	16.6	58.2	16.7	19.0	64.3
Non-salaried	42.6	12.7	44.7	32.8	15.3	51.9

Source: IBGE (PNAD)

\* includes manufacturing, construction and public utilities

In analyzing formal employment, particularly in larger companies, it is noted that from 1990-1994, the Brazilian economy eliminated nearly 1 million formal jobs, mostly in manufacturing (Graph 4). Between 1995 and 1999, Brazil continued to generate formal employment, but only in the service sector. From 2000-2004, the ability to generate formal jobs was more than five times higher than in the second half of the 1990s, increasing the levels of employment in the three sectors (Graph 4). This can be explained by the reindustrialization process and a new trade regime, brought about by devaluation, allowing companies to invest and to control larger segments of both the domestic and international external markets. The new dynamics may be interrupted by a combination of an overvaluing of the currency and falling tariffs, the latter as a possible result of the WTO negotiations.

**Graph 4: Total Formal Jobs Generated in Brazil by Sector**



Source: MTE (RAIS)

### **The Doha Round: Negative Impacts on the Brazilian Labour Market**

The evolution of the current multilateral trade system can be divided into three phases. The first includes the period beginning in 1947, when GATT was formed, and runs until the mid 1980s. The second phase includes the Uruguay Round negotiations and the first five years after the creation of the WTO, from 1986–2000. A third phase begins with the Doha Round in 2001, and is characterized by a growing complexity of trade discussions and disputes for which the outcome is still not clear. The suspension of the negotiations in July 2006 was not unexpected, and no one knows where the recent resumption of negotiations will lead. Therefore, it is impossible to say what will define this third phase of the multilateral trade system.

During the last half century, the multilateral trade system has expanded as a larger number of countries have joined GATT and then the WTO, broadening the list of negotiated issues. In the first phase, the number of countries grew from 23 to 102. The basic subject around which the negotiations revolved was market access, which was to be gained through the removal of tariffs on industrial goods. Both the agricultural and the textile sector, where the developed countries have been less competitive, have always had highly protected markets.

In the second phase there were 123 participating countries. The developed nations, with a growing disadvantage in terms of numbers but not in terms of power, agreed to discuss, at

least in theory, the liberalization of their textile and agricultural sectors. In exchange, they imposed upon the developing countries a new trade agenda focusing on services, intellectual property and investments which came into force after the creation of the WTO.

Since 2001, with 149 participating countries, an impasse has occurred, which has increased as the negotiations have advanced. The developed countries have pressured for a greater liberalization of services and industrial goods beyond that which the developing countries had already agreed to at the end of the Uruguay Round. They have also opposed offering an effective reduction of levels of agricultural protection as they already had agreed to that in the past round.

It is important to emphasize, however, a subtle change that has emerged in this third phase. The developed countries no longer have uncontested hegemony. They are now forced to negotiate with informal groups and alliances organized among the developing nations. Therefore, the Doha negotiations are deadlocked because the developing countries have begun to question the false multilateralism of the international trade system in existence since the formation of GATT, and institutionalized with the creation of the WTO.

At least on a rhetorical level, the Doha Round, which commenced in late 2001, is to continue to establish “special and differentiated treatment”, assuring the end of restrictions and distortions in global agricultural markets in order to favour the expansion of exports from developing countries. Specific conditions were to be implemented so that these countries adapt to the commitments established in relation to the “new themes”, thus incorporating the principal of “less than full reciprocity”. In the case of TRIPS, the agreement was to not harm the expansion and improvement of public health policies, but allow both access to non-prohibitive prices as well as research and development of new medicines in the developing countries (Cepal, 2003).

The quantity of issues that comprise the negotiating agenda of the Doha Round became gradually limited, particularly after the Cancun confrontation. In July 2004 and during the first meeting in 2005 of the Trade Negotiations Committee, NAMA was one of the priority themes of the Doha Round, together with services, agriculture and rules for trade facilitation (Carta de Ginebra, February 2005). In practice, the base text for the NAMA negotiations of the July 2004 package would only be ap-

proved after a demand from some of the developing countries for the inclusion of the following paragraph: “additional negotiations are needed to reach agreements in each of these themes, which would be: the formula, the treatment of the non-bound tariffs, flexibilities for the developing countries, participation in the sectoral negotiations and the erosion of preferences” (IATP, April 2005).

After the Hong Kong meeting in December 2005, the conflict between agriculture and NAMA became increasingly clear. From the perspective of the developing countries, there are two basic reasons for the imbalance in the negotiations over the two themes. The first is the Swiss formula for industrial goods which would lead to a harmonization of the tariff structure between the various sectors of a single country and between the various countries without taking into consideration the differences in productive structures between developed and developing countries (Akyüz, 2005). In the case of the agricultural negotiations, the reduction is linear within the bands (the range of goods with similar tariffs). In other words, there is a reduction of tariffs with different percentages for each of the various bands, set up for different sets of products. But there is no dramatic cut for the higher ones and there is no tariff limit. The developed countries refused to accept a ceiling of 100 per cent on agricultural goods. On the contrary, if a coefficient of 20 was adopted on NAMA, the ceiling would be 20 per cent for the industrial tariffs practiced by the developing countries.

The second reason for the imbalance in the trade negotiations is related to the flexibilities. In agriculture, they oscillate between 8 and 15 per cent of the tariff lines without taking into consideration their participation in the total value of imports. That is very different from the NAMA negotiations where the flexibilities cannot exceed 5 per cent nor involve more than 5 per cent of the value of imports. This, therefore, means a more than full reciprocity for developing countries (Khor, 2006).

The suspension of trade negotiations in July 2006 was followed by demonstrations in support of the negotiations. A movement has been attempted, since February 2007, to conclude the round during this year. The chairs of the agriculture and NAMA negotiations launched draft papers at the end of June 2007 with the avowed aim of closing the gap between the countries' different interests. On agriculture there was some margin

for negotiation, even though this may be construed as a bluff from the US which continues to possess an increasingly defensive attitude; however, in the case of NAMA, none of the requirements from developing countries were accepted by the chairman (Azevedo, 2007b).

What is at stake now for developing countries is standing firm on their present position, at least until the negotiations can restart with different principles – ones which are meaningful to countries that want to change the present unequal international division of labour. For instance, the Doha Round should definitely not limit the already very small space for undertaking development policies in industrial, agricultural and strategic service sectors by countries of the South.

Brazil, although still largely supporting the position of other developing countries, would be more willing to negotiate for less space in the development of industrial policies (through accepting an actual decrease of bound tariffs) in exchange for some real access to global agricultural markets. However, the possible split of the developing country coalition may not occur, paradoxically, by the US and EU's bold refusal to make further, concrete concessions.

In case the negotiations proceed according to the current terms laid out by the WTO, two threats are posed to Brazil. First, a pattern of passive insertion in the world economy will be consolidated based on agribusiness control and low added-value exports, leaving the country much more dependent on the transnational strategies in the high-technology sectors. This situation, to which the ongoing negotiation structure contributes, will be worsened if the current policy of a high exchange rate and high interest rates is maintained. After all, from 2005 onward, Brazil's trade deficit of industrial goods of high and medium-high technology increased, while the trade balance in the medium to low technology sectors remained stable, with an increase only in low technology industries and in products intensive in natural resources as a result of the increase in commodities prices (IEDI, 2007).

In the services sector there is a risk that multinational companies may enter into new and old sectors, weakening the position of Brazilian companies and reducing the capacity for intervention in the public sector, especially if the developing countries are not able to secure their position on domestic regula-



tions. In addition, it is noteworthy that the Brazilian trade deficit in this sector in 2005 exceeded US\$ 8 billion (IOS, 2006). There is also a risk that this new productive structure, compounded by the loosening of inter-sectoral links, would have substantial negative impacts for the labour market, in terms of the number of jobs, increasing informality and declining income levels. These two threats to the Brazilian labour market might negatively impact the Brazilian labour force even if the Doha Round is not advanced, but it would be more difficult to counteract them in a context of falling tariffs.

It would be useful to describe what occurred between 2000 and 2004, after the devaluation of the Brazilian currency. Despite high interest rates, the industrial GNP began to grow again and the country occupied new international markets for industrial goods while the level of employment had a substantial recovery, even though unemployment levels did not fall at the same pace. In other words, this process of reindustrialization can be intensified if policies to take advantage of the domestic and international markets and to expand investments are implemented with reasonable and differentiated levels of protection, helped by sectoral policies and a stable currency. Trade in industrialized products, for example, grew from a deficit of US\$ 10.2 billion in 1998 to a surplus of US\$ 18.2 billion in 2004, indicating the extent of the reindustrialization process (Barbosa, 2005).

The expansion in formal employment from 2000-2004 included nearly 1.3 million new jobs in industry, or five times as many as the total number of jobs generated in agriculture, which was 270,000. More importantly, the services sector was responsible for three quarters of the formal jobs generated in the period (see Graph 4). Table 3 presents the employment structure by sector, the level of informality and the average income for 2004 throughout the country. Agriculture accounts for 17 million jobs in Brazil, only 12 per cent of these formal ones, mainly located within the agribusiness sector which accounts for around 2 million formal jobs (IBGE:PNAD).

Returning to the effects of the WTO negotiations in the best case scenario – if the developed countries make any concessions, which is unlikely, this could lead to an increase in a few hundred thousand agricultural jobs in coming years, as this sector is increasingly capital-intensive, and at income levels lower than the Brazilian average. This increase could be more than compen-

sated for by a 10 per cent loss in industrial employment, characterized by higher salaries and less informality. We should also bear in mind that, in Brazil, a significant portion of agricultural jobs – above 50 per cent - are still generated by family farmers and small landowners, who stand to benefit little from the WTO negotiations and could even be potentially harmed, if the price of land is increased.

**Table 3: General Indicators for the Brazilian Labour Market**

	Employment (Total Jobs)	Distribution of Employment (%)	Level of Formality (%)	Average Income
Agriculture	17,733,835	21.0	12	230
Manufacturing	12,049,072	14.3	65.3	699
Civil construction	5,354,375	6.3	28.9	534
Services	49,231,586	58.4	56.2	754
Total	84,368,868	100	47.3	622

Source: IBGE (PNAD)

Average income is per month in Brazilian currency at 2004 levels

Meanwhile, the services sector, which accounts for more than 60 per cent of employment in the country, will most likely once again absorb these new unemployed workers. Those workers coming from the natural increase in the labour force will most likely be forced to participate in precarious and informal activities. It should also be emphasized that the possible rise in employment in some services, by means of increased exports in services, would be more than compensated for by the imports of qualified services from the developed countries, and also by the expansion of multinationals in the domestic market, buying existing assets and causing the deterioration of labour conditions through outsourcing, as occurred in the 1990s. In this way, the exchange of services and industry for agriculture does not satisfy Brazilian interests if regarded from the perspective of the labour market (Jakobsen and Barbosa, 2006).

The narrow economic view, based on the theory of comparative advantages, is not only defended by economists who support free trade and who defend the interests of agribusiness in Brazil. Even authors who criticize the position of the United

States in the Doha Round, such as Polasky (2007), do so based on a criticism of agricultural protection, which generates, they maintain, few jobs in this country, compared with industry and services, which would benefit the most with trade liberalization.

It should be stressed that the industrial and service sectors combined account for three quarters of all jobs in Brazil, and, on average, are better paying, formal jobs with better recognition of social rights than in other sectors. In Brazil the increased unilateral opening of the economy, as proposed by the developed countries at Doha, would negatively affect the level of investments as well as the potential for increasing productivity in the more dynamic activities of these sectors, slowing down the rate of job creation and consolidating an employment pattern based upon low wages and less skilled jobs.

### **Conclusion**

This article explored the change in Brazilian foreign policy since the 1990s. The old developmentalist foreign policy was replaced by a more internationally focused government policy which founded its rationale on the implementation of market-friendly economic reforms. However, the devaluation of the real in 1999 led to a stronger trade policy, concentrating on the North-South divide, as the country was forced to export to pay its external debt. Under Lula, and with the creation of the G-20, the developmentalist foreign policy has been revived, but in a new manner, as it has still had to compromise with the neoliberal thinking at the Finance Ministry.

A complex reconciling of different interests within Brazilian society has opened the door for Brazilian leadership of the G-20 which is comprised of countries with different interests. If this alliance is weakened and the Doha Round moves forward, meeting the developed countries demands, the impacts on the Brazilian labour market could resemble the conditions faced during the 1990s: loss of jobs, increasing informality and maintenance of high rates of inequality. The industrial and service sector negotiations – NAMA and GATS, respectively – would eliminate jobs that would not be compensated for by new jobs in the agricultural sector, as this sector is mainly capital-intensive, provides fewer inter-sectoral links and has the lowest average income levels.

### Endnotes

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E-mail: alexandre@observatoriosocial.org.br.
2. A group of 20 developing countries established on August 20, 2003 during the final preparations for the Fifth Ministerial Conference of the WTO, held in Cancun, Mexico from September 10-14, 2003.
3. A coalition of 19 agricultural exporting countries from Latin America, Africa and the Asia-Pacific region formed in 1986.
4. As a result, in a survey that included the first 10 years of WTO, Brazil appeared in fourth place – after the United States, EU and Canada – as the country that most appealed to the Dispute Settlement Body (Folha de São Paulo, May 18, 2005).
5. The G-77 was created in 1964 after the first session of the UNCTAD Conference and is the largest intergovernmental organization of developing countries in the United Nations, having today more than one hundred members. The objective of this group of countries is to promote a joint negotiation capacity and to enhance South-South cooperation.
6. The “Singapore issues” refers to four themes that developed countries wanted to include but were unsuccessful in the WTO agenda during the WTO Ministerial Conference of 1996 held in Singapore. These issues are investment protection, competition policy, transparency in government procurement and trade facilitation. Developing countries have not, up to now, regarded these issues as contributing to the formation of a so-called “development round”.
7. The concept has been meant to refer to developing countries undertaking a lower tariff reduction commitment, in percentage term, compared with developed countries.
8. The single tariff rate agreed to by all members in a customs union (free trade area with a common external tariff) on product imports from outside the union.
9. This group was formed during the Hong Kong Ministerial and is comprised of the countries of the G-20 that do not accept further reductions on industrial tariffs, particularly if developed countries have no intention of reducing subsidies on agriculture. Argentina, Brazil, India and South Africa have been the most vocal countries.
10. The modes of transactions of services, as defined by the WTO are “the ways through which they can be or not allowed to get into a country”. The four modes are: Mode 1 – Cross border trade; Mode 2 – Consumption abroad; Mode 3 – Commercial presence; and Mode 4 – Presence of natural persons (see WTO, 2006).

11. This refers to the theory of comparative advantage developed by the British economist David Ricardo and further enriched by Heckscher-Ohlin Theorem. Contrary to this view (that within a free trade context, the economies should specialize on products that use more intensively the factors more abundantly found in the country: labour or capital), we should consider the role of the national state to stimulate development through protecting infant industries, developing its own technology and taking advantage of economies of scale. For criticisms of the theory of comparative advantages see Jacobs (1986) and Chang (2005).

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