Brazil: Trading Away Industrial Development?

By Kevin P. Gallagher | December 13, 2005

Although official estimates of developing country benefits of the current world trade talks are strikingly small, Brazil's agricultural sector stands to be a winner. Yet Brazil seems to be willing to swap just about anything for those gains, even its ability to foster industrial development.

New estimates by the World Bank put the developing country gains of the "likely" outcome of the Doha Round of World Trade Organization (WTO) negotiations to be $16 billion, or less than a penny a day per person in the developing world. In contrast, the developed world stands to gain $96 billion, or 83 percent of the total.

While most developing countries would scarcely benefit at all, Brazil's agricultural sector will get 23 percent of the developing country gain—$3.6 billion dollars. Although those gains clearly will not be distributed evenly across the entire population, if they were it would amount to 4 cents per person.

Those are the gains, but what are the costs? There is growing concern among many development economists that countries like Brazil will trade away their policy space for the industrial policies that have made them such vibrant players in the world economy. Some key industries in Brazil, such as aircraft and motor engines, integrated into the world economy through a mix of markets, tariffs, subsidies, and the strategic use of foreign investment. WTO rules for industrial tariffs, services, and intellectual policy make that much more difficult.

Not only will WTO rules constrain the ability of nations like Brazil to make policy, they pose economic costs as well. Most of the costs in terms of losing industrial competitiveness and the blow to Brazil's industrialist class are hard to measure, but there are data available for some things.

Juxtaposed to the $16 billion in developing country benefits, the United Nations Conference on Trade and Development (UNCTAD) predicts that the losses in tariff revenue for developing countries will range between $32 and $63 billion annually—two to four times the $16 billion in benefits. For Brazil, tariff losses are projected to be as high as $3.1 billion—almost the entire projected benefit from the Doha Round.

Perhaps more significantly, the welfare losses of surrendering patents to developed countries under new intellectual property rules are dramatic. World Bank estimates of the amount of South-to-North profit transfers due to the WTO are $41 billion annually, or 2.5 times the $16 billion developing country benefit. According to the World Bank, Brazil loses $530 million each year from such profit transfers.

The actual welfare losses can be as much as six times the transfer costs. A World Bank/Yale University study of one type of antibiotic in India found that the annual welfare losses to the Indian economy were $450 million. The profit gains to foreign producers were only $53 million per year.

In addition, studies show that the cost for the average developing country to implement WTO agreements is $130 million annually. So for Brazil, add the tariff losses, patent transfers, and implementation costs together and you get $3.76 billion. In other words, the net impact of the WTO deals lead to a loss for Brazil of $160 million.

When strategizing for the upcoming Hong Kong talks in December, Brazilians should ask themselves if it is worth it for a handful of agricultural interests to gain while the rest of the economy suffers.

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