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The Political Economy of High Protection in Brazil before 1987

Marcelo de Paiva Abreu

Special Initiative on Trade and Integration

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The author is in the Integration and Regional Programs Department of the Inter-American Development Bank, on leave from the Department of Economics, PUC-Rio. He wishes to thank help provided by Honório Kume, Graciela Márquez, Maurício Mesquita Moreira and Jeffrey Williamson. The usual caveats apply.

C O N T E N T S

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List of Acronyms

CIF	Cost, insurance, and freight
FDI	Foreign direct investment
FOB	Free on board
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ISI	Import substitution industrialisation
MFN	Most favored nation

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GLOSSARY ON TARIFF NOMENCLATURE

In this set of papers many types of tariffs will be mentioned. This glossary includes the relevant definitions.

Ad valorem tariff is generally a tariff corresponding to a percentage of the FOB (free on board) value of imports.

Specific tariff is generally a tariff based on payment of fixed nominal duties by physical unit of imports.

Average implicit tariff is the ratio between collected duties and value of imports.

Ad valorem equivalent of specific tariff is the ratio at the product level of aggregation between specific duty and value of import.

Average tariff is the legal MFN nominal tariff at the sector or economy-wide level of aggregation. It can be weighted, for instance, by trade values or value added.

Effective tariff is the ratio of between value added valued at post-protection prices and value added valued at world prices minus 1.

Implicit tariff in relation to the world price is the ratio between domestic and world prices.

Implicit nominal protection corrects the implicit tariff in relation to the world price by taking into account production subsidies.

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INTRODUCTION TO THE RESEARCH PROGRAM

The interest of specific Latin American economies in the successful completion of the Free Trade Area of the Americas (FTAA) negotiations is very heterogeneous. A list of relevant factors would include geographic orientation of trade, composition of exports, degree of openness of the economy, level of protection and commitment to trade liberalization. Mercosur trade flows with the rest of the world are more important than those of other economies in Latin America whose trade tends to be concentrated with the United States. In contrast with other Latin American economies Mercosur agricultural exports tend to be relatively important. These are exactly the products facing high protection in the United States. The level of protection in Mercosur, mainly as a reflection of the size and past policies of Brazil, is higher than in almost any other market in Latin America, although there are no tariff peaks and few non-tariff barriers. Finally, while commitment to trade liberalization is high in most of Latin America it is less so in Mercosur, and especially in Brazil, a latecomer in abandoning import substitution.

Success in the FTAA negotiations depends crucially on the convergence of views between the United States and Mercosur, and especially Brazil, in relation to access of goods to their respective domestic markets. In the last instance this convergence is likely to depend on reciprocal concessions during the transitional period towards a true free trade area that will eliminate protection of "sensitive" sectors both in the United States and Mercosur. In both sides there are strong obstacles to the required dismantlement of protection. The average tariff in the United Sates is low. However, many products in which Mercosur producers are particularly interested face tariff peaks. Protectionist interests seem well entrenched to resist the required dismantlement of protection.

This research program focuses most on the political economy of protection in Brazil as a high growth cum high tariff economy for most of the 20th century. Brazil has a strong inertial tradition of lack of commitment to trade liberalization. Trade liberalization was undertaken mostly in the early 1990s, and while substantial given such traditions, was late and relatively modest if compared to those in most other Latin American economies. Mercosur involved tariff reduction in Brazil and modest and temporary increased protection in its other members.

To understand the present political economy of protection in Brazil it is essential to understand its roots and how the heavily protected Brazilian economy was near the top of the world economic growth league until quite late in the last century. Transition to an outward-looking model in a revision of the original import substitution strategy did not involve opening the domestic market and relied heavily on sustained export subsidies. Even attraction of foreign direct investment hinged on maintaining a high tariff and selective rights of establishment. Conversion to trade liberalization was slow and half-hearted in contrast with most of the other economies in Latin America. Success in the FTAA negotiation depends on the balance in Brazil and the United States between the interests of exporting sectors, likely to be favored by increased market access, and the resistance of protected sectors that fear increased import competition.

Three papers are planned in this research program to cover the theme "Trade liberalization and the political economy of protection in Brazil". They will consider the evolution of the political economy of protection in Brazil in chronological sequence. This first paper is concerned with the

high protection cum high growth experience in Brazil until the second half of the 1980s and its crisis. The second paper analyses unilateral trade liberalization since the late 1980s and its difficulties since the mid-1990s. The last paper centers on reciprocity in the context of regional trade negotiations and on the political economy aspects of the reciprocal trade concessions between the United States and Mercosur likely to be required in the transition period towards an FTAA. It will include the identification by sector and region of rent-seeking protectionist interests and market-seeking export interests in Brazil and the United States.

THE POLITICAL ECONOMY OF HIGH PROTECTION IN BRAZIL BEFORE 1987

Marcelo de Paiva Abreu

This paper is structured in four sections. The first section is a summary of the arguments presented in the following three sections of the paper. Section II considers the level of protection in Brazil compared with those of other Latin American economies and examines the reasons why it was so high while its economic growth performance was outstanding. The following section analyses the golden age of autarky until the early 1960s, including the role of foreign direct investment (FDI). The last section centers on the combination of export incentives with closed domestic markets that extended the life of import substitution industrialization (ISI) as a decreasingly effective economic strategy.

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I. BOTTOM LINES

Levels of protection in Latin America were very high if compared to all other regions of the world from the last third of the 19th century until the 1980s. It was highest in Brazil and Colombia. Brazil, due to the price inelasticity of coffee demand and its share in the world coffee market, could recoup part of the welfare costs entailed by very high protection through increased world coffee prices. In Brazil, protection on capital goods tended to be lower than on consumption goods. Import-substituting industrialization started in the 1890s and, as export-processing industries were relatively unimportant, was responsible for a significant share of the supply of wage goods. Early ISI is explained by a combination of balance of payments difficulties that led to massive devaluation, market size and a high tariff.

In spite of persistent high protection, Brazil's record growth in the first 80 years of the 20th century was spectacular and indicated that high tariff and high growth could live together.

The share of import and export duties in total government revenue was traditionally very high (50-70% range) until 1913 in Brazil, as in most of Latin America, as they were easier to collect because of purely administrative reasons and also of the political economy of taxation in developing economies. Taxation of land or income was difficult, due to resistance by powerful landowning interests. The share of import duties on revenue tended to decline after 1913, and especially after 1930.

Protection was further increased in the early 1930s basically through the introduction of import controls. Collection of import duties becomes an even less reliable indication of the levels of protection than before the "great depression". As US trade policy was redirected to place emphasis on the negotiation of trade agreements based on the unconditional most favored nation clause, a Brazil-US trade agreement emerged. Resulting tariff cuts were not substantial and became of little relevance as the short-lived 1934-1937 window of liberalization in Brazil was shut. US commitment to multilateralism allowed Brazil much elbow room in its economic polices in contrast with the problems faced by economies as Argentina when British policy abandoned multilateralism in the

Ottawa conference of 1932. Such elbowroom included reduction of foreign debt service, or default, and increased trade with Germany under bilateral "compensation" trade agreements.

In Brazil, after a fleeting experiment with liberalization of trade and foreign exchange regime after World War II, an economic strategy based on state intervention and high protection was continuously adopted until the late 1980s. Changes were formal rather than of substance. Debates on economic strategy still during wartime had indicated that this was a likely direction to be followed by economic policy.

In the pre-1914 years FDI had been attracted by guaranteed rates of return for public utilities. New FDI, almost exclusively in manufacturing, was attracted in the 1950s by a combination of subsidies and controlled right of establishment of competitors that could contest the market. Foreign investors became important *demandeurs* of continued protection and remained so until the present.

The reliance on autarky that had been all important after the war was relaxed in the early 1960s as the traditional anti-export bias was removed. Export subsidies became substantial and almost as resistant to withdrawal as import tariffs. It is misleading to speak of outward-looking policies, as the Brazilian market remained rather closed. The pick-the-winner emphasis in economic policy-making was only adjusted. Previously it applied to import-substitution. After the mid-1960s it applied also to the selection of recipients of massive export subsidies.

After World War II until the early 1970s commitment by the United States to multilateralism and the universal adoption on the most favored clause, combined with the laxity in the application of balance of payments-related waivers in Article XVII:B of the General Agreement on Tariffs and Trade (GATT), led to a situation where economies such as Brazil were "free riders" in the GATT and could close their economies at will. In the Tokyo Round in the 1970s, the United Sates shifted in the direction of pressing for reciprocity in multilateral trade negotiations. The larger developing economies were supposed to cease to be "free riders". The United States tried to limit the scope of the application of the most favored nation clause by means of codes covering specific issues and also started to try to differentiate between developing economies according to their relative levels of development.

In the skirmishes before the launching of the Uruguay Round of multilateral trade negotiations in the GATT, the United States pressed for the inclusion of "new themes" such as services, intellectual property and investment measures. Brazil’s stance until the mid-1980s was mainly a continuous commitment to protection, emphasizing the importance of backlog issues - such as agriculture and textiles and clothing - and trying to slow the pace of progress of the new agenda.

Difficulties to sustain this stance in multilateral negotiations were compounded by those raised by the stagnation of the economy after 1980. The Brazilian strategy to face the oil shock in the early 1970s had been to further deepen ISI and to borrow heavily abroad at negative real rates of interest. With the stringent US policies after 1979 it became at first difficult, then impossible, to borrow at nominal rates of interest including spreads exceeding 20%. Brazil faced a major balance of payments shock. Import substitution could not continue to be a source of growth, given the very limited importance of residual imports. For the first time since the end of the 19th century, due both to domestic and international developments, sectors of the Brazilian society began to consider the possibility of significantly opening the domestic market to imports. Difficulties faced by liberalization were related to the long tradition of very high protection coupled with fast economic growth. A secular tradition of non-*laissez faire* would start to be dented.

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II. PROTECTION BEFORE 1930

Import Tariff in Latin America: Level, Structure and Share in Revenue

There was a long period of high protection in Latin America. The specific national experiences tended to vary, but protection was generally high, even before 1930 when it relied mostly on tariffs. It has been shown that implicit tariff levels - measured as the ratio between collected duties and value of imports - in Latin America were substantially higher than those in all other regions of the world. Average implicit tariffs after 1880 would be typically above 25% in Latin America, still high but falling rapidly in the United States (below 20% in 1913), in the 15-20% range in Canada, Australia and New Zealand and in the periphery of Europe, and in the 5-10% range in the core of developed economies and in Asia.[1]

The Brazilian case is exemplary: the average implicit tariff was very high, exceeding 30% for most of the years between the early 1870s and the 1930s and reaching almost 50% at its peak. It is for all purposes a national experience deeply affected since rather early by high protection.[2] Once in place protection is notoriously difficult to dismantle and in countries such as Brazil this was even more serious as, as will be seen below, given the structure of the commodity markets of the exports in which they were price makers, protection had less damaging net welfare consequences than for economies that were price takers in commodity markets. It is not an exaggeration to speak of a long-term inertia of protectionism in Brazil that would extend until the late 1980s.

It is standard procedure to use the ratio of collected duties and of the value of imports as a proxy for the tariff level. This is a rough measurement of protection due to the importance of exemptions and the effect of prohibitive tariffs, among other possible sources of distortion. But for long-term analysis there are additional problems. In answer to the great depression many Latin American economies imposed import controls. To gauge the condition of access to a given market it became essential to know not only the level of the tariff but how import controls were applied. In the more interventionist countries such as Brazil between 1930 and the late 1980s tariffs were effectively relevant to determine the level of imports only in the rare periods when import controls were temporarily lifted as, for instance, in the mid-1930s, or for a couple of years immediately after the World War II. Even when import controls were not in operation, increasingly discretionary import duty exemptions often circumvented high, or even absolute, protection so that a decreasing average implicit tariff measured by the division of collected duties by the value of imports is no indication of trade liberalization.

There is a further problem with such estimates. Table 1 shows the average implicit tariff data for some of the larger Latin American economies in some benchmarks between 1880 and 1930, based on the ratio between collected duties and value of imports as reported in the national statistics of importing economies.[3] Since in many Latin American economies even in 1928 trade statistics

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[1] Coatsworth and Williamson [2002] Figure 2. These are simple unweighted averages across countries in the same region. See below for possible problems with such measures based on national statistics in Latin America.

[2] See Table A.1 in the Statistical Appendix for average implicit tariffs in Brazil, 1872-1873 to 1930.

[3] See yearly average implicit tariffs for Argentina, Chile, Colombia and Mexico in Tables A.2 to A.5 in the Statistical Appendix.

were based on official values, that is the import values defined by the tariff legislation, it is in principle not unlikely that estimates of protection based on the ratio between duty collection and the "value of imports" as based on official prices are significantly distorted. And there is no indication that the distortion was constant over time. To give one example, in Brazil, in the beginning of the 20th century, official values were much higher than market prices. In the most extreme case, coarser cotton goods which competed directly with domestic output, the tariff instead of the already high 60% *ad valorem* based on official prices was in fact equivalent to between 261 and 338% until 1913 and was only reduced to the 79-148% range in the 1920s (Villela [1993]). In Argentina, in some years, similar distortions reduced the overall average tariff to one third of the level implied by official prices.[4]

A possible methodology to gauge distortions involved in the adoption of the conventional computation of average implicit tariffs based on duty collection and the value of imports is to use the statistics of suppliers of imports to Latin America. Much of the import trade to these Latin American economies, as shown by data presented in Table A.6, in the Statistical Appendix, was concentrated in four main sources: France, Germany, the United Kingdom and the United States. Instead of using import values based on Latin American statistics it is possible to use the trade statistics of suppliers that are less affected by the use of official rather than actual prices. Since there is no information on the collection of duties disaggregated by source of imports it has to be supposed that shares in duties collected coincide with market shares. Distortions generated by this methodology tend to be smaller the largest is the aggregate share of trade covered by the specific set of trade partners for which export data are used.[5]

Trade statistics in Latin America were collected in every country on a CIF (Cost, insurance and freight) basis so they need to be corrected if the import duties-value of imports ratio is to be taken as a reasonable indication of the level of protection. Table 2 presents the average implicit tariffs for the main Latin American economies compared to estimates of corrected average implicit tariffs computed with the use of export statistics of the main trade partners for some benchmark years. For earlier dates, the older the data the wider is the divergence, and, in the case of the widest discrepancies, computations based on national statistics tend to overestimate protection. In most cases, however, there is, as expected, a marked convergence of both estimates for later dates.

After 1930, due to exchange controls and the disruption of the gold exchange standard such average tariff estimates are even more vulnerable, as already mentioned. In some Latin American economies as Brazil, where the tariff was based on specific duties defined in domestic currency, the nominal tariff had been traditionally indexed to "gold" until the late 1920s. The "great depression" led to moves to de-link nominal prices from gold. Sterling, the US dollar and all other currencies went off gold while the nominal value of outstanding loans in those currencies was not adjusted. In fact, it became illegal in Brazil to index contracts to gold or foreign currency. As inflation accelerated during and after the Second World War the nominal tariff became increasingly irrelevant to gauge protection and was substituted by other instruments such as import quantitative controls, foreign exchange surcharges or multiple exchange rates. Only after the mid-1950s *ad valorem* duties became the rule. But import controls remained a constraint on imports until the early 1990s.

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4 Díaz-Alejandro [1970] p. 282 and Table A.2 in the Statistical Appendix.

5 There are other well-known discrepancies generated by time lags and the lack of uniformity in the definition of fiscal years. See Morgenstern [1963].

TABLE 1
LATIN AMERICA: AVERAGE IMPLICIT TARIFFS, SELECTED ECONOMIES, 1880-1928
(Percentages)

	Argentina	Brazil	Chile	Colombia	Mexico
1880*	26.4	38.0	23.4	45.7	39.7
1900**	31.9	36.1	22.3	---	20.1
1913***	20.8	34.2	20.0	46.0	20.1
1928	17.3	25.4	20.5	28.1	22.8

Notes: * Argentina: 1881. Brazil: 1872-1873. Colombia: 1880-1881. Mexico: 1884-1885.
** Brazil: 1901.
*** Mexico: 1912-1913. See Table A.8 in the Statistical Appendix.

Sources: Argentina: Vásquez-Presedo [1971, 1976]; Brazil: Villela [1993]; Chile: Díaz and Wagner [2002], Braun, *et al.* [2000]; Colombia: Ocampo and Montenegro [1984]; Mexico: data communicated by Graciela Márquez and Mexico [2000].

The Brazilian implicit tariff in 1880-1928 was high even by Latin American standards: it fell from around 40-45% (almost 50% in 1906) to 30% in the late 1920s.[6] Only Colombia had a higher tariff than Brazil in the earlier period. Argentina, Chile and Mexico had a generally lower tariff but still around 20% in 1928. At least in the case of Brazil and Chile, economies that had such a preeminence in the markets of coffee and saltpeter in this period that they can be considered world price makers, the analysis of import tariff levels must be undertaken jointly with the analysis of the level of export duties. Given market power and some price inelasticity of demand both export taxes and import duties (on imported inputs) would tend to result in increased world prices of the relevant commodity. While the import duty in Chile was typically lower than in Brazil, its export duties were in the 20-25% range, while those in Brazil were only levied by the states after 1889 and were significantly lower: 7% in the coffee producing states and 13% in the rubber producing region.[7]

In Brazil, there was a marked contrast, at least after 1900, between the levels of protection on consumer goods in one polar position and on capital goods in the other. Not that protection of capital goods was low, but tariffs on consumer goods were extremely high, and could exceed 300% in the case of low-grade textiles. Tariffs on capital goods such as iron rods, rails and railway equipment were between 35% and almost 100% in 1900-1930.[8] And while tariff levels tended to fall slowly in the 1930s and abruptly during the Second World War, this dispersion persisted as other instruments of protection became more important.[9] If there was no domestic competitive production of capital goods they could enter the country duty-free. After 1911, duty

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6 See Table A.1 in the Statistical Appendix.

7 For an explanation of why this is so, see the section below on the distributive impact of the tariff.

8 Villela [1993]. Márquez [1998] based on data for the Mexican tariff in the turn of the 20th century shows similar characteristics: the tariff on textiles exceeded 117% while those on tinplate and plows were below 10% (*ad valorem* equivalent of specific tariffs).

9 See Table A.7 in the Statistical Appendix for data on *ad valorem* equivalent of specific tariffs for selected products between 1928 and 1945. It should be reminded, however, once again that for most of the 1930s imports were restricted by import controls and, after 1939, mostly by war-related export constraints in the main suppliers.

exemptions did not benefit imports of capital goods that could be produced domestically and an official register of domestic firms was kept.[10] After 1930, the concept of "similar domestic production" would be transformed into a very efficient non-tariff barrier providing absolute protection to many industrial sectors. This more modern version of similarity would be the main criterion on which import controls came to be based well into the 1980s. An import license could only be issued if it could be shown that the specific product could not be produced domestically.

TABLE 2
LATIN AMERICA: COMPARISON OF CORRECTED AVERAGE IMPLICIT TARIFFS COMPUTED USING NATIONAL IMPORT STATISTICS AND AVERAGE IMPLICIT TARIFFS COMPUTED USING EXPORT STATISTICS OF MAIN SUPPLIERS (UNITED KINGDOM, UNITED STATES, GERMANY AND FRANCE), 1870s-1928
(Percentages)

	1880**	1900***	1913****	1928
Argentina				
Import statistics	29.9	36.0	23.5	19.5
Partner statistics	17.9	29.6	19.0	20.2
Brazil				
Import statistics	42.9	40.8	38.6	28.7
Partner statistics	37.3	44.9	43.7	30.5
Chile*				
Import statistics	26.9	25.6	23.0	23.6
Partner statistics	19.6	23.3	24.6	23.2
Colombia				
Import statistics	50.3	---	50.6	30.9
Partner statistics	---	---	37.5	32.2
Mexico				
Import statistics	43.7	22.1	22.1	25.1
Partner statistics	---	21.0	---	22.7

Notas: The following import CIF-FOB ratios have been used: Argentina 1.1, Brazil 1.13, Chile 1.15, Colombia 1.1, Mexico 1.1.

* France excluded 1913 and 1928.

** Argentina: 1881. Brazil: 1872-73. Germany excluded.

*** Brazil: 1901.

**** Mexico: 1910.

Sources: Computed from data from sources quoted in Table 1 and France [1879, 1881, 1901, 1914 and 1929], Germany [1902, 1914 and 1929], Great Britain [1874, 1884, 1902, 1914 and 1929] and United States [1901, 1907, 1913, 1929 and 1975].

It is well known that import duties traditionally tended to answer for a higher share of revenue in relatively underdeveloped economies than in mature economies. This was due to a number of factors: import duty collection requires less sophisticated administrative procedures, import trade is concentrated in a few ports and landowners resisted to many alternative forms of taxation on

[10] This mainly affected railways and public utilities. See Nunes and Silva [1929] pp. 252-270 and United States [1945] p. 10.

land, income and wealth. The most important alternative tax was excise and to a large extent what happened in the long-term in Latin America during the 20th century was that first excise, then income tax, tended to gradually substitute import duties as the most important source of revenue for the central government. After 1930 and during the golden years of ISI, of course, as Latin American economies became increasingly inward-looking, import duties fell heavily as a share of total revenue for the same reasons that explain the fall in the average tariff.

Until 1913, if account is taken of export taxes, foreign trade taxation corresponded typically to more than 50% of central government revenues in most of Latin America. After World War I there was a general trend to reduce the importance of such taxes, more markedly in Chile and Mexico. In some cases there was significant taxation on the exploitation of natural resources that partly substituted export taxes. As already noted, price makers in commodity markets as Brazil and Chile could in principle decide whether to raise taxation by means of either an export tax or of import duties as most of both would be borne by foreign consumers. In Chile, export taxes were far more important than in Brazil, where the much lower export taxes were after 1889 provincial rather than central government revenue.

TABLE 3
LATIN AMERICA: IMPORT DUTY REVENUE AND EXPORT DUTY REVENUE AS A SHARE OF TOTAL REVENUE, CENTRAL GOVERNMENT, SELECTED ECONOMIES, 1880-2000
(Percentages)

	Argentina	Brazil	Chile			Colombia	Mexico		
	Import	Import	Import	Export	Total	Import	Import	Export	Total
1880	61.7	53.8	35.9	3.5	39.4	70.2*	---	---	59.6
1900	55.9	53.4	31.9	29.6	61.5	68.7**	41.7	3.2	44.9
1913***	57.0	49.6	37.1	22.6	59.7	76.4	43.8	2.9	46.7
1928	47.0	42.4	18.4	14.9	33.3	63.7	25.4	4.5	29.9

Notes: * Total "aduanas" 1880-1881.
** Total "aduanas" 1897-1898.
*** For Mexico, 1910-1911.

Sources: Data from Vázquez Presedo [1971, 1976]; Brazil [1990]; Díaz and Wagner [2002] and Jeftánovic, Jofré and Lüders [2000]; Ocampo and Montenegro [1984]; Mexico [2000] and communication by Graciela Márquez.

Distributive Impact of Protection

The distributive impacts of the import tariff in small economies specializing in primary commodity exports with a low share in the relevant commodity world markets are well known. Consumers are affected by the increased prices of consumer goods imports and the competitiveness of exports depends on maintaining the cost of imported inputs and capital goods relatively low so as not to unduly raise production costs above those of its competitors in the world commodity markets. High protection, of course, also fosters import substitution.[11]

[11] This and the following paragraphs are based on Abreu, Bevilaqua and Pinho [2000].

In economies that, even if small in size, have a significant share in the markets of the commodities they exported, there is an important implication that radically affects the standard political economy of protection as described above. Imported input prices tended to be, at least until 1930, a significant element of production costs. World supply of the relevant commodity reflects to an important extent the marginal cost conditions in the dominant supplier. Especially if the demand for the commodity is price inelastic, as was the case of coffee, increased costs of production tend to be translated into higher world coffee prices. An additional requirement to assure that such mechanism is relevant, of course, is that the size of the commodity sector is significant if compared to that of the economy as a whole.

These conditions were fully met by coffee in Brazil. In the mid-1850s coffee reached almost 50% of total Brazilian exports on average and remained in the 50-65% range until the early 1960s. The Brazilian share of world coffee production was already in excess of 50% in the 1850s, fell slightly in the 1870s, but then increased to reach more than 60% in every year from 1896 to 1942 (more than 70% in almost half of these years and more than 80% in 1906).[12] The coffee exports-gross domestic product (GDP) ratio was around 9% in 1850, reached more than 10% in 1900 and 1913, falling to 9% in the end of the 1920s. Econometric work based on a reduced form coffee price equation has shown that tariff fluctuations in Brazil were indeed transmitted to world coffee prices between 1880 and 1930 (see Abreu, Bevilaqua and Pinho [2000]). After 1930 the relationship broke down as tariffs become a much poorer indication of the level of protection and coffee continues to lose importance in the Brazilian economy as a whole.

The distributive consequences of protection are more complex in economies that are price makers in commodity markets than in those that are price-takers. Increased protection tends to increase the world price of the relevant commodity. The net welfare cost of protection is smaller than that in the standard case of a price-taker commodity exporter - for a similar tariff increase - since production and consumption distortions are partly compensated by increased world commodity prices. It is not that high import tariffs were sought because it was perceived that increased production costs would be transmitted to world coffee prices. It is rather that, once the political economy of protection in the form, for instance lobbying by industrial interests, resulted in increased tariffs, there was no significant deterioration in the performance of exports to justify reversing such tariff increases. Coffee growers were generally keen in maintaining low production costs, as exemplified by their stance on labor costs since very early in the 19th century. One cannot thus claim that a high tariff was adopted because it was perceived that the foreign consumer would bear the increased costs. It is simply that the policy of high protection did not face opposition from export lobbies interested in maintaining a low cost of production as was the case in most big primary commodity exporters. The cost of protection mainly affected domestic consumers of imports and foreign consumers of coffee. This is one of the important roots for the lack of a tradition of defense of *laissez faire* policies by any significant organized sector of the Brazilian society until very late in the 20th century.

By contrast with Brazil, in an economy such as Argentina, with a small share of its main commodity export markets, increased protection and consequent increased production costs of exports were

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[12] Participation in world exports was somewhat lower due to stock building and stock destruction in the context of coffee price support schemes mainly in the 1930s.

more difficult to be accommodated. Higher production costs would result either in a shrinking world market share, as exports were displaced by those of less protected competitors, or reduced margins for its exporters. The tariff question was central in the political debate: protection was favored by emerging industrialists but resisted by exporters and consumers. In Brazil, evidence for such clashes is not so clearcut. Indeed, it suggests that many of the early industrialists were coffee growers diversifying their portfolio. Tariff debates notwithstanding, a high tariff persisted as the "foreigner would pay" and only the politically weak import consumers were adversely affected (see Abreu [1994]).

An example of the scant commitment of Brazilian decision-makers to liberal policies is the wide gap between the words and the deeds of Joaquim Murtinho, an influential Finance Minister at the turn of the 20th century. His influence was due to success in stabilizing the Brazilian currency after a long crisis in the 1890s. He is regarded in Brazil as this rare bird, a staunch defender of *laissez faire* policies in early republican history. Rhetorically this seems to be confirmed by his important yearly ministerial reports that squarely denounced the high tariff policies that stimulated domestic "artificial" industries.[13] It is not without irony that while Murtinho was in office, and hard pressed for increased revenue, the Brazilian tariff was raised from 27% to almost 40% *ad valorem* equivalent. It proved easier to indulge in lip service in favor of an open economy than actually reduce protection.

Protection, Growth and Market Size

So, Brazil was a very high tariff economy at least since the 1870s if compared to almost any other economy in the world and even to its high tariff neighbors in Latin America. This would continue to be true after 1930. Only after 1945 the gap between levels of protection in Brazil and elsewhere in Latin America was closed as protection increased in economies such as Argentina and Chile.

Especially after the early 1930s very high protection was combined with high GDP growth in Brazil. GDP had increased already 4.7% yearly in 1900-1928. In spite of the "great depression", the 1928-1962 average rate of growth was 5.6%, and in 1962-1973, even with a recession in 1962-1967, no less than 6.9%.[14] On a PPP basis the growth performance of Brazil on a worldwide basis was only second to that of Venezuela in 1900-1973. In 1973, Brazil’s GDP was more than 30 times its 1900 level compared to 23.9 for Japan, 20.7 for Taiwan, and 20.0 for Canada (see Maddison [1995]). While the causal relation between high tariff and high growth was not always made explicit one can speak of a majority view which took as a matter of fact that high protection was a necessary ingredient of a successful high growth strategy.

Import substitution industrialization in several Latin American economies, contrary to conventional views, was already substantial before 1945 and even before the great depression. This was true in Brazil where ISI started to be significant already in the last decade of the 19th century. From the

[13] The first pages of his first ministerial report contain a strong plea in favor of reduced intervention in the coffee market, lower tariffs and sound fiscal and monetary policies, see Brazil [1899].

[14] See Brazil [1990]. It must be reminded, however, that yearly population growth was also very high so that GDP per capita rates are rather less spectacular. But even then the Brazilian performance was very creditable and only exceeded by those of Venezuela - by very far - and, marginally, by those of Norway and Finland.

point of view of relative prices ISI requires a combination of tariff and exchange rate policies that assured the competitiveness of inefficient infant industry in relation to imports. But costs of substitutive domestic production would be very high in small markets since economies of scale cannot be adequately exploited. So the timing of ISI is also to a certain extent explained by the size of the markets.

Table 4 presents data on market sizes for the main Latin American economies taking the size of Brazilian GDP in 1890 as a measuring rod (roughly equivalent to Mexico's GDP as the largest in Latin America). ISI was launched in Brazil almost by chance as a financial bubble was followed by a serious balance of payments shock and massive exchange devaluation. Coupled with increased protection this allowed very inefficient speculative investments in infant industries to survive (Fishlow [1972] pp. 315-318). ISI became important in different Latin American economies roughly in line with their success in reaching a minimum size threshold: first it happened in Brazil, Mexico and Argentina, then in the larger mid-sized economies - Chile, Colombia - then Peru and Venezuela and spread elsewhere.

TABLE 4
LATIN AMERICA: SIZE OF GDP, SELECTED ECONOMIES
(BRAZIL 1890=1)

	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Venezuela
1870	0.21	0.66	n.a.	n.a.	0.60	n.a.	n.a.
1890	0.66	1.00	n.a.	n.a.	1.06	n.a.	n.a.
1900	1.18	1.16	0.53	0.36	1.44	0.28	0.19
1913	2.65	1.81	0.84	0.59	2.00	0.41	0.29
1928	4.42	3.31	1.22	1.04	2.38	0.78	0.90
1945	6.12	5.70	1.84	1.81	3.91	1.27	1.97
1960	10.46	14.86	2.99	3.63	8.70	2.74	6.65
1970	15.96	25.96	4.52	6.05	17.62	4.58	10.48
1980	21.24	56.72	5.81	10.34	33.39	6.64	13.66
1990	19.39	66.01	7.67	14.51	39.28	5.93	14.66

Source: Computed from Maddison [1995] pp. 200-201.

III. EXTERNAL SHOCKS AND IMPORT SUBSTITUTION, 1928-1964

Severe deterioration of the balance of payments of most Latin American economies preceded the Wall Street crash of 1929 and led to foreign debt default in most of Latin America. Many Latin American economies, as in other economies outside the region, reacted by imposing foreign exchange controls. This was a watershed in the history of state intervention in Latin America and in the more extreme cases, such as Brazil, controls would subsist until well into the 1990s with minor episodes of liberalization. Trade in goods was significantly affected by quantitative restrictions and other controls introduced to curtail excessive demand for imports given the overvaluation of domestic currency.[15]

Expenditure-switching policies based in devaluation cum import controls were especially important in economies as Brazil where there had been a significant increase in industrial capacity during the 1920s. There was idle domestic industrial capacity that could substitute expensive imports without the need to import capital goods to create new capacity. While many Latin American economies had reached a market size which was in principle compatible with the beginning of import substitution (Table 4) it is also important to take into account that, depending on the specific economy, "industry" could be more or less geared to export processing and in some economies the definition of industry was too wide.[16] Export-processing industries were adversely affected by the depression as exports contracted whereas industries that competed with imports were favorably affected by depreciation and increased protection.

Trade and Payments Policies of Developed Economies

Trade policies adopted by the United States in the 1930s evolved from the self-defeating emphasis on "beggar thy neighbor" policies, as implied by the Smoot-Hawley Tariff Act of 1930, and a flirting with bilateral policies proposed by the Department of Commerce to a clear commitment to multilateralism and the promotion of more open trade policies worldwide as a main pillar of the Reciprocal Trade Act of 1934. The United States used the leverage provided by its trade deficit with, among others, Latin American countries such as Brazil and Colombia, to negotiate new trade agreements that would open such markets to US exports (see Tasca [1938] Chapters 3 and 5).

The Brazil-United States Trade Agreement of 1935 is of interest because it marks the only occasion in pre-GATT years that the two countries negotiated a trade agreement including an unconditional most favored nation (MFN) clause.[17] Brazil managed to get away with rather limited concessions, as there had been much strategic increase in tariffs before negotiations started in the context of

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15 The list of instruments used to curtail imports after the 1930s is long. Imports of capital goods were prohibited due to excess industrial capacity. Minimum levels of compulsory consumption of domestic *ersatz* products to be mixed with imports were established: domestic coal, manioc and alcohol had to be mixed to imported coal, wheat and gasoline. There were many small additional import taxes affecting specific products. See United States [1945]. Many of these instruments would be used repeatedly in the future.

16 See Abreu [1994] for such an argument on Argentina based on Tornquist [1919] pp. 36-37.

17 This had become a standard clause in agreements signed by the United States only with the Fordney-McCumber Trade Act of 1922.

de-linking the specific duty from gold or foreign currency indexation. There was a clear clash in Brazil between those interests in favor of trade liberalization and organized domestic producers in direct competition with imports for the first time represented by FIESP- Federação das Indústrias de São Paulo, setting a trend that was to become a permanent feature in the political economy of protection in the second half of the 20th century. In spite of intense pressure by the United States, the Brazilian Congress delayed ratification for more than one year yielding to pressure from industrial lobbies. Roberto Simonsen, who was to become the symbol of Paulista industry in the coming years, did not mince words against the modest liberalization agreed by the Brazilian negotiators: "Adam Smith himself (…) would be terrified with the indiscriminate use that we want to make of his principles". In fact, the impact of tariff reduction on Brazilian imports from the United States was minor (Simonsen [1937] p. 15).

The new commitment to multilateralism by the United States provided degrees of freedom for the economies where it had a trade deficit, as Brazil, to adopt policies such as increasing bilateral trade with Germany or imposing import controls without fearing the full exertion of US bilateral leverage. On the other hand, economies as Argentina, that usually generated a surplus in their trade with the United Kingdom, were much more vulnerable to pressure as British foreign economic policies became increasingly less multilateralist. In 1932, the agreements reached in the Ottawa Imperial Economic Conference reinstated discriminatory access to the British market in the form of Imperial preferences, a policy that had been abandoned in the late 1840s. Products of the "Empire" - prominently, from an Argentinian point of view, those of Canada, Australia and New Zealand - would enjoy preferential access to the British market and divert traditional imports of agricultural products from South America (Drummond [1972] Chapter 3). The British government abandoned its long-established stance of defending multilateralism and, in countries where Britain had a structural trade deficit, it was prepared to insist on extracting preferred treatment based on discriminatory policies.

In the negotiations on the format of post-World War II institutions, the United States had to fight hard with the British to impose MFN as a pillar of the GATT. It was much less successful in assuring that agricultural commodity trade would be subject to GATT rules as the inefficient European agricultural producers successfully pressed for the grandfathering of their protectionist agricultural regimes. In the mid-1950s, even the United Sates would extract a waiver from the GATT that allowed increased protection of many agricultural commodities.

The Golden Age of Autarky

During the Second World War, mainly due to the sharp contraction of imports, there was a significant rise in the foreign reserves of most Latin American economies, but most of these were unconvertible into dollars. Even in Brazil, with a traditional trade surplus with the United States, there was a sharp rise in imports from the United States and an acute dollar shortage after the war. The short-lived optimism on which a liberal foreign exchange regime was based in 1945-1947 was soon exhausted and Brazil started to use once again import controls that to a large extent made irrelevant the level of tariffs. Until 1990 such controls were often in use and Brazil’s almost permanent status was that of a country invoking Article XVIII:B of the General Agreement on Trade and Tariffs that allowed the imposition of quantitative import controls in case of balance of

payments vulnerability (GATT [1994] p. 512-515). The GATT was rather permissive in granting such waivers so the quantitative restrictions to imports in developing economies were more or less continuously used. Moreover, until the Uruguay Round negotiations were implemented after 1993, only an extremely limited number of the tariff lines of developing economies were bound (7% of the total of lines in the case of Brazil), that is, there was a commitment that they would not be increased in the future without an explicit offer of compensation to other contracting parties.

During World War II, especially after 1942, there was an industrial boom in Brazil. Brazilian imports were sharply reduced and Brazil temporarily became an important exporter of industrial goods, not only to Latin America, but also to economies as South Africa, facing a dearth of traditional imports from Europe and the United States. There was intense controversy in the later years on what should be Brazil's economic strategy in relation both to the level of protection against imports and the role of the state in the economy. It can be said that to a large extent the debate just before the end of the war between Roberto Simonsen, representing the views of import substituting industries mainly placed in São Paulo, and Eugenio Gudin, a railway engineer with a long experience with the operation of foreign-owned public utilities in Brazil, representing the liberal views, defined the Brazilian economic strategy for the following half century. Simonsen favored a high tariff to protect Brazil's vulnerable domestic industry and a significant role of the state, not only regulating and financing the private sector, but also directly involved in the provision of goods and services. Gudin was in favor of a sharp reduction in the pre-war level of protection and also of a reduction in state intervention.

Gudin seemed victorious at the time, as he was technically better equipped than its opponent, who had difficulties with rather simple economic concepts. Indeed, the short-lived liberalization of 1946-47 was mainly inspired by his ideas. But in the long run Simonsen had spectacular success in proposing what would become the pillars of future Brazilian economic strategy: high, or absolute protection, combined with a sharp increase in state involvement as a producer of goods and services, a foreign exchange regime marked by overvaluation of domestic currency and state intervention to allocate rationed foreign exchange cover. Doubts on the superiority of this interventionist autarkical strategy would start to surface only in the 1980s when the recipe for fast economic growth was lost.

The roots of ingrained anti-export bias can be detected here. They are still clearer in Argentina. They are generally mixed up with nationalism but were less irrational than generally argued. For those economies, as Argentina, that could consume what they exported it became tempting to reduce incentives to export to European economies that could not pay cash and increase real wages domestically to court the masses. Post-war payment difficulties in Europe, compounded by the persistent protectionism affecting temperate agriculture, inexorably constrained the exports of Latin American economies specializing in food and agricultural raw materials as Argentina and Uruguay. The migration from moderate *laissez faire* to ISI was consolidated.

ISI in efficient producers of temperate agricultural products, however, was rather less successful than in economies as Brazil and Mexico. In these relatively successful economies, at least until the 1980s, ISI was pursued on a more persistent basis often combined, after the more extreme version ISI gave signs of exhaustion, with export diversification policies based on heavy subsidies. Most of Latin America tended to lose market shares in the world market since the great depression, but Argentina's case was spectacular: its share of the world market decreased by a

factor of almost ten between 1928 and the 1980s. The slow growth of agricultural exports was not compensated by a significant expansion in exports of manufactures. The fall of Brazil's share was more modest but also significant: from 1.45% to 1.01% of world exports.[18]

Between 1947 and 1964 Brazil resumed the autarkical policies of the 1930s in even more radical forms through a combination of exchange overvaluation, import controls and subsidies of all sorts. This can be considered as the golden age of import substitution in the sense that there were no efforts to diversify exports and ISI was entirely targeted to the domestic market with no role for export expansion. Levels of protection were extremely high as implied by the effective tariff estimates presented in the first two columns of Table 5 below: 106% for manufactures in 1958, rising to 183% in 1963.[19] While protection affected imports of consumer goods relatively more it was also substantial on intermediate and capital goods in both cases exceeding 50% in 1958 and 110% in 1963. The ratio of imports to total supply of manufactures, already low in 1949 at 13.9%, was more than halved and reached 6.1% in 1964. It peaked again in 1974 - still only 11.3% - but by the end of the 1970s was back to 6.8% (see Table 6).

It is difficult to think of a viable alternative growth strategy mainly based on export expansion rather than on ISI for most of Latin America in the 1950s. Tariffs and non-tariff barriers on labor-intensive goods tended to increase in the developed economies. FDI was mostly of the high tariff-jumping type and directed to produce consumer durables. Yet, import-substitution needed not be incompatible with a more rational export policy as some experience had been acquired during and immediately after the war on exports of manufactured products, especially of cotton textiles.

Aggregate exports peaked in the early 1950s in the wake of a steep rise in coffee prices, then fell significantly and did not recover the former peak until 15 years later. It became essential to attract FDI to have access to essential imports since the world financial markets remained closed for developing economies until the mid-1960s. This is the crucial difference between pre-Second World War ISI and ISI in the golden age: the role of FDI became very significant.

FDI in pre-great depression Latin America had been substantial but most of it had been concentrated in the provision of public services. This had been initially attracted by government-guaranteed rates of return. Widespread chronic foreign exchange devaluation, however, made it very difficult to assure adequate long-term rates of return of such utilities. Their standards of service and financial position deteriorated very rapidly and there was a massive transfer of such assets to public ownership starting in the turn of the century.

New FDI in Latin America after the war was mostly in manufacturing industry. Instead of the guaranteed rates of return used in the past to attract FDI in utilities, investment in import-substituting industries was attracted by a combination of subsidies with restricted right of establishment in markets often closed by absolute protection. The panoply of relevant instruments typically included: credit subsidies, foreign exchange-related subsidies, and import duty and excise exemptions. In a

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[18] Argentina's share in world exports decreased from 3.12% in 1928 to 0.42% in the early 1980s. There was a temporary increase in the market shares of Latin American economies in the late 1940s and early 1950s as commodity prices sharply increased, but then they resumed their fall.

[19] Effective rates computed by Fishlow are lower than those computed by Bergsman [1970] - see Table A.6 in the statistical appendix - as world prices were used to aggregate value added by sector.

period when yearly inflation was often in excess of 15% yearly, and rising steeply after the late 1950s, there was a legal ceiling to nominal interest rates of 12%. Rationed public credit thus carried substantially negative real interest rates. Foreign investors also had privileged access to scarce foreign exchange cover at costs much lower than those available to other economic agents. Tariff exemptions covered capital goods and intermediate products required by new FDI.[20] But perhaps the most important incentive to attract new FDI was the combination of a very high, and often absolute, protection afforded to its output and the strict limitations imposed by the government on the right of establishment of new entrants. FDI became thus openly engaged in rent-seeking related either to the diversified menu of preferential treatment handed over by the government, or to high protection combined to barriers to entry that made possible a high level of profits.

[20] See Shapiro [1994] Chapter 4 for a detailed discussion of such incentives in the automotive industry.

Contents

IV. THE STRATEGY OF ISI CUM EXPORT INCENTIVES

A Half-hearted Conversion to Liberalization

The military coup of 1964 marked a shift towards a more open economy. Many distortions were removed or reduced by extensive policy reform, including the foreign exchange regime, through the adoption of a crawling-peg rule of adjustment of the nominal exchange rate in line with the evolution of domestic and world prices. There was a significant reduction in protection (see Table 5) and a radical shift in export policies as the traditional bias against exports was substituted by a major effort to diversify the export structure still overwhelmingly concentrated in traditional commodities. The main instrument was heavy subsidization of manufactured exports. Reforms envisaged an improvement in the conditions to attract FDI, whose flow had been interrupted by a combination of the economic downturn with deterioration of the political climate in the early 1960s. This included bilateral agreements with investing countries, solution of pending payments related to the takeover of foreign utilities and more flexible rules on profit remittances.[21]

TABLE 5
BRAZIL: EFFECTIVE PROTECTION, 1958-1967
(Percentages)

	1958	1963	1966	1967 *	1967 **
Agriculture	n.a.	n.a.	n.a.	n.a.	n.a.
Vegetable products	-47	-15	-13	-14	-14
Animal products	24	12	16	18	n.a.
Manufactured products	106	183	108	63	48
Mining products	-5	34	24	13	9
Non-metallic minerals	73	130	72	45	48
Metallurgy	61	124	63	35	33
Machinery	22	68	30	32	31
Electrical equipment	83	169	112	67	57
Transportation equipment	82	147	103	84	81
Lumber and wood	138	176	120	81	44
Furniture	221	367	251	90	92
Paper	86	169	91	43	42
Rubber	139	221	158	126	182
Leather	248	405	174	127	84
Chemicals	56	146	56	29	20
Pharmaceutical products	17	60	1	10	10
Perfumery	279	453	281	121	74
Plastics	281	489	332	133	117
Textiles	239	298	232	162	88
Apparel and footwear	264	481	321	107	154
Food products	502	6,778	423	252	71
Beverages	171	243	183	104	76
Tobacco products	273	469	299	114	79
Printing and publishing	139	305	142	4	8
Miscellaneous	88	175	95	47	45
Consumer goods	242	360	230	122	66
Intermediate goods	65	131	68	40	38
Capital goods	53	112	69	56	52
Average all sectors	30	75	44	24	14

Notes: * 1959 input-output table. ** 1971 input-output table.
Source: Fishlow [1975].

21 For this and the following paragraphs see Abreu, Bevilaqua and Pinho [2000], Abreu [2000] and Abreu [2003].

TABLE 6
BRAZIL: MANUFACTURED IMPORT RATIOS IN TOTAL SUPPLY, 1949-1984

	1949	1964	1967	1970	1974	1979	1984
Non-metallic mineral products	1.8	1.8	1.8	2.7	4.1	2.4	1.0
Metallurgy	23.6	7.5	11.6	10.0	14.7	4.6	2.9
Machinery	65.7	30.9	29.6	28.4	32.1	19.5	8.8
Electrical equipment	47.0	7.8	11.3	18.8	20.2	14.1	12.2
Transportation equipment	51.7	4.8	8.9	7.8	8.8	3.6	7.2
Lumber and wood	1.5	0.1	0.2	0.4	0.7	1.0	1.5
Furniture	0.0	0.1	0.0	0.1	0.2	0.1	0.0
Paper	9.6	5.8	6.8	8.6	11.5	4.9	2.5
Rubber	3.0	0.3	0.7	2.9	8.3	4.4	4.1
Leather	3.4	0.3	0.3	0.5	3.2	2.6	10.1
Chemicals	38.3	11.1	13.6	15.6	22.2	11.8	5.3
Pharmaceutical products	19.3	3.3	3.6	6.0	8.3	8.1	6.5
Perfumery	2.8	3.4	2.2	2.2	4.1	1.2	0.8
Plastics	29.6	3.6	7.1	0.5	1.7	0.3	0.8
Textiles	4.0	0.1	0.2	0.6	2.3	0.6	0.5
Apparel and footwear	0.1	0.0	0.1	0.8	0.5	0.3	0.5
Food products	2.9	0.9	1.3	0.9	4.4	5.1	5.8
Beverages	2.4	0.8	1.2	4.5	6.9	1.3	4.3
Tobacco products	0.0	0.0	0.0	0.0	0.9	0.1	0.0
Printing and publishing	2.2	4.4	4.2	2.3	2.0	2.0	1.1
Miscellaneous	30.7	13.4	17.9	21.7	28.8	21.1	15.7
Total	13.9	6.1	7.1	8.0	11.9	6.8	4.3 *

Note: * Includes mining.

Source: World Bank [1983] p. 35 and World Bank [1990] p. 123.

This re-orientation of the previous strategy based on import substituting industrialization was rather less radical than claimed at the time. It is indeed difficult to classify the foreign economic policy strategy as truly "outward-looking". It seems more reasonable to think of a "cross-eyed" strategy, incorporating very strong inertial elements of inwardness and new elements of outwardness geared to export promotion and attraction of foreign direct investment. It is true, however, that the Brazilian growth performance was so good in 1967-73, and only marginally less so in the rest of the 1970s, that in early attempts to link trade liberalization and growth performance, the temptation to be overoptimistic about Brazilian outwardness proved to be too strong. Brazil was considered by many observers, somewhat surprisingly, to have adopted moderately outward-looking policies in 1963-1973 and, much more surprisingly, also in 1973-1985.[22]

While much lip service was paid to the virtues of a liberal system, the State played a dominant role in shaping industrial policies. Decision-making was heavily influenced by the military and in many instances national security reasons were invoked to define policies and the role to be played by different economic interests. A frequently adopted format was the partnership in joint ventures

[22] See, for instance, World Bank [1987] Chapter 5.

of the state, foreign capital and the domestic private sector. By the late 1970s, ISI had resulted in the creation of an extremely diversified industrial structure producing a wide range of goods that included motorcars, aircraft, armored vehicles and most types of capital goods. But many projects promoted during these years proved to be unable to survive in the 1980s, when government support was reduced and competition started to be fostered by opening the economy.

Protected Domestic Markets

While protection was substantially reduced as shown by the data in Table 5, effective tariff levels were still rather high in 1967: in the 38-66% range for different categories of use computed with 1970 input-output data. This more liberal import tariff regime of 1967 was partly reversed in 1969 and trade liberalization advanced rather slowly in the early 1970s in the peak years of the Brazilian "miracle" as shown by data on nominal protection in 1966-1973 in Table 7.[23] The alleged reasons to temporarily reverse liberalization was an import "surge" in 1968, but it has been suggested that changes tended to reflect pressure by established rent-seeking interests against liberalization as there was a weak relation between sectoral import increases and the magnitude of tariff reversals (Coes [1991] pp. 47-51 and Chapter 5). A relatively high tariff remained in place and was an important factor to attract FDI as there was ample scope for use of market power since right of establishment continued to be tightly controlled.

After the first oil shock the government followed a policy of explicitly deepening ISI to reduce the economy's vulnerability to external shocks. This was combined with a major investment effort, taking advantage of the negative real interest rates and easy access to the international financial markets that persisted until 1979. Every possible instrument to protect domestic production from the competition of imports was used: tariff increases, imposition of additional taxation on imports, import controls, compulsory import deposits, straight prohibition of imports, restriction of import credit.[24] Most of imports in the second half of the 1970s until the mid-1980s were subject to so-called special import regimes which determined priorities in the distribution of import licenses following priorities determined by the government. This covered about 70% of total imports, wheat and oil excepted, and included a wide spectrum of categories: from imports under drawback regimes to imports by multinationals involved in special export programs or imports by state-owned enterprises.[25]

Data on average tariffs weighted by value added presented in Table 7 indicate a significant increase in tariff protection in the 1970s, but other estimates indicate considerable redundancy. Data on tariffs need to be taken with extreme care both because of redundancy and quantitative restrictions which were important, especially after 1975. Computations are also affected by exchange rate misalignments in different reference years. Table 8 illustrates the point for 1980-1981: the second column refers to tariffs weighted by value added; the third column registers implicit tariffs generated by the direct comparison of domestic and world prices; the fourth column (implicit nominal protection) corrects implicit tariffs to take into account production subsidies; the last

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[23] See Table A.8 in the Statistical Appendix for data on the effective tariff for 1966-1985 from other sources.

[24] See Coes [1991] p. 52 and ff. for an exhaustive description of such policies.

[25] See Kume [1990] Section III, for details on these programs. See also Baumann [1993].

column presents effective tariffs computed using output prices taking into account implicit nominal protection and prices paid by producers for their inputs.[26] The most important finding is that the traditional ranking order of level of protection by categories of use was reversed in the Brazilian economy around 1980 as capital goods became relatively more protected than other goods.

With increased import penetration, the contribution of import substitution to industrial growth from 1974 to 1979 that had been negative in the late 1960s and early 1970s, became again positive but negligible. ISI was exhausted as a source of growth due to its extreme deepening in the 1970s. The contraction of the import share in total supply continued in the 1980s. Following the second oil shock import penetration rates fell below those levels of the early 1960s to reach the amazingly low level of 4.3% in 1984 (see Table 6).[27] The low level of imports was due less to any rise in protection than to the combination of a stagnant economy and sharp depreciation of the exchange rate. Between 1973 and 1980 Brazil's GDP increased at 7.2% yearly, much below the 11.1% of the 1967-1973 boom years but still a rather good performance. After 1980 there was an important break in this trend as GDP fell abruptly and did not recover its 1980 level until 1985. In the longer term the Brazilian GDP per capita stagnated: today it is only slightly above its 1980 level.

There are many controversies surrounding which choice of price indices is to be used in the computation of real exchange rate indices especially in the context of the implementation of stabilization programs since prices of non-tradables are not exposed to the discipline of import competition and tend to fall slowly. This was less serious in the 1970s and 1980s. After the mid-1960s the real exchange rate (computed using Brazilian industrial wholesale prices and US producer prices) was remarkably stable never exceeding 20% of its 1967 level until the late 1970s. After the second oil shock it reached a peak in 1983-85 (more than 90% above the 1967 level) and then started to fall. The most important feature was that in contrast with some of the other big Latin American economies, such as for instance Argentina, the real exchange rate before the mid-1990s was not allowed to appreciate significantly for extended periods.[28]

Export Incentives

Export promotion policies were based on the provision of massive fiscal and credit incentives. GATT-illegal export subsidies peaked in 1977 and again in 1982 at more than 33% of the value of exports.[29] Industrialists continued to seek supply of low cost inputs, now in the form of discretionary exemption of import duties rather than preferential access to exchange cover, as had been typical of the 1950s. But rent-seeking activities also included export incentives as an important target. Government policy remained firmly based on a pick-the-winner framework. The main adjustment

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[26] For disaggregated sectoral indicators of protection in 1980-81, 1985 and 1987, see Table A.9 in the Statistical Appendix.

[27] Imports of consumer goods in 1972 were almost 16% of total imports and fell to around 12% in the 1980s. See Moreira [1995] p. 192.

[28] It is of course true that, to the extent that foreign exchange controls remained significant throughout the period, the Brazilian domestic currency was permanently overvalued. I thank Dionísio Dias Carneiro for the series on real exchange rates.

[29] See Neves and Moreira [1987] and Neves [1989] as quoted by World Bank [1990] p. 137. World Bank [1983] Chapter VI provides a detailed explanation of such export subsidies. See also Moreira [1995] p. 110.

in relation to the full-throttle import substitution strategy adopted in the past, was that "winners" - including many of that would prove to be losers - now could be selected because of a good hunch concerning either their prospects for substituting imports, or expanding exports, or both. Subsidiaries of multinationals previously heavily protected against foreign competition received substantial subsidies related to export performance. There was a revamping of policy instruments but no sustained effort to change the rent-seeking tradition in any essential way. There was no abandonment of the pick-the-winner policies that had marked the past but rather the belief by new policy-makers that they were better at a more comprehensive game of picking winners than their predecessors.

TABLE 7
BRAZIL: AVERAGE TARIFFS WEIGHTED BY VALUE ADDED, 1966-1980

	June 1966 *	April 1967 *	January 1969	November 1973	December 1980	1987
Agriculture	n.a.	n.a.	n.a.	34	54	30
Vegetable products	36	10	n.a.	n.a.	n.a.	n.a.
Animal products	137	17	n.a.	n.a.	n.a.	n.a.
Mining products	27	14	n.a.	22	27	14
Manufactured products	99	48	n.a.	n.a.	99	55
Non-metallic minerals	79	40	51	52	109	55
Metallurgy	54	34	47	40	77	42
Machinery	48	34	44	38	56	49
Electrical equipment	114	57	71	56	95	66
Transportation equipment	108	57	91	43	102	74
Lumber and wood	45	23	67	66	125	57
Furniture	132	68	87	76	148	88
Paper	93	48	58	49	120	57
Rubber	101	78	94	65	107	77
Leather	108	66	86	73	157	58
Chemicals	53	34	29	22	48	27
Pharmaceutical products	48	37	29	21	28	46
Perfumery	192	94	29	48	160	82
Plastics	122	81	29	44	204	79
Textiles	181	48	122	91	167	83
Apparel and footwear	226	103	176	106	181	90
Food products	82	27	40	73	108	57
Beverages	205	83	183	131	179	88
Tobacco products	193	78	167	141	185	90
Printing and publishing	122	59	44	35	85	34
Miscellaneous	104	58	60	35	87	61
Capital goods	n.a.	n.a.	n.a.	n.a.	83	73
Intermediate goods	n.a.	n.a.	n.a.	n.a.	76	48
Consumer goods	n.a.	n.a.	n.a.	n.a.	132	57
Average all sectors	85	37	66	57	n.a.	n.a

Note: * Includes exchange premia less taxes on domestic production with adjustments for restrictions and exemptions.
Sources: Bergsman [1970] p. 42, World Bank [1969], Tyler [1976] p. 239 and World Bank [1983] p.74.

TABLE 8
BRAZIL: TARIFFS WEIGHTED BY VALUE ADDED, IMPLICIT TARIFFS IN RELATION TO WORLD PRICES, IMPLICIT NOMINAL PROTECTION AND EFFECTIVE PROTECTION, 1980-1981
(Percentages)

	Nominal legal tariffs weighted by value added	Implicit tariffs	Implicit nominal protection	Effective protection
Primary Agriculture	54	-23	-7	-21
Manufacturing	99	12	23	23
Capital goods	83	14	38	37
Intermediate goods	76	6	25	22
Consumer goods	132	14	13	17

Source: World Bank [1983] p. 74.

There was a major change in the structure of exports. The rate of growth of manufactured exports was twice that of overall exports between 1965 and 1975, and well above the rate of expansion of international trade. Manufactured exports that had been only 2.6% of total exports in 1960, rose to 11.2% in 1970, and 44.8% in 1980. Exports which expanded the most in the period were precisely those of sectors which were either established or consolidated in the post-war ISI effort: motor vehicles, communications and transport equipment, shipbuilding, iron and steel products, basic chemicals, and small aircraft (World Bank [1983] pp. 184-188 and 191 and ff.).

There is evidence of correlation between the level of export incentives and the effective protection by sector. This is an indication of the dependence of export performance on continuous subsidies. Rather than being of an "infant exporting industry" nature, the strategy of high protection cum export subsidies was a rather poor substitute of the alternative standard mix of market-oriented policies that would have included exchange rate devaluation combined with removal of export subsidies and reduction of import tariffs (Fritsch and Franco [1993] Chapter 4; Neves [1985] p. 67).

The share of multinationals in exports of manufactures in the late 1970s and early 1980s (40-50% of the total) was higher than their share in total sales. Foreign-owned firms exported more sophisticated products than domestic firms. The influence of foreign firms was important in the design of the most important program of export subsidies that granted import duty exemptions to inputs and capital goods tied to future export performance. By the mid-1980s, 40% of the exports of manufactured exports were under this program. Foreign firms were also the main clients of the program even if the participation of domestic-owned firms, in the first half of the 1980s, rose rapidly. This was trade liberalization of sorts by the back door with the government choosing the winners (see Fritsch and Franco [1991] especially Chapters 1 and 4). As economic stagnation prevailed in the 1980s, FDI levels started to fall reaching a low in 1985, only slightly above US$ 200 million (excluding reinvestment) compared to an yearly average of US$ 0.9 billion in the 1970s and US$ 1.4 billion in 1980-1984.[30]

[30] See data on FDI 1950-1985 in the site of Banco Central do Brazil (*http://www.bcb.gov.br*).

International Negotiations

Until the Kennedy Round of multilateral negotiations in the GATT (1963-1967), exchange of concessions was mostly between developed economies. Some saw the developing countries as free riders as tariff reductions were extended to the smaller economies by the MFN clause and offers by developing economies were limited. Others saw the GATT as a richmen's club geared exclusively to meet the interests of developed economies as tariff concessions were mainly irrelevant for developing economies without possible supply response.[31]

In the Tokyo Round (1973-1979) there was a clash between the more advanced developing countries, including Brazil, and the United States, increasingly seeking reciprocity as a way to limit free riding. For these larger developing economies negotiations of the GATT codes and reform of the GATT system were more significant than those on tariff reduction. Codes were designed to prevent free riding by means of MFN clauses restricted to code signatories. Under strong pressure, Brazil was the first developing country to sign the Code on Subsidies, agreeing to freeze and then phase out GATT-illegal subsidies. This was temporarily reversed in the middle of the debt crisis in the 1980s, but finally implemented in the middle 1980s.

Interest by the United States in "new themes" - services, intellectual property (TRIPS), investment and trade (TRIMS) and high technology products - had already been clearly stated in 1980. In the skirmishes before the Uruguay Round was launched, opposition to the agenda sponsored by the United States came from a small coalition of developing countries in which Brazil and India played a prominent role. It was based mainly on fears that the inclusion of new themes would divert attention from the GATT backlog of pending negotiations on market access generally, particularly on textiles and agriculture, and the likely asymmetry of advantages entailed by liberalization.

The launching of the Uruguay Round in 1986 reflected a compromise: new themes such as TRIPS and TRIMS were treated as GATT issues from the start, while specific negotiations would be held simultaneously on services, but not within the scope of GATT. Brazil and India thought that the division of negotiations into two parts would make it easier to block concessions concerning services as cross-concessions were explicitly blocked. But after Punta del Este it was impossible to maintain their initial position, given the increasing pressure from the developed economies, especially the United States. The attempt to limit damage by the device of trying to block cross concessions involving goods and services by dividing the negotiations in two tracks simply did not work.

Changes in U.S. policies, difficulties in the multilateral trade negotiations and, perhaps most important, a drastic deterioration of economic performance in the first half of the 1980s all contributed to a slowly changing attitude on trade policy reform in Brazil. The obvious fatigue of the long-standing import-substituting strategy, coupled with the fiscal limits imposed on export subsidies, stimulated Brazil to consider following the liberalization moves of its Latin American neighbors.

[31] See Golt [1978]. For details concerning material covered in this subsection see Abreu [2001].

Statistical Appendix

Table A.1
BRAZIL: AVERAGE IMPLICIT TARIFF, 1872-1873 TO 1930
(Percentages)

Year	Tariff	Year	Tariff
1872-1873	38.0	1902	39.5
1873-1874	33.8	1903	38.7
1874-1875	33.1	1904	38.6
1875-1876	31.9	1905	49.2
1876-1877	35.0	1906	49.7
1877-1878	35.3	1907	44.5
1878-1879	36.5	1908	41.8
1879-1880	37.5	1909	37.6
1880-1881	37.5	1910	40.3
1881-1882	39.6	1911	40.1
1882-1883	38.5	1912	36.6
1883-1884	35.0	1913	34.2
1884-1885	36.8	1914	34.7
1885-1886	35.5	1915	26.2
1886-1887	39.3	1916	22.7
1887 *	39.3	1917	18.9
1888	47.5	1918	17.3
1889	41.4	1919	16.0
1890	39.3	1920	16.6
1891	25.7	1921	18.9
1892	21.0	1922	18.7
1893	24.2	1923	20.6
1894	20.8	1924	20.7
1895	22.4	1925	21.4
1896	35.4	1926	21.4
1897	30.8	1927	24.8
1898	27.8	1928	25.4
1899	27.2	1929	26.3
1900	30.3	1930	26.7
1901	36.2		

Note: * Second semester.

Sources : Brazil [1990], Suzigan [2000] and Brasil [1891].

TABLE A.2
ARGENTINA: AVERAGE IMPLICIT TARIFFS, 1880-1930
(Percentages)

Year	Tariff (official prices)	Year	Tariff (official prices)	Tariff (corrected prices)
1880	26.4	1906	19.8	
1881	26.5	1907	19.8	
1882	27.6	1908	22.0	
1883	24.6	1909	21.7	
1884	25.1	1910	21.6	20.1
1885	18.4	1911	21.2	19.2
1886	21.0	1912	21.5	18.5
1887	22.2	1913	20.8	17.7
1888	19.3	1914	19.2	16.2
1889	14.7	1915	18.4	13.7
1890	13.4	1916	21.2	12.6
1891	20.1	1917	23.1	11.2
1892	26.5	1918	23.5	7.8
1893	28.9	1919	21.3	7.5
1894	24.9	1920	21.6	7.5
1895	25.9	1921	21.0	9.4
1896	23.9	1922	21.6	11.7
1897	25.7	1923	23.1	12.3
1898	24.9	1924	19.1	13.6
1899	31.3	1925	20.1	15.2
1900	31.9	1926	18.2	15.3
1901	29.3	1927	18.1	15.5
1902	30.1	1928	17.1	17.4
1903	28.6	1929	16.9	17.2
1904	21.5	1930	16.4	16.7
1905	21.4			

Sources: 1880-1913, Vázquez-Presedo [1971], 1914-1930, Díaz-Alejandro [1970] p. 282.

TABLE A.3
CHILE: AVERAGE IMPLICIT IMPORT AND EXPORT TARIFFS, 1880-1930
(Percentages)

Year	Import tariff	Export tariff	Year	Import tariff	Export tariff
1880	23.4	3.5	1906	18.7	21.4
1881	24.5	10.3	1907	18.4	19.8
1882	27.8	12.3	1908	14.5	21.6
1883	24.9	13.8	1909	15.4	23.4
1884	23.0	16.7	1910	15.6	24.2
1885	22.2	13.0	1911	14.6	24.4
1886	20.6	10.9	1912	18.4	21.9
1887	22.1	14.1	1913	19.9	22.6
1888	22.2	16.8	1914	14.9	21.3
1889	21.0	22.5	1915	14.2	20.6
1890	16.3	23.9	1916	16.2	19.4
1891	12.0	18.1	1917	15.4	14.4
1892	13.7	20.2	1918	14.1	16.5
1893	11.8	20.9	1919	11.0	9.1
1894	11.7	24.6	1920	9.9	11.6
1895	14.2	26.7	1921	10.0	7.4
1896	15.6	24.6	1922	16.3	10.5
1897	17.9	26.4	1923	18.2	13.2
1898	18.3	22.8	1924	16.8	12.1
1899	20.3	28.7	1925	17.4	13.6
1900	22.3	29.6	1926	19.1	10.7
1901	20.2	25.5	1927	23.3	14.9
1902	19.9	24.3	1928	20.5	14.9
1903	21.1	25.0	1929	24.3	13.0
1904	19.5	23.3	1930	26.0	13.0
1905	17.2	21.3			

Source: Díaz and Wagner [2004].

TABLE A.4
COLOMBIA: AVERAGE IMPLICIT IMPORT TARIFFS, 1879-1880 TO 1930
(Percentages)

Year	Tariff	Year	Tariff
1879-1880	32.5	1906	51.9
1880-1881	45.7	1907	51.9
1881-1882	34.5	1908	51.9
1882-1883	32.0	1909	51.9
1883-1884	31.8	1910	50.7
1884-1885	34.2	1911	50.1
1886	48.0	1912	42.8
1887	32.2	1913	46.0
1888	35.5	1914	47.5
1889	34.6	1915	42.3
1890	34.8	1916	38.4
1891	35.4	1917	32.1
1892	36.8	1918	23.1
1893	30.5	1919	15.7
1894	27.7	1920	15.9
1895	31.0	1921	23.6
1896	30.9	1922	24.1
1897	27.2	1923	n.a.
1898	33.8	1924	34.5
1899	n.a.	1925	33.e
1900	n.a.	1926	30.5
1901	n.a.	1927	29.9
1902	n.a.	1928	28.1
1903	n.a.	1929	31.2
1904	n.a.	1930	32.4
1905*	51.9		

Note: * Average 1905-1910.
Source: Ocampo and Montenegro [1984].

TABLE A.5
MEXICO: AVERAGE IMPLICIT IMPORT TARIFFS, SELECTED YEARS, 1873-1930
(Percentages)*

Year	Dutiable imports	All imports	Year	Dutiable imports	All imports
1873	55.81		1902	22.20	
1874	57.33		1903	24.70	
1875			1904	26.65	
1876			1905	30.78	
1877			1906	30.33	
1878			1907	28.39	
1879			1908	29.09	
1880	66.77		1909	29.16	
1881	75.83		1910	29.61	
1882			1911	27.61	
1883			1912	30.27	20.1
1884		39.7	1913		
1885			1914	26.57	
1886			1915	32.78	
1887			1916	22.42	
1888	71.36		1917		
1889	65.56		1918	26.44	
1890			1919	27.00	
1891			1920		14.55
1892	31.93		1921		15.96
1893	30.75		1922		19.38
1894	30.72		1923		23.73
1895	31.15		1924		20.16
1896	29.47		1925	28.82	20.94
1897	26.24		1926	30.84	22.16
1898	28.74		1927	32.01	20.98
1899	25.66		1928	32.34	22.81
1900	24.60	20.1	1929		20.09
1901	22.57		1930		27.81

Note: * Average implicit tariffs for all imports in 1884, 1900 and 1912 are estimates using Márquez's data for collected duties and Mexico [2000] data on trade.

Source: Series of average implicit tariffs for dutiable imports communicated by Graciela Márquez.

TABLE A.6
LATIN AMERICA: SHARE OF MAIN SUPPLIERS IN TOTAL IMPORTS, 1870s-1928
(Percentages)

	Argentina	Brazil	Chile	Colombia	Mexico
1880*					
France	18.0	14.4	12.5	---	---
Germany	6.3	6.8	13.6	---	---
United Kingdom	27.9	51.0	38.2	37.1	---
United States	7.2	5.6	4.7	---	---
Residual	40.6	22.2	31.0	62.9	---
1900**					
France	9.3	8.0	7.2	---	8.8
Germany	14.2	9.4	26.7	---	8.6
United Kingdom	29.7	31.4	33.0	---	12.9
United States	11.5	12.4	9.4	---	54.1
Residual	35.3	38.8	24.4	---	15.6
1913					
France	7.3	9.8	---	15.5	10.5
Germany	13.3	17.5	24.8	14.1	14.6
United Kingdom	23.8	24.5	30.3	20.4	15.2
United States	10.5	15.7	16.9	26.7	56.7
Residual	45.1	32.5	28.0	23.3	3.0
1928					
France	7.2	6.4	---	5.6	5.0
Germany	11.7	12.5	14.0	14.3	9.2
United Kingdom	19.6	21.5	17.8	11.0	7.3
United States	23.2	26.6	30.8	39.2	67.6
Residual	38.3	33.0	37.4	29.9	10.9

Notes: * For Argentina: 1881; for Brazil: 1872-1873. ** For Brazil: 1901.

Sources: Argentina: Vázquez-Presedo [1971, 1976]; Brasil: Brasil [1990]; Chile: Chile [1881, 1901] and Mitchell [1998]; Colombia: Urrutia and Arrubla [1970]; Mexico: 1900, Mexico [2000] and 1913 and 1928, Mitchell [1998].

TABLE A.7
BRAZIL: *AD VALOREM* EQUIVALENT OF SPECIFIC TARIFFS ON SELECTED PRODUCTS, 1928-1945
(Percentages)

	1928	1931	1933	1939	1945
Cement	53.6	75.9	77.8	54.0	19.9
Iron tubes and pipes	46.0	23.1	39.1	26.0	17.8
Rails	27.5	15.3	29.7	13.5	9.7
Tires	30.2	54.3	71.6	61.1	---
Motor cars	22.0	38.5	48.3	41.9	---
Coal	23.2	27.8	24.7	15.3	6.9
Wheat	8.2	19.0	16.2	22.4	7.3
Wines	62.7	91.7	67.5	20.3	19.7
Cotton yarn for weaving	11.3	57.1	50.6	24.2	8.6
Cotton piece goods, unbleached	103.9	209.7	264.9	152.1	---
Weighted total	30.0	37.8	36.1	29.2	10.4

Source: Abreu [1976] p. 123.

TABLE A.8
BRAZIL: EFFECTIVE PROTECTION, 1966-1985
(Percentages)

	June 1966	April 1967	November 1973	1980-1981	1985
Agriculture	n.a.	n.a.	25	-8.2	-24.6
Vegetable products	35	8	n.a.	n.a.	n.a.
Animal products	164	17	n.a.	n.a.	n.a.
Mining	25	13	14	-4.3	-10.7
Manufactured products	254	117	47	43.6	42.9
Non-metallic minerals	86	39	46	-19.6	10.3
Metallurgy	58	36	35	34.2	53.0
Machinery	41	32	32	77.0	5.6
Electrical equipment	215	97	61	111.9	54.7
Transportation equipment	151	75	34	-9.6	-4.4
Lumber and wood	45	25	68	17.7	39.1
Furniture	239	124	74	52.7	53.1
Paper	118	59	50	-18.5	44.1
Rubber	136	116	66	-21.4	43.3
Leather	117	85	81	13.9	29.0
Chemicals	59	42	19	86.4	63.2
Pharmaceutical products	39	35	17	116.3	117.8
Perfumery	8,480	3,670	46	91.6	26.3
Plastics	183	58	41	28.3	189.0
Textiles	379	162	118	36.7	112.1
Apparel and footwear	337	142	29	46.7	231.4
Food products	87	40	83	26.1	45.8
Beverages	447	173	114	-1.1	-1.7
Tobacco products	313	124	83	5.7	-79.6
Printing and publishing	142	67	30	31.9	-5.3
Miscellaneous	128	72	37	171.7	96.7
Consumer goods	n.a.	n.a.	67	35.7	39.5
Intermediate goods	n.a.	n.a.	36	42.0	46.0
Capital goods	n.a.	n.a.	n.a.	59.6	14.5

Sources: Bergsman [1970] p. 42; Tyler [1976] p. 244; Braga, Santiago and Ferro [1988]; World Bank [1983, 1990], passim.

TABLE A.9
BRAZIL: NOMINAL LEGAL TARIFF, IMPLICIT TARIFF IN RELATION TO WORLD PRICES AND IMPLICIT NOMINAL PROTECTION, 1980, 1985 AND 1987

(Percentages)

	1980-1981			1985	1987	
	Nominal legal tariff	Implicit tariff	Implicit nominal protection	Implicit nominal protection	Nominal legal tariff	Implicit tariff
Agriculture	53.8	-23.0	-7.2	-23.2	29.8	-15.0
Vegetable products	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Animal products	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
All industries	n.a.	n.a.	n.a.	17.5	54.7	16.3
Mining	27.0	-15.9	-3.6	-6.2	13.9	-10.5
Manufactured products	99.4	11.9	22.8	18.0	55.3	16.4
Non-metallic minerals	109.4	-22.5	-17.7	12.0	54.7	24.6
Metallurgy	77.4	3.0	10.8	26.6	42.2	24.7
Machinery	56.3	24.0	48.3	11.8	49.2	17.3
Electrical equipment	95.4	45.2	71.4	47.0	65.7	44.5
Transportation equipment	101.0	-16.7	-5.8	12.4	74.4	9.2
Lumber and wood	125.3	-8.9	-4.3	20.9	57.4	22.9
Furniture	148.2	20.0	26.1	46.0	87.6	53.7
Paper	120.2	-19.9	-16.1	18.6	56.6	14.4
Rubber	107.3	-23.3	-15.4	45.6	77.2	65.5
Leather	156.6	10.0	15.6	33.6	57.6	26.9
Chemicals	48.2	40.7	55.1	22.9	27.3	20.2
Pharmaceutical products	27.9	79.0	97.4	99.5	46.5	61.6
Perfumery	160.5	28.5	35.1	23.5	82.1	46.4
Plastics	203.8	14.3	28.9	114.8	78.8	68.7
Textiles	167.3	20.6	25.2	65.1	83.3	60.4
Apparel and footwear	181.2	24.2	30.6	111.7	89.6	92.7
Food products	107.8	-21.3	-8.2	-5.8	57.4	-7.9
Beverages	179.0	-9.9	-5.3	3.0	88.1	-9.5
Tobacco products	184.6	-3,6	1.3	-70.7	90.3	-71.1
Printing and publishing	85.5	18.1	24.1	-0.9	33.9	3.8
Miscellaneous	87.0	73.9	91.8	75.6	61.3	66.5
Average all sectors	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer goods	132.5	13.9	13.1	n.a.	72.7	2.8
Intermediate goods	76.5	5.6	25.2	n.a.	47.7	21.4
Capital goods	132.5	13.9	13.1	n.a.	57.1	21.3

Sources: World Bank [1983]; World Bank [1990] p. 135, quoting Braga, Santiago and Ferro [1988] and Kume [1990] pp. 57 and 59.

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