

Brazilian trade pattern and its vulnerabilities: reflections based on the challenges imposed by the COVID-19 pandemic

Topic: Input-Output Analysis: Trade and Global Value Chains Policies - II

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The global economy and international trade have become increasingly structured around Global Value Chains. The production fragmentation has led to increases in the trade of intermediate goods, with the different stages of production taking place in many countries before reaching the final consumer. The global scale of the fragmented production became pronounced in the 2000s, with emerging economies taking on different roles in GVCs. These economies have become exporters of intermediate and final manufactured products, and large exporters of primary products, such as the case of Brazil.

The production shift from North to South accelerated in the 2000s and the production fragmentation has favored middle-income economies, increasing their shares in global export value added. With the trade growth in emerging economies, changes have also occurred in end markets, especially after the 2008-2009 economic recession.

Brazilian exports to China, for example, increased almost thirty times and Brazilian imports from China increased sixteen times between 2000 and 2010. This has raised concerns about the trade pattern since there is an export concentration on a few products, with about 70% of Brazilian exports composed of primary products or primary resource-based manufacturers. Further, Brazilian imports are concentrated in technology-intensive components and machinery.

Exported value added has increased from 1995 to 2011, but it is still low when compared to other countries. Moreover, Brazil's insertion in international trade and GVCs is considered peculiar, since it imports products with high technological content while undergoing deindustrialization, and concentrates its exports on basic.

Thus, Brazil has passed a period of increasing trade fragmentation, increasing its exports of basic products, taking advantage of a period of rising terms of trade. However, this period seems to have ended. Moreover, mistrust of global integrated production only increased after the Covid pandemic. Thus, the debate about over-reliance on certain sources of supply and the risks, trade restrictions, and interest in producing with less geographic dispersion increased.

The COVID-19 pandemic has become additional pressure on the already existing trade tensions. On the one hand, economies with natural resource-intensive exports could benefit from new export opportunities. On the other hand, efforts to diversify exports in these economies could be undermined.

Thus, this study aims to discuss Brazilian vulnerabilities in relation to value-added trade in the post-pandemic context and the weakening of world trade. We analyze the value added in Brazilian exports from 2000 to 2014 using the hypothetical extraction method (HEM) with data from the World Input-Output Database (WIOD).

The results show a strengthening of China as the destination of the value-added exported by Brazil to the detriment of the European Union and the United States over the period 2000 to 2014. The change in the destinations of exported value-added also meant a change in the sectoral composition of products exported by Brazil, with the value-added exported by Brazil becoming more

concentrated in products intensive in natural resources, especially in trade with China.

This change of destination and the change of product are evaluated in the context of the COVID-19 pandemic and the vulnerabilities to Brazilian trade are discussed. An important source of risk is the non-diversification of exported value-added, with a deepening on products intensive in natural resources. At the same time, there is a reduction in the value-added of manufactured products. The concentration in product and country exposes Brazil to shocks of external demand, variability of exported value, dependence, and specialization in products/markets with specific rules not always applicable to other markets, such as rules on the environment or labor market.

Thus, the study is a reflection on the risks for Brazilian trade, as part of the debate on the vulnerabilities of trade linked to GVCs in the post-pandemic scenario and the forecast of low growth in world trade and the weakening of fragmented trade.