# POSITION PAPER

PROPOSALS FOR **THE EXTERNAL INTEGRATION OF INDUSTRY – 2014**

FIESP

# Summary – Proposals for the External Integration of Industry

## Introduction

- It is necessary that Brazil effectively integrates itself into global value chains without abandoning already--established regional agreements, such as MERCOSUR and LAIA;
- Articulating a trade negotiation strategy that encourages Brazil's insertion into international commerce and high-value supply chains is an urgent matter;
- The success of these proposals for external integration is contingent upon adopting domestic measures that increase the competitiveness and productivity of domestic industry.

## I. Regional Integration

- MERCOSUR: Brazil should lead and drive the process of adjusting the structure and operation of the bloc, in order to make it an effective instrument for the country's international – and not merely regional – integration;
- Latin America: Expand integration at the economic and commercial levels, through more ambitious trade agreements with Peru and Colombia, as well as in the physical sense, through implementing priority infrastructure projects via the South American Council of Infrastructure and Planning (COSIPLAN).

## II. Extra-regional Integration

- The European Union: The European Union-MERCOSUR agreement is an immediate priority for Brazilian foreign policy and should be finalized by the start of 2015. MERCOSUR can also bring the agreement into effect at differential speeds by utilizing differentiated tariff reduction lists and schedules, with the aim of ultimately achieving regulatory convergence among bloc countries;
- Japan: Pursue satisfactory terms for establishing an economic partnership agreement (EPA), which facilitates investments and the resolution of issues related to sanitation and rules of origin;
- The United States: Conduct feasibility studies on a trade agreement that would contribute to the modernization of the manufacturing sector and to a higher degree of integration between the two countries.

## III. Other Partners

- Brazil needs to reflect on individual courses of action in relation to the BRICS, whether it does so through increasing cooperation among member countries according to the bilaterally identified interests, or through gradually expanding group coordination on specific topics that are of interest to all members—a form of cooperation that already occurs within the G20, the World Bank, and the IMF;
- China should be a strategic priority for Brazil, since the latter can take advantage of China's new economic policies, especially in the field of investments;
- Africa: Promote the development of mechanisms to mitigate commercial and financial risks of trade- and investment-related operations in Africa.

### IV. Word Trade Organization (WTO) and Plurilateral Agreements

• Brazil supports the broad and effective implementation of the provisions of the Trade Facilitation Agreement signed in Bali, which is of critical importance for the competitiveness of Brazil's industrial products;

• Brazil should join the plurilateral negotiations underway on the issue of trade in services (TISA).

### V. Investments

• Brazil should seek to sign Agreements of Cooperation and Facilitation of Investments (ACFI) with strategic partners in Latin America and Africa.

### VI. Agreements to Avoid Double Taxation

• Brazil should follow international protocols (OECD/UN) for the avoidance of double taxation by eliminating, among other things, the obligatory adoption of a tax sparing provision when negotiating new agreements.

### VII. Strengthening Brazil's Foreign Trade Institutions

• Institutional reform of CAMEX is necessary in order to bring its functions under a stronger, unified command endowed with more autonomy in actions related to trade policy.

### Conclusions

• Brazil should assume effective leadership of MERCOSUR once again; otherwise, the country will be rendered incapable of advancing its own interests, as well as those of the bloc as a whole;

• Global trade relations are changing constantly, at progressively increasing speeds and, as far as FIESP is concerned, there is no more time to lose. It is no longer possible to sidestep debates and concrete actions concerned with integrating Brazil with countries of higher levels of technological development.

# Federation of Industries of the State of São Paulo
# Proposals for the External Integration of Industry

## Introduction

This document aims to develop the main topics previously discussed in **the External Integration Agenda**, published by the Department of Trade and Foreign Affairs (DEREX), of the Federation of Industries of the State of Sao Paulo (FIESP), in July 2013. At that time, the position paper summarized the issues of greatest relevance to Brazil's international economic integration, with the purpose of guiding the activities of those government agencies responsible for public policy related to industry, development, and foreign trade.

The 2013 External Integration Agenda undeniably helped forge an emphatic consensus in Brazil on the necessity of increasing the country's integration at the extra-regional level. The Agenda also made it clear that Brazil must seek effective insertion into the global value chains, and that doing so does not mean renouncing already-established regional arrangements, such as MERCOSUR and the Latin American Integration Association (LAIA).

On the contrary, expanding existent agreements and signing additional free-trade agreements are indispensable tools for inserting Brazil into an international position that is adequate in itself and consonant with Brazil's national interests. Further still, these agreements allow us to open our markets on the condition of reciprocal treatment from our trading partners.

Since then, new perspectives have emerged within the field of international economic relations and the world has entered into the era of commercial "mega-agreements". About the same time that FIESP released its External Integration Agenda, trade representatives of the United States and the European Union held the first round of negotiations of the Transatlantic Trade and Investment Partnership (TTIP): an agreement of wide-ranging dimensions that, when implemented, will fundamentally change the regulation of international trade. Later in December, when completing the "Bali Package" the World Trade Organization (WTO) reaffirmed the importance of multilateralism within international negotiations and launched new opportunities for gains through the trade facilitation agreement and an effective resumption of the Doha Round.

The regulatory transformations that international trade has experienced are important and should be emphasized. Both the wide range of next-generation trade agreements that have been established over the last decade as well as the ongoing discussions of the mega agreements mentioned above involve defining additional rules to those negotiated in the WTO (WTO plus) or even nonexistent in the Organization (WTO extra). These rules, insofar as they are related to various aspects of international trade (such as intellectual property, services, government procurement, technical barriers, sanitary and phytosanitary measures, competition, labor laws, etc.), will greatly affect Brazilian industrial and service sectors, especially in those branches that rely on exports.

From this new scenario— and in an effort to substantially increase economic competitiveness and effective integration of Brazilian industry into global value chains, in a pragmatic way that takes the particularities of each national productive sector into account— FIESP presents its **Proposals for the External Integration of Industry**. This document details the main agendas for Brazil's commercial insertion into the world economy, each of which is analyzed with reference to the following topics: (i) the current situation, (ii) Brazilian interests, and (iii) FIESP's position.

The Proposals for the External Integration of Industry forms a technical document that offers a strategy for commercial negotiation, grounded in effective changes in public and corporate mindset on the insertion of Brazilian industry into the global ambit. This document is not content with detailing minutia at the ideological level and instead seeks to make use of concrete proposals for economic integration through adherence to bilateral and plurilateral agreements, without abandoning the Brazilian tradition of defending and promoting multilateralism.

The document considers various types of agreements that are useful to the process of developing integration and global economic insertion: regional and extra-regional integration, essentially — though not exclusively — through free trade agreements; and investment and business facilitation, through investment and double taxation agreements.

It is noteworthy that nothing contained herein is intended to suggest that the success of an effective external integration and the global insertion of Brazilian industry rely solely on the negotiation of international agreements. Agreements are key ingredients which tend to facilitate integration, but their success is contingent upon internal processes of consistent increases in competitiveness and productivity, and the unconditional preservation of macroeconomic stability.

All of this activity, owing to the aforementioned agreements, and the subsequent negotiation of new rules will significantly alter the larger situation of international trade. It goes without saying that these changes occur at rapid, breakneck speed.

**Staying on the sidelines of this process is not an option for Brazil.**

Sao Paulo, June 2014

# PROPOSALS FOR
# **THE EXTERNAL INTEGRATION OF INDUSTRY**

# I. Regional Integration

## MERCOSUR

### Current Situation

As one of the originators and founders of MERCOSUR, Brazil individually accounts for 72% of the bloc's GDP, 61% of its exports and 57% of imports. We are the primary trading partners of Argentina, Paraguay, and Uruguay and the fourth largest partner of Venezuela.

Out of all vehicles exported by Argentina, 80% are destined for Brazil. Regarding Paraguay, Brazilian productive investments are the most important engine of growth for its incipient industries. As for Venezuela, Brazil stands as one of the key partners for foodstuffs, pharmaceuticals, machinery and equipment, and engineering services.

Apart from its commercial importance, Brazil has other features that make it predisposed for a leadership position within MERCOSUR, since it is the only country to share borders with all other members, in addition to accounting for 71% of the population and 67% of the bloc's total territory. Despite the complexity of bilateral issues facing Brazil, for decades its diplomatic relations in the region have been stable and committed to cooperation and promoting peace.

In this way, Brazil is best prepared to lead and drive the necessary process of readjusting the bloc's structure and operations, in accordance with its rules and fundamental principles; doing so will also enable MERCOSUR to become an effective instrument for Brazil's global – and not merely regional – insertion. As it currently stands, MERCOSUR is not assisting in the realization of this goal. Thus, Brazil should promote efforts with other members of the bloc, guided by an agenda that improves its business environment and fosters economic growth and trade flows, both in intraregional and extra-regional contexts.

Figure 1 – **Brazil and MERCOSUR in numbers**

Trade Flows (2013):

**$49.9 billion (12% of the total)**

Brazilian manufactured exports to MERCOSUR (2013):

**$24.9 billion (27% of the total)**

Stock of Brazilian investment in MERCOSUR (2012):

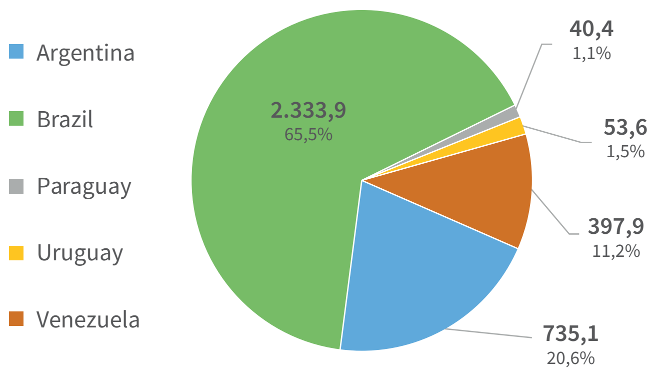
**$10.1 billion (4% of the total)**

Inflows of MERCOSUR tourists to Brazil (2012):

**2.3 million persons (40% of the total)**

Sources: Funcexdata, Banco Central do Brasil, (Central Bank of Brazil) and Ministério do Turismo (Ministry of Tourism)

Figure 2 – **GPD of MERCOSUR countries (PPP) – 2012** (USD$ billions and % of total)




**Brazilian Interests**

The main issues concerning Brazil's economic and commercial interests in MERCOSUR can be summarized as follows:

### Strengthening Institutions and Policy

MERCOSUR should be seen as an instrument for pursuing Brazilian interests within South America. In this respect the bloc's institutional paralysis is precisely what most motivates its critics, shoring up extreme and unconstructive positions with respect to the inherent difficulties of regional integration. Overcoming the growing skepticism of public opinion concerning negotiating capacity, respect for the rules, and the benefits of the MERCOSUR project is one of the biggest challenges for Brazil, and should be a top priority on the nation's foreign policy agenda.

Therefore, as a way of exerting political and economic leadership of the bloc, Brazil must ensure the legislative and institutional strengthening of MERCOSUR and lead efforts to end the paralysis of its primary negotiating agendas.

The first step should be resuming the policy from the Treaty of Asunción, of 1994, which includes the "free movement of goods, services, and production factors." So that the bloc is not guided solely by diplomatic imperatives or that it continue functioning only on the basis of pre-established bureaucratic inertia, FIESP suggests two strictly and measurably economic criteria to be pursued so as to assure the effective resumption of the bloc's trade integration process: (i) consistent increase in intraregional trade, which translates into broader regional integration; and (ii) the consistent increase of extra-regional trade – between the bloc and the rest of the world – which translates into a growing integration with international markets and "global value chains."

### Goods

The free movement of goods, established in Article One of the Treaty of Asunción refers to the elimination of "customs duties, non-tariff restrictions on movements within the market, or any other measure having an equivalent effect" – which is a reference to intraregional trade – i.e., trade between bloc members. The same article also refers to "the establishment of a common external tariff (CET)" and the "adoption of a common commercial policy towards third-party countries" – thus, the article also refers to extra-regional trade, that is, trade between the bloc and other states.

The current situation of the bloc with respect to trade in goods is well known. Neither of the two policies implicit in the first article of the Treaty of Asunción are complied with at this present moment. Therefore, a reassessment of the operation of the bloc in achieving these policies has become necessary, with a view toward preparing a work program that reestablishes the main road of the integration process among its members.

## Services

Trade in services has great potential for growth, not only in MERCOSUR but also throughout Latin America. According to the World Bank, the share of foreign trade in services in GDP of the countries of the region is below the world average (11.7% in 2012, compared to an average of 6.3% for Latin American countries). Brazil, for its part, recorded a share of 5.3%. On this topic, a recent study from the Economic Commission for Latin America (ECLAC) indicates that the development of trade in services in Latin America depends on three factors: (i) increased mutual recognition, (ii) regulatory convergence, and (iii) further liberalization of trade.

Currently in effect within Argentina, Brazil, and Uruguay, the Montevideo Protocol is the primary instrument of trade regulation and liberalization within MERCOSUR, with respect to services. Since its signing, in December 2011, there were several rounds of negotiations, which resulted in improved offers from the parties, but these were never ratified by the members.

## Government Purchases

Each year government purchases mobilize significant amounts of resources around the world, to the extent that they have come to be understood as important tools to stimulate national economies. Brazil, whose government procurement market is one of the largest in the world, has federal laws guaranteeing preference to Brazilian companies within these processes.

However, it is essential that Brazil improves the access of its domestic firms, which are competitive, to competitive bidding for public procurement in MERCOSUR countries. To this end, the main instrument of regulation currently in place is the MERCOSUR Public Procurement Protocol (DEC 27/04).

The Protocol, which is currently being renegotiated, deals with "public contracts that entities at all levels of government, federal and sub-federal, award for the purchase of goods and services, in whatever combination, including public works, by any contractual method, subject to the reservations of the State Parties." Some important issues, such as access to subnational procurement market (which was excluded from the final text approved in 2004), are on the agenda for the renegotiation of the agreement.

The entry into force of the MERCOSUR Public Procurement Protocol is also important within the context of MERCOSUR–European Union negotiations because, having consolidated the rules governing the region's public procurement market, any offer to the Europeans (and subsequently to any other extra-regional partner) will have increased legitimacy.

**FIESP's Position**

In the opinion of FIESP, it is of strategic importance that Brazil consolidates the agreements currently under negotiation in MERCOSUR in order to ensure legal certainty for economic agents and greater intra-bloc trade liberalization. Moreover, institutional strengthening of the block upon a basis that is pragmatic and favors free trade, respect for the rules, and Brazil's effective integration into key global value chains, is absolutely necessary.

Thus, FIESP proposes that the Brazilian government adopt an assertive role in MERCOSUR in order to:

- Ensure that the integration process of MERCORSUR is resumed and that it bases itself in preserving and expanding intraregional preferences - i.e., that no third-party country receives preference greater than that of other bloc members;

- Promote total respect for MERCOSUR rules regarding the free trade zone and the customs union, with "fast track" access to the dispute settlement system;

- Restructure the block so that trade issues can be resolved before they reach the presidential level – so as to ensure greater efficiency and less politicizing of economic issues within the bloc;

- Promote the participation of the region's private sector, along with a formal consultation process throughout negotiations and conducting business forums during summit meetings at the end of national presidencies every six months;

- Adopt new mechanisms for scheduling/negotiation that privilege objectivity, transparency, and pragmatic concerns, with fewer topics and greater feasibility;

- Establish new ways of measuring results based on the criteria described above in the "Strengthening Institutions and Policy" section – essentially the development of intraregional integration which contributes to greater inclusion of Brazil and the bloc within the international market and global value chains;

- Periodically reassess the performance of the bloc based on the analysis of results mentioned in the previous item, along with proposing changes that ensure that the bloc does not deviate from the search for developing intraregional integration, as well as the effective international integration of the country and the bloc as a whole;

- Define a new strategic line for extra-regional trading that applies to the entire bloc;

- Encourage negotiations with Latin American partners and/or new members that allows for closer economic and trade relations with Latin America.

  In more specific terms:

  - The return of intra-zone free trade and a viable CET for the trade in goods based on a reassessment of the barriers that cause adverse effects on the movement of goods;

  - Effective implementation of structural commitments to extra-regional trade, such as the elimination of the double charging of the CET, and the entry into force of the Customs Code of MERCOSUR;

  - Ratification of the list of concessions on services from the seventh round of negotiations of the Montevideo Protocol;

  - A swift renegotiation and ratification of the MERCOSUR Public Procurement Protocol.

## Latin America

### Physical Integration

#### Current Situation

The lack of infrastructure remains a major constraint on productive integration in the South American continent. For Brazil, in particular, the existence of efficient export corridors in the Pacific Ocean is a strategic matter given the growing importance of Asian markets to our foreign commerce.

According to a study from the Department of Competitiveness (DECOMTEC) of FIESP, due to infrastructural deficiencies Brazilian industries spend about 1% of their total revenue on logistics costs. The same study also indicates that the logistical shortcomings are equivalent to 1.8% of the price of industrial products. In addition, according to the Department, Brazilian federal highways are half the distance of China's highway network, with Brazilian railway lines amounting to a third. Comparison with other developed countries presents even more glaring differences.

#### Brazilian Interests

Investments in infrastructure in Brazil simultaneously present great challenges and great opportunities. It is crucial for the country that political and financial efforts are focused on infrastructure projects of the region, those that are capable not only of promoting greater mobility of people and goods, but also of providing a basis for productive and technological developments on the continent.

#### FIESP's Position

FIESP reiterates the need for focused efforts in implementing the priority projects currently under discussion in the South American Infrastructure and Planning Council (COSIPLAN). Thus, FIESP believes that

- Brazilian efforts within the regional integration agenda should focus on three projects: (i) The Paranaguá-Antofagasta Bioceanic Rail Corridor, (ii) access to the northeastern Amazon River, and (iii) Improvement of Road Connectivity in the Central Inter-oceanic Hub;

- Monitoring instruments should be further developed and strengthened, since the lack of updates and transparent schedules undermines the completion of these projects.

### Intraregional Trade

#### Current Situation

Historically, Brazil has vibrant commercial relations with the countries of Latin America, comprised primarily of manufactured products, which account for an average of 77% of total exported goods to the region within the last five years. While Brazil recorded trade deficits in manufactured goods with the rest of the world, transactions with Latin America resulted in a surplus of $24 billion in 2013.

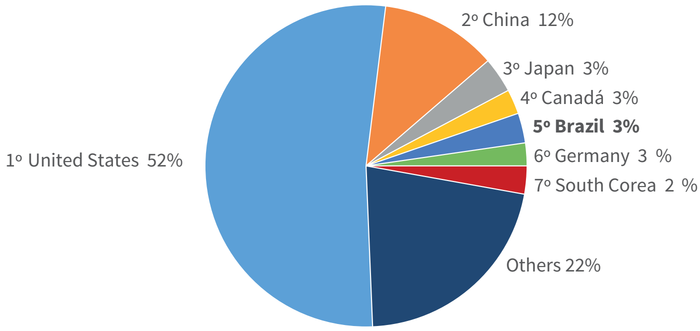
Within the region, some countries stand out with respect to significant economic growth and efforts to achieve global insertion by means of extra-regional free trade agreements and policies for attracting foreign direct investment (FDI) – most notably Colombia, Peru and Mexico, countries with which Brazil already has commercial agreements.

These countries make up the Pacific Alliance (which also includes Chile), which is working to achieve progressive advances towards free trade in goods, services, capital, and people. The four members have Economic Complementation Agreement (ACE) among each other, signed under the LAIA.

Subsequently, these countries signed bilateral free trade agreements with each other, which encompassed additional topics on the economic integration agenda and consequently expanded trade liberalization. More recently, Chile, Colombia, Peru, and Mexico have all signed the Additional Protocol to the Framework Agreement of the Pacific Alliance, a document that sets the rules for regional trade liberalization and which will render 92% of the goods traded among the members tariff-free, immediately after its entry into force.

As a result of this global insertion strategy, trade flows among the bloc became far more pronounced, surpassing $1 trillion in 2011. The U.S. and China are the primary trading partners of the Alliance, accounting for 67% of the bloc's commerce. Brazil is currently the fifth largest trading partner of the Alliance, despite its comparatively lower share.

F igure 3 - **Share of the main trade partners of the Pacific Alliance - trade flows (2012)**




Brazil has ACEs with the four countries of the Alliance. They are: ACE-35, between MERCOSUR and Chile; ACE-58 between MERCOSUR and Peru, ACE-59, between MERCOSUR and Colombia (along with Ecuador and Venezuela), and ACE-53, 54 and 55, between MERCOSUR and Mexico. In these agreements, although Brazil grants a 100% margin of preference to Alliance countries (except Mexico), today, in 2014, only 40% of the products exported by the Brazilian industry benefit from the zero tariff concession in Colombia, 10% in Peru, and 7.5% in Mexico. On the other hand, owing to the entry into force of free trade agreements between these countries and the U.S., Europe and China preference margins were diminished within the agreements negotiated in LAIA.

The schedule of tariff reductions in the agreement with Peru has made significant progress in 2014, when the amount of tariff-free goods to Brazil reached 85% of the total negotiated under the agreement. However, this amount will not reach 99.8% until 2019. As for the agreement with Colombia, the target 80% tariff reduction will be achieved in 2015, with full liberalization by 2018.

Unlike the others, the ACEs signed with Mexico do not substantially liberalize all commerce, and include, respectively: an agreement on fixed tariff preferences, which covers about 800 products (ACE-53); a sectorial agreement liberalizing trade in the automotive sector (ACE-55); and an agreement that establishes a commitment to work toward a free trade zone between MERCOSUR and Mexico (ACE-54).

**Brazilian Interests**

In recent years, Mexico, Chile, Peru, and Colombia have invested in a broad network of agreements, strengthening relations with major trading powers throughout the world, such as the United States, Japan, and the European Union. The signing of these extra-regional agreements, which offer more generous conditions of market access than those of the existing ACEs, tends to diminish Brazil's tariff preferences in these countries. As a result, there is a steadily decreasing share of Brazilian domestic products moving into Latin American markets in recent years.

Furthermore, the creation of new regional blocs which are better integrated into the international trading system than Brazil opens up another problem: that of Brazil's isolation with respect to creating standards at the global level. The free trade agreements signed by countries such as Chile, Colombia, Peru, and Mexico have provisions regulating trade in goods, services, investment, government procurement, sanitary and phytosanitary barriers, and trade facilitation, while the ACEs of which Brazil is apart essentially deal with tariff issues, and do not necessarily cover all trade.

Regarding the economic importance of these countries, while Mexico is the member of Pacific Alliance with the largest trade flows (68% of total), Peru and Colombia, in turn, hold the greatest potential for economic growth in the region. Colombia has a GDP of $ 370 billion (2012) and now rivals Argentina as the second largest economy in South America. Peru has recently boasted an average annual growth of 6.4% between 2002 and 2011.

There is notable potential for intensifying trade relations with these countries, which would be an important step for ensuring Brazil a leading commercial position within Latin America.

**FIESP's Position**

By understanding the importance of the economic and commercial dynamism of these countries for regional integration, FIESP calls for:

- Closer commercial and political relations between MERCOSUR and the Pacific Alliance.

- Negotiating further, more ambitious and wide-ranging free trade agreements with Colombia, Chile, Mexico, and Peru; these should include tariff preferences and full liberalization of both trade in services as well as the system of government procurement and investments.

- Incorporating the ACEs currently in effect into these new agreements, which has already occurred in the case of the Pacific Alliance.

# II. Extra-regional Integration

## The European Union

### Current Situation

The European Union is the largest economic bloc in the world, accounting for one fifth of GDP and 15% of the total flows of international trade. In 2013, Europe had a two-way trade flow with Brazil of $98.2 billion. While Brazilian exports were mainly concentrated in primary products, the European Union sent $48.6 billion of manufactured goods to Brazil, approximately 25% of total imports of this sort during the period in question. In terms of direct investments, European countries constitute among the largest source of foreign funds to the Brazilian market.

The exclusion of Brazil, Argentina, and Uruguay from the European Generalized System of Preferences (GSP) in early 2014 served as a stimulus for negotiations concerning the trade agreement between MERCOSUR and the European Union, which began more than 14 years ago. But what really propelled the progress of the negotiations was the firm decision by the Brazilian government to move forward with this agenda, along with its leadership in the regional decisions of MERCOSUR, by working to a proposal on trade liberalization with Europe before the end of 2014.

Undoubtedly, the deliberate support of the private sector for these negotiations played an important role in forging Brazil's leadership, and will be decisive for the eventual signing of the agreement. During the first months of 2014, despite some obstacles inherent in negotiations of this degree of complexity, some doubts remain concerning the commitment of certain members of MERCOSUR within negotiations with Europe and, furthermore, concerning the creation the list of proposals to be made by the bloc, which will most likely be a single, unified list.

For Brazil, the negotiation of the agreement with the Europeans becomes increasingly urgent as they continue to pursue a number of bi-regional negotiations around the world, such as the Transatlantic Trade and Investment Partnership (TTIP) between the E.U. and the U.S. The TTIP has the potential to displace Brazilian exports, both in the U.S. and in European markets, by providing more favorable conditions of market access for themselves. This agreement, additionally, promises to go far beyond tariff issues and bring significant changes in the regulation of international trade, the establishment of technical standards for products, intellectual property rules, safety, environmental protection, labor standards, among others.

### Brazilian Interests

According to a study by FIESP[1] , the agreement with the European Union has the potential to increase Brazilian exports to that market by up to 12%. Furthermore, the model agreement currently being negotiated with Europe would, due to its breadth and thematic range, act as a catalyst for technology transfers to Brazil, along with technical cooperation, whether through universities or structured private sector initiatives with representatives of European industry. Such matters concerning industrial competitiveness are undoubtedly of extreme importance for Brazilian national interests.

1 DEREX – FIESP. "Análise Quantitativa de Negociações Internacionais" (2012).

Moreover, given the rapid expansion of bilateral agreements around the world, and especially of the mega--agreements currently under negotiation, the cost of Brazil's absence from these initiatives is only increasing, both in terms of market access and regulatory matters. In addition, it is important to note that, according to the World Intellectual Property Organization (WIPO), seven of the ten most innovative countries in the world are European, which means that Brazil has much to gain by developing this relationship, particularly through a well-designed agreement that serves the interests of the country accordingly.

Finally, the signing of an agreement with the Europeans would represent a milestone for MERCOSUR, since it would be the first extra-regional agreement signed with such a substantial business partner, and may serve as a springboard for similar dealings in the future.

**FIESP's Position**

FIESP has been closely following the developments of the negotiations with the European bloc, and has been working to build a consensus within the private sector on the importance of this initiative.

Therefore, FIESP is convinced that signing the MERCOSUR-European Union agreement is an immediate priority of Brazilian foreign policy, and therefore proposes:

- Exchanging offers between the parties by August 2014;
- Adjusting offers and finalizing the rules section of the agreement by the end of 2014 through a transparent process that actively includes the private sector;
- Finalizing the agreement by early 2015;
- If resistance from certain countries prevents the commencement of negotiations, Brazil should propose to the European Union that the negotiating process move forward with the MERCOSUR countries that are willing to follow Brazil, so that eventually all members of MERCOSUR can work toward a harmonious position.

## Japan

**Current Situation**

Japan is an important partner for Brazil, and their relationship spans matters such as culture, economics, and cooperation. Since 2005, bilateral trade flows have grown at an average of 10.3% per year, reaching $15.0 billion in 2013. Through 2009, the trade balance between the two countries was unfavorable for Brazil (aside from surpluses recorded in 2005 and 2006). However, in the last four years, this trend has reversed and the Brazilian trade balance has been a surplus, with a significant expansion of its balance. Such growth has transformed Japan into Brazil's sixth-largest trading partner, as well as the fifth-largest destination for our exports and the seventh-largest source of Brazil's imports.

Regarding the composition of Brazil's export and import bases, both show high concentrations, although in segments with divergent technological intensities. In national exports, the following three segments comprise more than 60%: iron ore (39.1%), meat (12.3%), and cereals (11.3%). From the standpoint of imports, purchases from Japan were concentrated in sectors with higher technological intensity, like machinery and vehicles, respectively with 44.9% and 17.8% shares of the total.

Another prominent issue in bilateral relations concerns Japanese investment in Brazil. The Asian country is one of the leading foreign investors in the Brazilian economy, often placed among the top ten sources of FDI — beyond the established presence of large Japanese companies in various sectors of our country. The stock of productive investments of Japanese origin in Brazil reached U.S. $33 billion in 2012, representing on average 6.4% of annual inflows of foreign direct investment in Brazil (between 2008 and 2013).

Recently, the Japanese Prime Minister Shinzo Abe announced an ambitious set of measures to resume the country's economic dynamism, which can be summarized in three main areas: (i) stimulus package, (ii) looser monetary policy, and (iii) reforms, especially in the labor market. More importantly, the project of Prime Minister Abe involves greater trade liberalization in Japan in agriculture, goods, services, and investments.

**Brazilian Interests**

Japan has signed Economic Partnership Agreements[2] (EPA) with Indonesia, Malaysia, Singapore, India, among others, as well as agreements with Latin American countries such as Chile, Mexico, and Peru. In the industrial context, Japan is integrated into the major Global Value Chains in high-tech sectors, so that expanding economic and trade relations with this country is strategic and essential for expanding Brazil's inclusion within these chains.

In agriculture, there is much concern about the sustainability and viability of production in Japan, which could compromise the country's long-term food security. In this sense, the Japanese government has moved toward possibly opening its markets, as has been observed in the negotiations of the Trans-Pacific Partnership (TPP) and the recent agreement signed with Australia. Thus, a more open Japanese agricultural market could bring significant benefits to Brazil, if inserted into an EPA.

**FIESP's Position**

From a technical standpoint, an agreement with Japan that would be advantageous for Brazil must treat, in detail, topics such as:

- Investments, through rules designed to bring more clarity to national and foreign investment, risk mitigation, protection of free enterprise, among others;

- Intellectual property, expanding the legal tools to combat piracy, and reducing costs and barriers for technology transfer throughout the private sector;

- Rules of origin and harmonization, through adopting strict rules and avoiding a triangulation of trade, especially with China;

- Sanitary and phytosanitary barriers, establishing commitments that prevent the implementation of restrictive measures on Brazilian agricultural products seeking access to the Japanese market.

2 The Economic Partnership Agreements (EPA) are comprehensive and include, in addition to specific trade measures, such as eliminating tariffs, items related to (i) investments; (ii) developing human resources; (iii) intellectual property; (iv) government procurement; (v) sanitary measures and (vi) industrial standardization.

Thus, FIESP favors:

- Intensification of joint activities involving the private sectors of both countries by seeking sectorial synergies, which, through a frank and wide-ranging dialogue, justify the negotiation of an Economic Partnership Agreement;

- Conducting joint studies between representatives of Brazil and Japan, demonstrating the specific impacts an EPA may have on the two countries, in order to ensure an agreement that produces:

    - Significant technological benefits;
    - Resolution of the major technical, sanitary and phytosanitary barriers;
    - Delimitation and standardization of rules of origin and dispute settlement mechanisms.

## The United States

### Current Situation

The United States is a major trading partner of Brazil, especially in the manufacturing sector. In 2013, bilateral trade between the two countries was $ 60.6 billion, of which approximately 75% (U.S. $ 46.8 billion) were manufactured goods. Besides the trade-related aspects, Americans were also a major source of direct investment in Brazil, investing $ 9 billion in 2013 alone. Until this year, the stock of direct U.S. investment in Brazil was U.S. $ 79.5 billion, which demonstrates the relevance of this partner for our industrial and technological development.

From the perspective of Brazilian Direct Investment (IBD), the United States also occupies an important place. By the year 2012, national companies had accumulated a stock of investments of $ 18.4 billion in the U.S., according to the Banco Central do Brasil. This is the country with the largest presence of Brazilian companies, according to the 2013 Ranking of Brazilian Multinationals, prepared by the Dom Cabral Foundation.

In addition to the robustness of trade and economic relations, there are also a series of bilateral cooperation initiatives, such as the Agreement on Trade and Economic Cooperation (ATEC), the bilateral dialogue between the Ministry of Development, Industry and Foreign Trade of Brazil (Ministério do Desenvolvimento, Indústria e Comércio do Brasil – MDIC) and the Department of Commerce (DOC) of the United States, understandings in the area of national defense, among others.

All these elements suggest the existence of a consolidated microeconomic environment, highly conducive to the consolidation of local supply chains, in which commercial and industrial players from both parties play a large role and are the vectors of consensus building on the importance of relations between Brazil-United States.

The political and diplomatic relations, however, have been the weak link in this chain, especially after allegations of espionage by the U.S. National Security Agency (NSA). This led to the cancellation of the state visit by the President of the Republic of Brazil to Washington in late 2013 and has prevented the establishment of a more ambitious and high-level dialogue between the countries.

**Brazilian Interests**

The Brazilian interest in approaching the United States cannot be restricted only to possible commercial gain, since Americans are already important trading partners. Among the many priorities that can boost economic development, there are sensitive opportunities, for example, to upgrade the technological frontier of Brazilian industry, be it through mechanisms that encourage mutual investment and the upgrading of the productive chain in Brazil, or through academic cooperation between educational institutions in both countries.

In addition to issues related to the technological benefits of an agreement with the United States, there are also great opportunities to increase bilateral relations, still little explored in areas such as national defense, services, and tourism. Identifying sectorial clusters of products that can benefit from a closer relationship can also result in gains for Brazil.

Accordingly, actions that enable ad hoc cooperation initiatives should be the focus of the bilateral relationship in the short term. While studying the feasibility of broader agreements, entrepreneurial and government efforts should take as a guideline the establishment of specific actions that are feasible in the short-term, such as: Brazilian admission into the Global Entry, technical barriers, sanitary and phytosanitary barriers, agreement to avoid double taxation, among others.

**FIESP's Position**

FIESP advocates the immediate restoration of fluidity in diplomatic relations between Brazil and the United States, with a view not only to accelerate the ongoing bilateral negotiations, but also in order to establish the appropriate political channels for the pursuit of a free trade agreement that is ambitious and balanced, taking the steps below:

- Restoring the bilateral dialogue at the highest level between Brazil and the United States;

- Examining the possibility of negotiating a bilateral agreement on trade facilitation issues and sectors of mutual interest;

- Conducting economic and commercial studies on the feasibility of an agreement with the United States, with the goal of creating a consensus in Brazil and MERCOSUR about the importance of this mutual understanding;

- Identifying sectorial clusters and reducing trade barriers, to ensure broad and advantageous technological benefits for domestic industry;

- Intensifying instruments of cooperation between States and private sectors that provide greater awareness of the opportunities and business models between the two countries.

# III. Other Partners

## BRICS

### Current Situation

FIESP recognizes the importance to Brazil of partners such as Russia, India, China and South Africa, as these are important players in the political arena and key markets for Brazil's international insertion. In 2013, trade with these four countries accounted for $ 101 billion (21% of the Brazilian trade), and 83% of which comes from bilateral trade with China.

However, it should be kept in mind that the agenda of these countries as a bloc is still highly political, and thus diffuse. Given the current importance of some of these countries for the Brazilian economy, especially in terms of opportunities for productive investment, FIESP considers it necessary that Brazil reflects about individual action strategies for each of them. This would permit strictly commercial courses of action of varying rates, according to the interests identified bilaterally.

### Brazilian Interests

In this regard, China should be a priority for Brazil, especially after the new economic reforms announced by the Chinese government in late 2013, which may represent opportunities for Brazil in relation to attracting investment.

Such reforms were adopted at the third Plenum of the 18th Central Committee of the Chinese Communist Party and have focused on the restructuring of some of the most important economic, social and environmental pillars responsible for the growth of China in recent decades. Thus, a comprehensive program was established, with 60 specific guidelines, in which the market will play a decisive role. The following stand out: (i) transformation of state-owned enterprises into semi-state-owned enterprises with shares traded on the stock exchange, prices and products regulated by the market, and the same treatment as private companies; (ii) openness to the inflow of FDI in strategic sectors of the economy; (iii) financial market reforms that bring greater security, predictability, and gradual opening up of the sector; (iv) encouragement of Chinese investments abroad; (v) combating chronic pollution and environmental damage, among others[3].

This new reality, which involves the reconfiguration of part of the Chinese production environment, the creation of new taxes and environmental laws and gradual, albeit limited, economic openness, certainly intensifies the movement of local Chinese entrepreneurs to sites where they can produce and serve new markets. FIESP believes that Brazil should be an effective option for the intensification of Chinese FDI, due to its booming domestic market and the possibility of access to the markets of neighboring countries in Latin America. It is therefore an excellent opportunity to raise the investment to GDP ratio, which is one of the goals of the Plan "Greater Brazil" (Plano Brasil Maior), as well as to promote investment in important sectors, such as infrastructure, agriculture, and manufacturing.

3 "Documents of the Third Plenary Session of the 18th Central Committee of the Communist Party of China". Foreign Languages Press, 2013.
"Análise CEBC do Terceiro Pleno do Partido Comunista". Carta Brasil – China, 9th edition, pp. 13-17, February/2014
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Although it is not the time for an opening to China, because of all the challenges the country is facing to effectively become a market economy, we believe it is of paramount importance to establish a more pragmatic relationship with this country, with an emphasis on increasing the flow of trade and investment, bilaterally. Likewise, Brazil should encourage the continuous adjustment of China to the World Trade Organization regulations with particular regard to domestic subsidies.

**FIESP's Position**

- Greater engagement with China at the enterprise level;

- Deepening relationships and aligning economic expectations in order to facilitate increased transparency and predictability in the bilateral economic relations, and to make the environment more favorable to mutual investment;

- Conducting studies to identify niches for Brazilian manufactured goods on the domestic Chinese market, taking into account the new priority of its domestic consumption growth. In this sense, trade promotion actions in China should be intensified.

## Africa

**Current Situation**

Africa is considered the final frontier of economic growth and great business opportunities. The African Union estimates that the average rate of economic growth for African countries will be 6% per annum between 2010 and 2040, driven by population growth and levels of education, which will mean an increase of average per capita income beyond $10,000 in all countries of the continent.

Besides the optimistic outlook, the African Union has submitted a plan for development of the continent's infrastructure - the Programme for Infrastructure Development in Africa (PIDA). The amount of investment needed to implement the 51 priority projects by 2020 is estimated at U.S. $68 billion, while the costs of implementing the long-term program are estimated to be more than U.S. $360 billion.

**Brazilian Interests**

Despite the positive scenario, Brazil's participation is still low in the African market, especially when compared with China. The prominent presence of Brazilian investments in sectors such as construction, oil and mining is not accompanied at the same level by companies in the agriculture and manufacturing sectors, which are currently booming in some African countries.

Outstanding cooperation projects developed by the Brazilian Agricultural Research Company (Empresa Brasileira de Pesquisa Agropecuária – EMBRAPA) and the National Industrial Education Service (Serviço Nacional de Aprendizagem Industrial – SENAI) represent key pieces that can enhance the performance of Brazilian companies on the continent. In addition, the Brazilian government and the private sector can best exploit the advantage represented by the Community of Portuguese Language Countries (CPLP) to expand trade, especially in the area of manufacturing.

However, there are some important challenges to be overcome by the private sector in African countries, which can be classified into three groups: (i) difficulty in obtaining credit and financing, particularly with respect to guarantees, (ii) lack of infrastructure, and (iii) regulatory instability. In all three cases, the consequences are increased costs and time required for the completion of any business opportunity.

**FIESP's Position**

- Expansion of the credit lines of the National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social – BNDES) and structuring of guarantees which enable financing of Brazil's trade operations and investments in Africa;

- Creation of state mechanisms that mitigate commercial and banking risks in transactions of this nature with African countries;

- Intensification of the promotion of trade and investment in Africa, especially in the sectors of (i) engineering services; (ii) sugar and ethanol; (iii) meat; (iv) textile and apparel chains; (v) shoes; and (vi) basic industries;

- Intensification of SENAI's and EMBRAPA's technical cooperation projects, linked to Brazilian investment projects. The Brazilian government should strengthen and expedite the work of the Brazilian Cooperation Agency (Agência Brasileira de Cooperação – ABC) of the Ministry of Foreign Affairs (Ministério das Relações Exteriores – MRE);

- Assessment of risks and opportunities to undertake a strategy of negotiating bilateral agreements with African countries and the types of agreements that can contribute to the growth of Brazilian exports and investments in Africa, which include: free trade agreements, economic partnership agreements, and investment agreements.

# IV. World Trade Organization (WTO) and Plurilateral Agreements

### Bali and Doha Agendas

The commitments made during the IX WTO Ministerial Conference in Bali, Indonesia, were historic and very important for Brazilian interests within international trade. The "Bali Package", structured by Ambassador Roberto Azevedo, the current director-general of the organization, was the first multilateral agreement on trade in nearly two decades of WTO. Despite some significant progress on agricultural issues, the results achieved in the area of trade facilitation will bring significant benefits to the nation's foreign trade.

It is important to keep in mind that gains from trade facilitation are often equal to or greater than trade liberalization through tariff reduction. It is up to Brazil to take advantage of the flexibilities built into the agreement in order to achieve such gains.

In short, the results observed in Bali increased the survival of the multilateral trading system, and more specifically of the Doha Round of the WTO, for which a new agenda for action will be developed during 2014.

### Trade Facilitation

This paper contains recommendations for member countries to reduce discrimination in trade in goods, ceasing to demand unnecessary fees, formalities, or procedures that contribute to the rise of protectionism in international trade. In addition, guidelines and mechanisms for providing technical and financial assistance to Developing Countries (DCs) and the Least Developed Countries (LDCs) are established with the aim of enabling them to implement the modernization reforms envisaged by the Agreement.

Estimates suggest that the gains from the WTO trade facilitation agreement should represent between U.S. $400 billion and $1.0 trillion for the world economy by reducing transaction costs of international trade between 10 and 15%.

Bureaucratic barriers to exports and imports are, notably, one of the biggest problems faced by Brazilian companies in their foreign trade operations. According to a survey from CNI, 44% of national export companies claim to have customs "red tape"-related issues in Brazil.

The implementation of the Bali agreement coincide with the entry into operation of the "Single Window for Foreign Trade" project, which promises to significantly reduce the time currently spent on export and import operations in Brazil.

### Agriculture

The main decisions of the Ministerial Conference in Bali on agriculture concern (i) public stocks for food security, (ii) the administration of tariff rate quotas (TRQ), and (iii) the competitiveness of exports.

This last subject (export competitiveness) addresses the end of export subsidies for agricultural products and is of the highest importance for Brazil. The text agreed in Bali, however, does not include any binding measures aimed at eliminating these subsidies, and only reaffirms the "political commitment to maintain the elimination of all forms of export subsidies in the post-Bali agenda."

On the subject of Public Stocks for Food Security, the G-33 has proposed, under the leadership of India, the updating of the WTO rules, in order to give flexibility for developing countries to acquire food from farmers at levels higher than market prices, which are used for accumulating public supplies for the purposes of food security.

For Brazil, it is crucial to monitor the proper implementation of this clause and to avoid distortions in the international agricultural market. Brazil should then engage in initiatives to eliminate these practices, with the same central role that it has adopted since the beginning of the Doha Round in 2001. The European Union, for example, has the right to grant up to 5.3 billion euros in annual subsidies for exports of agricultural products such as sugar, cheese, beef, pork, and poultry.

Agribusiness has a systemic relevance in the Brazilian economy, and is also an important inducer of industrial growth and source of foreign currency. According to the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística – IBGE), the turnover of Brazilian agriculture was R$230.0 billion in 2013. According to the Ministry of Agriculture, the sector's exports amounted to U.S. $ 100.0 billion in the same year, elevating Brazil to the position of world leader in exports of oranges, sugar, poultry, coffee and soybeans, and the second in exports of beef and corn.

### Bali Agenda

Following the agreement signed at the Ministerial meeting in Bali, the director-general of the WTO, Roberto Azevedo, said that during 2014, the organization would work in developing a new agenda for the Doha Round, based on three main pillars: agriculture, industrial goods, and services. For Brazil, the Doha Round is still the most viable path for obtaining advantages in agriculture (especially on the issue of subsidies). There is no doubt that Brazilian leadership is essential to the successful resumption of negotiations, as it was in the past.

It is imperative, however, that the member countries learn from past mistakes and seek creative and viable solutions to this "New Doha Round." One should not ignore the difficulties to define and carry forward this agenda owing to the loss of interest of developed countries engaged in bilateral and regional trading agreements outside the WTO.

### FIESP's Position

- Since Brazil can fully benefit from a faster customs clearance process, FIESP advocates a broad and effective implementation of the provisions of the Trade Facilitation Agreement, contributing to the competitiveness of the Brazilian industrial product;

- Brazil must ensure, within the WTO, the fulfillment of the Bali agreements also on agricultural issues;

- The Brazilian delegation at the WTO, with the support of the private sector, should actively work towards achieving a coherent agenda in continuing the Doha Round negotiations.

## Trade in Services Agreement (TISA)

### Current Situation

One hundred and sixteen bilateral liberalization agreements on services had already been notified to the WTO at the beginning of 2014. Among these, Brazil is only part of the Montevideo Protocol within MERCOSUR, in force since 2005, in addition to an understanding signed with Chile in 2008, and a Protocol under negotiation with Colombia

In 2013, the country had a deficit in its balance of services of $ 47.5 billion, resulting from expenses of $ 86.6 billion and revenues of $ 39.1 billion. An alternative that would help reduce this significant gap is to increase exports, by signing agreements on services, to ensure greater economic dynamism, encourage investment, and bring foreign funds into the country.

The dynamism of the service sector accounts for approximately 65% of Brazil's GDP and is directly reflected in the results of its industry. A research report from the United Nations Conference on Trade and Development (UNCTAD) indicates that 36.6% of value added to total exports of Brazil, in 2009, corresponded to services.

One of the most ambitious initiatives involving the liberalization of the services market in the world today are the plurilateral negotiations of TISA, of which 50 of the 159 WTO members (including all 28 members of the European Union) are part, which together account for 90% of the global trade in services.

### Brazilian Interests

Brazil's joining in the TISA negotiations would mean opening new markets for exports of services of Brazilian companies, in addition to allowing the country's active participation in drafting the rules and regulations that will govern trade in services throughout the world.

Moreover, the entry of Uruguay and Paraguay in the TISA negotiations will lead them to adopt more modern and ambitious rules than those negotiated under MERCOSUR, and bring them closer to new members at the expense of Brazil. The likely entry of China into the negotiations also lends greater legitimacy and critical mass to the negotiations, and weakens the bloc of countries that are "opposed" to the agreement.

Finally, by failing to integrate with TISA, Brazil ceases to participate in the development of rules and procedures that are likely to influence the services negotiations in the future.

### FIESP's Position

- Promoting the entry of Brazil in the negotiations of TISA;
- Facilitating consultation with the private sector regarding services;
- Developing a services liberalization model list based on commitments already made by the country in the WTO;
- Developing a list of barriers to Brazilian exports of services that can support the country's market opening requests to the WTO.

## V. Investments

### Current Situation

Historically, Brazil is the largest recipient of investments from Latin America. In 2013, the country received U.S. $64.0 billion in foreign direct investment, an amount slightly less than the previous year, but still one of the highest in the world. In Latin America, countries such as Mexico, with $35.2 billion in FDI (2013), Peru, with $ 12.2 billion, and Colombia, with $15.8 billion (both in 2012), are also featured and have seen a significant growth of FDI in recent years.

From the perspective of Brazilian Direct Investment (IBD), the accumulated stock of these operations jumped 122% between 2007 and 2012, to U.S. $ 247.0 billion. In the same period, IBD accumulated in the countries of the South American continent had further significant increase, growing 290% in the case of Colombia and 412% of Peru (to U.S. $ 690.0 and U.S. $ 3.0 billion, respectively). Elsewhere in the region, Paraguay and Venezuela observed increases of 400% in the stock of IBD between 2007 and 2012, while for Mexico the change was 500%. Looking for the African continent, the absolute numbers of IBD are still relatively modest, but present growth trajectory, as in the case of Angola, whose stock of IBD rose 1,300% in the last six years.

### Brazilian Interests

While the flow of FDI also has a "North-South" architecture, with the most resources originating in developed countries, IBD has increasingly a "South-South" profile, involving fast-growing economies, especially in Latin America and Africa. The maintenance of these flows is reflected both in the internationalization of Brazilian companies, as well as in the input of resources and technology to the country, the key to competitiveness and balance of external accounts.

In this sense, the existence of legal mechanisms that provide greater stability, predictability, and legal certainty for Brazilian direct investment and adequately shape the expectations of investors about the safety of operating in foreign markets can be extremely important for achieving this objective.

The latest model of the "Agreement for Cooperation and Facilitation of Investment" (ACFI), prepared by the Ministry of Development, Industry and Foreign Trade (MDIC), in line with the interests of the private sector, is one of these tools and have been well received by several countries in Africa and Latin America.

The ACFI has three pillars that address: (i) improving governance through the creation of focal points (ombudsman) in member countries of the agreement, responsible for receiving complaints and proposing improvements; (ii) establishing dispute prevention mechanisms; and (iii) thematic agendas on the facilitation of investments in order to reduce barriers that hinder business between the parties at the bilateral level.

### FIESP's Position

- Identify, together with the private sector, priority countries for the signing of " Cooperation and Investment Facilitation Agreements" (ACFI)
- Negotiate and sign ACFI with these countries, with emphasis on Africa and Latin America;
- Initiate studies aiming at developing mechanisms to extend the guarantee of Brazilian investments in the countries of these continents.

# VI. Agreements to Avoid Double Taxation

### Current Situation

Brazil currently has 29 agreements to avoid double taxation, signed gradually since the late 1960s, with countries like Japan, France, Spain, and the Netherlands  Nevertheless, there are other developing countries more engaged with these initiatives, such as China and India, for example, which have 98 and 86 agreements, respectively.

### Brazilian Interests

Agreements to avoid double taxation play a key role in the internationalization strategy of companies. Tax planning has become sophisticated in recent decades, including the use by some countries of tax havens and the so-called treaty shopping – structured transactions involving third countries, with the aim of reducing taxation.  In this context, the existence of agreements to avoid double taxation is often the deciding factor in reducing uncertainty about the tax environment in the signatory countries.

For Brazil, the agreements to avoid double taxation are relevant both for attracting investments and for the internationalization of domestic enterprises.  Considering the existing competition for investment flows, the lack of agreements puts Brazil in an unfavorable position relative to the main poles of attraction among the emerging economies, such as Indonesia, Mexico, and the BRICS, in general.  Likewise, the lack of this instrument affects the internationalization of Brazilian companies by bringing uncertainty and raising the taxes levied.

### FIESP's Position

- Bring Brazil's position closer to the international practice of agreements to avoid double taxation, based on the models of the OECD and the UN.  Among other things, Brazil should eliminate the mandatory adoption of a tax sparing provision when negotiating new agreements;

- Strengthen existing agreements by eliminating the ambiguities of its interpretation (e.g.: taxation of business activities when a company is not permanently established);

- Conclude agreements with major origins and destinations of investments to and from Brazil, including the United States and European countries;

- Create a mechanism for formal consultation involving government and private sector in order to identify which are the priority countries for the signing of such agreements.

# VII. Institutional Strengthening of Brazilian Foreign Trade

**Current Situation**

The greater external integration of Brazil and the increasing competition for markets expand the responsibilities of decision-makers within the Brazilian government, acting on foreign trade. Moreover, despite representing 20% of Brazilian GDP, foreign trade has secondary role in Brazil's economic policy. In this context, the feasibility of these proposals for External Integration of Industry depends upon the government's efforts in prioritizing these issues and its efficiency in executing its decisions.

**Brazilian Interests**

The intervention of more than ten ministries and government agencies in the decision-making process of foreign trade— in addition to the excessive number of laws, decrees, resolutions, rules, and instructions regulating external operations— complicates and bureaucratizes activities related to foreign trade. Given the current structure of decision-making in the Federal Government concerning its foreign trade agenda, the more effective option is to prioritize the question of altering the duties of the Chamber of Foreign Trade (Câmara de Comércio Exterior – CAMEX).

**FIESP's Position**

- Given the diffusion of responsibilities among various agencies of the federal government on the question of foreign trade, institutional reform of CAMEX is necessary in order to strengthen a single authority endowed with more autonomy in pursuing the actions of trade policy;

- Link CAMEX directly to the Office of the President of the Republic in order to extend internal coordination, and give the authority greater political weight in the context of economic policy.

## Conclusion

Our increased integration with the world, one of the key elements for enhancing the systemic competitiveness of the Brazilian economy, cannot wait for the resolution of all the nation's internal problems.

In Brazil, there is a convergence of thinking within the business sector regarding the need for greater integration of the national economy with the rest of the world.

Both government and private sector should participate more actively in the processes that will begin to shape the regulatory dynamics of international trade, and which have a strong influence on global supply chains. Therefore, it is essential that we manage to establish agreements that meet Brazil's more latent economic interests, among which are: the increase of technology and innovation, attracting new markets, adding value to exported products, and increasing the flow of direct investments (Brazilian and foreign).

The proposals in this paper are in line with these guidelines and elucidate Brazil's priority actions in the medium term, such as the signing of agreements with countries and regions that are centers of technology and innovation, and the deepening of agreements already signed at the regional level.

It is important to note, however, that these measures should be accompanied by internal, structural actions in areas such as infrastructure, education, research & development, technology and, especially, labor and tax laws. Only through the combination of strategically-defined internal and external measures will we have a foundation for promoting a consistent industrial and foreign trade policy, which facilitates the competitive equality between domestic and foreign producers.

Finally, FIESP expects that since it is 2014, when presidential elections will be held in Brazil, these Proposals for the External Integration of Industry will encourage relevant debate not only on the importance of international integration, but also on the economic growth and social development of the country.

This is because this organization believes that openness and economic integration, when well-planned and well-negotiated, bring the country more investment, trade, technology, and innovation. These factors lead to increased wealth for the Brazilian people.

On the other hand, clear and well-defined rules provide the security needed to tread this path successfully.

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