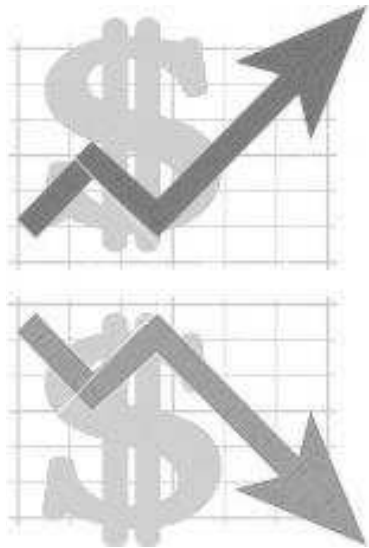


# Exchange rate and international trade

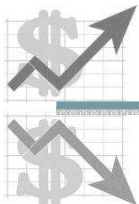
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## World Double Asymmetry in RER: the Brazilian case since 2000

Josue Gomes da Silva  
President of COTEMINAS

**WTO, March 27<sup>th</sup>, 2012.**



# Brazil and the World

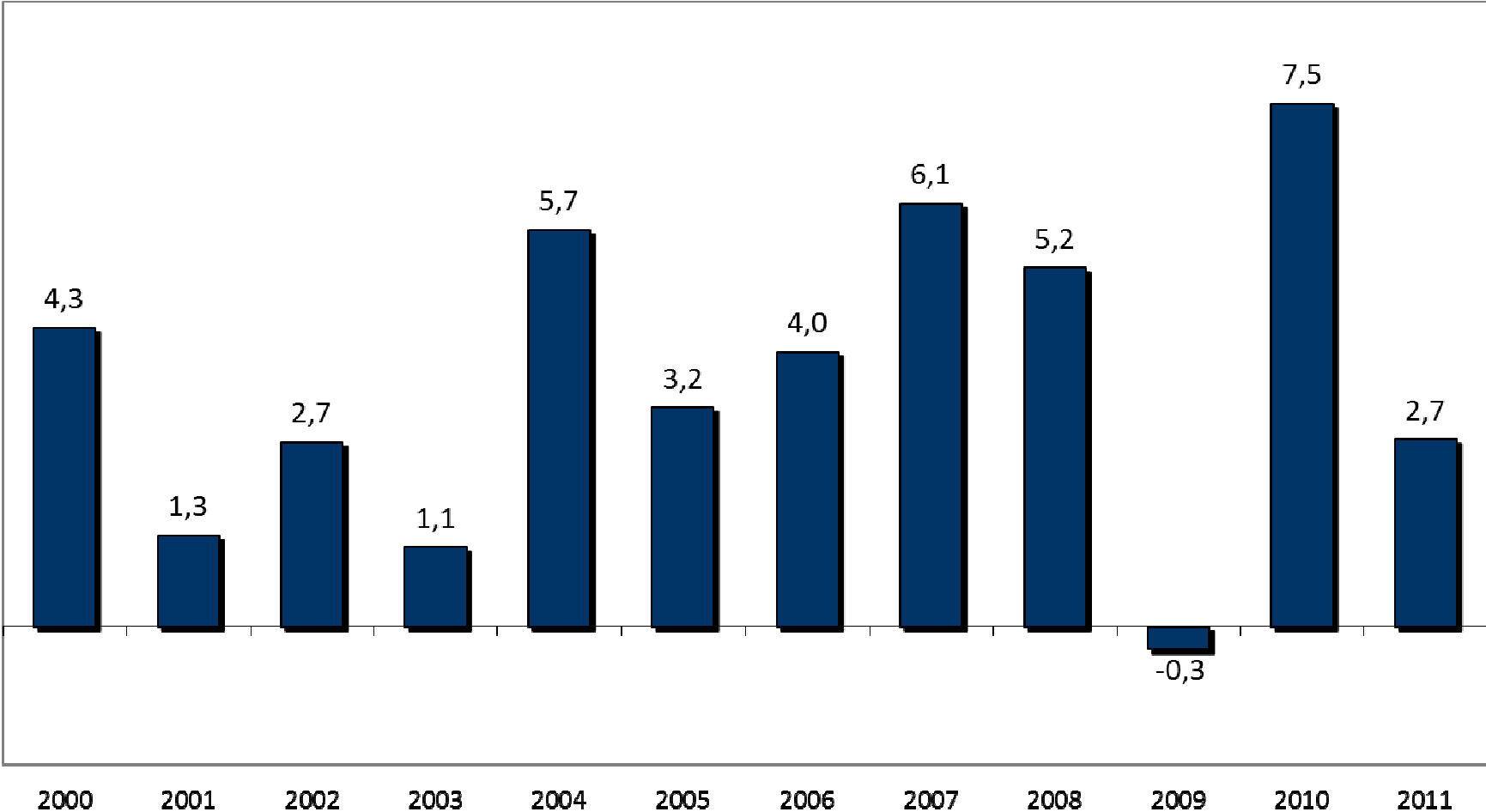


*Double Asymmetry in RER*

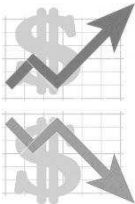
WTO, March 27<sup>th</sup>, 2012.

# Brazilian GDP growth

Brazil: annual real GDP growth - %



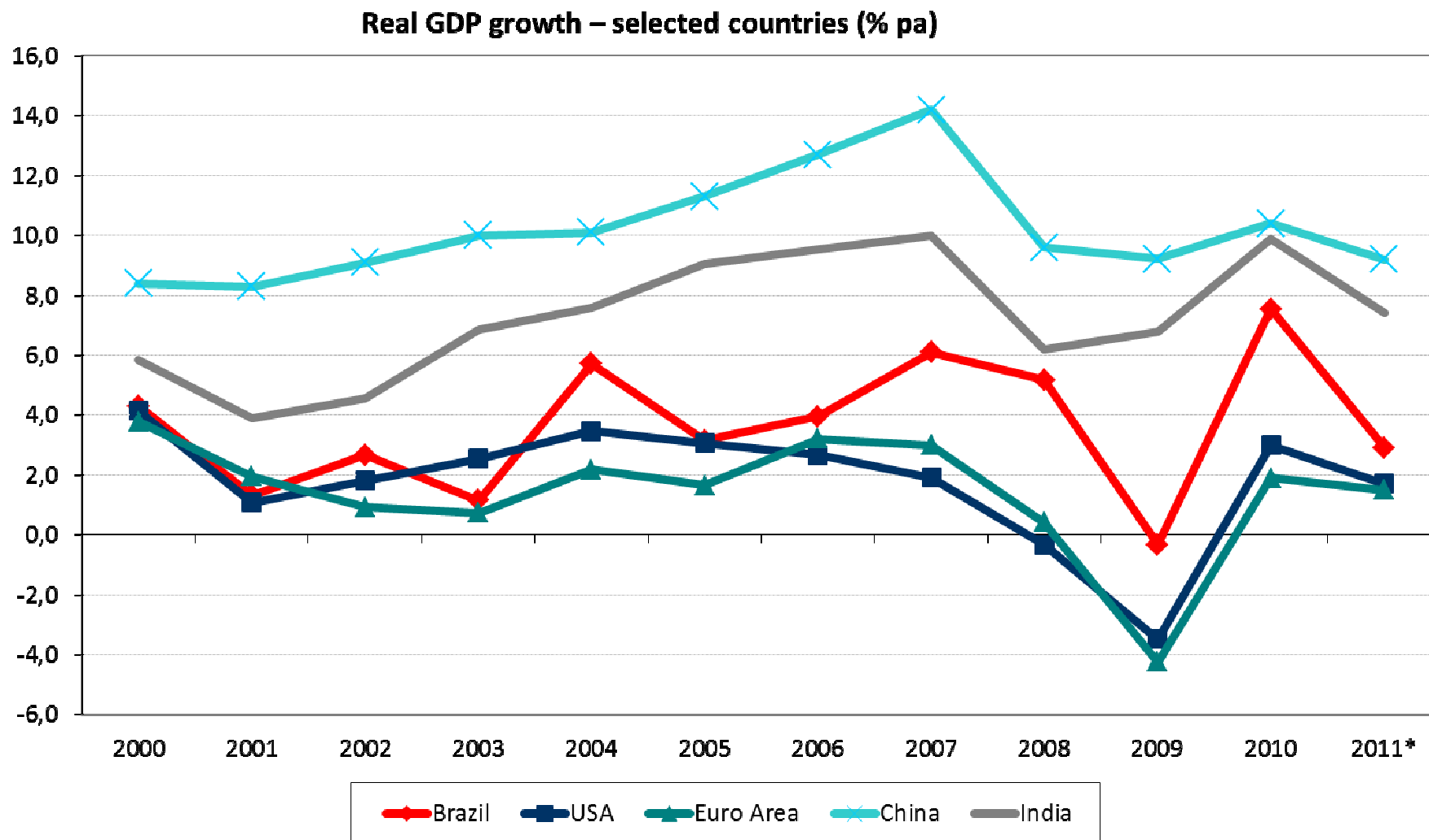
Source: IBGE.



Double Asymmetry in RER

WTO, March 27<sup>th</sup>, 2012.

# GDP growth: international comparison



\* IMF estimates for Brazil and India

Source: IMF, BLS, IBGE.

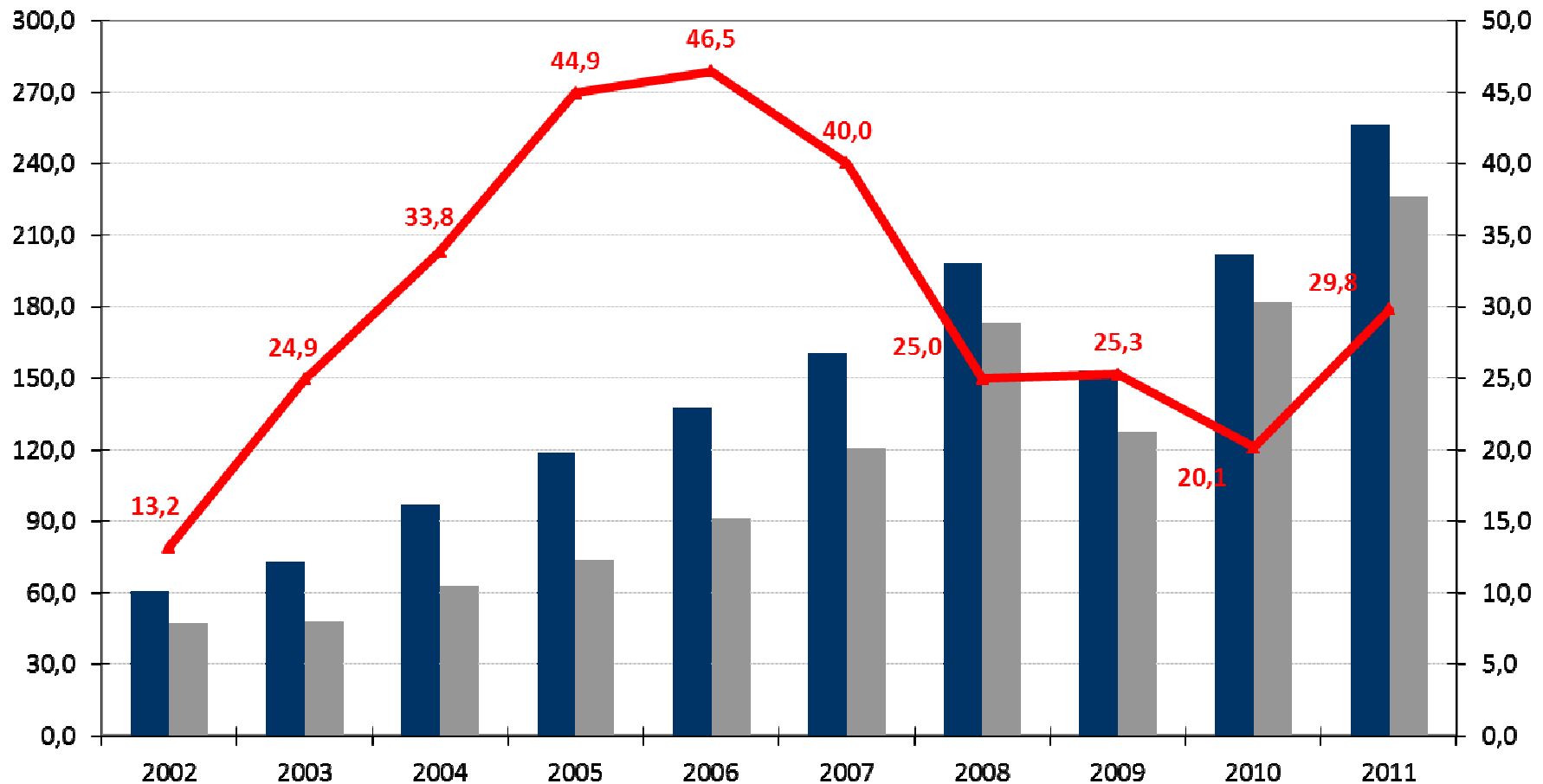


Double Asymmetry in RER

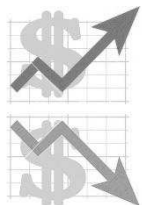
WTO, March 27<sup>th</sup>, 2012.

# Brazil: International Trade

**Brazil: Exports, Imports and Surplus (US\$ billions)**



Source: MDIC.



*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

# Manufacturing in Brazil

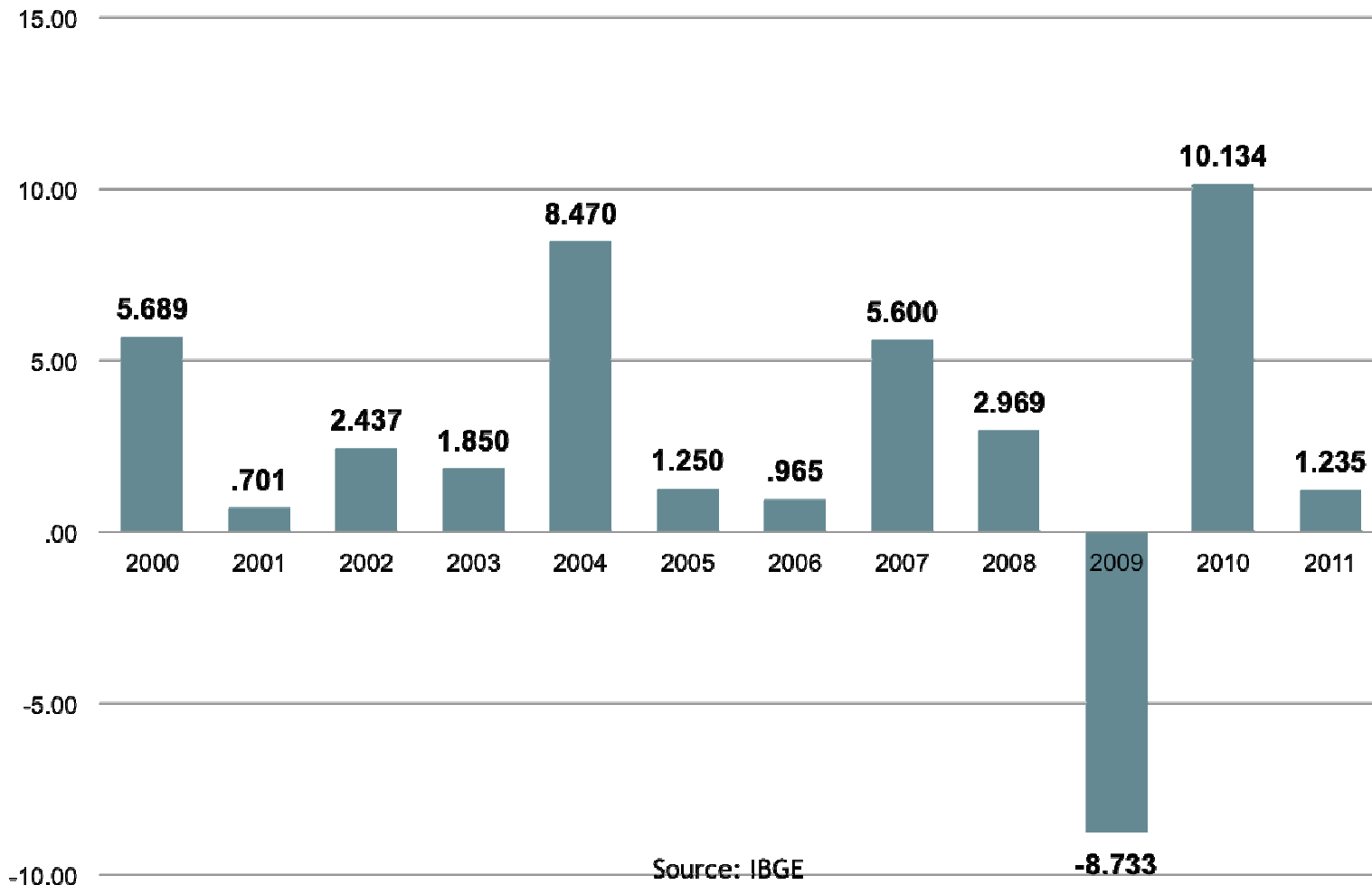


*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

# Manufacturing Output

## Manufacturing Output: annual real GDP growth (%pa)



Double Asymmetry in RER

WTO, March 27<sup>th</sup>, 2012.

# Manufacturing Output

	2006	2007	2008	2009	2010	2011
Mining and quarrying	7,4	5,9	3,8	-8,8	13,4	2,1
Textiles	1,5	3,8	-1,9	-6,4	4,6	-14,9
Leather	-2,7	-2,2	-6,8	-8,6	6,7	-10,4
Office and IT equipments	51,6	14,4	-8,9	-6,6	13,1	-5,0
Apparel	-5,1	5,1	3,2	-7,9	7,2	-4,4
Electrical machinery and equipments	8,7	14,0	3,7	-19,9	8,8	-3,7
Chemicals	-0,9	5,7	-1,3	-4,3	10,2	-2,1
Rubber and plastics	2,1	5,9	2,2	-9,3	12,6	-1,3
Iron and steel	2,8	6,8	3,3	-17,6	17,6	-0,4
Food	1,8	2,6	0,5	-1,7	4,5	-0,2
Machinery and Equipments	4,0	17,7	6,0	-18,5	24,1	0,4
Oil and alcohol refining	1,6	3,1	0,4	-0,8	0,8	0,5
Pharmaceuticals	4,4	1,9	12,7	7,9	2,4	1,2
Furniture	8,4	7,4	-1,4	-2,9	10,8	1,5
Pulp and paper	2,2	0,8	5,2	-1,4	4,4	1,5
Electronic and telecom equipment	0,0	-1,1	-2,9	-25,5	3,0	2,2
Automotive products	1,3	15,0	8,1	-12,4	24,2	2,4
Non-metallic minerals	2,6	5,3	8,3	-4,6	9,3	3,2

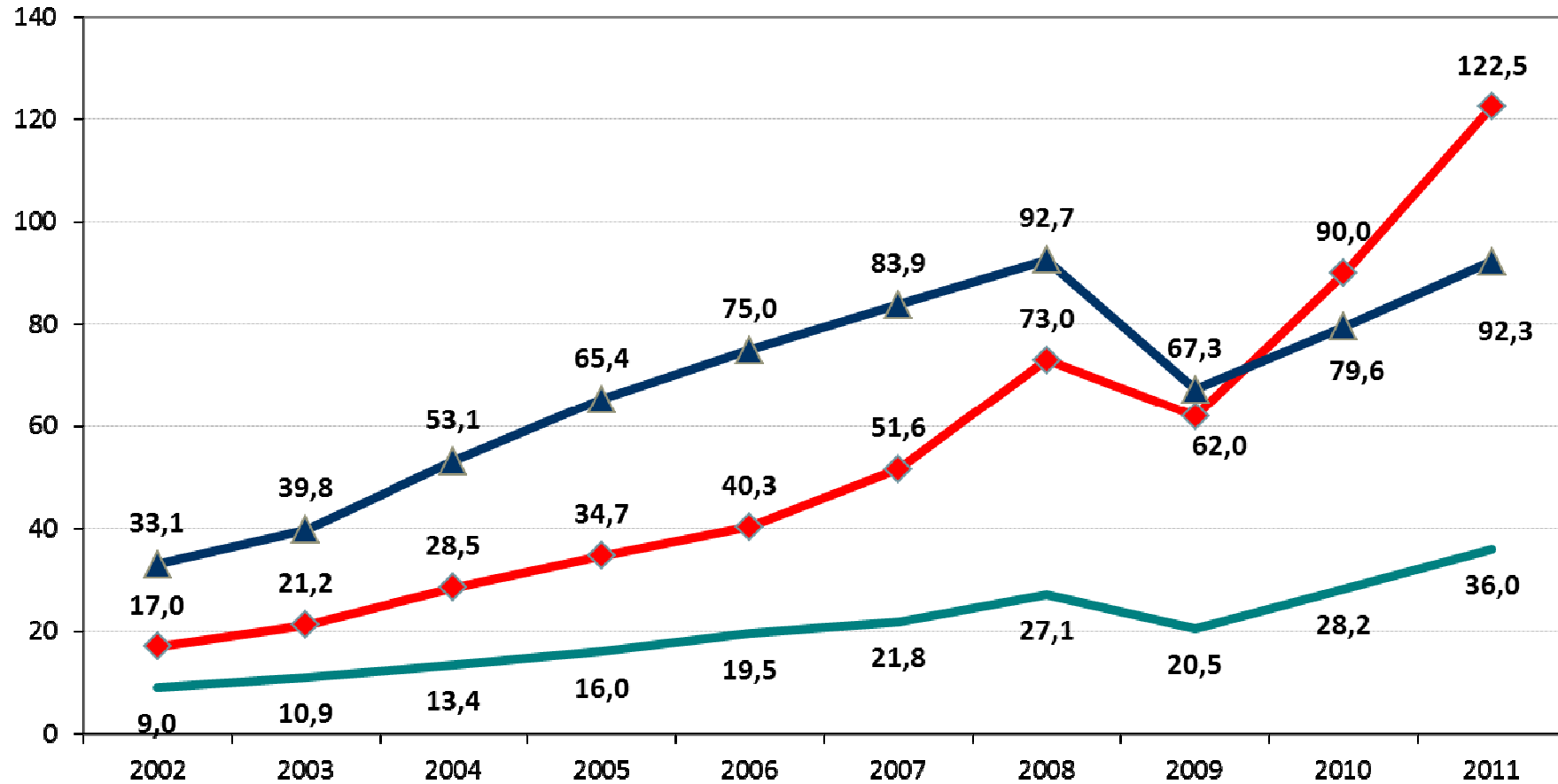
Source: IBGE





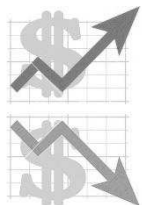
# Brazil: International Trade

## Brazilian Exports (US\$ billions)



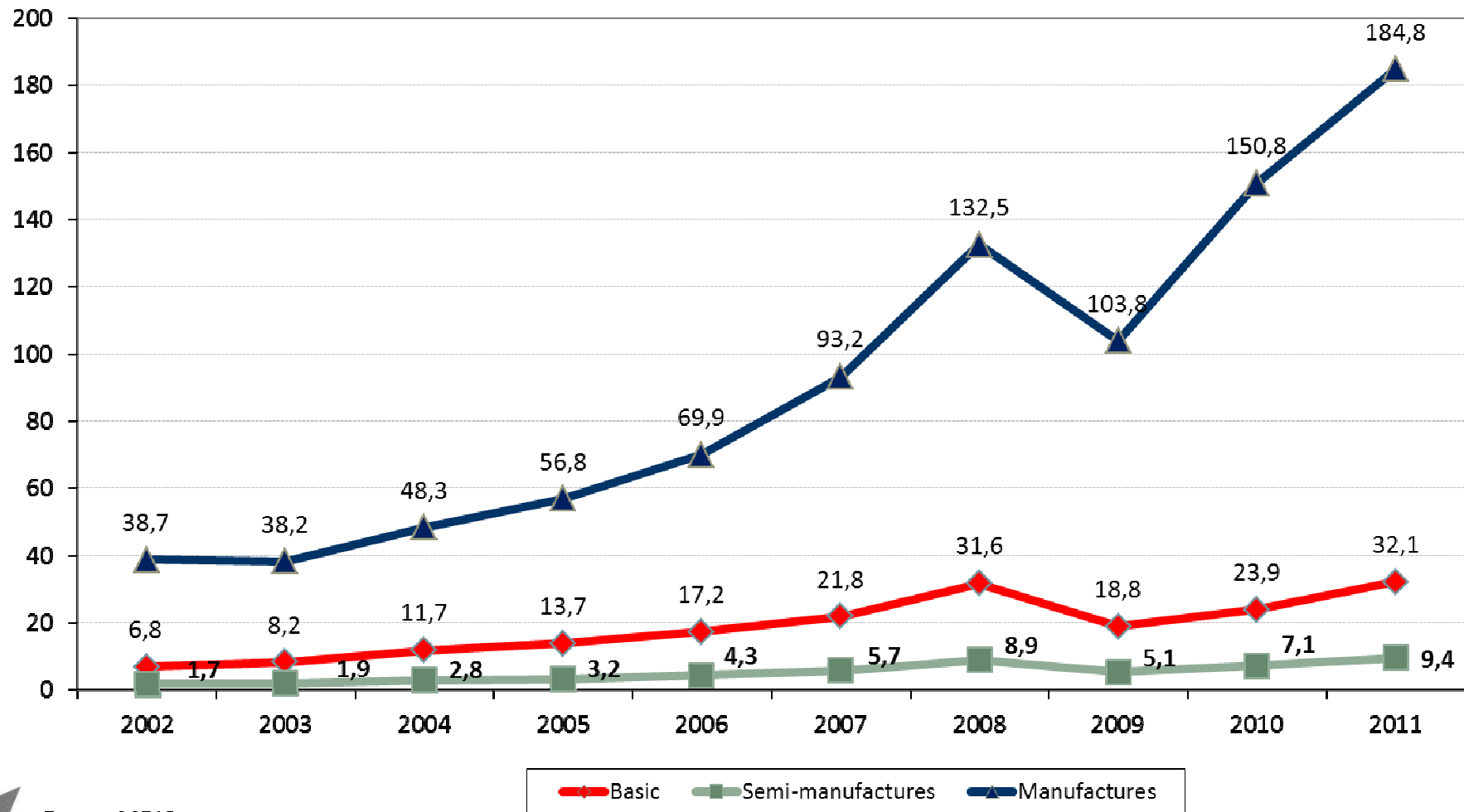
Source: MDIC.

◆ Primary products    ■ Semi-manufactures    ▲ Manufactures



# Brazil: International Trade

## Brazilian Imports (US\$ billions)



Fonte: MDIC.

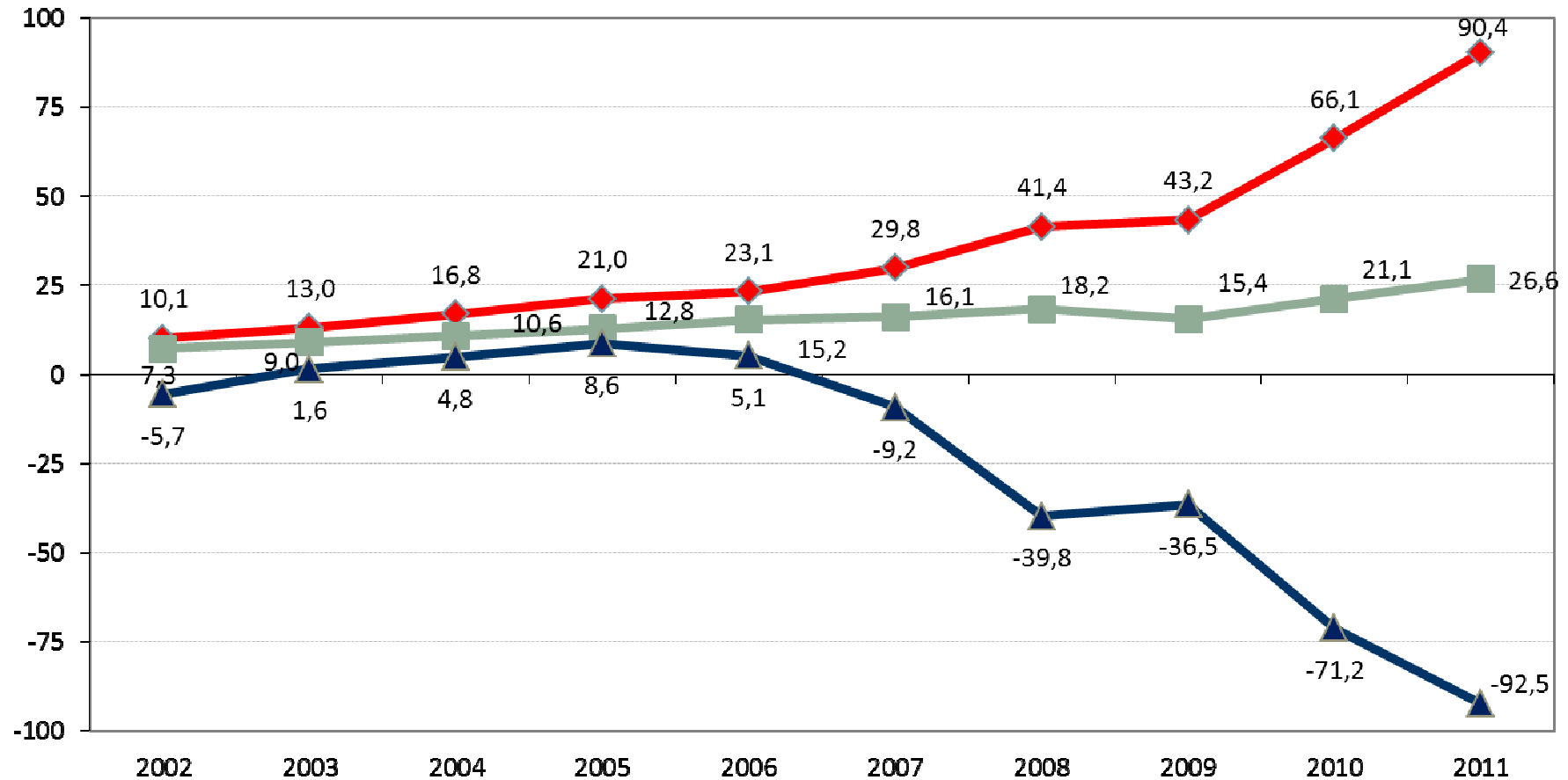


*Double Asymmetry in RER*

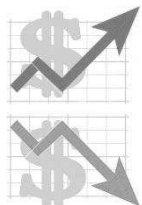
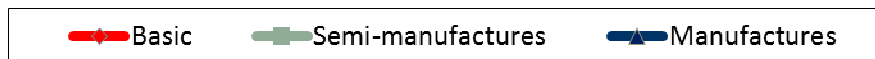
WTO, March 27<sup>th</sup>, 2012. 10

# Brazil: International Trade

## Balance of Trade (US\$ billions)

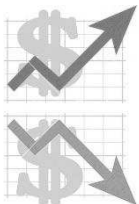


Source: MDIC.



Double Asymmetry in RER

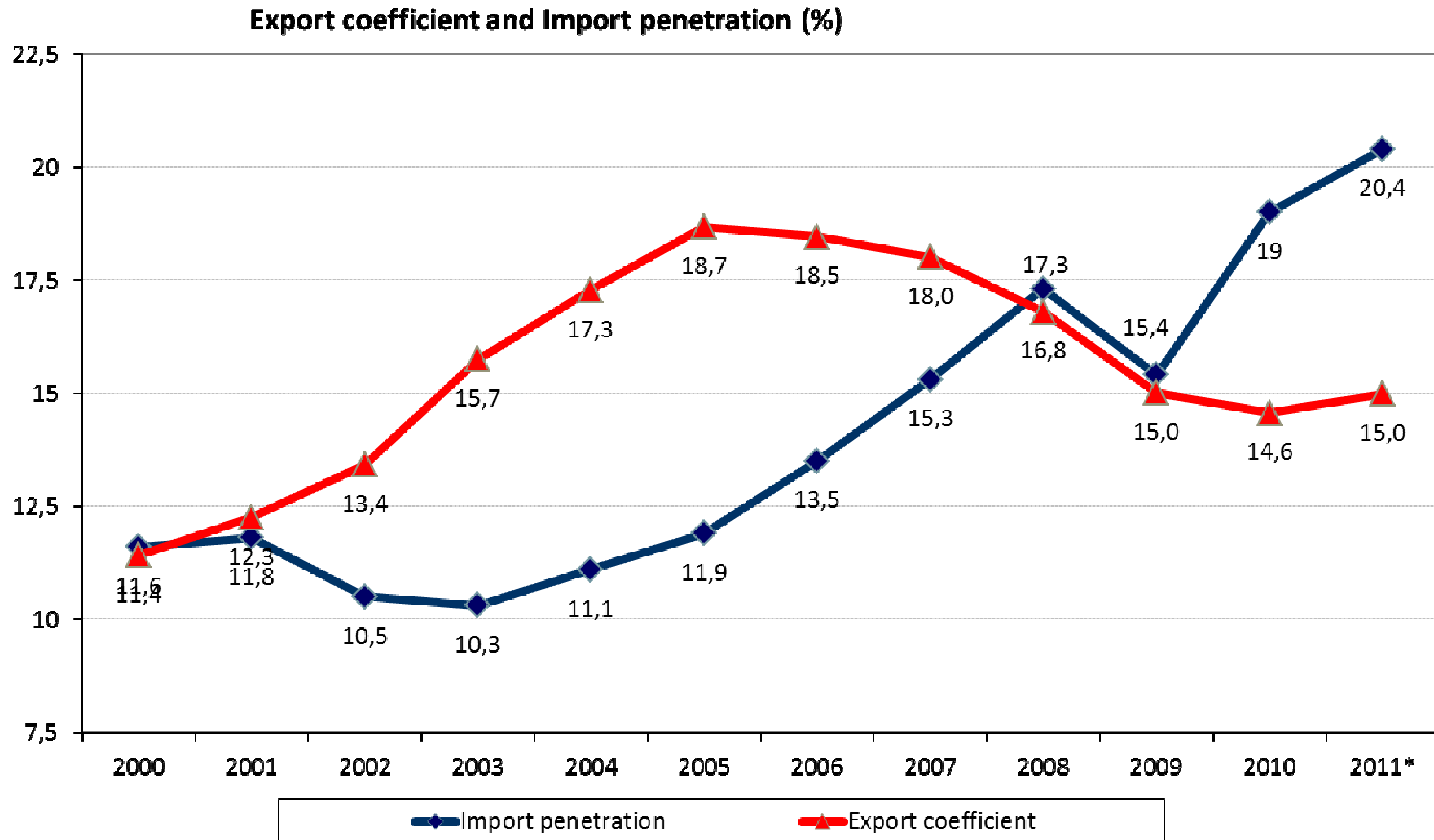
# Import penetration and Export coefficients in Brazil



*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

# International trade: Trade openness



Source: CNI, Funcex.

\* Accumulated in four quarters until the recent quarter



Double Asymmetry in RER

WTO, March 27<sup>th</sup>, 2012.

# Brazilian Bottlenecks

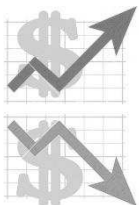
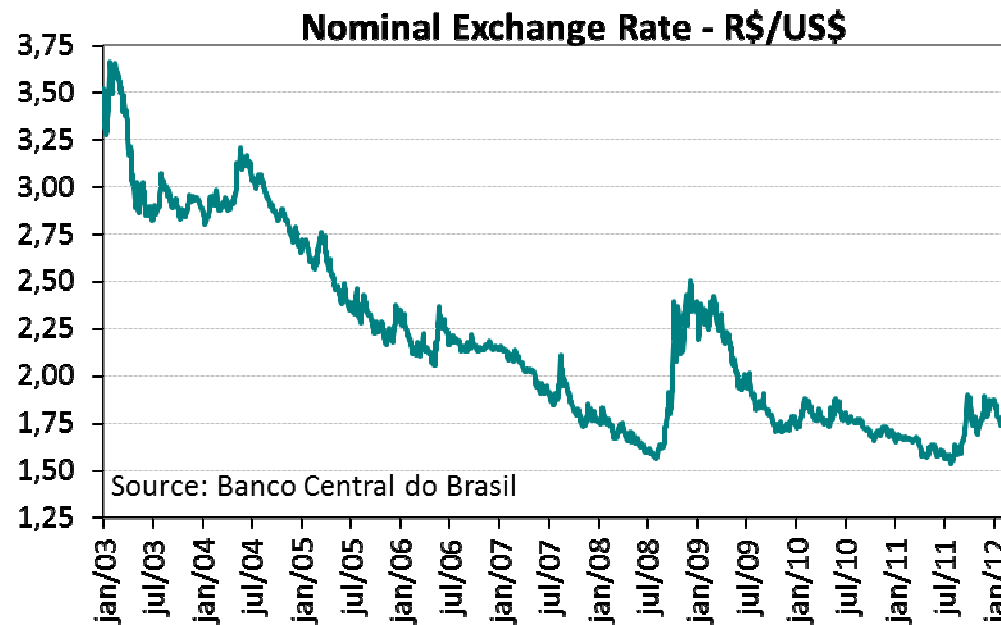


*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

## Brazilian bottlenecks

- The highest world's interest rate
- The “Brazilian Cost”: energy costs, taxes, logistic, bureaucracy.
- Inter-states tax competition
- Exchange rate



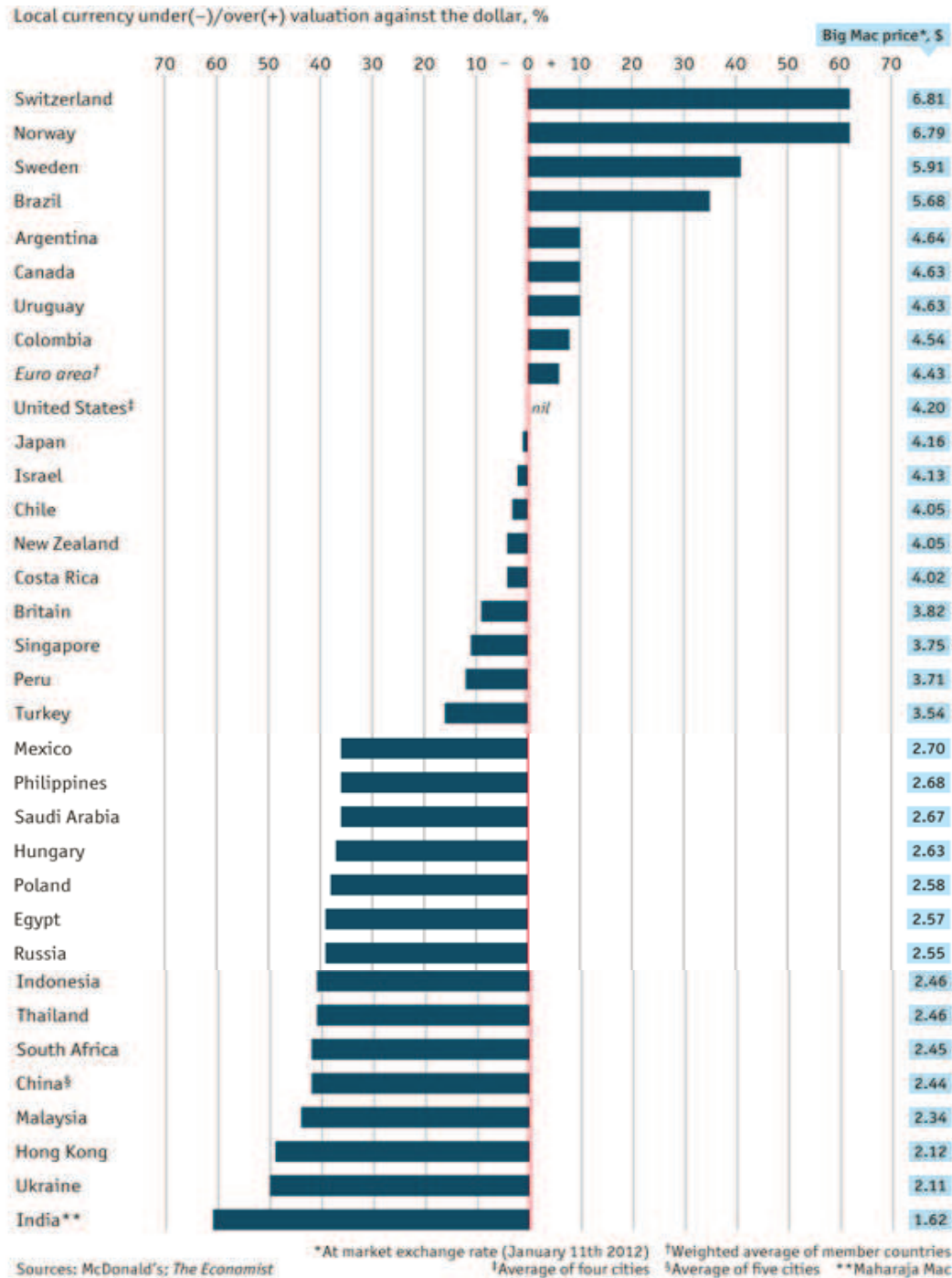
# Exchange Rate



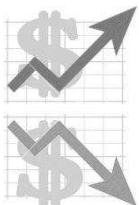
*Double Asymmetry in RER*



# The Big Mac Index

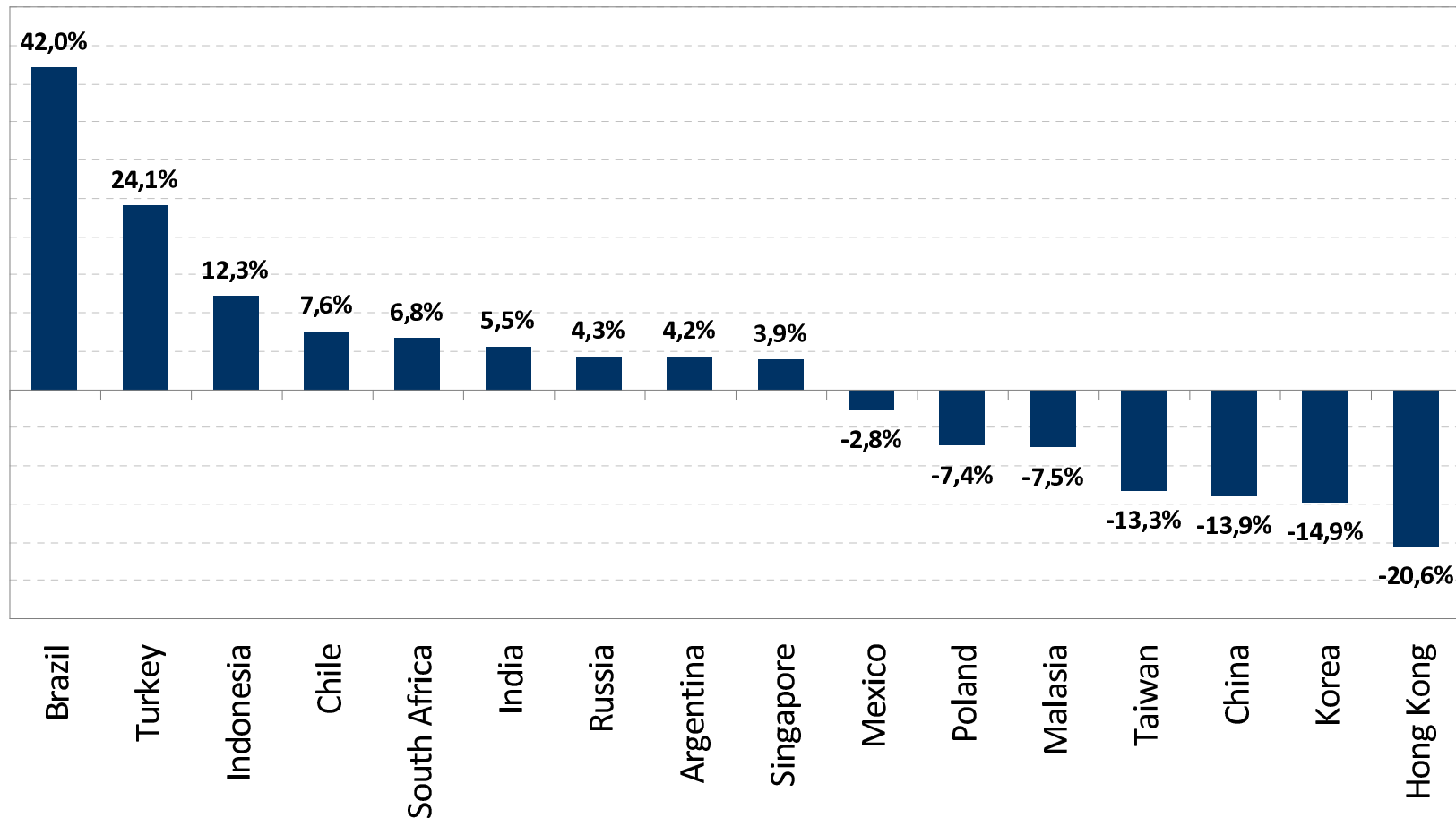


Sources: McDonald's; *The Economist*



# Deviations on Real Exchange Rates

Deviations from selected developing countries  
ERERs from the fair value estimates of ERERs as of December 2010



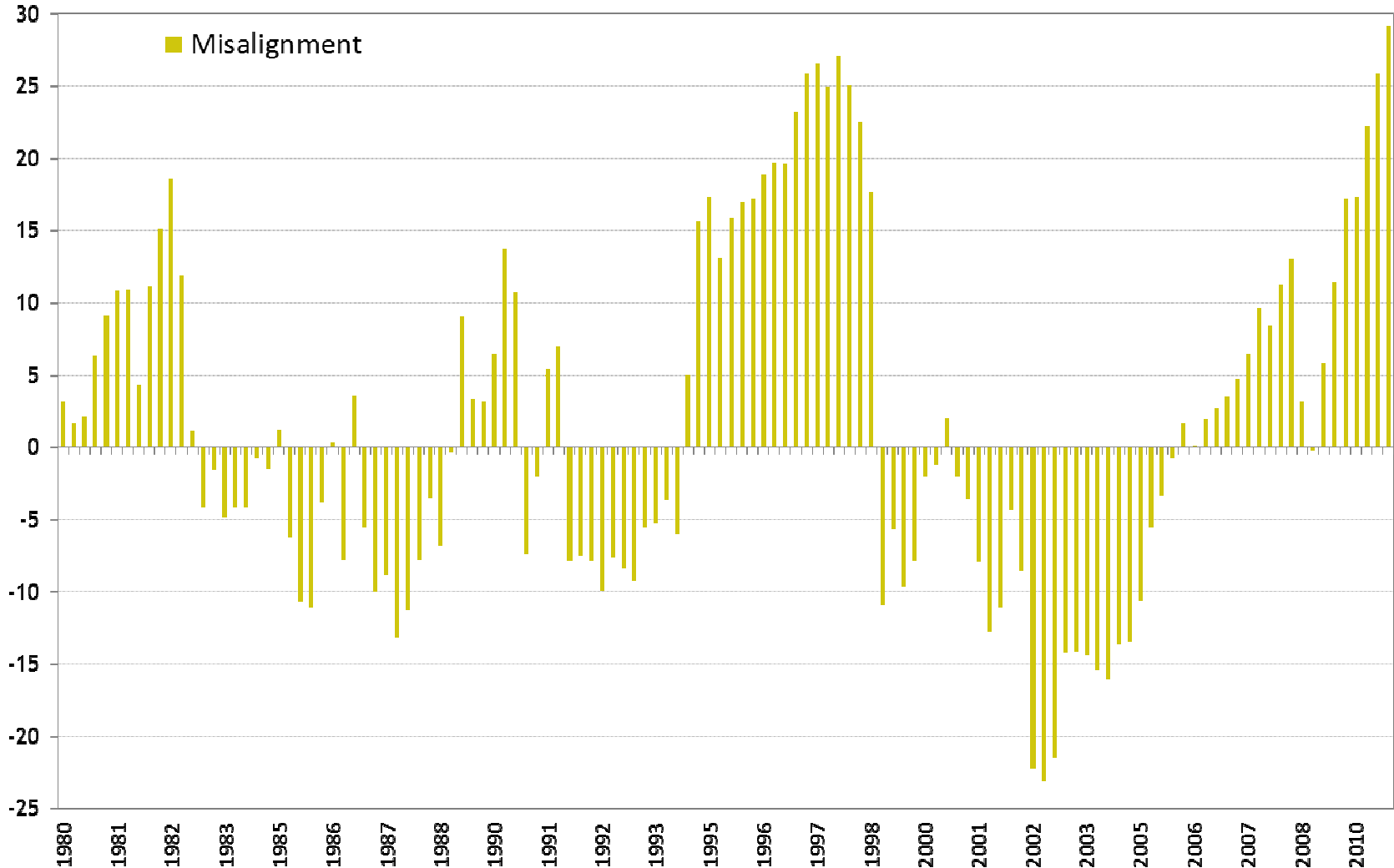
Source: Credit Suisse - Valuation of emerging markets currencies, January 2011



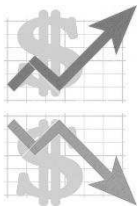
Double Asymmetry in RER

WTO, March 27<sup>th</sup>, 2012.

# Exchange Rate Misalignment



Source: FGV



Double Asymmetry in RER

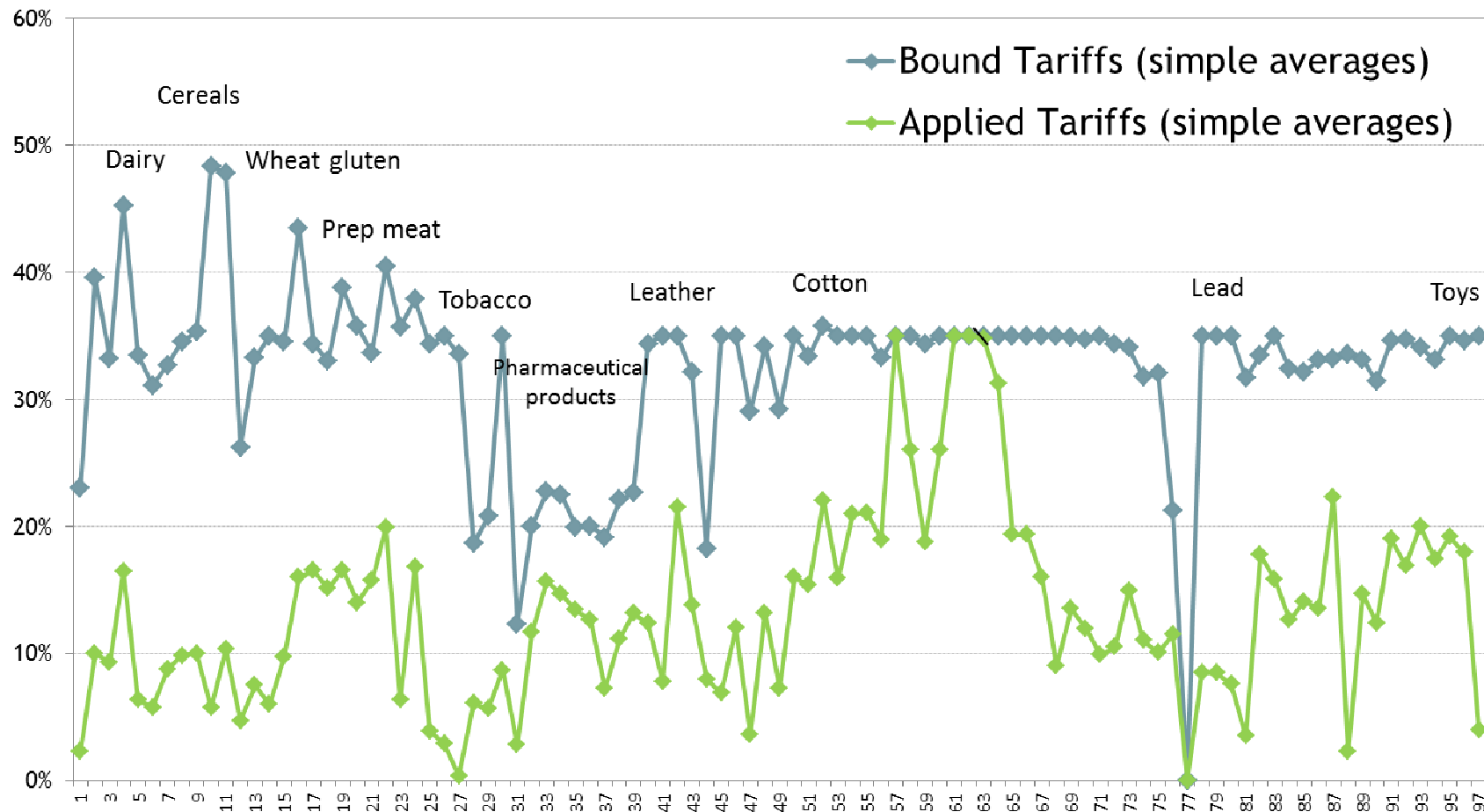
# Tariff Profile



*Double Asymmetry in RER*

# Brazil: Tariff Profile

**Brazil's Tariffs - Bound and Applied**  
Simple averages at HS 2 digits - source WTO 2010

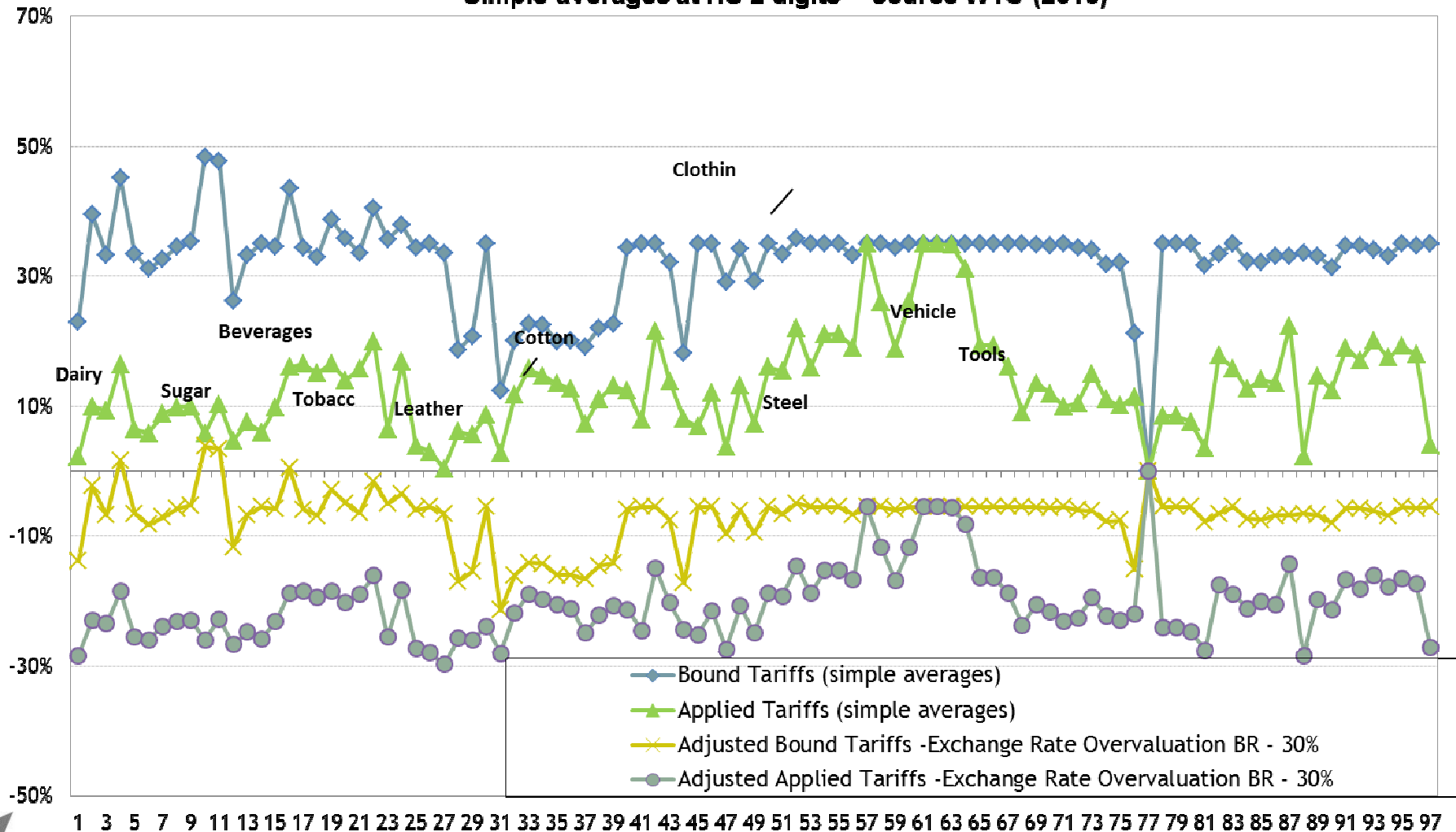


Source: FGV

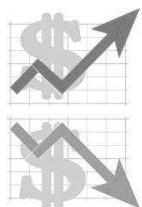
Double Asymmetry in RER

# Brazil: Tariff Profile

**Brazil's Tariffs x Adjusted Tariffs - Effects of Brazil Exchange Rate Overvaluation**  
 Simple averages at HS 2 digits - source WTO (2010)



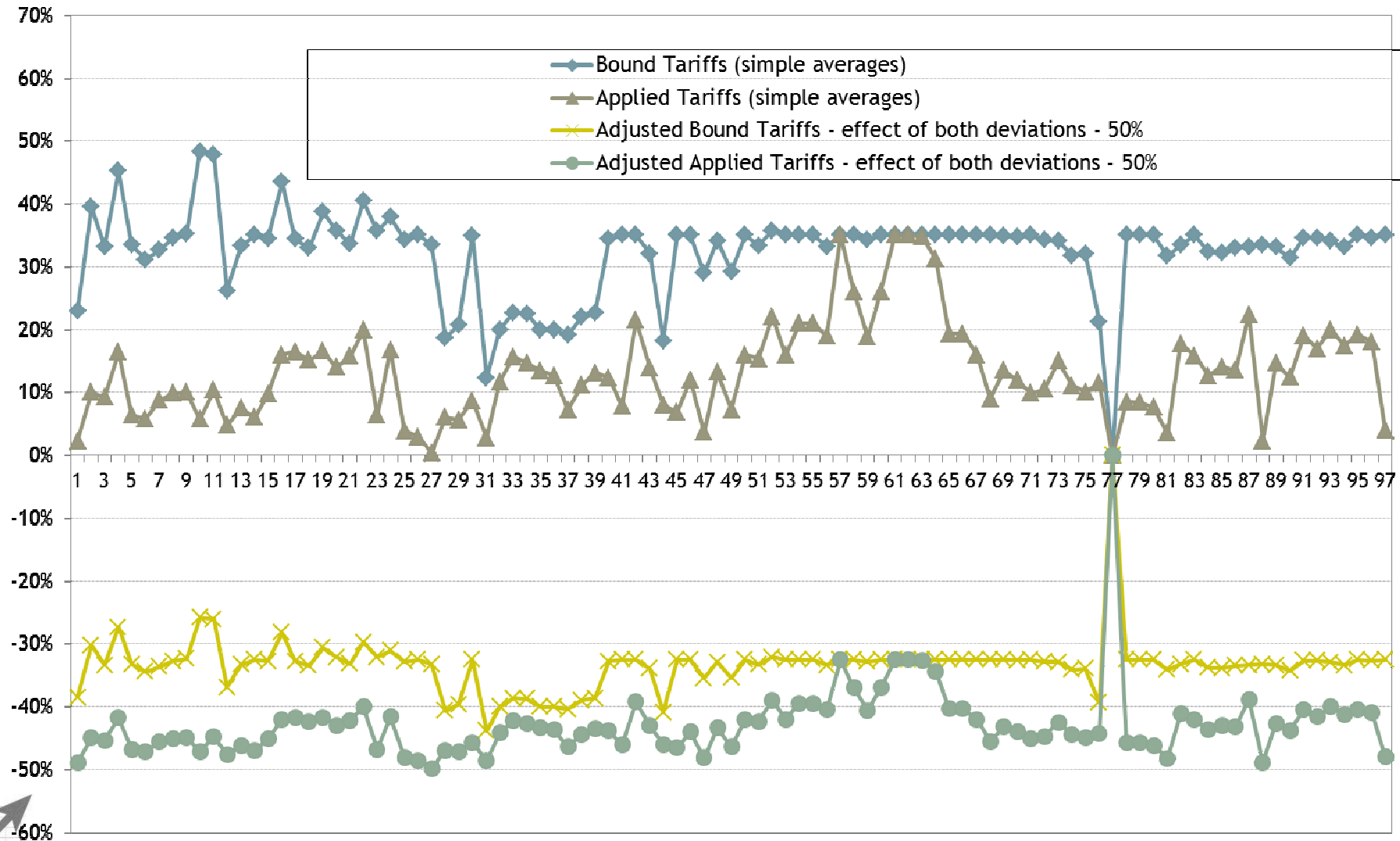
Source: FGV



Double Asymmetry in RER

# Brazil: Tariff Profile

**Brazil's Tariffs x Adjusted Tariffs - Effects of Brazil + China Exchange Rate Deviations**  
 Simple averages at HS 2 digits - Source WTO (2010)

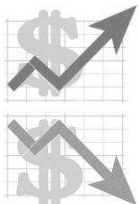


Source: FGV



Double Asymmetry in RER

# Consequences



*Double Asymmetry in RER*



# Sectoral Analysis: case studies



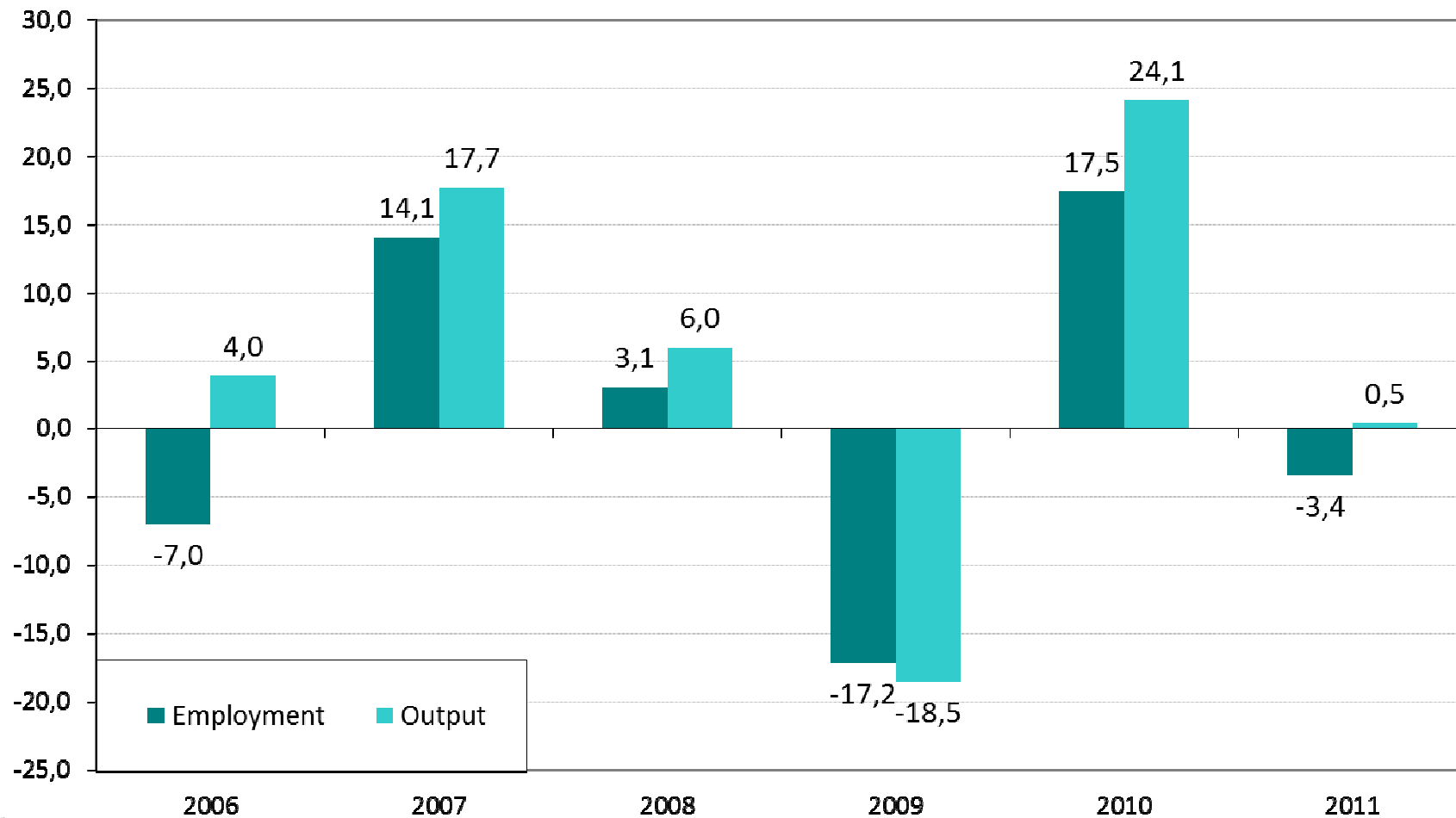
*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

25

# Machinery and Equipments

Annual variation of Output and Employment – Machinery and Equipments (%)



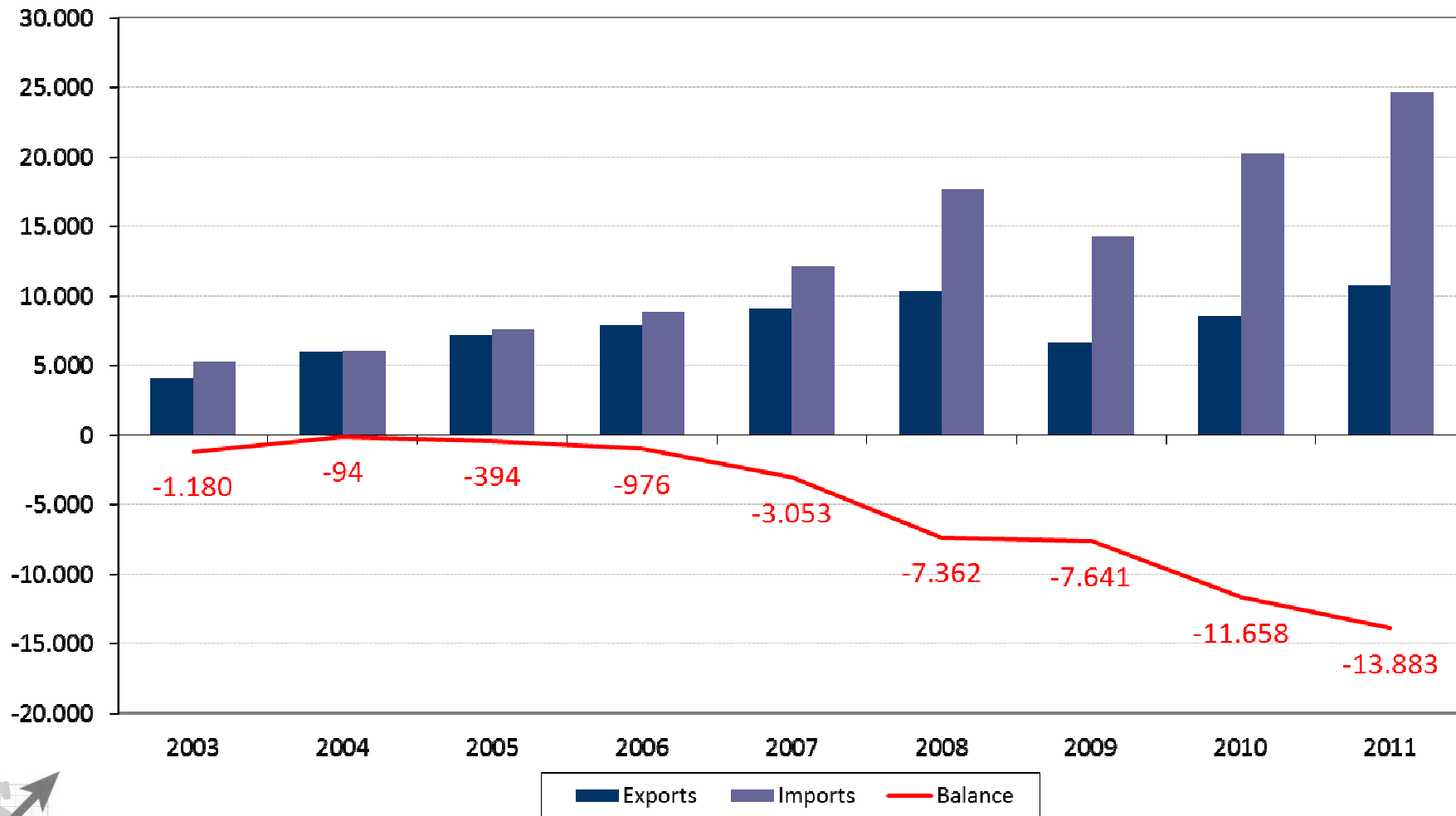
Source: IBGE



Double Asymmetry in RER

# Machinery and Equipments

Trade balance – Machinery and Equipments (US\$ million)

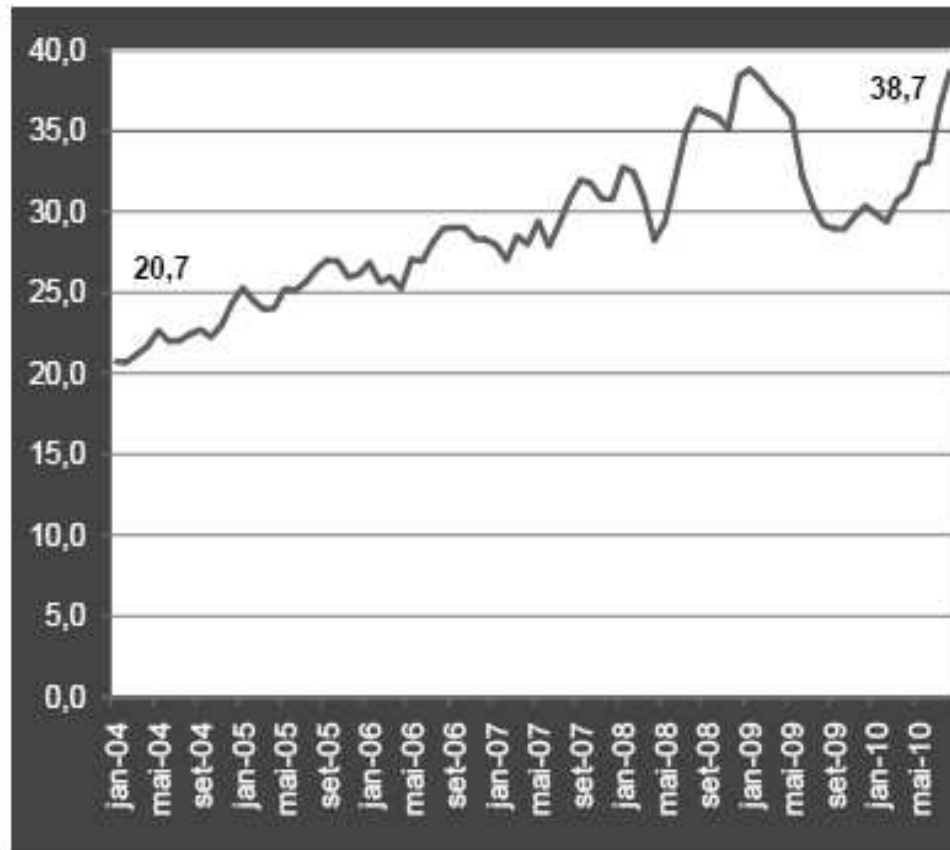


Source: Funcex



## Machinery and Equipments

Import penetration in apparent consumption –  
Machinery and equipments, 2004-2010



Main indicators: accumulated variation –  
Machinery and equipments, 2004-2010

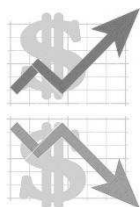
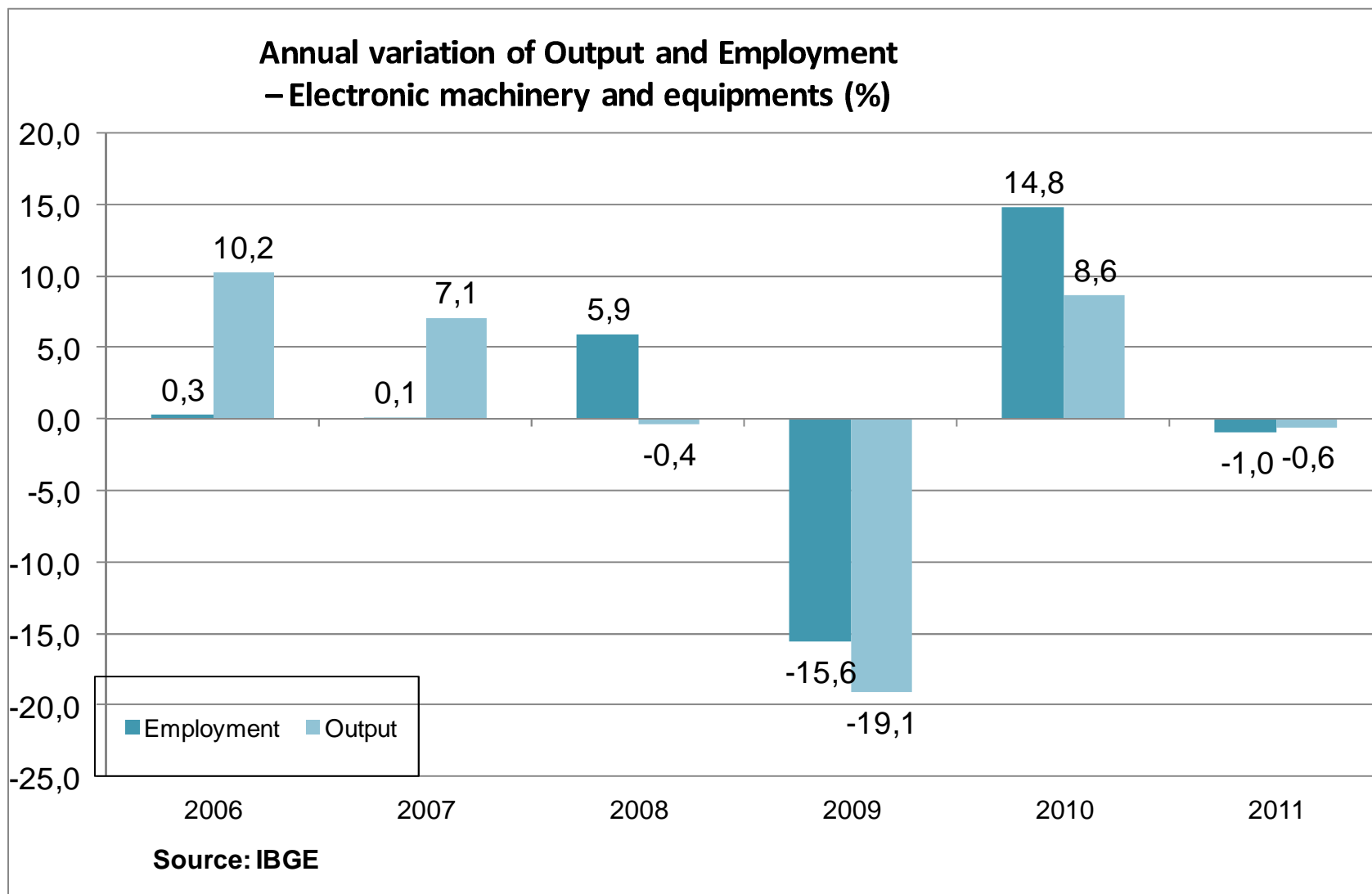
Accumulated Variation	%
GDP	28,0
Manufacturing Output	12,9
Production	30,2
Apparent Consumption	<b>76,5</b>
Exports	-20,9
Imports	167,0

Source: IBGE, Funcex, in ABIMAQ (2011).

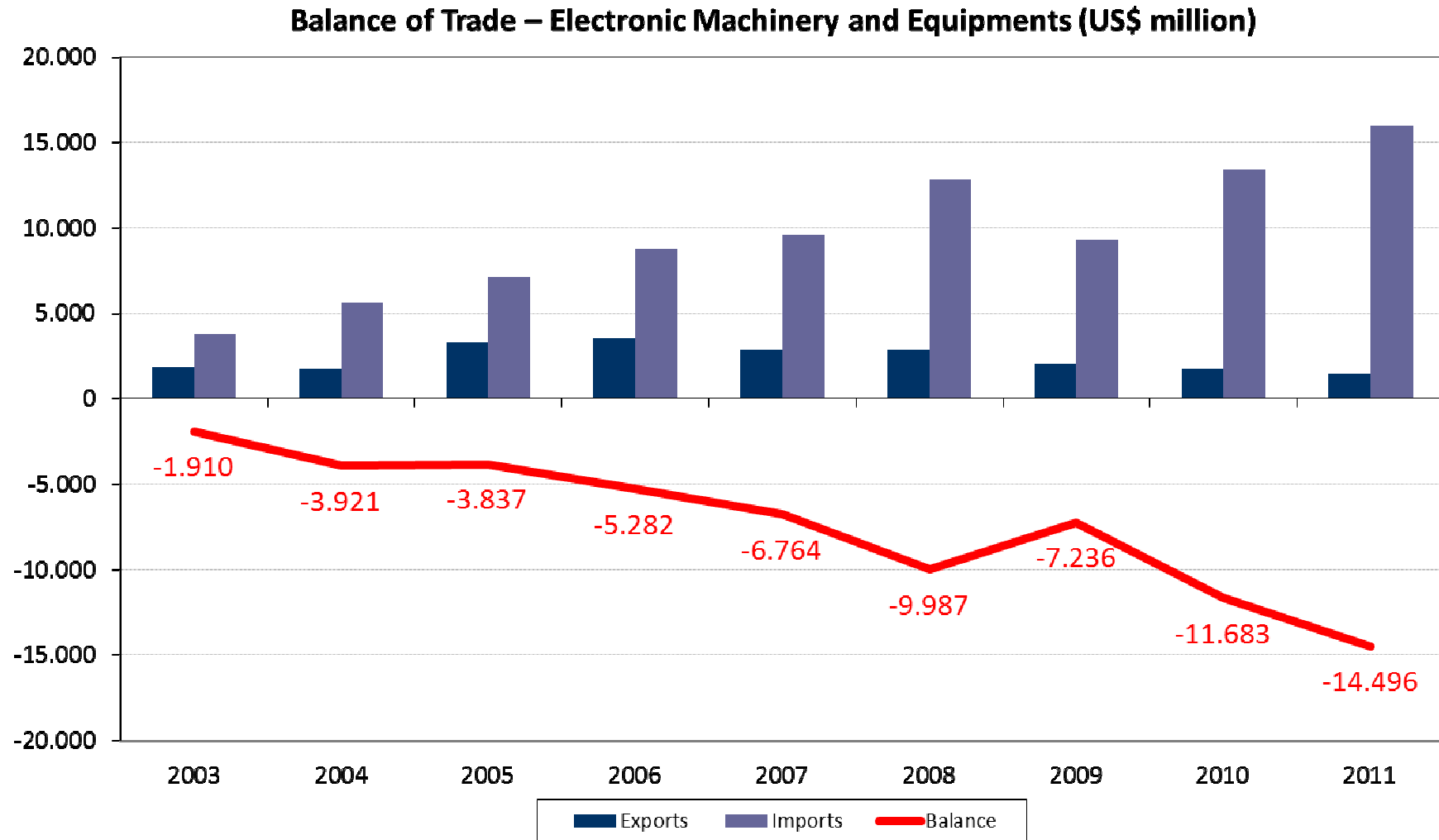


Double Asymmetry in RER

# Electronic machinery and equipments



# Electronic machinery and equipments

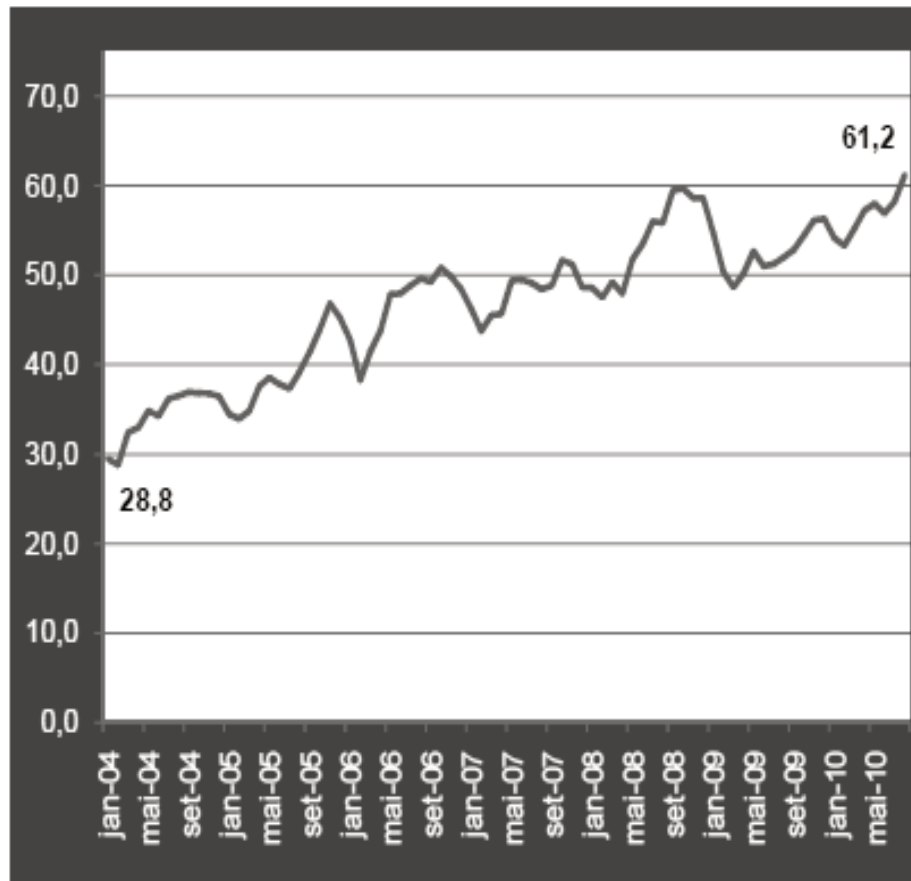


Source: Funcex

*Double Asymmetry in RER*

# Electronic Machinery and Equipments

Import penetration in apparent consumption –  
Electronic machinery and equipments, 2004-2010



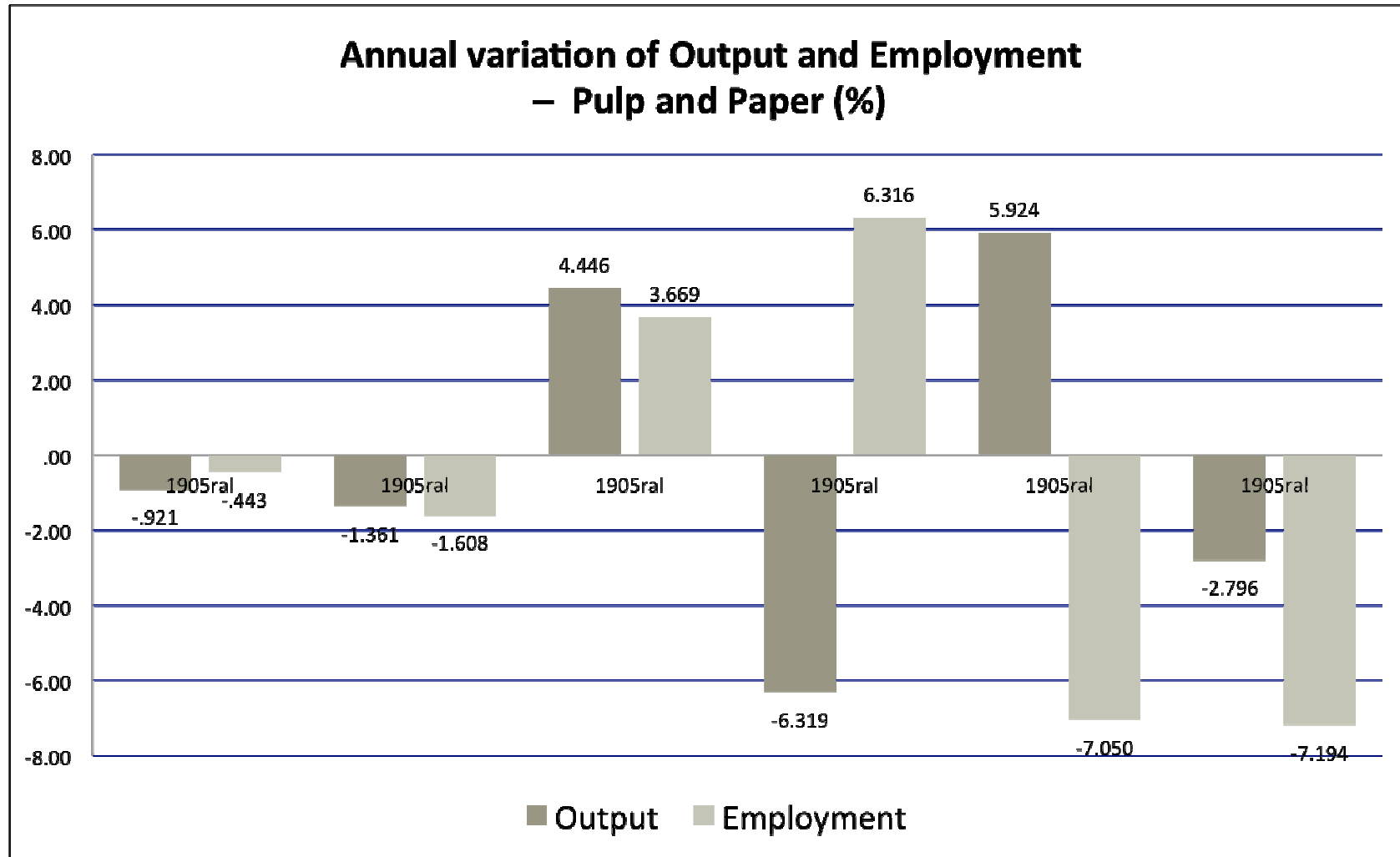
Main indicators: accumulated variation –  
Electronic machinery and equipments,  
2004-2010

Accumulated Variation	%
GDP	28,0
Manufacturing Output	12,9
Production	-9,3
Apparent Consumption	<b>21,0</b>
Exports	9,1
Imports	99,3

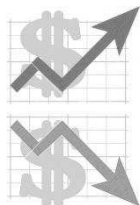
Source: IBGE, Funcex, in ABIMAQ (2011).



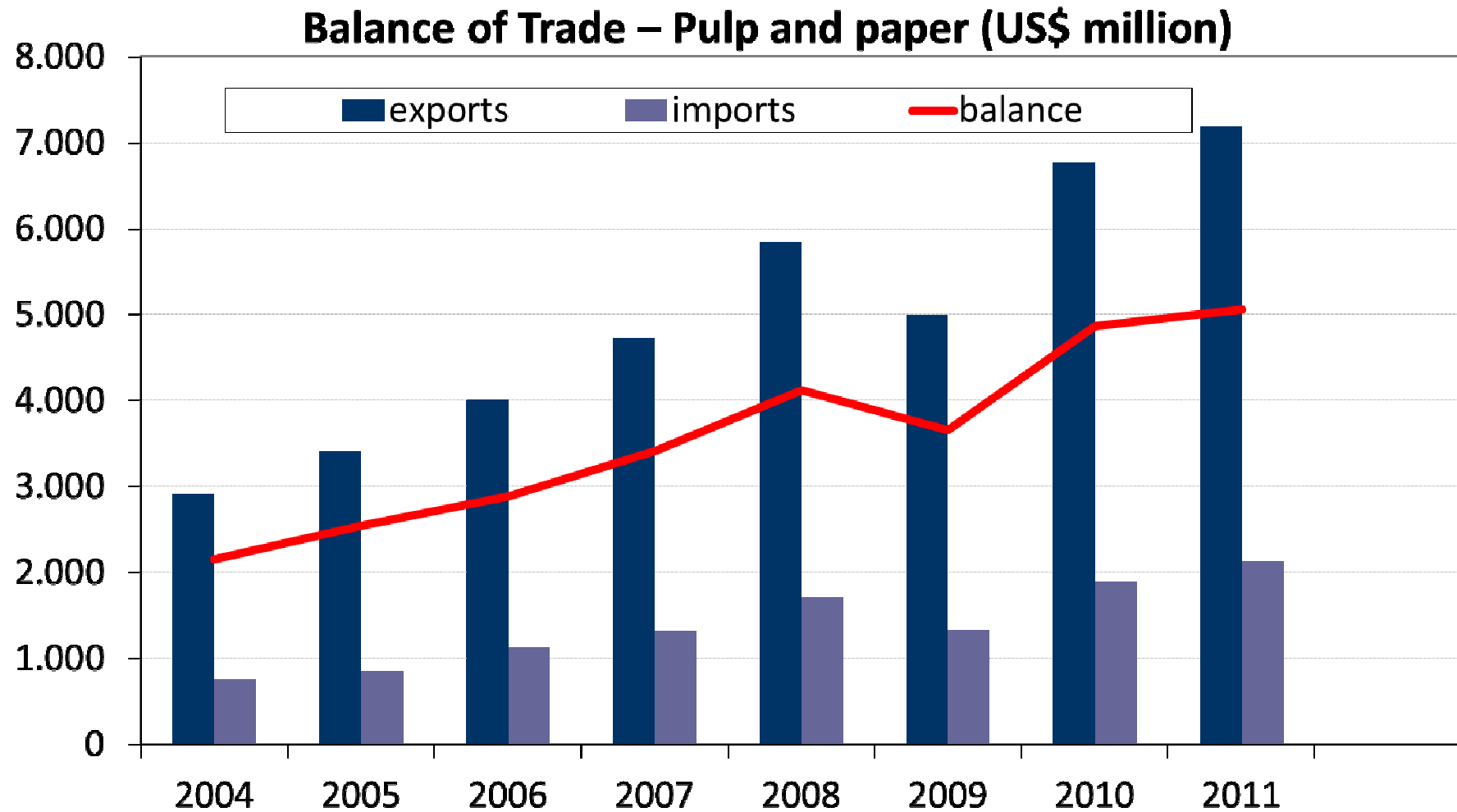
Double Asymmetry in RER



Source: IBGE. \*Employment does not include pulp





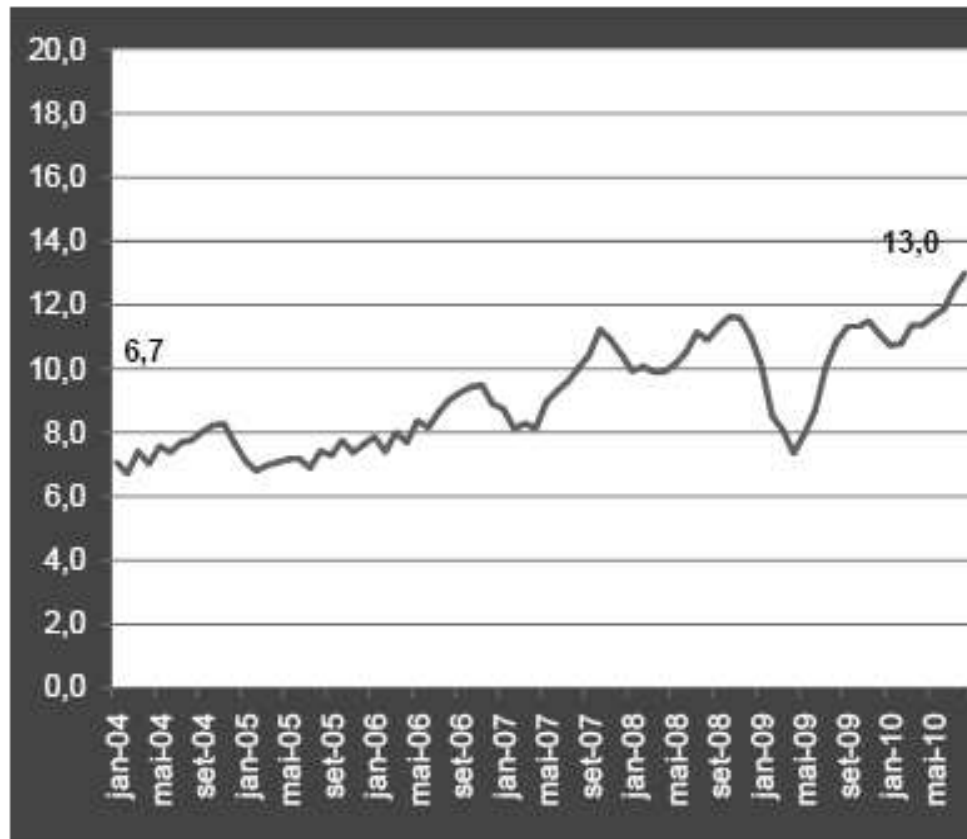


Source: Secex in BRACELPA (2012)



## Pulp and Paper

Import penetration in apparent consumption  
– Pulp and Paper, 2004-2010



Main indicators: accumulated variation  
– Pulp and paper, 2004-2010

Accumulated Variation	%
GDP	28,0
Manufacturing Output	12,9
Production	15,0
Apparent Consumption	<b>9,6</b>
Exports	55,9
Imports	73,3

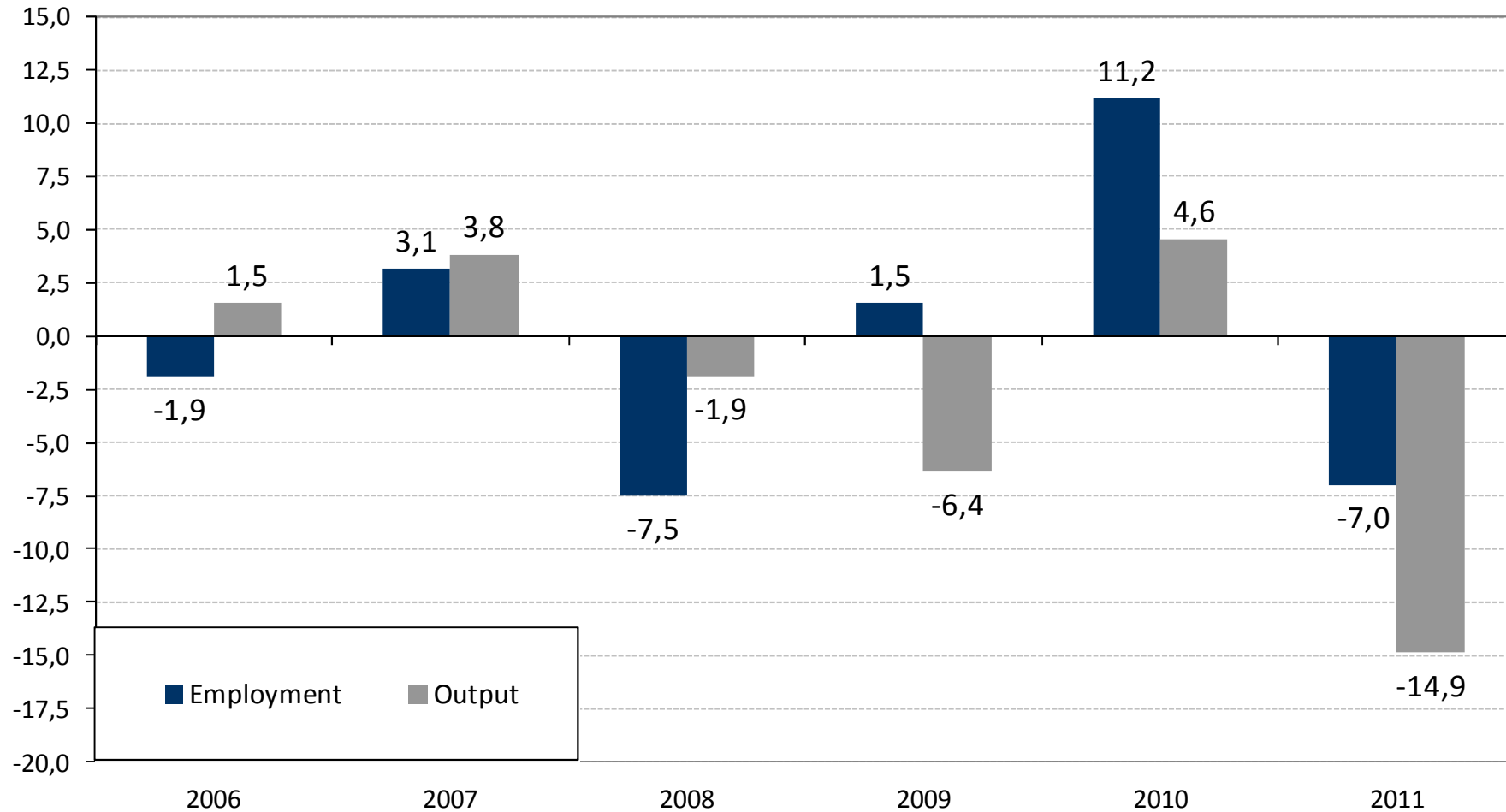
Source: IBGE, Funcex, in ABIMAQ (2011).



Double Asymmetry in RER

WTO, March 27<sup>th</sup>, 2012.

## Annual variation of Output and Employment - Textiles (%)

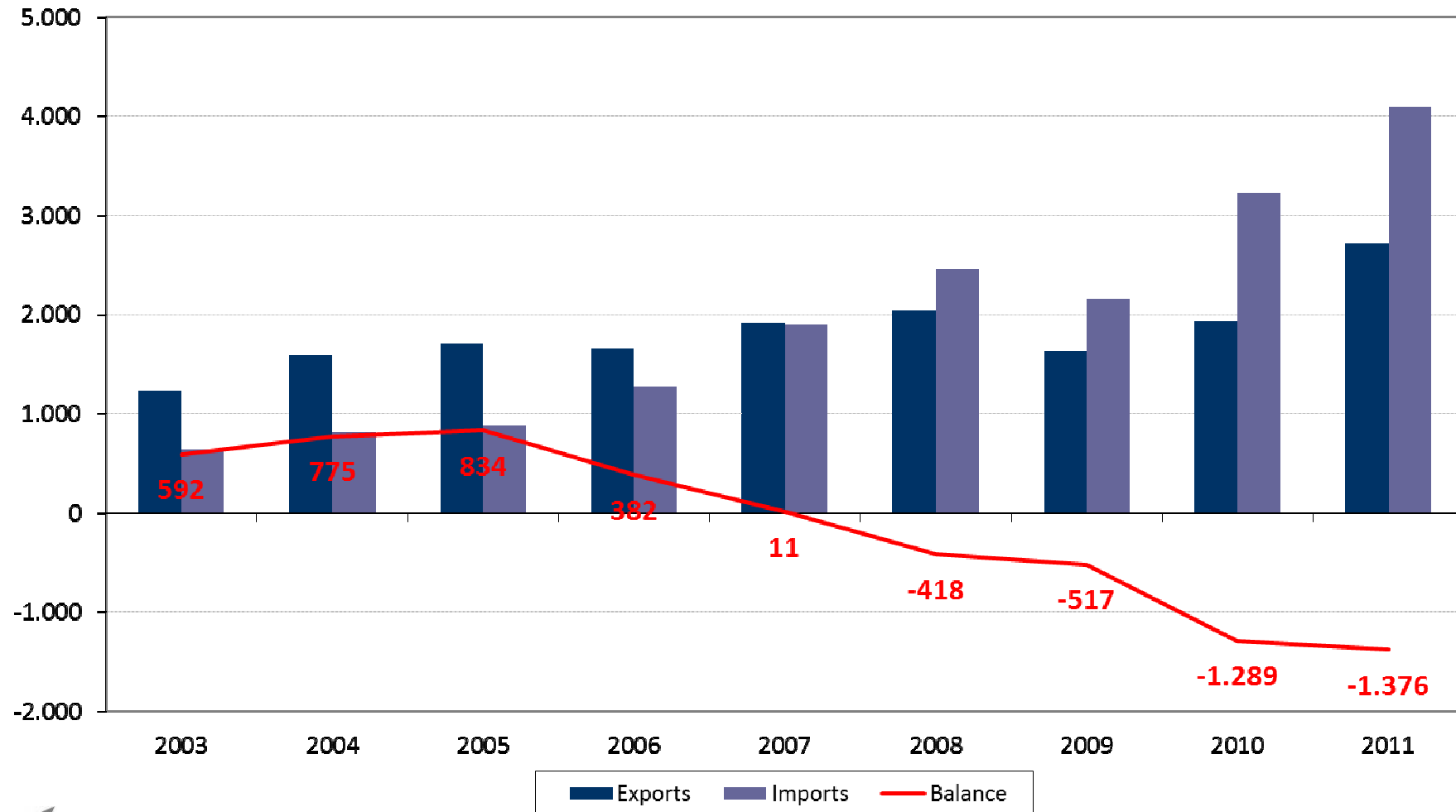


Source: IBGE



*Double Asymmetry in RER*

### Balance of trade -Textiles (US\$ million)



Source: Funcex

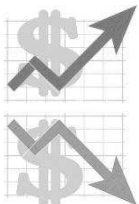


Double Asymmetry in RER

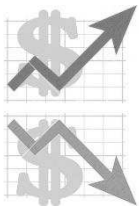


## Consolidated Export

(2001 = 100)



# Exchange Rate Debate in WTO

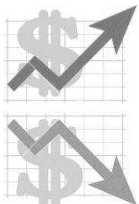


*Double Asymmetry in RER*

WTO, March 27<sup>th</sup>, 2012.

- Double Asymmetry in exchange rate is a Brazilian case nowadays, but it is a general issue
- Exchange rate is a sovereign decision
- RER belongs to the scope of IMF

**Should the WTO participate on the discussion?**



The private sector expects it to be

Proposal for debates:

- What is the best policy instrument to deal with double asymmetry problems? Anti-subsides? Safeguards? Antidumping measures?
- Let's think about mechanisms that neutralize exchange rate effects over international trade (beyond tariff palliatives)





- The double asymmetry problem exists
- It is a severe issue, it is provoking adjustments that are not recoverable in the long run.
- This issue interests every country, today is a Brazilian problem, but tomorrow...
- It has to be faced, otherwise countries will create own solutions against the distortion
- Tariff war and a protectionist international wave must be avoided



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**Thank you**



*Double Asymmetry in RER*