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Regional effects of economic integration: the case of Brazil

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Abstract

In this paper, alternative strategies of economic integration are evaluated from the Brazilian perspective. Traditional trade gains and losses are considered in a cost-competitiveness approach, based on relative changes in the industrial cost and demand structures. In the first part of the analysis, a national CGE model is used in order to assess the first-round impacts of three alternative trade liberalization scenarios. In the second part, a Machlup–Goodwin-type interregional model is integrated to the CGE model in order to generate a top-down disaggregation of the national results. Spatial implications of the trade policies are assessed, showing that the trade strategies examined are likely to increase regional inequality in the country.
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1. Introduction

Recent years have witnessed a wave of neoliberal policies in Brazil. Regionalism, starting with the Mercosur Agreement in the early 1990s, and extended to broader regional trade agreements, still under negotiation, is a major element of the process of liberalization of the Brazilian economy. Motivated by both economic and political objectives, the country has been pursuing different strategies of regional integration in an attempt to reinforce strategic impulses for economic development.

Taking the lead in the negotiations concerning the future of Mercosur, Brazil foresees three main alternatives for the development of economic trading blocs. First, the country is involved in the creation of the Free Trade Area of the Americas (FTAA), keeping up with the process initiated in the 1994 Summit of the Americas to integrate the economies of the Western Hemisphere into a single free trade arrangement. Second, an agreement connecting the Mercosur countries and the European Union has already received the political compromise of the interested parts, but its implementation still faces localized disagreements. Finally, a broader negotiation under the WTO (Millennium Round) has also to be considered.

In the period 1997–1999, Brazilian main trade partners included countries in the FTAA, with imports from NAFTA and Mercosur reaching, respectively, 27 and 15% of the country's total imports, while exports to these areas altogether represented around 39% of Brazilian total exports. The European Union also accounted for a considerable share of Brazil's international trade, with around 28% of both exports and imports. This pattern, however, was very differentiated across the different Brazilian states (Table 1).

Table 2 reveals a spatially uneven regional distribution of international trade in the country. The Southeast and South regions were responsible for 84% of Brazil's total exports, and 85% of total imports in the 1997–1999 period. When one looks at bloc-specific trade flows, the Southeast region was responsible for more than half of total trade with the five groups considered. The state of São Paulo alone concentrated the country's exports, with a share of 57% in the total sales to the rest of the FTAA, and 54% in the sales to other Mercosur countries.

Recent research on trade and location has proposed different approaches to analyze the effects of globalization on industrial location.[2] Considering its two main driving forces — trade liberalization and technical progress — the globalization process is responsible for important shifts in the economic centers of gravity not only in the world economy but also within the national economies. In the latter case, the question one poses addresses equity concerns: are regional inequalities likely to widen or narrow? Although it is agreed that there is inherent unpredictability created by some of the forces involved, the research agenda seeks to use new techniques to illuminate at least some of the forces at work reshaping the economic

[2] For a survey, see Venables (1998).

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