

Export and Investment Promotion Planning System

87/88 Trade and Economic Overview

Mission: 637 SAO PAULO

Country: 047 BRAZIL

THE FUNDAMENTAL ECON. SITUATION & TRADE ENVIRONMENT HAVE NOT CHANGED DRASTICALLY SINCE LAST YEAR EXCEPT THAT INFLATION HAS BEEN REDUCED TO 1 OR 2% A MTH THROUGH WAGE/PRICE FREEZE; FOREIGN DEBT, PUBLIC SECTOR DIFICIT, LACK OF PROD'VE INVSTMT CONTINUE BUT INCREDIBLE CONSUMPTION BOOM RESULTING FROM HIGHER DISPOSABLE INCOME HAS ACCELERATED ECON. GROWTH TO 7 - 8% RANGE & IND'L GROWTH (CONCENTRATED IN S. PAULO STATE) TO 12-15% RANGE. THIS IS NOW HAVING AN IMPACT ON TRADE PATTERN. GOVT WANTS TO MAINTAIN HUGE TRADE SURPLUSES (US\$12 BN PER YR) BUT THIS OBJECTIVE IS THREATENED BY THE NEED TO IMPORT COMMODITIES (ESP. FOOD), IND'L INPUTS (TO SUSTAIN GROWTH) AND ACTUAL FINISHED GOODS (WHERE IND. OPERATING AT FULL CAPACITY AND NOT INVSTG ON LARGE SCALE). QUITE APART FM THIS, THERE ARE INCREASING INT'L PRESSURES (USA, IMF, GATT, WB, PARIS CLUB, ETC.) FOR BRAZIL TO BEGIN TO OPEN UP ITS VERY PROTECTIONIST MKT. AS BRAZIL SOMETIMES CLAIMS TO HAVE REACHED "ADULTHOOD", MANY (INCL. FM INSIDE BRAZIL, E. G. EXPORT/IMPORT ASSOC.) ARE SUGGESTING IT SHLD & MUST LIBERALIZE IMPORTS. THIS AUGURS WELL FOR CDA (IN TERMS OF DIVERSIFYING OUR EXPORTS) & HAS ALREADY BEGUN TO HAPPEN WITH NON-OIL/NON-FOOD IMPORTS HAVING INCREASED BY AS MUCH AS 47% THIS YR. WHILE CDA HAS BEEN UNABLE OR SLOW TO REACT TO SOME OPPORT. IN THE COMMODITIES SECTOR, A WINDOW OF OPPORT. EXISTS TO INCREASE OUR PENETRATION OF THE MKT IN THE MFTD GOODS AREAS WHICH WE SHLD NOT LET ESCAPE. IT SHLD BE REMEMBERED, HOWEVER, THAT ANY LIBERALIZATION PROCESS WILL BE RELATIVELY SLOW AND THAT FUNDAMENTAL RULES WILL NOT CHANGE APPRECIABLY, I. E. MKT NICHES SHLD BE PURSUED & CDN MFTRS SHLD CONTINUE TO COME HERE PREPARED TO DEAL WITH THE MKT ON ITS OWN TERMS WHICH GEN'LY CALL FOR SOME TYPE OF TRANSFER OF TECH., LICENSING OR JOINT VENTURE ARRANGEMENT IN ADDITION TO SELECTIVE SALE OPPORT. IND'L SECTORS OF PRIMARY INTEREST ARE OUTLINED IN THE SECTION BELOW BUT SIGNIFICANT CHANGES COULD OCCUR RAPIDLY AFTER THE GUBERNATORIAL ELECTION OF NOV. 15, 1986, & SUBSEQUENT ADJUST'S TO THE "PLANO CRUZADO" & ELABOR'N OF THE NEW CONSTITUTION WHICH WILL BOTH IMPACT ON THE DIRECTION & LEVEL OF NEW INVSTMTS (OR LACK THEREOF) THUS CREATING MKT OPPORT. FOR IND'L GOODS/SRVCS IN VARIOUS SECTORS (OR FOR SPECIFIC FINISHED GDS IN SHORT SUPPLY). WHATEVER THE SCENARIO, PROSPECTS FOR OUR COMMODITIES EXPORTS REMAIN GOOD, WHEAT SALES BEING LOWER THAN AVERAGE BUT SULPHUR, COAL, POTASH BEING ON THE INCREASE; AND PROSPECTS FOR NON-TRADIT'L GOODS/SRVCS EXPORTS APPEAR PROMISING GIVEN INCREASED BRAZILIAN NON-OIL IMPORTS. GIVEN THE COMPLEX ECON. & REGUL'RY ENVIRONMENT SUCCESSFUL PENETRA'N OF THE BRAZILIAN MKT CONTINUES TO REQUIRE A LONG TERM COMMITMENT TO ITS PURSUIT. EXPERIENCE SHOWS THAT THE VARIOUS PROMOT'L TOOLS AVAILABLE TO US-PEMD, FED'LY AND PROV'LY SPONSORED TRADE MISSIONS, CIDA'S IND'L COOP. PROG., TRADE FAIRS, BRAZILIAN BUYERS VISITS TO CDA, BCCC-SPONSORED SEMINARS, EDC-FINANCING, ETC-ARE INDISPENSABLE TOOLS TO ENCOURAGE & SUPPORT