6

Exports and Trade Finance: Brazil's Recent Experience

RENATO J. SUCUPIRA and
MAURICIO MESQUITA MOREIRA

The outstanding performance of the East Asian economies during the past three decades—notwithstanding their recent and momentary difficulties—has drawn attention to two important lessons. The first is the potential role that exports can play: East Asia has shown that exports can decisively contribute toward long periods of high growth. The second is the importance of trade finance in assisting the takeoff and ensuring the sustainability of an export boom, particularly for manufactured goods. Thin capital markets in the developing world usually lead to scarce export finance, which in turn hampers the overall growth of exports and their diversification toward high-unit-value products.

This chapter discusses these two interrelated lessons with a focus on Brazil's recent experience. Brazil, like most Latin American countries, had a hard time assimilating these lessons. After an impressive performance in the 1960s and 1970s (manufactured exports grew on average 22 percent annually between 1965 and 1980), export growth declined in the 1980s and 1990s (to 7.2 percent in 1980-89 and 4.3 percent in 1990-99). The slowdown reflected not only external shocks and macroeconomic mismanagement, but also the structural legacy of an inward-oriented trade regime and the absence of appropriate export finance. At the end of 1999, exports accounted for only 7.7 percent of GDP and for an equally disappointing 12.6 percent of total manufacturing output. Despite this

Renato J. Sucupira is director of FINAME, a subsidiary of the Brazilian Development Bank (BNDE). Mauricio Mesquita Moreira is a trade economist with the Inter-American Development Bank.

lackluster picture, considerable progress was made during the 1990s. Particularly since 1995, Brazil has created a stable macroeconomic environment, an open trade regime, and a more effective system of export finance that, all together, will encourage exports to play a larger role in the country's economic development.

The chapter is divided into four sections. The first section establishes the groundwork by examining why exports matter for development and why trade finance matters for exports. The second section looks at Brazil's recent export performance and at the underlying macroeconomic and structural factors. The development of trade finance in Brazil and its main challenges are discussed in the third section. Finally, the fourth section draws the policy conclusions.

Why Do Exports and Trade Finance Matter?

East Asia has shown that exports contribute to the preconditions for sustainable growth: macroeconomic stability and rising productivity. The contribution to macroeconomic stability can be explained by a simple correlation: The greater the export capacity of a country, the lower its vulnerability to external shocks. A rapid export response to changing relative prices enables a country to absorb adverse external shocks without a costly recession. This ability was extremely valuable for East Asian countries in the early and late 1970s, when external shocks, brought about by rising oil prices and interest rates, forced most developing countries into a long period of stagnation. Because growth in East Asia was assisted by a rapid export response, it was disrupted for not more than a year following each shock—in sharp contrast to Latin America, where stagnation lasted a decade.

Export flexibility likewise proved to be a valuable trait in the recent Asian and Latin American financial crises. South Korea and Thailand, badly shaken by the 1997-98 turmoil, resumed growth after no more than a year's interruption. Trade liberalization, and eradication of the anti-export bias of the former import substitution regime, played an important role in the rapid recoveries of Mexico (1995) and Brazil (1999). Latin American performance in the 1990s bears no comparison with the prolonged stagnation of the 1980s.

Turning to productivity growth, the evidence suggests two major export-related gains (World Bank 1993): first, economies of scale as firms go beyond the boundaries of a limited internal market; second, and more important, improved technical efficiency. Technical efficiency improves for a number of reasons:

- The pressure of international competition compels domestic managers to revamp their production and distribution methods.

- Exports generate the necessary foreign exchange earnings to finance the purchase of state-of-the-art equipment and technology.
- Good export performance tends to attract foreign direct investment, bringing crucial production and marketing know-how to developing countries.
- A strong export record improves the bargaining position of local producers in licensing existing technologies.
- Exposure to the more sophisticated external market provides firms with valuable insights from customers and the latest products and processes.

These mechanisms help developing countries to overcome failures in the market for technology, particularly failures resulting from asymmetric information between buyers and sellers, and from the monopoly power of some industrial-country sellers. Broadly, the mechanisms add up to positive externalities from export activity. Externalities drive a wedge between the private and social returns from exporting, justifying a degree of government intervention. The mechanisms mentioned, however, are not the only market imperfections that limit exports. Information and financial obstacles are of great consequence.

Exporting is a highly information-intensive activity, especially in terms of business opportunities. The process of obtaining information is costly to individual firms, especially those that do not belong to a multinational network. Firms, therefore, tend to underinvest in information seeking, which in turn can lead to a level of exports below the country's potential. Once uncovered, market information benefits other potential domestic exporters in the same industry.

Likewise, the lack of appropriate finance can hinder the expansion and diversification of exports, particularly high-unit-value goods that are customarily sold on long-term credit. Financial markets are often imperfect, even in industrial countries, due to problems such as adverse selection and moral hazard. In developing countries, as Stiglitz (1989, 200) rightly pointed out, these imperfections are severely aggravated:

> Because the process of change itself leads to greater informational problems; but more importantly, the institutional frameworks for dealing with these capital imperfections are probably less effective because of the small scale of the firms and because the institutions for collecting, evaluating and disseminating information are less likely to be developed.

Greater uncertainty in developing countries produces a thin and incomplete capital market, with a strong bias toward short-term, liquid assets. Exporters from these countries usually face a shortage of long-term finance and cannot find appropriate insurance cover for their commercial and sovereign risks. The situation is aggravated by the fact that their competitors in the industrial world can count not only on more advanced and complete capital markets, but also on export credit agencies (ECAs) funded by the government. ECAs promote exports in two main ways: first, through direct loan and subsidy programs; second, through insurance and guarantee programs. Officially supported export credits jumped from approximately $22 billion in 1988 to $105 billion in 1995 (Drummond 1997).

The environment facing developing countries is marked by incomplete local capital markets and competition from foreign ECAs. In this environment, local government intervention, aimed at remedying capital-market failures and at leveling the playing field, becomes a crucial factor for the survival and growth of domestic exporters. In other words, trade finance not only matters; it matters more to the so-called newly industrialized economies.

Brazil's Recent Export Performance

Despite having its first spurts of manufacturing investment as early as the late nineteenth century, Brazil remained until the 1960s basically an exporter of primary and semimanufactured goods.[1] In 1964, coffee still accounted for more than half of total exports. Underlying this disappointing performance was an import substitution industrialization (ISI) strategy that discriminated heavily against exports. The combined effect of high import protection and a highly overvalued exchange rate drastically reduced the profitability of exports, ruling out the chances of an export boom led by manufacturing goods. This would only come about in the late 1960s, when the government devalued the exchange rate, introduced a crawling-peg system, and began to compensate for its anti-export bias by granting a series of export incentives, including subsidized export credits.

Manufactured exports responded quickly, growing at an annual average rate of 22 percent in the 1965-80 period, and raising their share of total exports from 5 to 39 percent. In the same period, Brazil's share of world manufacturing exports rose from virtually nil to 0.8 percent. Manufacturing exports not only took off but also became more diversified, with a noticeable increase in the share of capital-intensive goods and a corresponding decrease in the share of labor-intensive products (table 6.1). The shifting shares mirrored not only changes in Brazil's factor endowments, but also the strong bias in export and investment incentives.

Despite their success, these policies were costly and in many cases

1. This section draws heavily on Pinheiro and Moreira (2000).

Table 6.1 Brazil's composition of manufactured exports, 1974-99 (percentage of total)

Sectors[a]	1974-79	1980-89	1990-99
Capital-intensive	30.1	47.2	51.2
Steel	3.8	9.3	10.4
Vehicle parts and other parts	5.3	6.4	9.3
Machinery	3.3	4.3	5.5
Nonferrous metals	0.6	3.1	5.2
Oil refining	1.8	8.4	4.7
Automobiles, trucks, and buses	3.4	5.0	4.6
Electrical machinery and appliances	1.8	2.0	3.3
Textiles	5.7	4.1	3.0
Electronic and communications equipment	2.5	2.8	2.3
Miscellaneous chemical products	1.3	1.0	1.7
Rubber	0.4	0.9	1.4
Labor-intensive	10.5	14.1	18.0
Wood pulp and paper	1.6	3.5	5.0
Wood products	2.3	1.8	3.2
Footwear	3.9	5.1	5.6
Miscellaneous metal products	1.0	1.5	1.9
Miscellaneous	1.3	1.7	2.2
Natural-resource-intensive	56.9	35.9	30.9
Chemicals	0.7	1.6	2.3
Refined sugar	8.3	2.9	3.4
Meat products	2.9	3.7	3.8
Coffee	14.9	10.8	7.2
Vegetable oil	14.9	10.8	7.2
Processed vegetable goods	7.1	7.0	6.7
Other food products	2.3	1.6	1.5

a. The classification of sectors is based on their total factor requirements according to the 1996 input-output matrix (Moreira and Najberg 2000).

Source: Fundação Centro de Estudos do Comércio Exterior.

failed to turn exports into more than just a poor alternative to domestic sales. Export incentives during the 1970s and 1980s averaged 30 percent of the value of manufactured exports, well above the figure for South Korea (3 percent, on average, during the same period; Moreira 1995, 110), despite Korea's reputation as an "aggressive" exporter. Yet export growth dropped to 7 percent annually in the 1980s, whereas countries such as Mexico and Korea kept exports growing fast (24 and 16 percent, respectively). By the end of the 1980s, manufactured exports were still a minor part of total Brazilian sales, accounting for less than 10 percent of manufacturing output. They also remained highly concentrated in a few firms. In 1990, 53 companies accounted for approximately 44 percent of all Brazilian manufactured exports.

The reasons for Brazil's limited export orientation seem to go beyond the "continental economy" argument. As already mentioned, the widespread and unconditional protection associated with the ISI strategy played a key role in restraining Brazil's export drive. The ISI strategy dampened the incentive to cut costs and increase productivity; it distorted relative prices, moving resources away from industries with comparative advantage; and it curtailed the relative profitability of exports, raising the value added for domestic sales significantly above the figure for exports. This last effect was particularly important, because limitations on the duty drawback system forced exporters to shoulder the burden of an excessively backward-integrated industrial structure.

The strong bias against exports began to decline in the early 1990s, when the economy was opened up. On the import side, trade reform was marked by the immediate removal (in 1990) of most nontariff barriers and the announcement of a multiyear tariff reduction program. The average nominal tariff was slashed from 32 percent in 1990 to 9 percent in 1999. On the export side, subsidies were eliminated and incentives reduced to a minimum. Trade reform also involved the establishment, in March 1991, of MERCOSUR, a common market among Argentina, Brazil, Paraguay, and Uruguay. A common external tariff with seven bands, ranging from zero to 20 percent, was put into effect in January 1995, encompassing all items except capital goods, computer equipment, and automobiles.[2]

Trade reform provided exporters with access to modern capital goods and industrial inputs at international prices. Combined with higher productivity and a process of specialization triggered by greater competition, the new policies gave Brazilian firms stronger incentives and better conditions to penetrate international markets.[3] In the second half of the decade, the export financing system was rebuilt on a market-friendly basis, an issue we take up in the next section. Despite these changes, exports were slow to respond. As seen in table 6.2, after a strong recovery in 1992-94, export growth began a downward trend that was reversed for only a brief period in 1997. More to the point, figure 6.1 suggests that an elastic trade-off prevailed between internal and external markets during the decade, with firms switching to domestic sales whenever local demand picked up.[4]

Precedents can be found for the relatively slow response of exports to trade liberalization. In the aftermath of trade liberalization, importers often respond much faster than exporters (Papageorgiu et al. 1990). Ex-

2. For details, see Moreira and Correa (1998) and Averbug (1999).

3. According to Bonelli and Fonseca (1998), in 1990-97, total factor productivity in manufacturing grew by 2.2 percent per annum. The same figure for the 1980s was 0.2 percent.

4. The exception to this rule was the third quarter of 1998, when lower GDP growth was followed by a drop in manufactured exports. Underlying these events, however, was the Russian default, which not only had a negative impact on Brazil's main export markets but also led to a shortage of export financing.

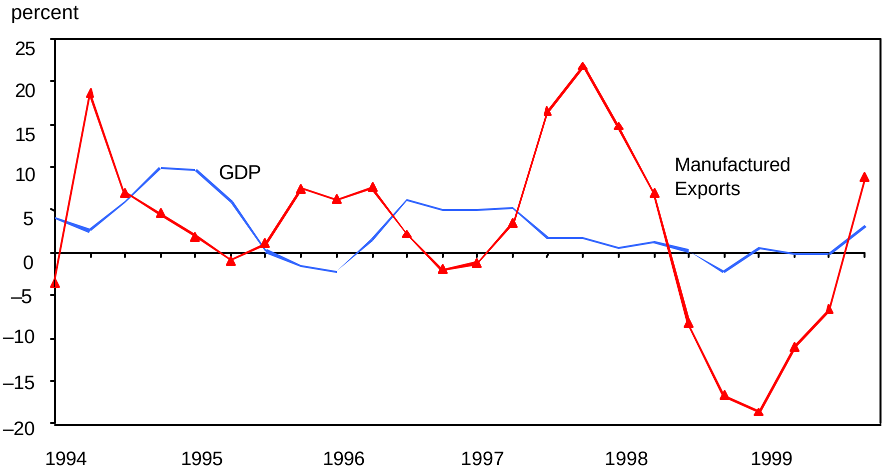
Table 6.2 Growth of Brazilian exports by main categories, 1990–99 (value and quantity, annual percent change)

	Total exports		Primary exports		Semimanufactured exports		Manufactured exports	
Year	Value[a]	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
1990	–9.0	–7.0	–8.3	1.0	–12.0	0.0	–8.0	–12.0
1991	0.7	2.6	–0.1	–1.7	–8.2	0.6	4.4	6.3
1992	13.2	17.0	1.1	6.4	22.6	27.3	16.9	19.5
1993	7.7	16.5	6.1	8.9	–5.3	–0.1	12.9	25.2
1994	12.9	2.1	18.1	2.7	26.6	10.4	6.5	–1.0
1995	6.8	–6.1	–0.8	–5.1	32.7	7.2	2.4	–11.1
1996	2.7	2.7	8.5	2.5	–5.8	4.9	3.3	2.7
1997	11.0	10.2	21.6	12.6	–1.6	–0.1	10.5	12.6
1998	–3.5	3.4	–10.4	6.7	–4.1	3.6	0.6	2.1
1999	–6.1	6.4	–8.8	8.4	–1.8	15.9	–6.9	2.0
1990–99	**3.6**	**4.8**	**2.7**	**4.2**	**4.3**	**7.0**	**4.3**	**4.6**

a. Year-to-year value changes are calculated in US dollars.

Source: Fundação Centro de Estudos do Comércio Exterior.

Figure 6.1 Brazil's quarterly growth of GDP and manufactured exports, 1994-99



Sources: Instituto Brasileiro de Geografia e Estatistica, Secretaría de Comércio Exterior.

porters face higher information and distribution costs than importers, who can count on well-established international distribution and information networks. In the medium term, exports tend to catch up, reflecting several incentives: less protection, higher productivity, wider access to inputs and industrial capital goods at international prices, and real exchange rate depreciation in the wake of larger imports and a higher demand for foreign currency.

In Brazil's case, exports could not count on the exchange rate factor. Unlike successful experiences in other developing countries, Brazilian trade liberalization was not followed in its early years by a real exchange rate devaluation. Quite the contrary: after a clear devaluation during the 1990-92 period, the real exchange rate strengthened, more than offsetting the previous devaluation. As of December 1998, the real rate was 18 percent above its 1989 average. This upward trend was only broken in January 1999, when deteriorating international financial markets, disrupted by the Russian default, forced the government to float the exchange rate. This decision produced a major devaluation. As far as the 1990s were concerned, however, the die was already cast.

Apart from exchange rate appreciation, Brazilian exports also suffered from inadequate infrastructure investment—a consequence of the public finance crises of the 1980s—and from an inefficient tax system that penalized producers with cumulative taxes. Considerable progress was made in rebuilding infrastructure during the second half of the 1990s by privatizing state enterprises. The tax system, however, has yet to be reformed.

Table 6.3 Brazilian manufactured exports by ownership, 1990-99 (percentage of total)

Firms	1990	1995	1999
Foreign companies[a]	30.8	38.1	38.3
Local companies	69.2	61.9	61.7

a. Firms controlled by nonresidents.

Source: Authors' own calculations using data from Secretaría de Comércio Exterior.

Low export growth was accompanied by marginal shifts in export composition. Table 6.1 shows that the move toward a more capital-intensive export menu proceeded after 1990, but at a slower pace. On the issue of concentration, the data suggest that a few companies continued to sell most exports. To be more precise, concentration fell by only 4 percent (using the Herfindahl-Hirshman index) between 1990 and 1999. But a careful reading of the data reveals that the relatively stable concentration coexisted with a substantial increase (110 percent) in the number of manufacturing export firms, particularly among the small exporters (123 percent, in the class of firms with under $1 million exports). Taken as a whole, the new exporters accounted for 78 percent of the total growth in manufacturing exports during the decade.

The data also show that in the 1990s the historically high participation of foreign firms in manufactured exports continued to grow (table 6.3). In fact, signs indicate that this tendency has been accelerated by the new trade regime. One possible reason was the foreign direct investment (FDI) boom, which followed the successful stabilization of the economy in 1994. Net FDI jumped from $2.1 billion in 1994 to $30 billion in 1999. The figures for manufacturing, however, are far more modest, with FDI reaching $2.0 billion in 1999, after several years of disinvestment. In other words, the FDI boom of the 1990s does not tell the whole story. One can also argue that the new trade regime encouraged established foreign firms to make better use of their access to capital, technology, and distribution channels. It gave them more of an incentive to export. Unlike the import substitution period, incentives are now mainly market driven, suggesting a better balance between FDI costs and benefits for the country.

The destination of manufactured exports has changed quite dramatically since the economy was opened up (table 6.4). There has been a major shift toward the South, led by exports to Latin America. Behind this shift is the so-called MERCOSUR effect. From the establishment of the common market in 1991 through 1999, Brazilian manufactured exports to the other member countries grew on average 24 percent annually. Both foreign and local companies followed this trend. Whereas in 1990

Table 6.4 Brazilian manufactured exports by ownership and destination, 1990-99 (percentage of total)

	Sources of exports by ownership of firms[a]								
	1990			1995			1999		
Destination of exports	**Foreign**	**Local**	**Total**	**Foreign**	**Local**	**Total**	**Foreign**	**Local**	**Total**
United States and Canada	33.3	35.7	35.0	22.7	24.3	23.7	21.7	32.5	28.4
Other developed countries	36.1	27.7	30.3	21.6	27.9	25.5	23.8	24.5	24.2
All developed countries	**69.4**	**63.5**	**65.3**	**44.3**	**52.2**	**49.2**	**45.5**	**57.0**	**52.6**
Latin America	22.9	16.5	18.5	46.1	31.6	37.2	47.2	30.7	37.0
Other developing countries	7.6	19.4	15.8	9.6	16.2	13.7	7.3	12.3	10.4
All developing countries	**30.5**	**35.9**	**34.3**	**55.7**	**47.8**	**50.8**	**54.5**	**43.0**	**47.4**

a. Foreign firms are firms controlled by nonresidents.

Note: Percentages for each category do not add up to 100 because countries not specified as developed and developing are included in percentage breakdowns but are not listed here.

Source: Secretaría de Comércio Exterior.

foreign firms sent 69 percent of their manufactured exports to industrial economies, by 1999 the major market was developing countries.

Overall, Brazil's export performance in the 1990s can be read as the result of a gradual transition to a more market-oriented, outward-looking trade regime in an inhospitable macroeconomic environment. The record reflects many teething problems. Looking ahead, the prospects for manufactured exports have never been so bright. On the one hand, trade liberalization has drastically cut the antiexport bias, giving exporters access to equipment and inputs at international prices. On the other hand, for the first time since the economy was opened up, exporters are enjoying a favorable macroeconomic and institutional environment—including lower interest rates, a more competitive exchange rate, and an effective trade finance scheme. The results are already visible. In the last quarter of 1999, exports grew by 11 percent (against the same period in 1998); and in the first quarter of 2000, export growth accelerated to 20 percent, led by manufacturing exports (28 percent).

Trade Finance in Brazil

For all practical purposes, the history of officially supported export finance in Brazil began in the mid-1960s, and it was directly associated with the need to boost manufactured exports. The government—facing a situation in which exporters both had difficulty obtaining finance, notably long-term finance, and could not find insurance cover for their commercial and political risks—decided to intervene. The incipient private market run by commercial banks—using funds raised abroad for short-term export finance—was complemented by a series of official initiatives. Three were significant. Commercial banks were allowed to rediscount letters of credit at the central bank at preferential interest rates. A fund (FINEX, the Export Financing Fund) supported by the Treasury and administered by CACEX (Consultoria e Assessoria de Comércio Exterior, a division of Banco do Brasil, a commercial, state-owned bank), was established to provide interest-rate support and direct loans for exporters of manufactured goods. Most of FINEX's funds were absorbed by preexport financing. Finally, the government also tried to fill the gap in export insurance by setting up a system, administered by CACEX, to provide cover for political and commercial risks.[5]

Judging by the impressive export performance of the 1960s and 1970s, these interventions were effective in boosting export finance and promoting an export boom. Yet the costs were exceedingly high. The government was not only trying to remedy capital-market failures, but

5. For details of the system of export financing during the period, see Baumann and Braga (1985).

was also attempting to neutralize the antiexport bias of its import substitution regime. Export subsidies (basically interest-rate subsidies) during the 1970s and 1980s averaged 30 percent of the free-on-board value of manufactured exports. This level was completely at odds with the Treasury's scarce resources. It could not be sustained. Deterioration of the public accounts in the 1980s made this point abundantly clear.

In 1984, the government began to phase out the whole system of incentives, and by the end of the 1980s, only the commercial banks were still active in export financing. Overly generous incentives ended up compromising the basic concept of public support for export financing, forcing the government to "throw the baby out with the bathwater." Despite improvements in the capital markets, gaps remained in long-term financing and credit insurance. These gaps were obstacles for manufactured exports, especially capital goods.

These difficulties eventually led the government, in the early 1990s, to face the challenge of rebuilding the system of trade finance on a more cost-effective basis, in a different macroeconomic environment and, especially important, in accordance with World Trade Organization rules. Trade liberalization had drastically reduced the antiexport bias, opening the way to a more market-friendly approach. Tighter fiscal and institutional constraints, posed by the difficult budget situation and by international trade agreements (MERCOSUR in 1991 and the Uruguay Round Final Act in 1994), left the government no option but to focus on the gaps in long-term finance and insurance. Reconstruction of public support was based on two main institutions: the Brazilian Development Bank, Export-Import Division (BNDES-EXIM) and the Brazilian Export Credit Insurance Company (SBCE). BNDES-EXIM provides long-term trade financing, and SBCE provides export insurance. These institutions are supplemented by a smaller effort, the Export Financing Program (Proex).

BNDES-EXIM was born in 1991 as FINAMEX, an export financing program run by BNDES, Brazil's main development bank, with a tradition of long-term financing.[6] BNDES has historically relied on domestic sources for more than 90 percent of its funding. As of 1999, the main sources of BNDES funding were the return on its investments (58 percent), followed by the sales of assets (17 percent), foreign loans (7 percent), and the Workers Support Fund, or FAT (6 percent). The FAT is based on a tax levied on corporate revenue. Approximately 40 percent of the FAT is allocated to BNDES. In its first years, FINAMEX was basically a postexport line of credit (supplier credit), restricted to capital goods sold to Latin America under the Agreement of Mutual Credits (CCR).[7] In 1997, the program

6. BNDES' total disbursement in 1999 reached $11 billion (R$19.9 billion). Total assets amounted to $49 billion.

7. The CCR is an arrangement between the central banks in the Latin American Integration Association to provide guarantees for intrabloc exports.

was renamed BNDES-EXIM and went through a major reform, whose ultimate aim was to pave the way for Brazil's first fully fledged export-import bank. Several important changes were introduced by the 1997 reform:

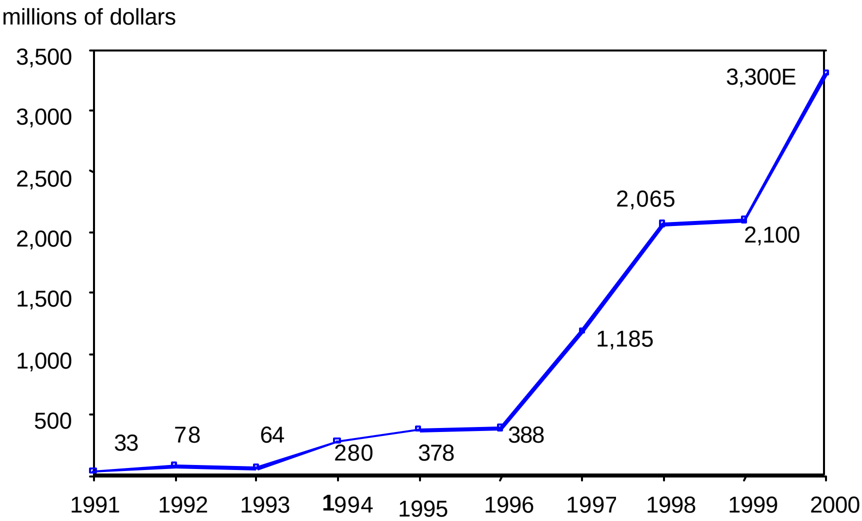
- Although the focus on capital goods was maintained, restrictions on financing other manufactured exports were eased. This allows BNDES-EXIM to play a more active role in extending export credit in special circumstances, such as the 1997-99 crisis in the international financial markets.
- The repayment period was extended to up to 30 months for the pre-export credit lines and up to 12 years in the postexport lines. The cost of funding was fixed at the London Interbank Offered Rate, or LIBOR (floating or fixed), plus a risk spread. The financing ratio for all credit lines was raised to 100 percent of the contract value.
- The access of small and medium-sized firms to BNDES-EXIM credit lines was improved by the establishment of a special facility (FGPC, Procompetitiveness Guarantee Fund) to provide guarantees for this type of business.
- BNDES-EXIM extended lines of credit to creditworthy banks in foreign countries and began to participate with other ECAs in multisourcing agreements (for infrastructure projects, etc.). A buyer credit facility was introduced.

The 1997 reforms gave BNDES-EXIM the necessary flexibility to fill the gaps left by the market and to engineer appropriate financial solutions in partnership with the private sector. The results did not take long to show up. As can be seen in figure 6.2, BNDES-EXIM's total disbursements more than tripled in 1997 and continued to grow at very high rates in the following years, reaching $2.1 billion in 1999 (12 percent of total manufacturing exports and nearly 20 percent of total BNDES disbursements). Behind these figures lay important projects, particularly in the capital-goods sector, that enabled Brazilian exporters to engage more deeply in international trade.[8]

---

8. To name but a few projects: Embraer's exports of 30-to-50-seat world-class jets to regional airline companies in France, Portugal, Switzerland, the United Kingdom, and the United States; hydroturbines and hydrogenerators provided by Brazilian suppliers to the Three Gorges hydroelectric power plant in China; buses provided by Brazilian manufacturers to Chile, Cuba, Jamaica, and Venezuela; goods and services provided for the Manabi, Santa Elena, and Tabacundo projects by Brazilian firms (international bidding) for Ecuador's government; exports of Brazilian goods and services for the Aguas de Maldonado project (water treatment) in Uruguay; and exports of goods and services for the Línea Noroeste water pipeline project in the Dominican Republic.

Figure 6.2 BNDES-EXIM disbursements, 1991-2000



E = Estimate.
BNDES-EXIM = Brazilian Development Bank, Export-Import Division.

Source: BNDES-EXIM.

The second part of the system, SBCE, was established in June 1997 with the aim of covering Brazilian exporters against commercial and political risks and force majeure losses that may affect export credit operations. SBCE was set up as a private company, having as shareholders Brazilian insurance companies (Banco do Brasil, Bradesco, Unibanco, Sul America e Minas Brasil) and Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE, the French export insurance agency). SBCE covers up to 85 percent of commercial risks and up to 90 percent of political risk and force majeure losses. Political risks and long-term (of more than 2 years) commercial risks are ultimately borne by the Treasury through the Export Guarantee Fund (FGE), managed by BNDES and capitalized by shares held by the government. In 1999, SBCE issued cover for $1 billion worth of exports (three times the figure for 1998), 55 percent of which went to South America. SBCE is currently the only player in this market, even though the regulatory framework permits the entry of other competitors.

The contributions of BNDES-EXIM and SBCE have been complemented by Proex, which was set up in 1991. This program was designed to have an ancillary and transitional role, with some of its functions to be later assumed by the main institutions. Proex consists of two programs funded by the Treasury. The first is a postexport line of credit, operated by Banco do Brasil, extended mainly to capital-goods and infrastructure services, with a repayment period of up to 10 years. Interest rates are pegged to LIBOR. The second program is an interest-rate-equalization mechanism for postexport loans, designed to ensure that Brazilian exporters can offer financial terms in line with those offered in the international markets in accordance with the OECD Arrangement on Guidelines for Officially Supported Export Credits. In 1999, Proex disbursements amounted to $595 million, of which $178 million was in the direct financing program and $417 million was in the interest- equalization program.

Even though these advances in export credits and insurance were remarkable, much remains to be done in Brazilian trade finance. In particular, the process of institution building needs to go further, giving BNDES-EXIM the status of an independent, specialized institution, with the necessary means and flexibility to play the role of a modern export credit agency in a rapidly changing environment. This would mean helping Brazilian firms overcome market failures so they can engage in international trade, without overlooking the need to be financially self-sustaining, both in the medium and long terms.

Conclusion

The East Asian experience conveys two important lessons for developing countries: Exports matter because they promote macroeconomic stability and boost productivity; and government-led trade finance matters because of imperfections in the capital markets. Despite an impressive export performance in the 1960s and 1970s, and notwithstanding the government's early efforts to promote trade finance, Brazil only took full advantage of the Asian lessons in the 1990s, after the Brazilian economy was opened up.

The import substitution industrialization strategy proved to be a major drag on exports, particularly manufactured exports. The export takeoff of the 1960s and 1970s was made possible only by a massive infusion of subsidies, especially credit subsidies. This strategy was not only costly but also failed to nourish Brazil's full export potential. The trade finance system built during this period not only tried to remedy capital-market failures but also, above all, made every effort to neutralize the anti-export bias of the ISI regime. This led to overly generous subsidies, which eventually caused the whole system to collapse.

In the early 1990s, trade liberalization—by removing the distortions of the old regime—opened the way for exports to play a decisive role in Brazil's economic development. It also created the necessary conditions for building a market-friendly trade finance system, addressing the gaps in long-term finance and insurance. The establishment of BNDES-EXIM and SBCE did a great deal to help Brazilian firms overcome capital-market failures and engage in international trade. Much remains to be done to build a modern export credit agency capable, first, of assessing and managing risks and, second, of balancing the public role and the need to be self-sustaining. The strategy underlying the reconstruction of Brazilian trade finance goes very much along the lines offered by John Snowdon, director of treasury and export finance at the Export Credit Guarantee Department, the UK export credit agency: "We are not convinced the private market could assure UK capital goods exporters of the provision of competitive medium/long-term guarantees on a regular basis but, of course, we are more than happy to work alongside it to deliver what exporters, investors and project sponsors need."[10]

References

Averbug, A. 1999. Abertura e Integração Comercial na Década de 90. In *Economia Brasileira nos Anos 90,* ed. F. Giambiagi and M.M. Moreira. Rio de Janeiro: Brazilian Development Bank, Export-Import Division.

Baumann, R., and H. Braga. 1985. *O Sistema Brasileiro de Financiamento as Exportações*. Série de Estudos de Política Industrial e Comércio Exterior 2. Rio de Janeiro: IPEA/INPES.

Bonelli, R., and R. Fonseca. 1998. Ganhos de Produtividade e de Eficiência: Novos Resultados para a Economia Brasileira. *Pesquisa e Planejamento Econômico* 28, no. 2 (August): 273-314.

Drummond, P.F.N. 1997. *Recent Export Credit Market Developments*. IMF Working Paper 97/27 (March). Washington: International Monetary Fund.

Moreira, M.M. 1995. *Industrialisation, Trade and Market Failures: The Role of Government Intervention in Brazil and South Korea*. London: Macmillan.

Moreira, M.M., and P.G. Correa. 1998. A First Look at the Impacts of Trade Liberalization on Brazilian Manufacturing Industry. *World Development* 26, no. 10.

Moreira, M.M., and S. Najberg. 2000. Trade Liberalization in Brazil: Creating or Exporting Jobs? *Journal of Development Studies* 36, no. 3 (February).

Papageorgiu, D., A. Choksi and M. Michaely. 1990. *Liberalizing Foreign Trade Regimes in Developing Countries.* Washington: World Bank.

Pinheiro, A.C., and M.M. Moreira. 2000. *The Profile of Export Manufacturing Firms after Trade Liberalization in Brazil.* Discussion Paper no. 80 (June). Rio de Janeiro: BNDES.

Stiglitz, J. 1989. Economic Organization, Information, and Development. In *Handbook of Development Economics*, ed. H. Chenery and T.N. Srinivasan, volume 1. Amsterdam: Elsevier Science Publishers.

World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.

10. *Trade & Forfaiting*, May 1999, 23.