



EUROPEAN UNION
DELEGATION TO BRAZIL

Brasília,
Art. 4(1)(b) ARES(2018)

Note for the attention of Art. 4(1)(b)
– **DG TRADE**

Subject: Brazil - trade & investment policy under the new Bolsonaro government

1. State of play

- **Current economic situation:** The new government will face as from 1 January 2019 a fragile economy, still convalescent from a very deep crisis. The growth rate is still shy, with 1,8% expected for 2018. Unemployment, which skyrocketed during the crisis (11,9% in Q3 2018), remains a major challenge, along with the large public-sector deficit (7,2% in Q3 2018) which is fuelling a sharp increase in the public debt in the last years (77% of GDP in Q3 2018 up from 56% in 2014). On the good side, inflation in a record low (4,5% in Q3) following a steady decrease.
- **Brazil's market situation:** Brazil, after decades of protectionism, is a very closed and uncompetitive economy. Brazil stands extremely low in the composite index of Open Market Indicators (which includes openness to trade – only 25% of GDP! - and investment, trade policy setting and trade enabling infrastructure). Brazil is well known for being a difficult market with numerous and persistent trade barriers and irritants. "Brazil cost" ("custo Brazil") is also known internationally and reflects these difficulties, in addition to high and complex taxation and bureaucracy. As a result of the little exposure to other markets, Brazil has not found yet its place in global value chains due to a protected economy with low productivity.
- **EU-Brazil trade and investment relations:** The EU is Brazil's second biggest trading partner (after China for the first time in 2017), accounting for 18,3% of its total trade. Brazil is the EU's 11th trading partner, accounting for 1,7% of total EU trade (figures from 2017). Brazil's exports to the EU are mostly primary products (mostly agricultural and mineral ones). EU'S exports to Brazil are mainly machinery, chemical products and transport equipment. Brazil is the largest exporter of agricultural products to the EU. When it comes to investments, the EU is the biggest foreign investor in Brazil, covering many sectors of its economy with a total stock of €330 billion. Brazil is the third largest destination of EU FDI, which shows its strategic relevance for EU companies.

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2. Perspectives: what can we expect?

- **A new Economy Minister:** Paulo Guedes will be Bolsonaro's super Minister of Economy, following his advising role on economic matters during the electoral campaign. Guedes will be in charge of an enlarged portfolio, which will be the result of the merge of three ministries: "Finance", "Planning" and "Industry and Foreign Trade". Guedes is a "Chicago Boy" with strong free market and trade liberalisation convictions that will be at the core of a supposedly ultraliberal economic agenda. He favours mass privatizations, spending and tax cuts, unilateral tariff reductions and bilateral trade agreements with advanced economic partners.
- **Centralised control of key economic policies:** Already before taking up duties, Guedes won his first battle to merge the three ministries with competencies in economic matters. In addition to reducing the number of ministries and scaling down the size of the public sector in general, Guedes will have under his control all the key economic policies (fiscal and budgetary), while setting the direction of the country's industrial and trade policy. Yet, this merge was opposed by powerful industrial lobbies, fearful of Guedes' (unilateral) trade liberalisation agenda. After some hesitations from Bolsonaro, Guedes managed to see this through.

- **A push for new trade agreements with key economic partners but uncertainty on Mercosul:** We can expect a positive push by the new government. Ongoing negotiations with the EU, Canada, EFTA, Mexico, Japan, Singapore and South Korea are therefore expected to continue. New partners might be identified and negotiations launched. Among those, USA would certainly be a priority for many reasons, including a likely good chemistry between Trump and Bolsonaro. The possibility of Brazil negotiating

trade agreements on its own, outside Mercosur, is an option that cannot be ruled out. Guedes has been explicit on this. Bolsonaro is considering a rewrite of Mercosur stepping back from further integration and introducing flexibility to allow members to negotiate individual trade agreements outside the bloc. [REDACTED]

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[REDACTED] Regarding the EU-MCS negotiations, this was not mentioned by Bolsonaro during his campaign. Guedes has not made direct references either. However, such negotiations with an advanced/developed partner are likely to be favourably considered given the policy drive towards North-South FTAs as opposed to South-South. [REDACTED]

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