

POSITION PAPER

EXTERNAL INTEGRATION AGENDA

FIESP



LETTER FROM THE PRESIDENT

Defending the industry is not an easy task. While the government, enterprises and citizens support it, the difficulty in promoting structural changes, which would benefit the sector, demonstrates that good intentions are not enough. No major country has achieved a high level of development without building a strong industry. And it is with the aim of strengthening it, against all adversities that the Federation of Industries of the State of São Paulo (FIESP) works.

Within this context, FIESP's priority is to promote the competitiveness of Brazil. Without this essential factor, the industry does not grow, nor does it create jobs, income and opportunities for Brazilians. In recent years, the lack of competitiveness of Brazil made the industry lose opportunities – we have reduced business overseas, facilitated the entry of competing products and decreased our attractiveness for investments. In fact, our industry has not taken advantage of the potential resulting from the economic growth and the improvement of our population's welfare.

In order to enhance Brazil's competitiveness, it is necessary to ally domestic policies with a strategy for economic integration between Brazil and the world, through increased flows of foreign investment, technology and trade. Foreign investment has been responsible for the establishment of many industrial sectors in Brazil, and still plays a very important role in improving technological development. Foreign trade has been an important inducer of Brazilian economic growth by ensuring scale of production, inputs for industry and foreign reserves for the country. Nevertheless, economic integration has not received the necessary attention by the economic policymakers. In an increasingly integrated world, standing still means going backwards.

In line with the objective of strengthening the industry and believing that dialogue is the best way to build the policies that Brazil needs, FIESP presents a proposal of **External Integration Agenda**. An effort of strategic alignment not only between entrepreneurs and government, but also of broad social mobilization, for a more prosperous and competitive Brazil, effectively inserted in the world.

Paulo Skaf
President

SUMMARY- EXTERNAL INTEGRATION AGENDA

Introduction

- The implementation of domestic policies to promote competitiveness is a priority for FIESP.
- Complementarily, the proposed **External Integration Agenda** aims to increase Brazil's competitiveness through the economic integration of Brazil with the world.

I. Regional Integration

- MERCOSUR: reincorporating Paraguay, ensuring the effective adhesion of Venezuela and leading the definition of a list of countries with which the bloc shall initiate negotiations for free trade agreements.
- Peru and Colombia: deepening and consolidating access to these markets.
- Infrastructure: accelerating the physical integration process through priority projects.

II. Extra-Regional Integration

- Advancing on trade agreements with countries with high technological development.
- European Union: establishing different steps among MERCOSUR members, in order to facilitate the signature of a Free Trade Agreement by the end of 2014.
- Japan: developing and disclosing feasibility studies for an Economic Partnership Agreement (EPA).
- North America: starting/accelerating negotiations for the conclusion of free trade agreements with countries within the region.

III. Multilateral Negotiations

- Ensuring international support for the resumption and conclusion of the WTO Doha Round.

IV. Economic Partnership

- Africa: improving financing conditions for exports and investments. Expand projects of technical cooperation.
- BRICs and other markets: developing policies to increase exports of manufactured goods in niche markets.
- Agreements for the Avoidance of International Double Taxation: come to an understanding with the major origins and destinations of investments for Brazil, including the United States, Germany and the UK.
- Investment Promotion and Protection Agreements: come to agreement with the major destinations of Brazil investments, particularly in Latin America and Africa.

V. Institutional Structure

- Strengthening Brazilian Foreign Trade Chamber (CAMEX) as the focal point for the formulation of foreign trade policy and negotiations.

Conclusion

- FIESP trusts the ability of Brazilian policymakers and negotiators for the implementation of the **External Integration Agenda**.
- In the present context, FIESP considers the bilateral negotiations agenda as a priority, although both agendas (multilateral and bilateral) should be contemplated for a wider insertion of Brazil into the world economy.

Federation of Industries of the State of São Paulo

Proposal of External Integration Agenda

June 2013.

Introduction

The implementation of domestic policies to improve competitiveness is a priority for the Federation of Industries of the State of São Paulo (FIESP). In this regard, FIESP works actively to promote reforms in areas such as taxation, cost of capital, infrastructure and manpower. In a recent study¹, FIESP proposed a series of measures that, taken together, contribute to doubling the per capita GDP of Brazil in 15 years and raise the Human Development Index (HDI) to the level of developed nations.

In particular, some competitive deficiencies impacts Brazil's economic relations with the world directly. The exchange rate, the main reference rate of the national economy, is in a state of persistent appreciation and volatility, unbalanced with the economic fundamentals. The accumulation of tax credits on exports and the arbitrariness in the taxation of foreign operations of Brazilian multinationals directly affect the internationalization of companies. The lack of infrastructure, the high cost of labor and the excess of bureaucracy complete the picture. A recent study² of the Department of Competitiveness and Technology (DECOMTEC) of FIESP points out that the national manufactured good is, on average, 34.2% more expensive than a similar one imported from Brazil's main partners, due to the so-called *Custo Brasil* ("Brazil Cost").

Looking outwards, recent years have brought challenges for Brazil's economic insertion. The continuing financial uncertainty in Europe, the proliferation of regional trade agreements - with new rules that reach beyond what was established by the World Trade Organization (WTO)- and the political transitions in Latin America have altered the profile of Brazilian foreign trade and investment relations. In this context, global value chains gained relevance, as scale production and technological innovation - and therefore economic development - have become even more concentrated in highly competitive countries.

Within this context, the model of productive insertion of Brazil needs to be rethought. The increasing participation of Brazilian exports in international trade is not necessarily translated in achievements in terms of employment creation and income generation. The growing deficit of the manufacturing trade balance, as a result of the loss of participation in markets of high added value products, has threatened the equilibrium of Brazil's external accounts. In its turn, the capability of adding value, especially in products with high technological level, is increasingly critical to the Brazilian competitive position in global production chains.

1 FIESP. Socioeconomic Full Potential Strategy for Brazil. May 2013.

2 DECOMTEC/FIESP. "Custo Brasil" (Brazil Cost) and the exchange rate on the competitiveness of the Brazilian manufacturing industry. March 2013.

FIESP recognizes that external economic integration brings challenges to the industry, but believes that the isolation from such process is not an option for Brazil. The low competitiveness of Brazilian economy represents an obstacle for the industry when it comes to the negotiation of agreements to trade liberalization. This fact, however, should not exclude the possibility of understandings, while the government and the private sector advance in an agenda to remove or reduce the “Custo Brazil” (Brazil Cost). In particular, the new dynamic of trade regulation, via preferential trade agreements, has expanded the scope of rules consolidated in the WTO and, Brazil, with its small network of agreements, has remained outside of it.

Although still lagging behind the major emerging economies, FIESP understands that there are real possibilities for the country to insert itself with relevance in different value chains and expand its network of formal agreements. For this purpose, the first step to be taken is articulating public and private sectors, in order to propose a pragmatic agenda for promoting competitiveness and Brazil’s international productive insertion. Contributing to this effort, FIESP presents the proposal of the **External Integration Agenda**.

To complement the proposals already made by FIESP for domestic public policies, the **External Integration Agenda** aims to promote Brazil’s competitiveness through its economic integration with the world. In this sense, international integration is part of a wider competitiveness agenda. Moreover, based on the principle of promoting innovation and adding value in Brazil, we see two priority strands: increasing the flow of investments and expanded access of Brazilian products to foreign markets of goods and services.

MERCOSUR is naturally the starting point for the discussion of the **External Integration Agenda**. The bloc is the main reference of Brazil’s productive integration and destination of manufactured exports. On the other hand, the challenges of integration, such as the increasing trade barriers, the reintegration of Paraguay and the accession of Venezuela, Bolivia and Ecuador, require the improvement of its structure. In this context, FIESP understands that the low dynamism of Brazilian trade policy cannot be assigned to the rules or the relationship with MERCOSUR partners, but to the lack of clearness of Brazil in the deliberation of this issue.

In sequence, the remaining of South America appears as a natural extension for Brazilian productive integration. In this regard, the existence of a network of Preferential Trade Agreements (PTAs) and the flows of trade and investment between the countries of the region ensures a solid foundation for the consolidation of productive chains. In this context, we can highlight the growing challenge of combining the economic agendas of Atlantic and Pacific countries, the latter deciding for an improved rapprochement with countries from North America and Asia.

The Brazilian integration to high value chains also depends on a deeper economic relation with countries that are sources of technology. For FIESP, the integration with partners from Europe, North America and Japan, references in scientific knowledge and innovation, is critical to raise the competitiveness level of Brazil. As well as representing large markets for products of high added value, countries in these regions are also the main investors of foreign direct investments in Brazil, contributing to boost the economy.

Other regions are of strategic importance for the materialization of the Brazilian competitive agenda. In Africa, for example, the growing democratic consolidation opens real opportunities for many business activities, not only in the sectors of construction and mining.

On its turn, the BRICS group also counts on important players in the global trade and geopolitical agenda. However, the Brazilian economic integration with these nations is still incipient, which leads to the need of adoption of point actions, which can gradually build productive complementarity.

Besides defining a renewed trade negotiation agenda, FIESP advocates a new structure in the decision making process of the Brazilian Federal Government in the area of foreign trade, in order to simplify bureaucracy and give more political weight to matters affecting the competitiveness of Brazilian products abroad.

FIESP understands that the **External Integration Agenda** should be conducted in parallel with an active position from Brazil, in favor of compliance with international trade rules. In this sense, the entity will continue supporting the efforts of productive sectors in order to legitimate application of trade remedies instruments or other mechanisms to restrain unfair and unlawful trade practices - provided in accordance with the international trade rules. In the long term, protectionism is not an adequate compensation for the loss of competitiveness of Brazilian products - trade restrictions may favor some sectors, but, in general, are contrary to the interests of the industry.

EXTERNAL INTEGRATION AGENDA

I. Regional Integration

Maintaining and increasing integration with the economies of South America is fundamental to enhance the competitiveness of domestic industry, through its insertion in global value chains.

a) MERCOSUR

The Southern Cone neighbors are the priority of Brazilian trade policy. Since the launch of MERCOSUR in 1991, Brazil's trade flows with the other members of the bloc grew from US\$ 4.5 billion to the record of US\$ 47 billion in 2011, with an export agenda highly concentrated in manufactured goods. Moreover, several supply chains, especially in the automotive industry, were set based on the complementarity of the value added among the countries of the bloc.

Therefore, the strengthening of MERCOSUR is of great importance, and rests with Brazil, natural leader of the region, a prominent role in this process, including an assertive attitude in solving its major impasses. In this process, the rapid reinstatement of Paraguay and the adequacy of Venezuela to the rules of the bloc are essential to the future of MERCOSUR. Furthermore, Brazil should promote cooperation among the partners, to ensure free trade in the bloc and resolve any disputes arising of the growing volume of transactions.

In this context, FIESP understands that the claim that Brazil's participation in MERCOSUR is an impediment to the implementation of preferential trade agreements is a false problem. Not only the MERCOSUR rules are flexible enough to accommodate the priorities of members, but also there are constructive ways to accommodate the circumstances of each individual state. In this sense, there is the possibility of structuring broad framework agreements, with different lists and tariff reduction schedules, so that MERCOSUR members can gradually adhere to the agreements, according to their own interests. Moreover, FIESP believes that, with its specific weight, Brazil has all the conditions to lead the MERCOSUR in a successful process of trade negotiations with third countries and / or regions.

Proposals

- 1)** Reinstate Paraguay to MERCOSUR until August 15, 2013, the date of inauguration of the new president-elect.
- 2)** Ensure the incorporation of MERCOSUR rules by Venezuela and acting so that this country has an in-bloc performance consistent with all treaties, norms and decisions already adopted within MERCOSUR.
- 3)** Select, consensually, a reduced number of priority structuring projects, viable under the scope of MERCOSUR; and speeding up the processes of implementation of these projects.
- 4)** Seek for negotiated alternatives to trade barriers in the bloc, without allowing, however, any kind of setback to the free movement of goods, services and capital among bloc members. This process should avoid, in particular, the diversion of trade in detriment of the countries of the region and in favor of extra-regional imports.
- 5)** Lead the definition in MERCOSUR of a list of countries with which the block shall begin negotiations for free trade agreements.

b) South America

Intraregional trade

Historically, the countries of South America are important trade partners for Brazil, especially after the launch of initiatives aimed to increasing regional integration during the 1960s (Latin American Free Trade Association) and 1980s (Latin American Integration Association).

In 2012, Brazilian exports to the region (US\$ 40.2 billion) accounted for about 17% of the total exported by Brazil. A more accurate analysis highlights that, from the amount exported to the countries of Latin America, approximately 84% (US\$ 33.6 billion) are manufactured goods. This result ranked the countries of region as 1st export destination of Brazil's manufactured goods, in 2012, surpassing even the sum of manufactures exports to the United States, the European Union and China (US\$33.4 billion).

Moreover, it is important to note that Brazilian investments in the areas of construction, mining, cement, copper, textiles, steel, aviation, energy, food, financial services, and information technology, among others, are present virtually in the entire continent.

However, the new dynamics of international trade can make the access of Brazilian manufactured exports gradually change. There are at least two factors that explain this trend:

(I) increase in the number of preferential trade agreements signed by countries in the South American region of high economic growth (Peru, Colombia and Chile) with developed nations (the United States and the European Union), in more favorable conditions than those negotiated with Brazil under the Economic Complementation Agreements (ACEs).

(II) the emergence of the Pacific Alliance, a bloc with a deep liberal bias and with tradition in trade negotiations that, despite being born with the goal of becoming a free trade area, also reaches for financial integration, customs cooperation, and the establishment of basis for increasing investment flows and facilitating the movement of people. The bloc, representing about 30% of the GDP and 50% of total exports from Latin America has, as its main interest, the increase of economic integration in the Asia-Pacific Region.

Proposals

1) Deepen and consolidate Brazil's access to the markets of Peru and Colombia, by the acceleration of tariff reduction schedules of the ACEs No.58 and No.59, and by the negotiation of subjects that are not strongly present in the ACEs, such as services, government procurement, investments, sanitary and phytosanitary barriers.

2) Intensify actions for promoting trade and Brazilian investment in the region.

Physical Integration

FIESP recognizes the complexity of the South-American physical integration process, systematized in 2001 with the establishment of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Recently, with the establishment of the Union of South American Nations (UNASUR) and of the South American Infrastructure and Planning Council (COSIPLAN), the issue has gained preeminence and has been conducted in a more assertive manner. Despite the efforts made in 2011, under COSIPLAN, marked by the definition of two instruments for structuring infrastructure on the continent (the Strategic Action Plan [PAE] 2012-2022; and the Agenda of Priority Integration Projects [API]), there is still much to be done, especially in the level of operationalization of projects. The API consists of 31 structured projects, and, in 2012, investments in the Agenda projects were estimated at approximately US\$17.3 billion, which represents an increase of 26.4% compared to 2011. However, among the 88 individual projects, 22.7% are in the profile phase, 47.7% in pre-execution and 26.1% in the execution phase.

In this context, the Department of Infrastructure (DEINFRA) of FIESP, in partnership with the Ministry of Foreign Affairs (MRE) and UNASUR, produced an important study³ about the eight axes of South American Integration. FIESP stresses the need to prioritize the progress of those projects considered essential to the Brazilian agenda, due to its relevance in the process of logistics and infrastructure integration vis-à-vis the competitive positioning of the country in global value chains.

Proposals

- 1)** Focus the Brazilian presence in three API projects: (i) Bioceanic Railway Paranaguá-Antofagasta (ii) Northeastern access to the Amazon River (iii) Improvement of Road Connectivity in Central Inter-Oceanic Axis.
- 2)** Strengthen the monitoring instruments for API scheduling, since the lack of updates on the progress of projects affect their achievement. This fact shows the importance of the implementation of standardized follow-up processes, in order to measure, with transparency, the real situation of the Agenda projects.
- 3)** Establish specific initiatives, of quick implementation, with direct impact on the physical integration and on trade facilitation among the countries of the region, as, for example, the building of a Terminal MERCOSUR at Congonhas airport, dedicated to flights of up to 2:30 hours for MERCOSUR countries.

³ DEINFRA/FIESP, MRE, and UNASUR. 8 Axes of South American Integration. April 2012.

II. Extra-regional integration

In the intent of mitigating the bottlenecks faced by the productive sector and integrating it effectively into the global value chains, Brazil needs to sign agreements with regions and countries which can incorporate Brazilian companies in global productive networks and which are reliable sources of investment and technological partnerships.

Trade agreements with countries of high technological development

Europe, Japan and North America are world leaders in technological innovation and headquarters of the majority of the high technology companies of the world. According to the ranking of the Organization for Economic Cooperation and Development (OECD), in the last 20 years, these have been the leaders of global intellectual production. Also according to the OECD, between 1985 and 2005, the United States, Japan and Germany were responsible, alone, for more than 70% of the registered patents in the world⁴.

The Brazilian Central Bank states that 90% of foreign direct investment stocks received by Brazil, until 2010 (US\$ 517.2 billion), have North-American, Japanese or European origins. Of this total, 40% was destined to industry activities in its most diverse sectors, especially beverage (US\$ 52.2 billion), metallurgy (US\$ 27.4 billion) and automotive vehicles (US\$ 28.5 billion).

There is, nevertheless, a huge development potential for leading sectors, such as (i) computer, electronics and optical equipment, and (ii) pharm-chemical and pharmaceutical products, which accounts for a relatively modest stock of investment regarding the total, with US\$ 5.4 and 8.7 billion, respectively. Brazil must seek, therefore, strategic partnerships with leading economies, through balanced agreements, which can foster productive investments, trade exchange of goods and services and technological transferences.

Europe

The European continent, as a whole, is the second major Brazilian trade partner and the destination of 20% of Brazil's manufactured exports⁵. The European Union countries alone, accounting only for 7% of world total population, are responsible for 24% of the global expenditure with research, 32% of high impact publications and 32% of patents⁶. The sum of European investments in countries of the MERCOSUR is higher than investments stocks of this continent in countries like China and India⁷.

For Brazil, the signature of a Free Trade Agreement with European Union would be an important stimulus in the strategy of integration to the global value chains. Beyond the reduction of tariffs for the trade of goods with the world's largest economic bloc, the agreement would foster reciprocal investments and services exchange. The expected increase in transactions, in turn, can be considered a catalyzer to technological transfer and to the upgrading of the Brazilian productive park.

According to the study "Quantitative Analysis of Trade Negotiations", launched in 2012 by the Department of Trade and Foreign Affairs (DEREX) of FIESP, liberalization in the trade of goods between the two blocs would cause a 12% increase in Brazilian exports for Europe. The same study highlights, however, the importance of the attention to the sensitivities of some Brazilian industrial sectors, by adopting exception lists and differentiated schedules for tariff reduction.

4 São Paulo's Science, Technology and Innovation Indicators – 2010.

5 Data for 2012, regarding the 27 countries of the European Union, plus Norway, Switzerland, Iceland and Liechtenstein, members of European Free Trade Association (EFTA).

6 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee of the Regions – Sept, 14th, 2012.

7 Ana Paula Zacarias, head of the European Union delegation in Brazil, Jornal Folha de São Paulo, March, 24th, 2013.

Proposals

- 1)** Set different phases, among MERCOSUR members, for the negotiation of the MERCOSUR-European Union Free Trade Agreement, in order to enable its signature by the end of 2014. Regarding this aspect, Brazil must be available to make relevant concessions in goods and services sectors, since it gets balanced counterparts, including in the agriculture sector, by the European Union.
- 2)** Ease workforce mobility between the Parts, especially in key-sectors for Brazil, like engineering.
- 3)** Develop trade missions to European countries, in partnership with the private sector, focused on the attraction of high technology companies.

Japan

Japan is integrated to the main global value chains in high technology sectors, such as telecommunications, microprocessors, electronics, robotic, computers, among others. The Japanese Government has also sought to expand its network of international trade agreements since the 2008 financial crisis, when the country began negotiations with the European Union and exploratory dialogues with China and South Korea.

The presence of large Japanese companies in Brazil is historic and there is considerable economic complementarity between both countries, besides the cultural bond characterized by more than one century of Japanese immigration in Brazil. Many bilateral projects for cooperation exist in the technical-scientific field involving Brazil and Japan, in areas as (i) bioethanol production, (ii) genetic engineering and (iii) carbon dynamics in the Amazon Rainforest. One of the most successful projects resulting of the bilateral relation Brazil-Japan is the Nippon-Brazilian Cooperation Project for the Development of Cerrados (PRODECER), which began in 1978, and counted with more than US\$ 500 million in investments. Such cooperation enabled the incorporation of more than 350 thousand hectares of cerrado from seven Brazilian states, previously considered as inadequate for plantation and to the national productive process.

Proposals

- 1)** Develop and give publicity to viability studies for an Economic Partnership Agreement (EPA) between MERCOSUR and Japan. Three principles shall guide the proposal of EPA: (i) the achievement of an understanding with high technological exploitation, (ii) the definition of origin rules which restrict the benefits of the agreement only to the Parts, (iii) the resolution of the main technical, sanitary and phytosanitary barriers that directly impact the bilateral trade flow.
- 2)** Develop trade missions to Japan, in partnership with the private sector, focused on the investment attraction of high technology companies.

North America

The United States is the second major single destination of Brazilian exports, accounting for US\$ 26.7 billion in 2012. Only through the Generalized System of Preferences (GSP), the United States imported from Brazil US\$ 2.3 billion in 2012, with a relevant portion of manufactured goods purchased in this amount.

After a period of low economic dynamism due to the 2008 crisis, the United States faces, nowadays, a frank economic recovery and a reindustrialization process. The viability of shale gas exploration, along with productivity gains and a favorable exchange rate have been attracting companies to produce in the North-American market in more favorable conditions than the ones found in Brazil. In addition, United States stands as the world's largest consumer market and the main existing pole of technological innovation, counting with an important presence of the best higher education and research institutions in the world.

Mexico presents an economy in forthright competitive expansion, with a GDP growth of around 4% over the last two years, reduction of production costs, increased foreign direct investments since the 2008 crisis, and the signing of various preferential trade agreements. Currently, Mexico is the country of the region which has advanced more in terms of trade regulatory issues with Brazil, and there are three Economic Complementation Agreements (ACEs nº 53, nº 54, nº 55), all of them signed in 2002, under ALADI's framework, which regulate part of the bilateral trade.

Canada, in turn, counts with an exploratory dialogue for the beginning of a Free Trade Agreement with MERCOSUR, since 2012. An agreement between the parts tends to represent a possible deepening of the bilateral trade flow, which grew around 50% between 2007 and 2012.

Proposals

- 1)** Start negotiations aiming the establishment of a Free Trade Agreement with the United States.
- 2)** Accelerate negotiations under the Agreement on Trade and Economic Cooperation (ATEC) between Brazil and the United States, in order to increase the bilateral trade in specific sectors.
- 3)** Accelerate negotiations to conclude a Free Trade Agreement with Canada and Mexico.
- 4)** Develop trade missions to the United States and Canada, in partnership with the private sector, focused on the investment attraction of high technology companies.

III. Multilateral Negotiations

Brazil must continue to support the efforts to strengthen the negotiating function of the World Trade Organization (WTO). Due to new rules that go beyond or are out of WTO framework, the proliferation of bilateral and regional mega free trade agreements puts a great challenge for the survival of the referred organization. The incorporation of these agreements and rules to the multilateral regime must be a goal of the Brazilian diplomacy, in parallel to the attempts to resume the Doha Round. At the same time, Brazil is one of the main beneficiaries of the rule's stability and of the negotiating process established by the multilateral trade system.

The prevalent current trend in international trade is the establishment of plurilateral agreements for advancing in themes which are far from consensus between the 159 WTO members. In this sense, Brazil should not be exempt of these discussions, some of them in current course, like the International Services Agreement.

Proposals

- 1) Assure support in the international level for the retake and conclusion of the Doha round at WTO.

IV. Economic Partnership

The new dynamics of international trade requires the consolidation of an approaching strategy towards markets with a high economic dynamism, in order to enhance the trade and investment flows. Therefore, in addition to the initiatives of cooperation and trade promotion, the Bilateral Investment Treaties (BITs) and the Double Taxation Agreements must be highlighted.

a) Cooperation with Africa

Africa is considered the last frontier of economic growth and great business opportunities. The African Union estimates that the average rate of economic growth for African countries will be 6% per annum between 2010 and 2040, driven by population growth and better educational standards, which will result in the increase in average per capita income to over US\$ 10,000 in all countries of the continent. Formed by some of the fastest growing economies in the world, Africa counts with nations which had been predestined to failure, but are facing now a full development process. Proof of this is the fact that, about 20 years ago, there were over 25 flash points in the continent, and, currently, there are only three, setting a clear trend that the continent is moving towards pacification and democratization. Besides, another proof indicating this trend is the decreasing number of failed states in Africa.

Besides the positive outlook, the African Union presented a plan for the development of infrastructure in the continent - the Program for Infrastructure Development in Africa (PIDA). It is estimated that the 51 priority projects need US\$ 68 billion in investments by 2020. The total cost of implementing the program in the long term is estimated in more than US\$ 360 billion.

Despite the positive scenario, Brazil's participation in the African market is still low, especially in comparison with China. The prominent presence of Brazilian investments in sectors such as construction and mining are not followed by agriculture and manufacturing companies, which are currently booming in some African countries. Initiatives like the "Pro-Savana", developed and leaded by Brazilian, Japanese and Mozambican experts for the agricultural development of the Nacala corridor, in Mozambique⁸, should be the reference to Brazil's strategy for the continent.

Other cooperation projects developed by the Brazilian Agricultural Research Corporation (EMBRAPA) and the National Service of Industrial Apprenticeship (SENAI) represent fundamental pieces that can enhance the performance of Brazilian companies. Besides, the Brazilian government and private sector may better exploit the advantage represented by the Community of Portuguese-speaking Countries (CPLP) to expand the commercial exchange, especially in manufactured products.

However, there are some major challenges to be overcome by the private sector in the African countries. These can be classified into three different groups: (i) difficulty of obtaining credit and financing, particularly regarding to warranties, (ii) lack of infrastructure, and (iii) regulatory instability. All these obstacles result in an increase in cost and time required for the conclusion of a business opportunity.

8 Source: Fundação Getúlio Vargas. Agroanalysis Magazine, January 2011. Available at: http://www.agroanalysis.com.br/especiais_detalle.php?idEspecial=79. Access in 15/05/2013

Proposals

- 1)** Extension of credit lines from the Brazilian Development Bank (BNDES) and structuring of guarantees that enable financing trade operations and Brazilian investments in Africa.
- 2)** Creation of state mechanisms that mitigate commercial and banking risks in trade and investment operations in Africa.
- 3)** Reinforce actions of trade and investment promotion in Africa, especially in the sectors of (i) sugar and ethanol, (ii) meat, (iii) textile and clothing (iv) footwear, and (v) base industries.
- 4)** Intensification of technical cooperation projects of SENAI and EMBRAPA, linked to Brazilian investment projects. The Brazilian government must strengthen and make more agile the performance of the Brazilian Cooperation Agency (ABC) of the Ministry of Foreign Affairs (MRE – Portuguese acronym).

b) BRICS and other relevant markets

Important trade partners of Brazil, among which stand out the BRICS countries (Russia, India, China and South Africa) and countries with relevant regional influence in political and economic terms, such as Turkey, Australia, Southeast Asian nations and the Middle East, are not subject to specific proposals in the **External Integration Agenda**. For FIESP, in spite of the political proximity and the potential business opportunities, competition with these countries in various productive sectors represents a major challenge for the external integration of Brazil. Indeed, trade and investment relations are based on specific initiatives from companies and the Brazilian government.

China, for instance, is the largest trading partner of Brazil, but 98% of Brazilian imports from this country are manufactured goods, while 83% of exports are commodities. Moreover, China resorts to economic practices that directly impact the competitiveness of its exports, such as subsidies and exchange rate control. FIESP supports the strengthening of the economic relations with China, but also emphasizes the importance of a greater balance in these relations, in order to achieve a more equitable bilateral partnership.

Proposals

- 1)** Identify market opportunities and develop policies, with the private sector, to increase exports of manufactured goods to the major emerging markets, especially China.

c) Agreement on the Elimination of Double Taxation

Brazil has 29 agreements to avoid double taxation, signed gradually since late 1960's. Brazil also recognizes the payment of income taxes on the basis of reciprocal treatment in agreements with three other countries. Some of these agreements were made with countries representing important sources of foreign direct investments, like Japan, France, Spain and the Netherlands. Nevertheless, countries like China and India have 98 agreements and 86, respectively.

Agreements to avoid double taxation play a key role in the Brazilian companies' internationalization strategy. Tax planning has become more sophisticated in recent decades, including the widespread use of the "treaty shopping", which are transactions involving third countries, aiming to reduce tax burden. In this context, the existence of agreements to avoid double taxation is often determinant in order to reduce uncertainty about the tax environment in the signatory countries.

For Brazil, the agreements to avoid double taxation are relevant both for attracting investments and for the internationalization of Brazilian companies. Considering the global competition for receiving investment flows, the lack of agreements puts Brazil in an unfavorable position in comparison with the other emerging economies (eg, BRICS, Indonesia and Mexico). Likewise, the absence of this instrument affects the internationalization of Brazilian companies once it causes uncertainty and raises tax burden.

Proposals

- 1)** Approximate Brazil to the international standards in terms of agreements to avoid double taxation, based on the OECD and United Nations models. Brazil should also eliminate the mandatory adoption of the “tax sparing” in the negotiation of new agreements, *inter alia*.
- 2)** Strengthen existing agreements by eliminating uncertainty in its interpretation (e.g., taxation of business activities when a company is not permanently established).
- 3)** Sign agreements with the major origins and destinations of investments to Brazil, including the United States and European countries.

d) Bilateral Investment Treaties

Both Foreign Direct Investment (FDI) and the Brazilian Direct Investment (IBD) have grown substantially in recent years, the IBD with even greater vigor. According to the Brazil’s Central Bank, the total stock of IBD grew from US\$ 140 billion in 2007 to US\$ 203 billion in 2011, a 45% increase in the period. The main destinations for Brazilian Direct Investments are South America, Mexico, the United States and Europe. Besides these countries, IBD flows to Africa have also grown in recent years, although the total amount invested by the Brazilian companies on this continent is modest compared to other sources (particularly China).

The growth of IBD in the last decade is a new reality of the Brazilian international insertion and, as a consequence of this process; domestic enterprises have faced regulatory difficulties and arbitrariness. Thus, the Bilateral Investment Treaties (BITs) should be analyzed from the perspective of the Brazilian multinationals, which increasingly consolidate themselves as major global investors.

The signature of BITs should be considered part of a long-term strategy to deepen the integration with strategic partners for Brazil. The promotion of mutual investment contributes to the establishment of a more favorable business environment to national interests and can even lead to the signing of more ambitious trade commitments in the future

Proposals

- 1)** Create new models of BITs, focusing on (i) greater transparency, (ii) reducing the risk for the investor, and (iii) simplification of regulation.
- 2)** Add, to the trade agreements already negotiated by Brazil, clauses that promote and protect Brazilian investments.
- 3)** Sign BITs with Brazil’s major investment destinations, particularly in Latin America and Africa.

V. Institutional Structure

The Brazilian increasing external integration and the growing competition for markets expand the responsibilities of decision-making bodies within the Brazilian government in charge of foreign trade affairs. In this sense, despite representing 20% of the GDP, foreign trade has a secondary role in Brazil's economic policy. In this context, the viability of the **External Integration Agenda** depends on a greater priority and agile decision-making by the Brazilian government.

a) Reform of the decision-making process

The intervention of over ten ministries and government agencies in the foreign trade decision-making process, added to the excessive number of laws, decrees, resolutions, rules, and normative instructions regulating foreign operations increase the bureaucracy regarding the foreign trade activities. Given the current decision making structure in the Federal Government regarding the foreign trade policy agenda, FIESP considers that changing the assignments of CAMEX is the most effective option in terms of prioritizing this issue.

Proposals:

- 1)** Strengthen the CAMEX as the focal point for the formulation of foreign trade and trade negotiation policies.
- 2)** Link the CAMEX directly to the Presidency of the Republic in order to give it a greater political weight in the context of economic policy and increase the internal coordination.

Conclusion

The formulation of the initiatives presented here and divided in the axes of Regional Integration, Extra-regional Integration, Economic Partnership, Multilateral Negotiations and Institutional Structure is an attempt to prioritize key elements to a wider economic and commercial integration of Brazil at international level. The **External Integration Agenda** has no intention to choose any particular country over the others, but outlines a strategy that meets the current demand for specific actions that represent the best cost-benefit for the national economy.

FIESP relies on the effort and ability of Brazilian policymakers and negotiators, and expects that, aware of the peculiarities surrounding the actions herein proposed, they will be able to implement a continuous job towards a greater integration of our country in the global economy. The recognition of excellence comes not only from the industry sector – recently, developed and developing countries also expressed a similar opinion by electing the Brazilian Ambassador Roberto Azevêdo as WTO Director-General. However, it is primordial that the government, aligned with the private sector, establishes deadlines, objectives and real targets, so that the implementation of the **External Integration Agenda** occurs in a continuous basis and as a whole.

FIESP recognizes the importance of multilateral regulation of certain trade issues, such as subsidies, exchange rates, environment, among others. However, the entity also sees Brazil's engagement in bilateral negotiations as a priority. Finally, it highlights that both negotiation levels should be included in the Brazilian strategy of integration into the world economy, mainly through building new partnerships, maintaining and deepening the existing ones and reforming Brazil's trade decision-making process.

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