

The Doha Round: WTO Negotiations and Its Impacts on Employment in the Agricultural, Industrial and Service Sectors: The Brazilian Case

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Introduction

The aim of this paper is to discuss from a critical perspective the risks faced by Brazilian society due to a second opening of the country's economy in the aftermath of the Doha Round, if the same agenda is pursued. Although some Brazilian scholars and civil society analysts argue that we should trade protection in services and industry in return for access to agricultural markets, the results in terms of net jobs, income levels and job quality would be profoundly negative, as we seek to demonstrate. The structure of the paper is presented below.

First, we present in broad terms the main dilemmas faced by Brazilian foreign policy in the 1990's, focusing on the Fernando Henrique Cardoso and Luiz Inácio Lula da Silva governments. Secondly, an effort is made to describe the main idea behind the Lula government's priority for WTO negotiations. We discuss how this is a departure from the preceding government's approach. In this section, we seek to describe how the present government is influenced by different domestic interest groups. Thirdly, the paper will stress the outcomes in terms of level and quality of employment in the agricultural, industrial and service sectors during the first wave of economic opening faced by Brazil in the 1990's. Finally, the potential quantitative and qualitative impacts of a possible second wave of liberalization and economic opening will be analyzed.

Concerning the methodology, the main purpose of the first part of the paper is to understand the rationale for Brazil's position in the WTO negotiations, especially its role in the creation of the G-20, and how this is a result of a new approach that is seeking to establish a coalition of developing countries with different interests. But G-20 cannot be explained without shedding light on Brazil's complex domestic political scenario in which different social actors have conflicting views towards trade negotiations. We believe the current assertion that Brazil is only voicing the interests of powerful agricultural sectors to be narrow minded.

We also use several sources of Brazilian labor data to show the main impacts of Brazilian economic liberalization policies of the 1990's on the level and quality of employment—considering income and informality, but also to foresee the outcomes expected in a possible second wave of liberalization.. The paper also try to not neglect the strong influence of macroeconomic variables on the labour market, as any direct association .between trade and employment may lead to a biased understanding of the social and economic reality.

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The Dilemmas of Brazilian Foreign Policy: the country's Position at WTO from FHC to Lula

Brazilian foreign policy largely reflects the ambiguous position of a country with a highly complex continental economy, that has islands of excellence in the agricultural, industrial and services sectors, yet displays alarming rates of poverty and income inequality. More than dichotomic, the country's economic and social structures are characterized by varying degrees of coexistence and articulation of these contrasting economic and social dynamics.

Many of Brazil's foreign policy tensions can be explained by a multifaceted international presence in the country. Economic factors including the size of the GDP, the level of industrialization, the scope of the domestic market and the exportation of strategic products play a role along with political factors such as Brazil's regional power, limited military projection, leadership in international coalitions and its presence in multilateral forums. On the other hand, social factors are also important, particularly the high levels of poverty and inequality.

Soares de Lima (1990) associated Brazil's form of international insertion to the fact that some countries conjugate elements of high competitiveness and importance in terms of international negotiating power, while others are strongly associated to their weaknesses. These nations compose a new category, referred to as the intermediary countries or which may be called: Middle Powers, Middle Ranged States, Great Regional Powers, Secondary Powers, Most-Developed, Developing Countries, Recently Industrialized Countries or Large Emergent Markets (Sennes, 2000).

From the post World War II period until the end of the 1970's a number of factors assured a line of continuity in Brazilian foreign policy. There was a common presumption that the definition of international space decisively influenced the possibilities for implementation of a national development project (Vizentini, 2005), despite the fact that the form of this project depended on the social sustentation for the political forces in power at any given time. This approach has suffered changes and in even ruptures in the recent period.

This is because, since the late 1980's and during all of the 1990's, expressive changes took place in international power relations as well. On one hand, the end of the Cold War and the increased dynamism of regional systems had a decisive impact on the geopolitical map. On the other, the acceleration of interdependence movements, new technological standards and the organization of production were reflected in the economic dynamic. Nevertheless, they did not cause the rise of global institutions, policies and rules to manage this increasingly internationally integrated economy, given that they depend on accords between the new world powers (Gilpin, 2002).

The situation can be described as that of "global governance without global government" (Stiglitz, 2002), in which the multilateral institutions, together with a few representatives of the great powers defend their own interests, while the global economy became diversified, deepening contradictions and leaving various nations at the marginal of the increasingly complex world in development.

These large scale movements gradually destabilized the bases on which Brazilian foreign policy was supported, as well as its political alignments and ideological foundations. This became more clear with the adoption of liberal economic policies in the country during the 1990's.

The economic reforms undeniably created a growing tension with the traditional objectives of political autonomy. If at the matrix of Brazil's independent-leaning foreign policy these objectives were mutually articulated and reinforcing, in the current situation they appear increasingly more isolated. There is potential for overcoming this incoherence, but the task requires a political architecture that is difficult to construct and sustain.

During the 1990's, the country's aims traditionally associated to the Third World were gradually substituted by others that accentuated its condition as a country of advanced development (Lafer and Fonseca, 1994), or of a developed but unjust country, as President Fernando Henrique Cardoso once affirmed. The change was based on the concept that in the new international order, the ascending trajectories for the countries considered "emergent" are less tortuous, even if they depend on intense diplomatic action (Martins, 1998).

In synthesis, after years of resistance towards various aspects of the international order, Brazil conducted a "cleansing of its international agenda". Issues that previously were considered to be outside the field of negotiations – such as human rights, the environment, patent law, the nuclear program, computers – were rapidly "resolved" during the FHC government, changing the direction of Brazilian foreign policy (Sennes and Barbosa, 2005).

There was thus an attempt to resolve the international conflicts with the large international agencies and political powers. In this sense, adhesion to the new economic agenda had special importance, principally concerning policies aimed at economic opening, attracting foreign investments and reducing protectionism and subsidies.

As a result, the objective of political autonomy was weakened by the adhesion to the principal international regimes and institutions, while an active and gradual policy aimed at the construction of a regional space under the incipient leadership of Brazil attempted to recompose part of the lost sovereignty.

If the high priority conferred to the agenda for stabilization and internationalization of the Brazilian economy was accompanied by an attitude that relegated political autonomy to a secondary plane in the first Cardoso government (1995-1998); in the second Cardoso government (1999 - 2002), the break with the currency peg and the need to pay the foreign debt required a position more in keeping with the reinforcement of national sovereignty. In turn, in the government of President Luis Inácio Lula da Silva (2002-2006), these apparently contradictory objectives – a conservative economic agenda and offensive commercial policy, which included developmentalist traces – instead of causing attrition, were stretched to their limit, without leading to a definitive break. We will analyze this issue based on the gradual change in the commercial agenda, especially in the realm of the WTO.

During the Uruguay Round negotiations, Brazil was quite timid in demanding complementary measures from rich countries, while it consolidated all of its tariffs, eliminated its non-tariff barriers, while failing to adopt protective mechanisms against unfair competition (Serra, 1997). There was no caution in the deadlines for the transition to the new international economic regimes. In this respect, it is worth remembering that - while the developing nations were given 10 years to comply with TRIPS – Brazil needed only one year to change its national patent laws. It thus sought to acquire "credibility". Brazil separated itself, apparently definitively, from its past strategy of a systematic blockade of GATT, and was willing to discuss the "Singapore issues" such as the proposals for a new agenda of the recently created WTO.

Contributing to this long revisionist process was not only the dynamic of GATT during the Uruguay Round, but also the change of the country's perceptions and priorities at the heart of domestic economic reform.

Since then, reinforcing the rules for commercial opening, principally in the sectors where the country was competitive, and clarifying the mechanisms for solving controversies and commercial defense, proved to be priorities. Brazilian diplomacy has concentrated on issues such as agriculture and anti-dumping regulations in detriment to the blocking of issues such as services and patents.

Until the beginning of the Uruguay Round, Brazil clearly preferred to act through alliances – and participated strongly in the veto coalition in the G-10. During the 1990's, however, the change of the country's economic priorities, would also alter its political alliances. Brazil came to reinforce its engagement in the Cairns Group (which was at first only informal), slowly shifting to an approximation with regional coalitions, such as Mercosur. Brazil's individualized action also increased. The first FHC government represented the peak of this policy, which was first sketched in the late 1980's.

It can be said that this foreign policy line was frontally affected by the external crises of 1998, which culminated in the devaluation of the real in January 1999. On one hand, President Cardoso was forced to conduct economic diplomacy against his will (Almeida, 2004), negotiating financial assistance packages, as well as a political reinforcement to Mercosur, which proved to be necessary, and took a "tougher" position in the negotiations both in the realm of the WTO, and in those established with the large commercial blocks, NAFTA and the EU, always seeking an inter-regional negotiating structure. Proof of this was Brazil's growing use of the entity for resolving trade disputes, since the second Cardoso government².

However, in the realm of discourse, the focus emphasized equal opportunities – the country should utilize its competitive advantages in agribusiness – and ignored defending the principle of special and differentiated treatment (Amaral, 2003).

After the launching of the Doha Round (2001), Brazil's action followed patterns inherited at the end of the Uruguay Round, but with some tactical changes. Brazil's negotiating posture became bolder, but it did not return to the past alliances with the G-77. Proof of this is that the Brazilian government did not make radical objections to the "Singapore issues", unlike India (Abreu, 2003). Even so, the developmentalist discourse was subtly reinforced and a number of issues of traditional importance to the South were raised such as TRIPS.

Based on a coalition that included India, South Africa the WHO and various global NGOs, Brazil confronted the lobby of multinational pharmaceutical companies and won support for the interpretation that public health is above economic interests. This was a position diametrically opposed to that of the first Cardoso government, which was also adopted by the Lula government. But if most of the elements of foreign policy continued to be the same in Lula government, they would now be articulated under a new hierarchy (João Paulo Veiga, 2005).

In other words, in the Lula government, the WTO negotiations, South-South relations and Latin American integration – under a new developmentalist cloak – occupied the front line, reducing the impetus for negotiations in the realm of FTAA and the European Union. It was based on the

² As a result, in a survey that included the first 10 years of WTO, Brazil would appear in fourth place – after the United States, EU and Canada – as the country that most appealed to the dispute resolving agency. Folha de São Paulo, May 18, 2005.

hypothesis that the negotiating arena with the developed countries should migrate to the WTO, given that the superpowers had little desire to negotiate in the inter-regional sphere (Batista Jr, 2003).

If the origin of G-20 can be traced back before the Lula government, the investment in this new alliance cannot be seen as a natural result of the constant readaptations of the Cardoso government's foreign policy to an unstable world context. In fact, it represented a leap, or a qualitative change in the formulation of foreign policy, which would only become viable in the Lula government, because of domestic reasons that we will analyze later. First we will look at the logic behind the constitution of G-20.

The adoption of a defensive position on issues such as investments, government procurement and intellectual property only made sense if there was willingness by the government to launch a new strategy to construct alliances. In the realm of the Cardoso Government, this position would be localized, topical and tied to a specific action as in the case of the policy to fight AIDS and the generic drug law, which confronted the limitations imposed by TRIPS.

In the Lula government, to the contrary, it was based on the insufficient focus on issue-based alliances as in the case of the Cairns Group. While the issue of agriculture is strategic for the country, so was the need to create a block-type alliance, between large developing nations to end the EU-US blockade. The G-20 began as a coalition that combined both elements (Pedro da Motta Veiga, 2006).

Thus, by seeking a new alliance with a developmentalist profile, it did not return to the G-77 standard. It maintained its priority focus: agriculture. But Brazil had to yield, retreating from an exclusive focus on a generalized opening of agricultural markets for all countries. It accepted a dual paced opening in agriculture, following the concept of special and differentiated treatment and considering the protectionist demands of countries such as China, India and small developing countries from G-33.

In other themes, a more protectionist focus predominated, like the reticence to discuss the "Singapore issues" and a defense of the concept of "less than total reciprocity". Yet, the capacity of the G-20 to effectively shape the WTO agenda remains to be seen, given that it is a defensive coalition (Abreu, 2003).

It is also important to remember that the Lula government took office in a climate of distrust in international markets. In this situation, it had little maneuvering room for its economic policy. The government sought to recover the country's foreign credibility by accepting the IMF's recommended structural adjustments.

Given this economic strategy, Brazil sought to raise the profile of its activities in the political field and in commercial negotiations. It thus attempted to counter the conservative position in handling economic policy with a strong international rhetoric, manifesting a diplomatic activism in fields on which the Cardoso government did not consider treading.

Thus, it can be supposed that Brazil came to "speak loudly" in the WTO because it reduced its tone of voice in the IMF, exactly at a time when Argentina attempted to renegotiate part of its foreign debt.

In any case, the foreign policy changes made by the Lula government did not represent a brusque change of course. It appears to us more suitable to characterize the current government's foreign policy as one that reinforces the distance between conservative economic diplomacy and a foreign policy that affirms Brazil's position in the large international forums in harmony with the other developing countries.

This activity on two apparently disconnected fronts wound up engendering a nearly autistic foreign policy. Or, to the contrary, perhaps it involved an extremely rational policy where one negotiating sphere (the financial or commercial) may be forced to cede to the other. Depending on the course of negotiations in WTO – which, despite its active role, Brazil is far from controlling – the effects could be harmful to Brazilian society, as will be depicted at the end of the paper.

Lula's Policy Towards WTO: an Agenda of Multiple Interests

If Brazil depends, to a large degree, on the constitution of G-20 and on the negotiating strategy adopted for this block to obtain “advantages” in the Doha round, it is no less true that the G-20 has depended on Brazil's negotiating position, which reflects a temporary solution to an intricate conflict of political forces on the national front in and outside of government.

The view widely held in international meetings and conferences that the Brazilian position in WTO reflects the interests of agribusiness is overly simplistic. It cannot be denied that this sector applies pressure through the Ministry of Agriculture and Agrarian Policy (MAPA) or directly through research institutions financed by agribusiness.

However, according to Pedro da Motta Veiga (2005), two other elements should be considered to understand the Lula government's investment in G-20. First is the strategy – initiated in the Lula government and contrary to that of Cardoso – to link foreign policy objectives to trade negotiations. The new priorities were South-South relations, while South-North negotiations required the maintenance of a suitable space to make viable the policies of industrial and technological development.

Second is a “rhetorical” approximation with the social movements and important portions of the Workers Party (PT) that were discontent with the orthodox economic policy. Thus, the foreign policy was made available for internal consumption. An example of this is the fact that the support – if not yet complete – for the G-33 proposal concerning special products and the special safeguard mechanisms, even found support in the Ministry of Agrarian Development (MDA), controlled by the farthest left wing of the party.

That is, the original elements of the Lula government's foreign policy – the return to the North-South split and the generic defense, at least within the WTO, of space for developmentalist policies – explain the conformation of G-20. This would only be possible in the Lula government. Its structure is the result of the conciliation of the complex interests existing among the countries that compose the group, but also those at the heart of Brazilian society around Lula's foreign policy.

But the continuity of G-20 can be compromised if the options required at the advance negotiations oppose Brazil's position to other countries, as well as to various domestic segments. In sum, the position of the Lula government at WTO reflects the fragile balance of domestic power, which can fray if it opts for a “viable” round, or that is, one which considers the

resistance of developed countries and assumes that the costs for Brazil can be compensated by internal policies.

Therefore, if it is true that foreign policy serves as a counterpoint to the economic model assimilated by the first Lula government – as it does not suffer from budget limitations and finds support and legitimacy in segments of the elite and from the bureaucracy of the Ministry of Foreign Relations (Soares de Lima, 2005) – domestic political tensions that characterize it are complex and dynamic.

In this sense, the principal criticism to the construction of G-20 came right at the beginning from agribusiness, from free-trade economists and academics and even foreign policy makers from the previous government. Some argued it was a mistake to concentrate all efforts in the WTO, while others condemned coalition with governments that had defensive positions – including those in agriculture, but also services and industrial goods – thus impeding its use in negotiations over Brazil's comparative advantage. If the G-20 is no longer being questioned, its supposedly defensive strategy is, a strategy derived from the very heterogeneity of the countries that compose it (Jank, 2003).

With the redefinition and cleansing of the agenda in 2004 – leaving aside new themes and giving priority to market access (that involve agriculture, industry and services) – the developed countries would return to establish the agenda at the Doha negotiations, but would now have to dialog with the new coalitions of developing countries (G-20, G-33 and G-90).

Just before the Hong Kong meeting, the free-trade members of the government – then concentrated in the Treasury Ministry and who had already tried to get involved in the FTAA negotiations – released a document in August 2005 that established the premises of a round that would be beneficial for Brazil.

The Treasury Ministry text (2005) was based on a set of arguments. The first assumed that the Doha Round depends on a “negotiating effort” of developing countries such as Brazil. Secondly, it bet on the “end of Mercosur”, arguing that the commercial tensions between Brazil and Argentina were proof of the block’s incapacity to establish workable proposals. It thus did not recognize that the most technology intensive sectors tend to have their exports more concentrated in Mercosur, in addition to the important role of the Common External Tariff (TEC) for attracting investments from multinationals.

These two general premises are only justified when considering the principal objective that moves the Treasury team: the promotion of a second generalized and automatic opening of the Brazilian economy, in order to raise productivity levels.

They argued that tariff reductions – independently from the current macroeconomic conditions in terms of interest and exchange rates and the differences in competitiveness between Brazil and the rest of the world – would inevitably bring “positive impacts on the productivity of companies and the Brazilian economy”.

In addition, “the relevance of Doha is more clear when considering the limited possibilities for advance of FTAA and the Mercosur-European Union negotiations in addition to the timid bilateral accords recently signed by Brazil” (Ministério da Fazenda, 2005).

In reality, what the Treasury Ministry document appears to suggest is nearly a new and softer FTAA, although with increased Brazilian imports, especially in the most capital intensive

sectors, not only for the United States, but for the entire world, including China. Its orientation bets on an increasingly regressive specialization of the Brazilian industrial structure: a combination of “maquiladoras” with natural resource intensive industries, reducing the industrial park to a few competitive sectors and companies (Observatório Social, 2005).

In contrast, the national representatives of the interests of the developed countries responded that “the more companies that have access to the foreign market, the greater will be the growth of economic productivity as a whole” (Ministério da Fazenda, 2005).

This final argument, in fact, seems to be more powerful than the others. This is because it reveals the impression – not completely incorrect – that Brazil can gain greater access to the market than other developing countries.

Nevertheless, it does not consider the fact that an expressive portion of this trade is conducted between multinational companies acting in deeply oligopolistic markets. In this sense, the reduction of tariffs can cause a reduction in incentives to invest in some countries, which would be transformed into new potential importers, concentrating an expressive portion of production in those that are highlighted by a greater combination of advantages (including currency, an internal market and participation in regional accords).

This document would serve to disarm the negotiating position of the Brazilian government – that considered the interests of agribusiness, but which was undertaken in the realm of the Ministry of Foreign Relations and with the participation of the Ministry of Development, Industry and Commerce (MDIC) – which to a large degree defended the position of Brazilian industrialists.

The response of MDIC (2005) was based on the following presumptions. It argued that an expressive portion of the commercial gains would be channeled to the multinational companies that are producers of imported goods. The presence of intra-firm trade is clear in the list of the 11 most important industrial products imported by Brazil and which come from developed countries (MDIC, 2005). Instead of bringing cheap products, the profitability of the multinationals would be increased, generating jobs and technology outside the country.

That is, the MDIC did not question the possibility of reducing tariffs for some products, and admitted that this policy could make sense if inserted in the realm of an industrial policy that had a varied range of instruments – including a tariff set at a rate reasonably above the effectively practiced levels. According to the document prepared by MIDC “the tariff should be that which is suitable for the country at a given time”. The margin cannot be compromised to conduct industrial policy or to make concessions that lead to the expulsion of Brazilian companies from the market.

MDIC (2005) also indicated that contrary to the developed countries, the majority of developing countries do not have mechanisms to promote their industries, such as quantitative restrictions and subsidies. They also have difficulty creating and sustaining research institutes and organisms responsible for technical norms and regulations. That is, much of the protection in developing countries tends to be tariff based (Chang, 2005).

The position of the National Confederation of Industry (CNI) leads in the same direction as the MDIC text. According to the document of the Coalizão Empresarial Brasileira (CEB, 2005) [Brazilian Business Coalition], the national industrial sector “does not have offensive interests in the multilateral negotiations”. Even so, it defends greater transparency in the protective structure of industrial goods, which involves the transformation of specific tariffs into *ad valorem*, the

integral consolidation of tariffs and the harmonized treatment of non-tariff barriers, which can open new markets for Brazilian products, given that many developing countries still have protectionist practices in specific sectors.

It also emphasized that manufacturing associations such as ABIT (textile sector), Eletros (consumer electronics) ABINEE (electrical material) and Abimaq (capital goods) manifest the need for higher coefficients for the Swiss formula, given that these sectors concentrate the perforations caused by the reduction of the consolidated tariff to levels below those currently practiced. (CEB, 2005).

Everything indicates that the vision of these industries was considered by the Ministry of Foreign Relations, which during the mini-ministerial meeting in the first week of November 2005, broached the possibility of reducing the average consolidated tariff for industrial goods by half – that is, to a coefficient of 30, with an expansion of flexibilities – if the EU would promote an average cut of 54% for agricultural products (Valor Econômico, November 8, 2005).

Turning to the position of workers, the Central Única dos Trabalhadores (CUT) [Single Workers Trade Union], defended the current foreign policy implemented by the Minsitry of Foreign Relations, which had as its basic core the strengthening of Mercosur and of the South American community, the advancement of the Brazilian role in South-South relations and the imposition of minimum conditions for signing accords in the realm of FTAA and Mercosur with the European Union (CUT, 2005a).

Nevertheless, CUT (2005a) expressed concern that the NAMA negotiations could lead to a return of the pre-devaluation situation of 1999, when Brazilian commercial deficits with Europe and the United States were enormous, and also weaken the recent warming of trade within Mercosur, concentrated in industrialized products. It warned that the results could affect the level and quality of employment in the sectors that account for 2 million jobs (2005b).

More recently, despite the fact that Brazil is part of NAMA-11 – the group of G-20 countries that are reticent about the opening to industrial goods – the international press has reported the willingness of the Brazilian government to increase the offer in NAMA to a rate of approximately 20 - not far from the rate of 15 proposed by the Treasury Ministry in 2005. Foreign Minister Celso Amorim has already discussed the possibility of financing for the most affected sectors (Valor Econômico newspaper, January 31, 2007).

The Brazilian Business Coalition met in February 2007 and expressed concern with the fast reduction of tariffs and the reduced space for flexibility, if the proposal from the developed countries was attended. CUT, meanwhile, signed a joint document, together with the trade unions that compose NAMA-11 (February 2007), and sent a letter to Minister Celso Amorim (February 6, 2007) condemning the course of negotiation and the exchange of dubious benefits in agriculture for generalized opening in the industrial sector, which would have a negative impact on employment.

Concerning negotiations around services, it is important to emphasize that the Brazilian offer in this sector until now has been more distant than the developed countries want, even when compared with the NAMA offer.

Brazil's revised offer in services does not advance in the financial and telecommunications sectors, with the country withdrawing from plurilateral negotiations in education and audiovisual services. The government tends to open the services sector in mode 3, with restrictions in market

access and national treatment for some sectors. In mode 1, there is a lack of concession in the large majority of sectors. In mode 4, it acts as a *demandeur* together with India. In turn, concerning domestic regulation, it acts together with other developing countries, seeking to assure a greater margin for maneuver to governments in the definition of rules for competition, subsidies, goals for universalization and standards for suppliers in the private sector (Observatório Social, 2006).

Risks, however, exist, especially when it is known that various developing countries – among which Brazil stands out – could suddenly offer additional concessions, after the dispute between NAMA and agriculture is resolved. The Ministry of Foreign Relations has affirmed that it could make new offers in order to adapt to what is already liberalized nationally (Azevedo, 2007).

In sum, the relative internal consensus, on the left and right, over the G-20 and the protagonistic role of Brazil in the realm of WTO negotiations has tended to weaken – to the degree that the negotiations advance – causing the Brazilian social actors and the representatives of various spheres of government to assume increasingly differing positions in relation to the line traced by the Ministry of Foreign Relations.

The 1990's and the First Opening of the Brazilian Economy

The 1990's can be considered a dividing point in Brazilian economic history. Unlike the 1980's – marked by high inflation rates and economic stagnation as a consequence of the foreign debt crises – a change was promoted in the model of foreign insertion and the role of the State in the economy, triggering a new macroeconomic dynamic.

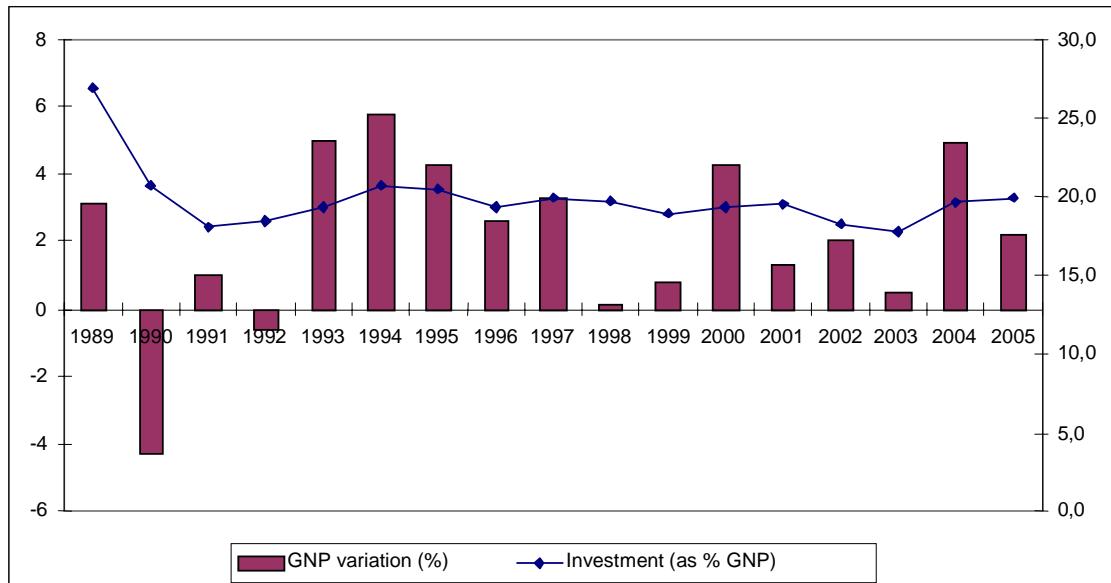
From 1940-1980 Brazil grew and diversified, attracting multinational companies and becoming an exporter of dynamic products. Space opened for the organization of the working class and the rise of a new middle class – despite growing levels of income inequality and a lack of social rights. But the 1990's were marked by rupture.

The economic growth indicators, the investment rate and the levels of informality and unemployment reveal that parallel to the modernization of consumption standards and technologies for elite segments, various links of the industrial structure were broken and social exclusion deepened and took on new form (Furtado, 1998).

High interests rates marked Brazil in the 1990's. They were justified in part by the indiscriminate opening and by the increased value of the national currency from 1994-1998, which required a form of compensating for the country's current account deficit. Monetary policy thus became hostage to the whims of the international economy. In the past 15 years, only in 1994, 2000 and 2004, did the country grow at a rate above 4%. In these same years, the investment rate reached a peak – quite low it is important to say – of 20% of GDP, but which soon dropped (Graph 1).

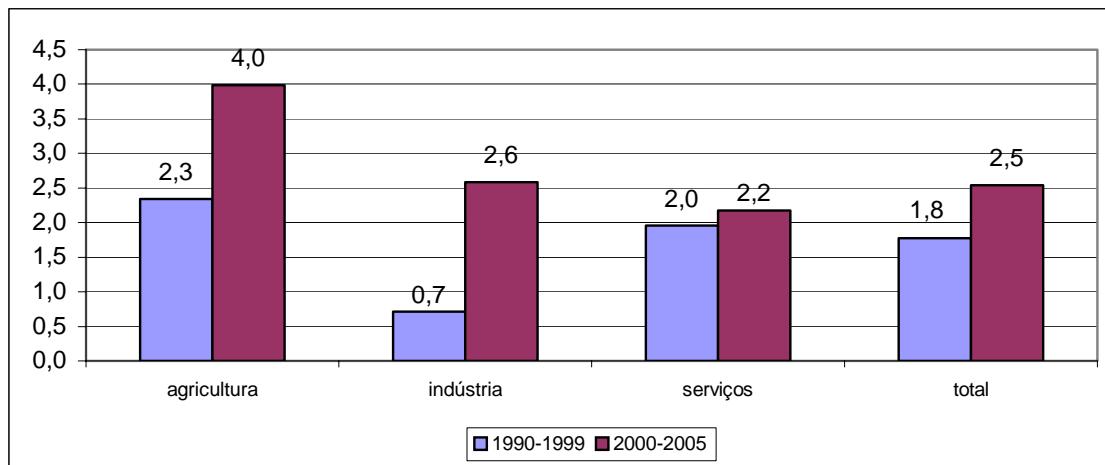
It is noted that this pincer movement – of high interest and exchange rates – had a strong influence on the industrial and agriculture sectors, which are more dependent on financing and were strongly hit by competition. The average growth of industrial production from 1990-1999 was lower than 1% a year, while agricultural production rose at a rate of 2.3% a year, both substantially lower than their historic standards. Meanwhile, the service sector grow a bit faster than the national average (at 1.8% a year) (graph 2). A process of relative de-industrialization of the Brazilian economy was noticed with specialization in some sectors specific to agribusiness and natural resource-intensive industries.

Graph 1 – Investment as a % of GNP and Variation of Brazil's Real GDP - 1989 - 2005



Fonte: IPEA.

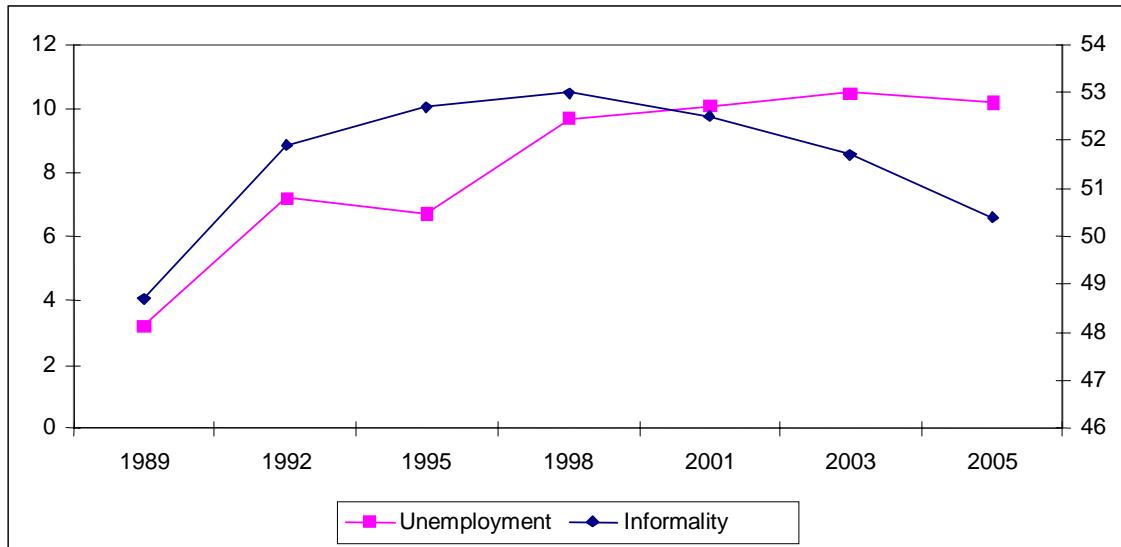
Graph 2 – Average Annual Growth of Total and Sectoral GNP in Brazil in Selected Periods



Source: IBGE.

In parallel, in this context of economic instability with high interest rates and competitive pressure on domestic production, the labor market responded with increased open unemployment, which grew from 3.2% to 9.7% from 1989 – 1998, and an expansion of informal labor from 49% - 53% in the same period (graph 3). The total number of unemployed rose four times in this period, leaving the country at the end of the decade with the world's third largest unemployed population (Pochmann et. al., 2004). In addition, open unemployment accounted for only 1/3 of all workers with a highly precarious position in the labor market (Barbosa, 2006).

Graph 3 – Unemployment Rate and Level of informality in Brazil 1989 - 2005



Source: Pnads/IBGE, IPEA. Prepared by the author.

The theoretical debate about the commercial opening and employment is quite complex. The extensive literature about the issue reflects it. The main problem of the empiric analyses is that, together with the commercial opening, other factors affect the performance of the labor market, such as macroeconomic variables, employment policies and technological factors (WTO/ILO, 2007). Nevertheless, the recent document published by the International Labor Organization and the World Trade Organization took a position, by affirming that, “in the long run, efficiency gains should lead to a positive employment balance” or when it affirms that limited supply in underdeveloped countries can supposedly be overcome by means of “aid for trade” policies.

However, at no time does this document discuss trade patterns and productive specialization options and their impacts on the quality and level of employment. It is as if Ricardian doctrine continued to rule even in a context of trade mainly controlled by multinational companies and with the active presence of industrial, commercial and technological policies, especially in the case of the developed countries.

In addition, as emphasized by Stiglitz and Charlton (2005), the hypothetical and unrealistic presumptions of conventional economic theory present a binary choice between free trade and autarchy. In practice, there is a large spectrum of concrete possibilities that define the various trade regimes. The benefits of liberalization depend, according to these authors, on the various national circumstances and on a gradual execution of policies.

In any case, as we saw in the Brazilian context, economic opening brought negative impacts to employment, especially in industry – via increased imports and or a change of asset structure in the more capital intensive sectors in a context of stagnation of domestic demand. The liberalization also did not reduce salary inequality between trained and untrained workers, as forecast by traditional theory (Ventura-Dias, 2005).

We will now examine the level and profile of employment by sector in the 1990's. Table 1 below allows accompanying the performance of the principal variables of manufacturing industry, in two sub-periods within the time frame from 1990 - 1999. In this period, 2 million jobs were eliminated. This drop was concentrated from 1990-1994, when there was a combined

low growth of industrial GNP and a strong opening of the economy. In the following period (1995 - 1999), the opening was aggravated by the increased value of the Brazilian currency, which harmed industrial production, and was also affected by high interest rates stemming from the policy to defend the currency against speculative attacks.

During the period, industrial productivity expanded 40%, with employment in the intermediary goods sector being lost, but also in the consumer goods sector and in durable consumption goods. In the later case this was due to the association between technology gains and repressed demand. In 1998, the Brazilian trade deficit in industrial goods exceeded US\$ 10 billion, and was concentrated in the developed countries, which benefited from the reduction of the tariff levels much further than what was agreed to in the Uruguay Round.

Table 1 – Tariffs levels, Production, Exports and Employment in the Manufacturing Sector in 2 Sub-Periods

	1990 – 1994	1995 - 1999
Avg. tariff levels in Industry	Fell from 45.6% in 1989 to 14.3% in 1994 (fall of nearly 70%)	Rose gradually until reaching 16.8% at the end of the period
Industrial output	Annual expansion of 2.1%,	Annual expansion of 0.3%
Industrial exports	Annual expansion of 5.4%	Annual expansion of 2.1%, with trade deficit in the sector in 1998 of US\$ 10 billion
Industrial employment	Accumulated drop of 13.7% (1.320 million jobs lost)	Accumulated drop of 7.3% (600 thousand jobs lost)
Macroeconomic Context	Structural adjustment with economic recovery and burst in consumer spending in 1994	Overvaluing of the currency with high interest rates. Decreasing levels of economic growth in the period

Source: Observatório Social (2005).

In terms of industrial employment, a growing trend toward increased precariousness is observed, particularly in metropolitan regions. The level of informality in these regions jumped from 16.5% to 29.3% during the period characterized by the opening and economic stagnation, or that is, from 1991 to 1999 (Ramos, 2002).

Concerning agriculture, the Population Census database reveals a drop of more than 3 million jobs in agricultural activities from 1991- 2000. That is a nearly 26% reduction in employed labor and was concentrated in the activities of family agriculture.

The service sector, in turn, created a large demand for labor, generating formal and informal jobs at the high and low extremes of income and training. From 1992 – 2001, the commercial and services sectors had expanded employment levels, generating 12.7 million new jobs, while the agriculture and industrial sectors continued to have deficits. (SDTS/PMSP, 2003). At the end of the period, the services and commercial sectors accounted for nearly 70% of formal jobs, 64.3% of informal jobs and 52% of non-salary jobs (table 1).

Therefore, while the industrial labor market became more precarious, the service sector became more formalized – due to an expansion of social services and services that require low training, but also to the process of sub-contracting in the most modern activities. Nevertheless, this continued to be highlighted by the weight of precarious employment. It is not by chance that it is the sector with the worst distribution of income, when compared with industry and agriculture (Cardoso Jr., 1999).

Table 1 – Percentage of Employment by Sector in Brazil 1989 and 2001

Type of Occupation	1989			2001		
	Agriculture	Industry*	Services and Commerce	Agriculture	Industry*	Services and Commerce
Salaried jobs	13.1	29.4	57.5	9.0	23.4	67.6
- With contract	4.8	38.1	57.1	3.6	26.8	69.6
- No contract	25.2	16.6	58.2	16.7	19.0	64.3
Non-salaried	42.6	12.7	44.7	32.8	15.3	51.9

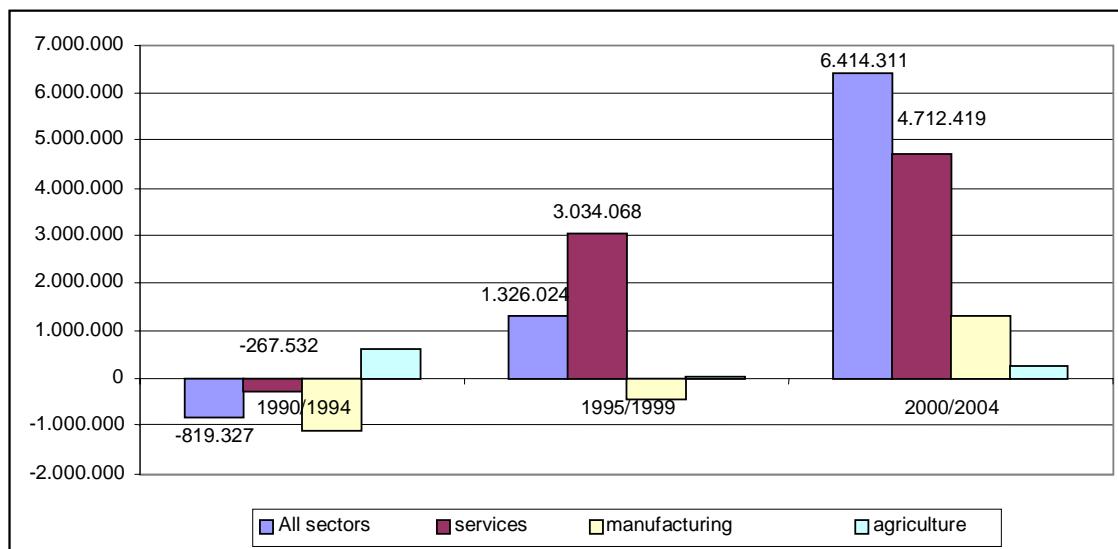
Source: IBGE-PNAD

* includes manufacturing, construction and public utilities,

When we analyze only formal employment – located predominantly in larger companies it is noted that in the period from 1990-1994, the Brazilian economy eliminated nearly 1 million formal jobs, mostly in industry. In the following period, Brazil returned to generate formal employment, but only in the service sector, with job loss continuing in industry and without contracts for more formal workers in agriculture. In the period from 2000-2004, the ability to generate formal jobs was more than five times higher than in the second half of the 1990's, increasing the levels of employment in the three sectors (graph 5). How can this be explained?

The next section reviews the Doha negotiations at WTO, while also seeking to respond to this question.

Graph 5 – Total Formal Jobs Generated in Brazil by Sector and Selected Sub-Periods



Source: Rais/MTE.

The Unbalanced Doha Round and its Impacts on the Brazilian Labor Market

If we want to conduct a brief review of the current multilateral trade system, we can divide it into three phases. The first includes the period from 1947- the date of the creation of GATT, and runs until the mid 1980's. The second phase includes the Uruguay Round negotiations and the five first years of operation of WTO, or that is, the period from 1986 – 2000. A third phase begins with the Doha Round in 2001, and is characterized by the growing complexity of the dilemmas confronted, and for which the outcome is still not clear. The suspension of the negotiations on July 2006 was not something unexpected, and nobody knows yet to where the recent resumption of negotiations will take us. Therefore, it is impossible to say what will top the agenda of this third phase of the multilateral trade system.

During this half century of history, the multilateral trade system was incorporated by a larger number of countries, broadening the list of negotiated issues. In the first phase, the number of countries grew from 23 – 102. Meanwhile, the basic theme around which the negotiations revolved was market access, which would be gained by the withdrawal of tariffs on industrial goods. Agriculture and the textile sector – where the developed countries are less competitive – have always had highly protected markets.

In the second phase, with 123 participating countries, the developed nations – with a growing numeric disadvantage, but not in terms of power – agreed to discuss, at least in theory, the liberalization of the textile and agricultural sectors. In exchange, they imposed a new agenda – services, intellectual property and investments – which came into force after the creation of the WTO.

In this most recent phase, with 149 participating countries, an impasse was reached, which sharpened as the negotiations advanced. The developed countries pressured for a greater opening in services and industrial goods – that is, beyond that which the developing countries already agreed to at the end of the Uruguay Round – but resisted offering an effective reduction of levels of agricultural protection, as they agreed to in the past round.

It is important to emphasize, however, a subtle change that emerged in this third phase. The developed countries no longer have uncontested hegemony. They are now forced to negotiate with informal groups and alliances organized among the developing nations, such as G-20, G-33, G-90 and others.

In synthesis, the Doha negotiations are deadlocked because the developing countries came to question the false multilateralism characteristic of the international trade system since the creation of GATT, and which was institutionalized with the creation of the WTO.

At least on a rhetorical level, the commitment of the Doha Round, as established in late 2001, was to contribute to establish “special and differentiated treatment”, assuring the end of restrictions and distortions in global agricultural markets, in order to favor the expansion of exports from developing countries.

At the same, specific conditions were to be assured so that these countries adapt to the commitments established in relation to the “new themes” thus incorporating the principle of “less than total reciprocity”. In the case of TRIPS, it is based on the interpretation that this accord should not harm the expansion and improvement of public health policies, activating

mechanisms to allow both access to non-prohibitive prices as well as research and development of new medicines in the developing countries (Cepal, 2003).

In practice, however, since the Uruguay Round, a restricted concept of the principle of special and differentiated treatment has predominated. This has shifted the issue of preferential access to markets and of protection of rights to an interpretation that seeks to “train” the countries to comply with all the guidelines of the WTO in the long run. It does not involve simple linguistic subtlety. This instrument, designed to make balanced development viable, could be transformed into a mechanism to adapt to general and unrestricted conditions (Cepal, 2003).

The quantity of issues that compose the negotiating agenda of the Doha Round became gradually limited, particularly after the Cancun confrontation. In July 2004, during the presentation of the so-called July package and later during the first meeting in 2005 of the Trade Negotiations Committee, NAMA was one of the five priority themes of the Doha Round, together with services, agriculture, development and rules for trade facilitation (Carta de Genebra, February 2005).

In practice, the base-text for the NAMA negotiations of the July package would only be approved after a demand from some of the developing countries for the inclusion of this paragraph: “additional negotiations are needed to reach agreements in each of these themes, which would be: the formula, the treatment of the non-consolidated tariffs in item 2 of paragraph 5, flexibilities for the developing countries, participation in the sectoral negotiations and the preferences” (IATP, April 2005).

After the Hong Kong meeting in December 2005, the opposition between agriculture and NAMA became increasingly clear. From the perspective of the developing countries, there are two basic reasons for the imbalance in the negotiations over the two themes. The first is the Swiss formula itself. This would lead to a harmonization of the tariff structure between the various sectors of a single country and between the various countries, without considering the broad situation of heterogeneity between the developed and underdeveloped economies, which also have very specific productive configurations (Akyüz, 2005). In the case of the agricultural negotiations, the reduction is linear within the bands. Or that is, there is a reduction of tariffs according to the different percentages for the various bands. But there is no dramatic cut for the higher ones and there is no tariff limit. The developed countries refused to accept a ceiling of 100% on agricultural goods. On the contrary, if a coefficient of 20 was adopted, the ceiling would be 20% for the industrial tariffs practiced by the developing countries.

The second reason is related to the flexibilities. In agriculture, they oscillate between 8 – 15% of the tariff lines, without considering their participation in the total value of imports. That is, very different from the NAMA negotiations, where the flexibilities – tariff lines exempt from the application of the formula – cannot exceed 5% nor involve more than 5% of the value of imports. It thus means a more than full reciprocity for developing countries (Khor, 2006).

With the suspension of negotiations in July 2006, followed by demonstrations of support for negotiations by all the players, a movement has been attempted, since February 2007, to conclude the round during this year. The idea is to use the end of the Trade Promotion Authority (TPA) in the United States to pressure the position of the developing countries.

Nevertheless, with U.S. and French elections in 2008 – the same year in which the U.S. Farm Bill and the European Union’s Common Agricultural Policy will be renewed – it is difficult to

imagine a conclusion for the round before 2009, if the developing countries do not cede their positions.

Not ceding means preventing the round from advancing now in order to allow another layout for negotiations in the future, but also to not limit even more the space for undertaking development policies – industrial, agricultural and for strategic service sectors – by the countries of the South.

Using Brazil as an example, if the negotiations proceed in the current terms, two threats can arise. First, a pattern of passive insertion will be consolidated on the international scene, based on agribusiness and low added value exports, and the country will be hostage to strategies prepared by multinational companies, particularly in the most sophisticated sectors. This situation, to which the Doha negotiations contribute, will be aggravated even more if the current policy of a high exchange rate for the real and high interest rates is maintained. After all, from 2005- 2006 Brazil's trade deficit of industrial goods of high and medium-high technology increased, while the balance in the medium to low technology segment remained stable, with an increase only in low technology industries and in products that are intensive in natural resources, which are benefited by commodities prices (IEDI, 2007).

In the realm of the services sector, the risk is the entrance of multinational companies in new and old sectors, weakening the position of Brazilian capital and reducing the capacity for intervention in the public sector, especially if the developing countries are not able to secure their position on domestic regulation. In addition, it is noteworthy that the Brazilian deficit in this sector in 2005 exceeded US\$8 billion (Observatório Social, 2006).

Secondly, this new productive structure – as well as its intersectoral consequences – would have substantial negative impacts for the labor market, in terms of the number of jobs, increasing informality and consolidating lower salary levels.

The best proof of this can be found from 2000 – 2004, when the opposite situation was found, or that is, a currency devaluation without a reduction in foreign tariffs. Despite high interest rates, the industrial GNP began to grow again and the country occupied new international markets for industrial goods, while the level of employment had a substantial recovery, even if all the jobs lost in the past decade were not recovered.

In other words, this process of reindustrialization can be deepened, if policies to take advantage of the domestic market and to expand investments are executed, with reasonable levels of protection, in conjunction with sectoral policies and a stable currency.

Trade in industrialized products, for example, grew from a deficit of US\$ 10.2 billion in 1998 to a surplus of US\$18.2 billion in 2004, indicating the extent of the reindustrialization process (Observatório Social, 2005).

The expansion in formal employment from 2000 - 2004 included nearly 1.3 million new jobs in industry, or five times as many as the total number of jobs generated in agriculture, 270,000. More importantly, the services sector was responsible for $\frac{3}{4}$ of the formal jobs generated in the period (graph 5).

Below we present the employment structure by sector, the level of informality and the average income for the year 2004, encompassing all jobs in the country. A few preliminary conclusions can be drawn from table 2, although a deeper analysis is necessary.

Table 2 – General Indicators for the Brazilian Labor Market for the Year 2004

	Employment (Total Jobs)	Distribuition of Employment (%)	Level of Informality	Avg. Income
agriculture	17.733.835	21,0	12	230
Manufacturing	12.049.072	14,3	65,3	699
Civil construction	5.354.375	6,3	28,9	534
services	49.231.586	58,4	56,2	754
total	84.368.868	100,0	47,3	622

Source: Pnad/IBGE.

The agricultural sector accounts for 17 million jobs in Brazil, being only 12% of these formal ones, mainly located in the agribusiness segment. That means that there are just under 2 million jobs in this segment. In the best of cases, if the developed countries cede something, which is unlikely, this could rise by a few hundred thousand jobs in coming years, at salary levels lower than the Brazilian average. This increase could be more than compensated for by a 10% loss in industrial employment, characterized by higher salaries and less informality.

Meanwhile, the services sector, which accounts for more than 60% of employment in the country, will probably once again serve as an escape valve for these new unemployed workers, and for those coming from the natural increase in the labor force, which will be allocated in precarious and informal activities. It should also be emphasized that the possible rise in employment in some services, by means of increased exports, allowed by GATS, would be more than compensated for by the imports of qualified services from the developed countries, and also by the expansion of multinationals in the domestic market, bringing precarious conditions for workers, as was seen in the 1990's, and the subcontracting of more profitable services.

In this way, the exchange of services and industry for agriculture does not satisfy Brazilian interests if seen from the perspective of the labor market (Jakobsen and Barbosa, 2006). It is not by chance that Stiglitz and Charlton (2005) recommend analyses of the employment impacts of the commercial negotiations before their conclusion.

The narrow minded economic view, based on the outdated theory of comparative advantages, is not only defended by economists who support free-trade and who defend the interests of agribusiness in Brazil. Even authors who criticize the position of the United States in the Doha Round, such as Polasky (2007), do so based on a criticism of agricultural protection, which generates few jobs in the country, compared with industry and services, which would benefit the most with trade liberalization.

In the Brazilian case, a good portion of agricultural jobs are still generated by family farmers, who benefit little from the WTO negotiations or could even be potentially harmed. Meanwhile, the combined industrial and service sectors account for 3/4 of all jobs in the country, and generally better paying ones, with a higher degree of formality and respect for social rights. The difference between Brazil and the United States is that the opening – as proposed by the developed countries at Doha – would compromise our level of investments as well as the potential for increasing productivity in the more dynamic activities in these sectors, consolidating an employment pattern based upon low wages and less qualified jobs.

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