Assessment of the distributive impact of national trade reforms in Brazil

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Abstract This paper quantifies the distributional and poverty effects of trade liberalization in Brazil using household survey data. We estimate the consumption and labor impact of Mercosur trade reform following the methodology suggested by Porto (J Int Econ 70:140–160, 2006) and Nicita (J Dev Econ 89(1):19–27, 2009). Results show that trade liberalization had a pro-poor effect in Brazil. This result is largely explained by two major observations: the fact that consumption good prices decreased after Brazil entered Mercosur and a close to zero labor income effect. We find that poverty decreased after national trade liberalization (both for women and men). Additionally, we obtained no significant inequality effects after national trade reforms.

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1 Introduction

Although trade integration has potential benefits for developing countries, it is disputed whether trade liberalization processes are, per se, sufficient for poverty reduction and inequality abatement. Abundant work has analyzed the link between tariff reduction, poverty levels and inequality in both developed and developing countries. Gains from trade are generally observed. Still, those benefits from integration are often unevenly distributed. So, one should be careful when comparing and generalizing results from different countries. The impact of trade integration on income levels, poverty and inequality should be analyzed on a case-by-case basis.

Trade liberalization and structural reforms have characterized Brazil’s economic policy since the early nineties. In 1991, Brazil initiated an ample programme of economic reform that has, over time, led to visibly more open trade and investment regimes. Thus, more neutral sector policies have been adopted and a more market-driven, decentralized environment has emerged through the deregulation of state monopolies and prices, investment liberalization, and privatization.

As Brazil entered Mercosur in 1991, the country embarked in a plan for tariff reduction at the regional and extra-zone levels. The 1991 reforms implied, in many sectors, tariff reductions of about a third of their level in the early 1980s.\(^1\) By the mid-1990s, Brazil became a much more open economy as the country continued to liberalize its trade policies. For example, although import licenses were not abolished, their approval became a relatively routine operation (most licenses were being issued within five working days). These were among the most far-reaching and significant reductions in Brazilian trade protection in several decades.

Our work has been inspired by previous efforts to identify the relationship between trade liberalization, poverty and inequality in emerging markets. We are aware that most economists accept that, in the long run, open economies do better than do closed ones. Still, our study is motivated by trying to assess whether, in the shorter run, trade liberalization may harm those who were initially worse off, or less prepared for transition. Our empirical work can be identified in the framework suggested by [18, 19] to identify the effects of trade liberalization at the household level.

Recently, a promising trade economics literature has attempted to precisely measure the net effect of trade integration on income distribution and poverty, taking into consideration both income and expenditure effects [8]. In this context, the objective of our research work is to assess the linkages between trade policy, poverty and inequality in Brazil by analyzing the impact of trade liberalization through two main transmission channels: prices and income. Following a methodology developed by [17] and complemented by [15], in our study we first assess the implications of a given trade shock, i.e., a national trade reform, for relative domestic prices of traded and non traded goods. Secondly, we analyze the response of labor income

\(^1\)Equally important, the reforms reduced the wide variability and dispersion of tariff rates that were once characteristic of Brazilian trade policy.