

NEW EVIDENCE ON THE BENEFITS OF TRADE LIBERALISATION FOR EMERGING ECONOMIES

Seattle, Barcelona, Gothenberg - as the protest movement against globalisation and trade seems to get stronger, it becomes increasingly important to examine the evidence from emerging economies that have over the last ten years opened up to international trade. The post-1990 Brazilian trade liberalisation is an important test case.

In the latest issue of the *Economic Journal*, **Donald Hay**, an economist at Oxford University, reports the results of an analysis of the impact of trade liberalisation on more than 300 major Brazilian manufacturing enterprises in the period 1986-94. He finds that:

- The 'shock' of the liberalisation launched in 1990 was huge: the domestic market share of the 300 firms fell on average by 25% as imports grew rapidly, and profits collapsed in the face of international competition.
- But far from giving up in the face of intense competition, the vast majority of firms fought back, with productivity increasing by 50% in the period 1990-4. Initially industrial output fell, but it then recovered strongly in 1993 and 1994 as the Brazilian firms got their act together, and this substantially mitigated the otherwise inevitable decline in manufacturing employment.
- There is little doubt that Brazilian consumers gained, not only from real reductions in the prices, but also from expanded choice and quality, for a wide range of consumer goods such as cars, household appliances and electronic consumer goods.

The trade liberalisation was instigated by the Collor administration as soon as it took office in 1990. A complex system of import controls was abandoned more or less immediately, and a four-year programme of tariff reform was announced with progressive reductions in tariffs. Despite the prospect of international competition, surveys showed that Brazilian managers supported the measures and were remarkably sanguine about their ability to compete successfully.

The results of this research support very clearly the long-held suspicion among economists that protection has a profoundly negative effect on the efficiency of the domestic manufacturing sector. The relative ease with which large productivity gains were achieved once the threat of international competition was introduced is eloquent on this point. The findings suggest that of the measured average increase in productivity of 50%, about 22% is attributable to the abandonment of import controls, 10% to the progressive tariff reductions, 5% to the recovery from recession, and the remaining 13% to general liberalisation of the economy.

The analysis of this report suggests that the optimism of enthusiasts for trade liberalisation is well-founded, at least in a major emerging economy like Brazil.

Notes for Editors: 'The Post-1990 Brazilian Trade Liberalisation and the Performance of Large Manufacturing Firms: Productivity, Market Share and Profits' by Donald Hay is published in the July 2001 issue of the *Economic Journal*. Hay is at the University of Oxford.

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