Brazil-U.S. Business Council 1976–2016

IMPACT OF A U.S.-BRAZIL TRADE AGREEMENT: EXECUTIVE SUMMARY

Foreword

Mapping the Way to Enhancing the Brazil-U.S. Trade Relationship

In light of the growing commercial relationship the United States and Brazil have enjoyed over the last decade, the Brazil-U.S. Business Council set a comprehensive Brazil-U.S. trade agreement as a long-term goal to realize this relationship's full economic potential. By boosting two-way trade and investment, both countries will benefit from enormous incentives to realize a deeper and more strategic partnership.

The Council, in collaboration with Trade Partnership Worldwide LLC, conducted a study to assess the economic impact of a trade agreement on U.S. industry, and the results are positive. Our study shows that the agreement, once fully implemented, would have a positive impact on the U.S. economy, increasing national income, bilateral trade, wages and employment. We hope the results presented herein will be a constructive tool for bilateral government and private sector dialogues, with the goal of deepening U.S.-Brazil relations and paving the way toward a comprehensive trade agreement.

Our study demonstrates why Brazil should be next on the U.S.'s trade dialogue priority list. Despite its current challenges, we remain bullish about the future of Brazil and its role in the region and global economy. With the renewed Brazil and U.S. relations, the moment is now to define a bold bilateral agenda with a roadmap toward the future.

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Introduction

As the two most prominent economies in the Americas, the U.S. and Brazil have long enjoyed a fruitful commercial relationship. In view of the recent global push toward greater trade and investment integration, the timing is ripe for a discussion on how the Brazilian and U.S. economies could benefit from closer commercial ties and integration. As well-established from international experience, trade agreements can be a source of great opportunity for countries and sectors alike. Bilateral trade agreements enhance growth and productivity, create jobs in both countries, and help reduce income inequality.

Why is Brazil so important to the U.S.? Brazil is the largest economy in Latin America and the seventh largest in the world. The U.S.-Brazil trade relationship is extensive, and the country is a growing market for U.S. exports. Total U.S. trade with Brazil reached $108.3 billion in 2014. U.S. trade with Brazil is heavily concentrated in goods, but services trade is on the rise. Key goods exports to Brazil include chemicals, petroleum, transportation equipment and machinery. Leading services exports include travel/tourism-related services and transportation services.

As evidenced by growing Brazilian investment, Brazil has shown interest in deepening its involvement in the U.S. market. Brazilian assets in the U.S. rose from US$29 billion in 2007 to just over US$93 billion in 2012, according to data from the Brazilian Export Promotion Agency (APEX). Brazilian investment in the U.S. has been mostly concentrated in the manufacturing sector, creating more than 75,000 jobs since 2010. Moreover, 2014 trade data show 75 percent of Brazilian exports to the U.S. are manufactured and semi-manufactured products, with commodities making up only a small portion.

The Brazil-U.S. Business Council and its member companies support the increased growth of the U.S.-Brazil economic partnership. Deepening the bilateral relationship to its full potential should involve the negotiation and implementation of a comprehensive trade agreement to enhance trade and investment opportunities between the two countries. A Brazil-U.S. trade agreement would aim to eliminate or substantially lower the trade barriers currently hindering advances in integration. The remainder of this document describes the overall impact a Brazil-U.S. trade agreement would have on growth and employment, as well as the sectoral implications for the U.S. economy.

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The U.S.-Brazil Trade Relationship

Brazil is an important market for U.S. exports. It is the ninth largest destination for U.S. goods exports and the eighth largest for U.S. services exports. Total exports to Brazil exceed total exports to its fellow BRICS' countries Russia, India and South Africa combined. Exports to Brazil have been growing at the same average annual rate as exports to China over the last 10 years, and Brazil's share of total U.S. exports of goods and services has nearly doubled over that period as demonstrated in Table 1. Leading goods exports include chemicals, refined petroleum products, transportation equipment (mostly aerospace products and parts, as well as motor vehicle parts) and non-electrical and electrical machinery and equipment.

In contrast to exports, U.S. imports from Brazil are relatively modest. The leading category of goods imported from Brazil is metal products (largely iron and steel products), with the second largest category being crude oil; transportation equipment consisting mostly of aerospace products and parts; and agricultural products, including coffee and soybeans.

Imports of Brazilian services into the U.S. are also quite small relative to imports of goods or exports of U.S. services to Brazil, with nearly half being imports of Brazilian business services (largely business, management consulting and public relations services) and payments for Brazilian intellectual property rights associated with movies or television programs.

Table 1

U.S. Trade of Goods and Services to Brazil, 2004-2014

(Billions of Dollars, Percent)

	Total Exports to Brazil ($)	Total Imports from Brazil ($)	Trade Balance with Brazil ($)	Brazil's Share of Total U.S. exports (percent)	Brazil's Share of Total U.S. imports (percent)
2004	18.8	23.0	-4.2	1.6	1.3
2005	21.2	26.4	-5.2	1.7	1.3
2006	26.4	29.6	-3.1	1.8	1.3
2007	34.4	29.3	5.0	2.1	1.2
2008	45.2	35.2	10.0	2.5	1.4
2009	39.7	24.9	14.8	2.5	1.3
2010	53.8	29.3	24.4	2.9	1.3
2011	66.2	38.5	27.7	3.1	1.4
2012	68.6	39.4	29.3	3.1	1.4
2013	70.7	34.6	36.1	3.1	1.3
2014	70.2	38.1	32.1	3.0	1.3
Annual Growth	15.1 %	6.6 %			

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Trade in Goods and Services by Selected Countries and Areas, 1999-Present," http://www.bea.gov/international/index.htm#trade

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Both the U.S. and Brazil maintain various barriers that affect cross-border trade between the two countries. Trade barriers are especially high in Brazil for imported beverages and tobacco, agriculture products, forestry products and fisheries products. Motor vehicles and parts, processed foods imports, apparel and leather products also face high rates of protection, as is the case for air and land transportation services exports and business and ICT services.

The U.S. also imposes barriers on imports of both goods and services from Brazil. These include tariffs and nontariff barriers, as well as nontariff barriers affecting imports of services.

What Would a Trade Agreement Mean for the U.S.?

The Brazil-U.S. Business Council and its member companies believe one way to grow the U.S.-Brazil economic partnership would be to negotiate and implement a comprehensive trade agreement that enhances trade and investment between the two countries.

To better understand what such a trade agreement might mean for the U.S. economy, the Council conducted a study in collaboration with Trade Partnership Worldwide, LLC, (TPW) to assess the economic impact on the U.S. of a fully-implemented trade agreement. The Council begins with the hypothesis that the agreement would fully eliminate U.S. and Brazilian tariffs affecting bilateral trade and half the impact of nontariff measures affecting goods and services traded between the two countries. The Council examines four possible scenarios for the U.S. economy in which the trade agreement would be fully implemented. The results for the scenario believed to be the closest to current conditions include the assumptions that the Trans-Pacific Partnership agreement, the Trans-Atlantic Trade and Investment Partnership agreement and the Trade in Services Agreement are in full effect, and that the U.S. economy is at less-than-full employment. The following numbers and results shown are consistent with this scenario.[1]

A U.S.-Brazil trade agreement would have a net positive impact on U.S. gross domestic product (GDP), national income (i.e., household and business purchasing power), exports, imports, wages and employment. Once the trade agreement is fully implemented, it would lead to an increase in overall U.S. employment, as well as to improvement of U.S. workers' wages.

Key Takeaways

U.S. **employment** could **expand** by nearly **100,000 jobs**[2]

U.S. **gross domestic product** would **expand** by about **US$24 billion**

Household incomes (i.e., consumer benefits) could grow by about **US$30 billion**

U.S. **exports to Brazil** would increase strongly, nearly doubling with a **78%**

while **exports to the world** would grow by **1+%**

U.S. **imports from Brazil**, benefiting U.S. households & U.S. manufacturers, could increase by about **21%** **$7 billion**

U.S. **exports and imports to the world** as a whole would increase as well.[3]

1. Using a general equilibrium model that captures all of these impacts and interactions, we examined the potential impacts of a hypothetical trade agreement that eliminates tariffs assessed on U.S. and Brazilian goods traded between them and halves non-tariff barriers affecting cross-border trade in both goods and services. We examined the impacts on U.S. output, trade and employment in detail in 2030, the year in which we assume the agreement is fully implemented.

2. It is important to note these employment estimates are net figures; they reflect jobs gained as well as jobs lost as a result of the trade agreement. Expanded trade draws some workers out of less competitive sectors into new jobs in more competitive sectors, while drawing other unemployed workers back into the work force. The number here reflects all of these advantages and disadvantages, and the net impact is positive.

3. The increase in exports to the world (including Brazil) is smaller than the increase in exports to Brazil alone, in part because some of the products and services exported to Brazil would be diverted from the markets to which they would otherwise have been exported.

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Table 2
Estimated Economy-Wide Impacts of Hypothetical U.S-Brazil Trade Agreement on the United States

Table 2 summarizes the results of the study for the U.S. economy as a whole.

Percent Change

GDP	0.11
Real national income	0.13
Exports to Brazil	78.35
Imports from Brazil	21.15
Exports to the World	1.25
Imports from the World	1.17
Real Wages	0.11
Employment	0.05

Value *(billions of 2011 Dollars or number)*

GDP ($)	23.5
Real national income ($)	29.3
Exports to Brazil ($)	62.0
Imports from Brazil ($)	7.1
Exports to the World ($)	40.2
Imports from the World ($)	43.5
Employment (number)	96,029

Source: Trade Partnership Worldwide, LLC.

Table 3
Impact of a Trade Agreement on the U.S. by Broad Sector Categories
(Percent and billions of 2011 Dollars, thousands of jobs)

Table 3 summarizes the results for broad U.S. sectors. The analysis shows that "goods," broadly defined to include agriculture (e.g., crops), manufactured goods and energy products, would benefit from the trade agreement. Within "goods," manufactured products would benefit from the trade agreement across the board for all variables, with U.S. machinery increases driving the manufacturing increases. U.S. producers are highly competitive suppliers of these products, and they currently face relatively high barriers to exports in Brazil.

	VALUE ADDED		EXPORTS TO BRAZIL		EXPORTS TO WORLD		EMPLOYMENT	
	0.09 percent	$20.7	78.35 percent	$62.1	1.25 percent	$40.3	0.05 percent	96.0
Goods	0.12	4.5	121.36	60.6	1.70	40.5	0.07	13.8
Agriculture, forestry, fishing	-0.10	-0.5	43.42	0.4	0.11	0.3	-0.12	-0.1
Manufactured goods	0.17	5.1	128.04	60.2	2.00	40.3	0.14	14.5
Energy products	-0.04	-0.2	-0.36	-*	-0.24	-0.1	-0.04	-0.7
Services	0.09	16.2	5.26	1.6	-0.31	-0.2	0.05	82.3
Private business services	0.08	7.8	1.07	0.3	-0.36	-0.2	0.01	8.7
Other services	0.10	8.4	15.94	1.3	-0.24	0.0	0.12	73.6

** Less than $50 million*

Source: Trade Partnership Worldwide, LLC.

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Agriculture would experience small output declines, but bilateral and total exports would increase, while employment would decline. The anticipated agricultural output and employment declines partly reflect increased competitive pressure from Brazilian agricultural imports. While exports to Brazil would increase at a strong rate, the value of those exports is small. The barriers facing agriculture trade (particularly crops) are currently high in both countries, and reducing/eliminating these barriers would increase U.S. exports and imports.

Energy goods would see small declines across the board, reflecting the shift of resources out of energy sectors and into production of manufactured goods for export to Brazil.

The trade agreement would have a mixed impact on services. The services sectors are more heavily burdened by tariffs than goods sectors, so service sector tariff reductions would be higher and we would see the greatest increase in direct exports in this area. At the same time, because services are key inputs for goods production, the growth in production of goods exports to Brazil would boost demand for the services used to produce those goods. In part, this causes overall U.S. services exports to decline; services exports to the world would shift to greater exports to Brazil and support manufacturing exports to Brazil.

The analysis disaggregated the estimates of the impact of the hypothetical trade agreement with Brazil to each of the 50 U.S. states and 435 congressional districts. It found the agreement with Brazil is estimated to have a net positive impact on:

4. Increased competition in the U.S. market in these sectors resulting from the trade agreement (including from increased imports from Brazil) would lead to declines in U.S. demand for U.S.-produced goods in these sectors. U.S. producers would look to foreign markets instead to pick up some of the slack, so exports increase; however, the increase in exports is not sufficient to make up for the overall decline in domestic demand.

Employment growth in every state

California	Texas	New York	Florida
11,165	8,150	6,560	5,550

Output gains in every state - In additional GSP

California	Texas	New York	Illinois
$2.5 B	$2.2 B	$1.7 B	$1.2 B

Increased exports to Brazil from every state

Texas	Florida	Illinois	California
$11.9 B	$8.3 B	$8.3 B	$3.2 B

Job growth in nearly all - 432 of 435 - congressional districts

Top districts with job gains

New York's	New York's	California's	Georgia's
12th District	10th District	17th District	5th District
915 additional jobs	705 jobs	670 jobs	545 jobs

Additional output in nearly all - 433 of 435 - congressional districts

Top districts

New York's	New York's	Texas's	Texas's
12th District	10th District	2nd District	18th District
$301 M in additional GDP	US$201 M	US$143 M	US$140 M

Expanded exports to Brazil from every congressional district

Top districts

Florida's	Illinois's	Texas's	Illinois's
8th District	18th District	14th District	17th District
US$1.6 B in additional exports	US$1.2 B	US$1.1 B	US$1.1 B

Conclusion

The U.S.-Brazil trade relationship is already large, but could be expanded further by a trade agreement that reduces bilateral tariff and nontariff barriers to trade. The Brazil-U.S. Business Council encourages the Brazilian and U.S. governments to begin a dialogue on a trade agreement that eliminates tariffs and reduces nontariff barriers by half, which would have a net positive impact on the U.S. economy, consumer spending, bilateral as well as total exports and imports, employment and wages. While the impacts at the sector level vary for a variety of reasons, overall, such an agreement would have a beneficial impact on the U.S. economy, stimulating job growth and investment, realizing the potential of this very important strategic partnership.

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