

# **Title: Regional Integration, Trade Liberalisation and Intra-industry Trade in Brazil in the 1990s**

*Author: Ann Bartholomew, Centre for Brazilian Studies, Oxford University*

## **Abstract**

During the 1990s, Brazil went through a process of rapid trade liberalisation combined with neo-liberal reform that focused on export promotion and regional integration. This has resulted in profound changes in the Brazilian economy. Theory suggests that trade liberalisation that results in higher levels of intra-industry trade (IIT) as opposed to inter-industry will result in less economic dislocation and lower adjustment costs for an economy. However, this is not always the case as a less explored issue that has important policy implications particularly for developing countries, is whether IIT is horizontal or vertical. Horizontal intra-industry trade is when products exchanged are close to each other in quality as measured by price and is assumed to be beneficial. Where the price is very different, vertical IIT exists due to quality differences between imports and exports of similar products consistent with international flows determined by differences in factor endowments. This is likely to be less beneficial than horizontal IIT as it suggests the import of high quality goods and export of low quality goods.

This paper seeks to examine levels of Brazilian IIT both before and after the trade liberalisation and regional integration process to determine to what degree increases in trade flows have been intra or inter industry and whether they are of a horizontal or vertical nature. These results when disaggregated on a geographical and sectoral basis will be used to evaluate the implications of Brazilian trade policy in the 1990s and the corresponding impact of the liberalisation process on different sectors of the Brazilian economy.