Opportunities for Exporting Forest-Compatible Products

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About Amazon 2030

The Amazon 2030 project is a Brazilian research initiative with the purpose of developing an action plan for the Brazilian Amazon. Our objective is to achieve conditions for a higher standard of economical and human development in the region, and to achieve a sustainable use of natural resources by 2030.

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Keywords

Economic development; Amazon; Export; Forest-compatible products.

Executive Summary

What activities can drive the Amazon's regenerative and low-carbon economic development in this decade? The most frequent answers involve the processing of raw materials currently sold in raw state, the sale of forest carbon credits and the discovery of new compounds, molecules or materials from the forest's biodiversity. These suggestions are promising, but the risks involved are also high. Instead of looking into the search for new products or new markets, this article shows that the Amazon has enormous potential to expand its contribution to the multi-billion dollar markets to which its companies already export.

This study is part of the Amazon 2030 project (AMZ 2030) and its findings are anchored in a database specially built with the values and products exported from the Amazon and other countries around the world between 2017 and 2019. Building this database was only possible because approximately 210 countries require their companies to declare foreign trade transactions using a standardized catalog of approximately 5,000 products. In Brazil, this data is available broken down by state, which allows an approximate identification of exports originating in the Legal Amazon.

Amazon Exports

Data analysis reveals that enterprises based in the Amazon exported 955 products between 2017 and 2019. Of these products, 64 come from non-timber forestry extraction, agroforestry systems, tropical fisheries and fish farming, and tropical horticulture. For the purposes of this article, these 64 products are classified as “forest compatible”.

These 64 products generated an annual revenue of US$ 298 million over the period in question. This amount seems significant as it remunerates forest-compatible activities. A more detailed analysis, however, reveals that the global market for these same products was worth US$ 176.6 billion per year. This means that companies in the Amazon kept a share of only 0.17%.

For comparison, Brazil – a country with a relatively closed economy – had an average share of 1.3% in the same period. If companies exporting forest-compatible products in the Amazon were to reach that level, they would earn around US$ 2.3 billion per year.

Global Market Leaders

Unlike industrialized products such as motor vehicles, computers and medicines exported by rich countries, the market leaders for forest-compatible products are poorer countries located

in humid tropical areas. Among them are Vietnam, the largest exporter of piper pepper (42%); Bolivia (52%) and Peru (13%), the largest exporters of shelled nuts; Uganda (14%), first in foreign sales of fish swim bladders ("*grude*"); Ecuador (56%), the largest exporter of hearts of palm; Costa Rica (50%), the largest exporter of fresh pineapple; and Côte d'Ivoire (40%) and Ghana (18%), the leaders in foreign sales of whole or broken cocoa.

These countries have much smaller economies than Brazil and most of them invest less than Brazil in health, education, infrastructure and research and development. Even if their labor costs are lower or their environmental control bodies are less judicious than Brazil's, they face seemingly insurmountable social, economic, political, administrative and geographic obstacles.

How to Improve Performance in the Amazon?

Two elements must be considered in the discussion on how to improve the performance of companies in the Amazon. First, it is important to consider how the expansion of production can be compatible with the forest and its inhabitants. And second, it is essential to learn from the mistakes and success cases of the past.

Existing research shows that entry into the global value chain requires a series of resources that are shared in nature. For example, producers need access to knowledge about their products and proper production techniques, trained labor, competent and competitively-priced suppliers, market intelligence and campaigns to promote trade. Even if a company is willing to finance these resources for its own use, they will ultimately be available to all companies operating in the sector.

Such a shared arrangement gives rise to the so-called "free-rider problem", which makes it difficult to provide sufficient resources to cater to all potential stakeholders. This type of problem is usually difficult to resolve, but there are multiple cases, both in Brazil and abroad, where it has indeed been overcome. These cases reveal the importance of coordinated action among competitors interacting with public bodies. Working together, companies can identify the most critical problems that afflict them and acquire the capital and knowledge necessary to address them.

Experts in national innovation systems often call these types of coordinated action "pre-competitive arrangements". The next steps in this work will involve a more in-depth examination of these arrangements and how they can be fostered or strengthened in the Brazilian Amazon.

Final Remarks

Over the last few decades, the Amazon economy has increasingly distanced itself from the comparative advantages provided by its access to the forest, navigable rivers, estuaries and ocean coasts in a hot and humid equatorial climate. Today, a relatively large share of the region's income and employment comes from federal government transfers, industrial mining, mechanized agriculture and industries based on the Free Economic Zone of Manaus.[1]

This study presents two findings that can help the Amazon rediscover its economic vocation for the forest. First, it mentions that there are companies and communities in the region that know how to produce forest-compatible products in a competitive and efficient way. Second, these products command multibillion-dollar markets, but the market share in the hands of Amazon exporters so far has been negligible. Together, these two facts suggest that the enhancement and dissemination of existing capabilities offer a pragmatic path for the region to achieve the objectives set forth in its *leapfrogging* strategy and continue to advance further.[2]

[1] Gonzaga, Gustavo, Flávia Alfenas, and Francisco Cavalcanti. *Mercado de trabalho na Amazônia Legal: uma análise comparativa com o resto do Brasil*. Belém: Projeto Amazônia 2030, 2020. bit.ly/3t5tFKJ.
[2] *Leapfrogging* is the notion that suitable policies can help a country or region skip one or more phases of its development process – like going from childhood straight into adulthood and skipping adolescence altogether.

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