Trading on old ideas

WHAT BRAZIL HAS BEEN DOING in recent years seems to be proving that a country can protect domestic industry or it can promote growth, but it can't do both. Domestic industry, meanwhile, is apparently getting the message that it's better to stay home than to export: The number of new Brazilian firms entering the export market is the lowest among the 150 countries for which the World Bank collects information. And in the first half of 2012, 352 companies that were already engaged in global trade decided to stop exporting.

Growth certainly doesn't come from hunkering down behind trade barriers like tariffs on imports. Those tariffs don't just keep out products that compete with Brazil's. They keep out equipment and materials that Brazilian manufacturers need to make products that can compete with the best in the world. As Brazil turns inward, the global supply chains are passing her by.

In this issue Vera Thorstensen describes "a disguised protectionism policy using deeply undervalued exchange rates, subsidies to industry and agriculture, unlimited credits via state banks to state enterprises, or restrictive rules of origin." Does any of this sound familiar?

To our mind José Tavares was accurate in describing current Brazilian trade policy as "somewhat aimless activism" that is not "committed to a central thesis." Not only is there no sense of coherence, there seems to be no recognition within the government of the trade ramifications of monetary and fiscal policy. Take just the exchange rate: how stable can it be—as it needs to be for trade—if stability takes a back seat to containing inflationary pressure?

The Rousseff administration has correctly diagnosed that the Brazil cost is what keeps the country from being competitive in international markets, and is making efforts to address the problem. The new approach to road, rail, and port concessions will eventually lower logistical costs and help bring prices of exported goods down. Lower energy prices will be good for manufacturers—although not so good for the economy as a whole if the utilities end up in the red and have nothing to invest. However, fiddling with one tax at a time is not doing much to relieve the tax burden, which is a central component in the Brazil cost. So is red tape, but we have yet to hear of any major initiatives to streamline not just filing tax forms but every other aspect of doing business in Brazil.

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What would really be refreshing, and hopeful, would be a more coherent trade policy that provide the right incentives for export firms to innovate and improve productivity. Brazil needs to craft a rational trade policy, rather than just issuing a series of unrelated measures.