Lessons from the neighbors

Brazil's domestic economy is faltering. What can be done?

For one thing, we can look around us, as we do in this issue. Argentina has just effectively nationalized a major oil company, YPF. How much is that likely to help its economy? Not much. Starting in 2003 Christina Kirchner and her predecessor as president Nestor Kirchner nationalized the postal service, the railways, a radio spectrum operation, a shipyard, a water company, Argentina's private pension funds, and its flagship airline. The results have been described by economists as "mediocre to dismal." In 2011 alone the government spent nearly US$3 billion to prop them up.

Meanwhile, the economy of Mexico, which was the largest in Latin America until Mexico lost U.S. markets and investment to China, is surging ahead. Last year Mexico's GDP grew 3.9% compared to Brazil's 2.7%, and the outlook for this year is similar. Perhaps recognizing that the government is not great at running a business—the national oil company Pemex is a case in point—Mexico has instead sought to expand its markets and now has 14 commercial treaties, though it is still heavily dependent on the performance of the U.S. economy. When it lost labor-intensive maquiladora industries to China, Mexico promoted sectors with high added value and extended supply chains. As Manuel Molano, director general, Mexican Institute for Competitiveness, said, "We gained market share with world-class products, not protectionism or local content rules." Meanwhile, Brazil has been putting pressure on Mexico to limit its car exports to protect the Brazilian car industry.

This issue's discussion of what is happening in neighboring economies is a natural follow-up to the last issue's cover story and interview with Ozires Silva, once a minister and president of the successful aircraft maker Embraer. The April cover story analyzed the government bet that an aggressive protectionist policy will make Brazilian industry more competitive, though the history of protectionism is not promising. Ozires Silva pointed out that Chinese and South Korean companies are successful because "government and business interests are working together to create a competitive direction for those countries," yet in Brazil bureaucrats seem to actively distrust entrepreneurs. Moreover, in Brazil, "The government is in every corner of human activity … we cannot take a step without a government permit." He added that "what the government does is crucial in determining whether Brazilian businesspeople manage efficiently," which in turn is crucial to Brazilian competitiveness.

Brazil is at a defining moment where it must stop dithering and commit to a direction … such a commitment comes down to a choice between going backward, like Argentina, or forward, like Mexico.

Brazil is at a defining moment where it must stop dithering and commit to a direction. As the recent choice of themes and articles suggests, such a commitment comes down to a choice between going backward, like Argentina, or forward, like Mexico. Plodding along after Argentina, "protecting" industry with more government control and more red tape, is likely to do little more than drive away foreign investment and jeopardize the gains in economic equality Brazil has made in recent years. Are those really the government's goals?

Or, like Mexico, Brazil could move forward, honestly identifying (and doing) what needs to be done to become more competitive in global markets and build on the gains its people have made economically. For years the same problems have been diagnosed—lack of infrastructure, unbalanced taxation, the high price of electricity, an education system that doesn't properly prepare students for employment—and an occasional bandage has been applied, but there has been no real effort to cure, much less prevent, such problems. Doing something about them will help Brazil to move forward. Doing nothing means going nowhere but backwards.