

Is Brazil learning the wrong lessons?

AFTER SEVEN NOT VERY stimulating stimulus packages, was an eighth the only option for the administration?

In 2011, well into its stream of stimulus packages, Brazil posted the lowest growth rate in Latin America. Mexico is far outpacing Brazil. One good reason for that is that when Mexico lost labor-intensive product markets to China, instead of moaning and putting up trade barriers, like Argentina (and now Brazil), it moved to diversify its industry and focus on products with higher added value—for instance, Brazil's Embraer is about to begin operations in Mexico's new aerospace cluster, joining Canada's Bombardier.

Another regional exporter of commodities, Chile, the world's largest producer of copper, has moved to insulate the public budget from cyclical economic conditions yet also to open up its economy. Chile has worked strenuously, for instance, to negotiate free trade agreements—it now has 21 agreements with 58 countries. It is also aware of the need to diversify its economy; forest products and fresh fruit are among sectors that are actively increasing their shares.

Peru meanwhile took advantage of the expansionary cycle in the last decade to seek more inclusive growth. Like Brazil it reduced poverty markedly; unlike Brazil it made itself much more competitive by protecting property rights and allowing foreign investors total freedom for long- and short-term capital flows.

In Colombia prudent and steady economic management and good regulation last year attracted foreign direct investment that accounted for 3.5% of GDP, compared to 2.7%

for Brazil. It has many of the same problems as Brazil—social security benefits linked to the minimum wage that put pressure on government budgets, protectionism in the form of high import tariffs, infrastructure deficiencies, a regressive tax structure. But unlike Brazil, it seems to be recognizing the problems; also it has managed to mitigate the stigma of violence and drug trafficking, which suggests it can manage its other problems equally well.

That leaves Argentina, the least successful economy in the region. Argentina, like Bolivia, Ecuador, and Venezuela, is following the old, tired Latin American policy of populist spending for political patronage rather than investment. And every time Argentina puts up a trade barrier at the Brazilian border, Brazil's only response has been to put up its own.

In recent years, Brazil, like Argentina, has also increased government intervention in the economy in the mistaken belief that state-led economic growth will lead to sustainable growth. However, without addressing the underlying causes of our depressed investment and low productivity, Brazil risks stagnation.

Brazil has made great strides toward fiscal responsibility, keeping inflation low and stabilizing the economy. But that is no longer enough. Brazil must move forward, fast, to address the chronic diseases that are stunting its growth—a business climate that deters investment and a miserable quality of education. The choice is clear: regress to traditional Latin American populist policies, or advance to embrace reforms to modernize the economy. ■

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