Can Brazil become truly competitive globally?

IN RECENT YEARS, THE PRODUCTIVE effect of a country's integration into international trade, joining global value chains, has become clear. In 2011, imports of raw materials and intermediate components for the manufacture of products to be exported represented over 60% of global trade. An important—and related—trend is the increasing share of services, which now account for more than 42% of world trade. The consolidation of global value chains has brought into focus the challenge they create for Brazil's global competitiveness and its negotiation of new trade agreements. Although this may seem to set a new agenda for Brazil, in fact it requires that the country address its old agenda of long-standing structural weaknesses and ambivalence about opening up the economy.

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According to Angel Gurría, the OECD secretary-general, the recent global trade slowdown has exposed structural weaknesses in the supply side of Brazil's economy that were concealed by the commodity boom. Among these are a fragile manufacturing sector and too little investment and savings relative to GDP. To attract investment—as is necessary to raise output growth and productivity—Brazil must eliminate such structural constraints as infrastructure deficiencies, high labor costs, shortage of skilled workers, a high tax burden and an onerous tax system, excessive administrative burdens, and shallow credit markets, as well as more direct barriers to international trade.

Gurría criticizes the protection that some Brazilian productive sectors still receive; protection discourages investments in research and development and in training the workforce in areas that would enhance their productivity and enable domestic industry to better face foreign competition.

As the continuing deterioration of its trade balance portends, the opportunity cost of Brazil's lack of a proactive trade agenda will surely increase, and Mercosur, the region's largest trade bloc, is still beleaguered by disputes among its member states and outright violations of its rules that prevent it from flourishing as a free-trade area. There is also the risk that major trade initiatives like the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership may sideline WTO negotiations and split Mercosur.

How willing are this year's presidential candidates to confront these issues? Regardless of who wins, the next government will surely have to make changes in trade policy. A more challenging domestic and international economic environment should press the new administration to adopt a more pragmatic trade policy and work to seek closer economic ties with all major trading partners. Yet to do that will require Brazil to rethink Mercosur's role as a customs union, conclude trade agreement negotiations with the EU, and kick-start more productive trade talks with the US.

Any hope of domestic reforms to raise output growth and productivity will be influenced by what the candidates say and do in response to the expectations of the tens of millions of Brazilians who have moved into the lower middle class. How the political coalitions that are consolidating during the campaign react deserves close observation—not just to identify the network of individual supporters for each candidate but also to measure how much support from Congress the elected president will have to carry out the necessary new programs successfully.