MORE ON THE LOSS OF COMPETITIVENESS IN THE BRAZILIAN ECONOMY

Tell me who you export to and what you make, and I'll tell you how competitive you are

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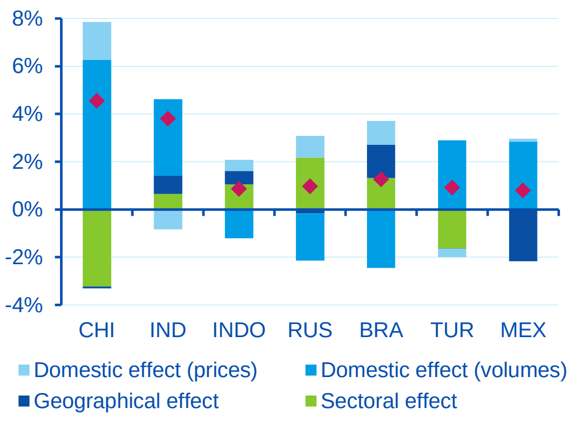
A few months ago we published several studies showing, among other things, the loss of competitiveness in the manufacturing sector in Brazil over the last decade (see "Competitiveness in the Latin American manufacturing sector: trends and determinants" and the Brazil Economic Watch "The Brazilian manufacturing sector loses competitiveness").

We are returning to the subject because of its importance for the Brazilian economy and because of a new database on the competitiveness of exports, developed jointly by the World Bank and the French central bank, which breaks down the growth of a country's exports in an innovative manner into three separate elements: sector, geography and domestic effects[1].

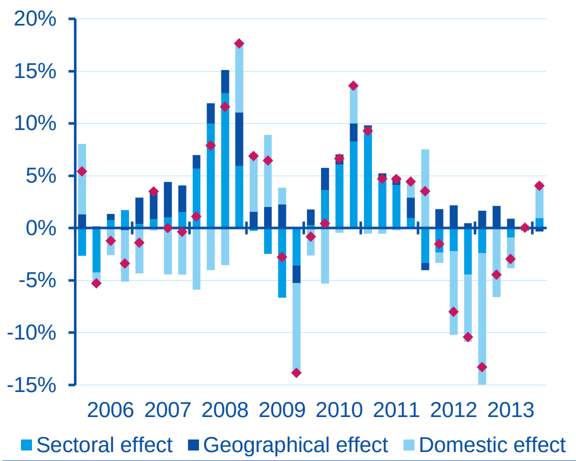
The first two capture the effect of the composition of a country's export portfolio in terms of sector and geographical specialisation, while the third effect isolates the country's specific determinants[2]. This domestic effect can be used as a proxy for competitiveness if we consider that a country is becoming more competitive when its exports behave more favourably than those of countries whose exports have the same geographic and sector orientation. In other words, we can isolate the sector and geographical factors in an interesting an innovative way, to analyse export performance and, as such, competitiveness.

Figure 1
EAGLEs: Differential between export growth in the country and in the world (YoY avg., 1Q06-1Q14, in values)



Source: World Bank, French central bank and BBVA Research

Figure 2
Differential between Brazil and global export growth (1Q06-1Q14, in values)



Source: World Bank, French central bank and BBVA Research

1: The data base, together with several computer graphics, is on http://ecd.bluetundra.com/.
2: For methodological details, see Working Paper "Market Shares In the Wake of the Global Crisis: The Quarterly Export Competitiveness Database" published by the Banque de France (BdF, the French central bank) and the World Bank in December 2013.

Brazilian exports grew at an annual rate of 7.4% between 1Q06 and 1Q14, compared to an average growth in global exports of 6.1%, implying a differential in Brazil's favour of 1.3pp, which, compared with other EAGLEs[3], is slightly higher than Russia, Turkey, Indonesia and Mexico, but well below China and India (Figure B.3.1).

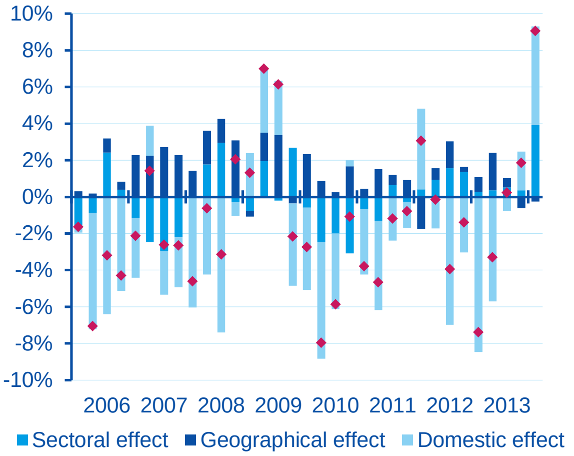
If we break down this positive differential for Brazil and isolate the geographical and sectorial effects deriving from its export exports (+1.4pp and +1.3pp, respectively), the remaining domestic effect is negative (-1.5pp), meaning that Brazil would have lost share in global exports were it not favoured by the composition of its exports. Indeed, once the sector and geographic effects have been eliminated, Brazil is the worst-performing EAGLE member in terms of exports; and if we break down the domestic effect in terms of price (1.0pp) and quantity (-2.5pp) components, we see that Brazil's export performance is even worse.

Brazilian exports performed better than the world average between 2008 and 2011 (except in the second half of 2009) and worse in 2012 and 2013 (Figure B.3.2). In any event, the domestic effect (the competitiveness proxy) was generally negative throughout the eight years analysed, with the drivers being the composition (geographical and sectorial) and price effects (Figure B.3.3).

The deterioration in Brazil's competitiveness between 2006 and 2013 was most notable in manufacturing of all kinds, whether high, medium or low technology. Gains were only made in the primary products segment (Figure B.3.4).

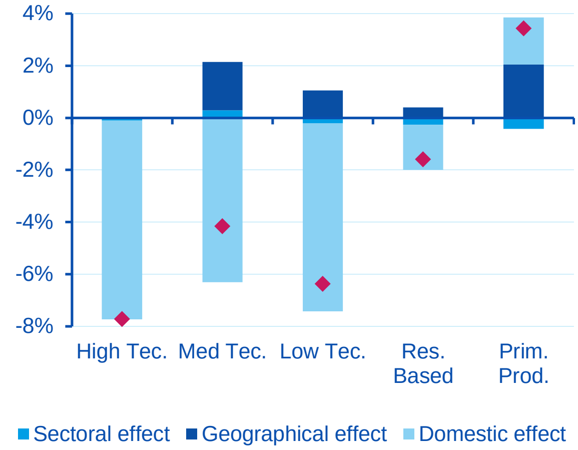
These results reveal new features in the process of the loss of competitiveness in the Brazilian economy in the last few years, very concentrated on the manufacturing sector, and these features support the conclusions of our earlier studies on the subject.

Figure 3
Differential between Brazil and global export growth (1Q06-1Q14, in quantities)



Source: World Bank, French central bank and BBVA Research

Figure 4
Differential between Brazilian and global export growth by technological categories (annual average 1Q06-1Q14, in quantities)



Source: World Bank, French central bank and BBVA Research

3: EAGLEs is the group of emerging economies which will contribute most to global GDP growth in the next 10 years. The group consists of China, India, Indonesia, Brazil, Russia, Turkey and Mexico.

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