

4º Painel

Qual a política comercial e cambial compatível com a meta de dobrar a renda per capita do Brasil em 15 anos?

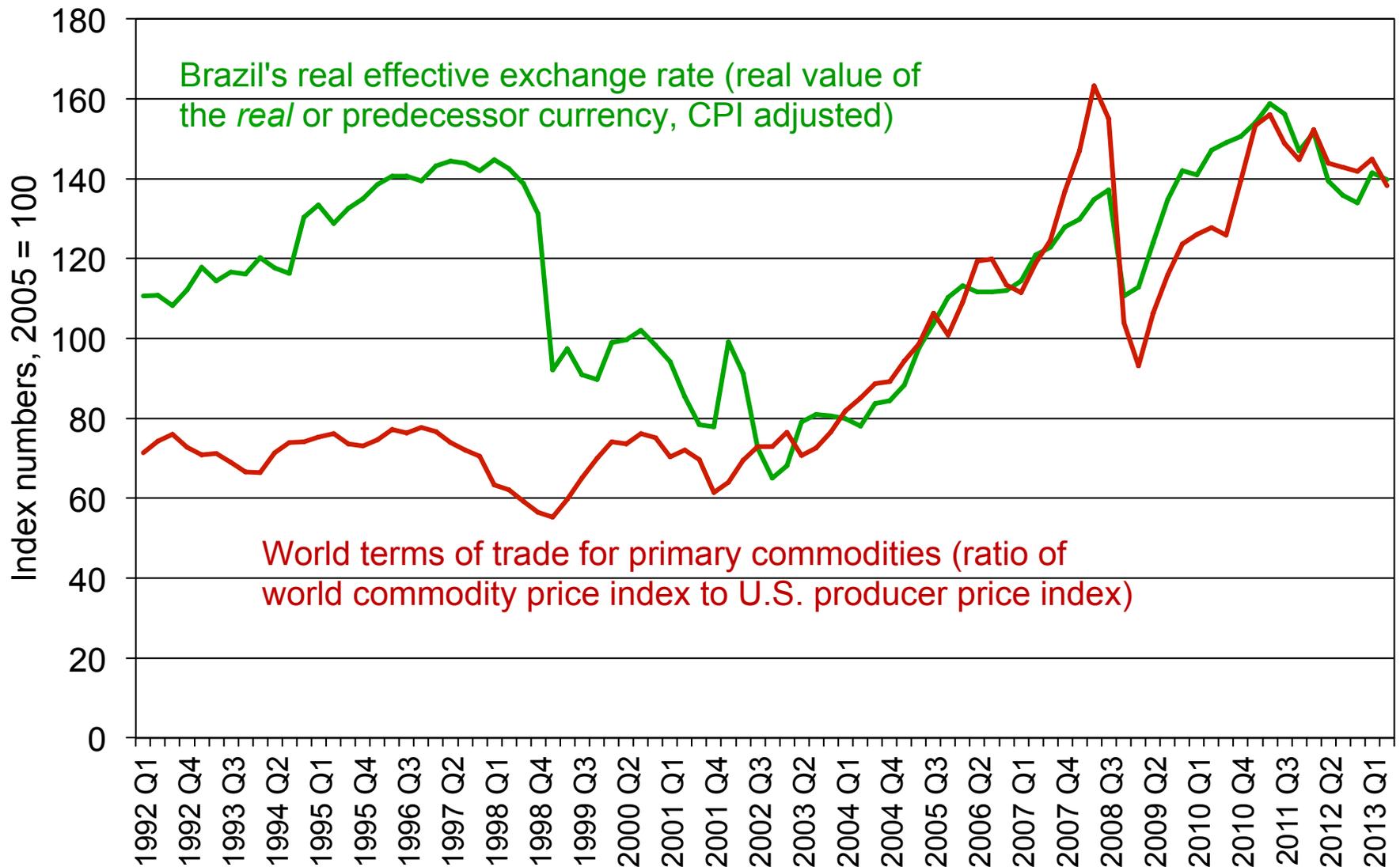
Debate/Discussão

Robert A. Blecker, Professor of Economics, American University
Washington, DC, USA, blecker@american.edu

Pedro Rossi, Política Cambial no Brasil

- Interesting, provocative, and persuasive analysis of how movements in the spot exchange rate (reais/dolares) are driven by a speculation-arbitrage cycle that originates in the futures market (which in turn drives the spot market)
 - ▣ Key implication: central bank intervention and other exchange market policies are not effective if they do not affect this cycle
 - Traditional interventions in the spot market and capital controls do not prevent the speculation-arbitrage activity, which does not require actual flows of foreign exchange
- My question is: *what are the underlying factors that drive the speculative activity of the foreign and institutional investors?*
- My suggestion/hypothesis: the speculative behavior is following the cycles of commodity prices, and thereby worsening the Dutch disease (doença holandesa) for the Brazilian economy

Brazil's REER Index vs. World Commodity Terms of trade Index, Quarterly 1992-2013



Econometric analysis (very simple)

(quarterly data, sample period 1999Q1 to 2013Q2)

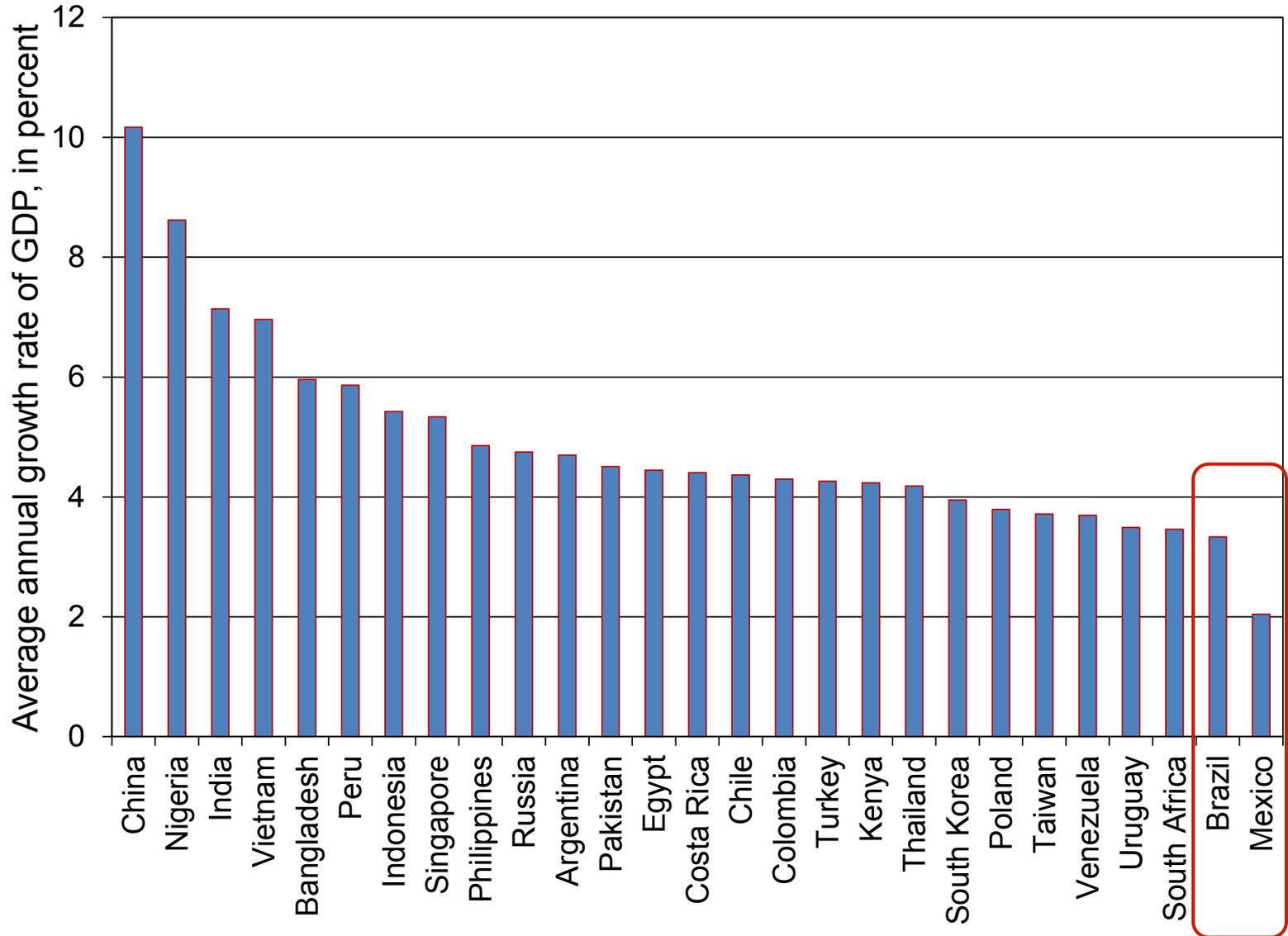
- Brazil's REER and the world commodity terms of trade both have unit roots
 - ▣ According to Phillips-Perron and Kwiatkowski et al. tests
- Brazil's REER and the world commodity TOT are cointegrated
 - ▣ According to the Johansen trace and maximum eigenvalue tests
 - ▣ **The coefficient in the “long-run” cointegrating relationship is not significantly different from 1:**
$$\text{REERBRAZ} = 0.94 \text{ COMMTOT} + 13.85$$

(0.10)
- This could explain the medium-run cycles or periods of sustained appreciation of the real (e.g., 2003-7)
 - ▣ ***World commodity prices may be what drives the expectations of the speculators who buy and sell real-dollar futures***
 - ▣ This does not explain the shorter-term, higher frequency fluctuations of the Brazilian exchange rate and does not control for other variables

Renato Baumann, Política Comercial Externa

- Makes a convincing argument that Brazil has higher tariffs and other trade barriers than other emerging market countries
 - ▣ This makes Brazil relatively closed (even for its size?) and inhibits Brazilian industries from participating in global value chains
 - ▣ It also makes it expensive for Brazilian producers to import productive inputs, thus diminishing their competitiveness
- However the paper does not explain the political economy of why Brazil has maintained relatively high trade barriers
 - ▣ Are there any benefits that have offset the costs in some sectors?
- Deeper question: would trade liberalization and greater participation in global value chains guarantee more rapid growth for Brazil?
 - ▣ A counter-example is Mexico, which has relatively low trade barriers, a free trade agreement with the U.S., and a high degree of integration into global value chains
 - ▣ ***Yet it is the only major emerging market country that grew more slowly than Brazil in 2001-12***

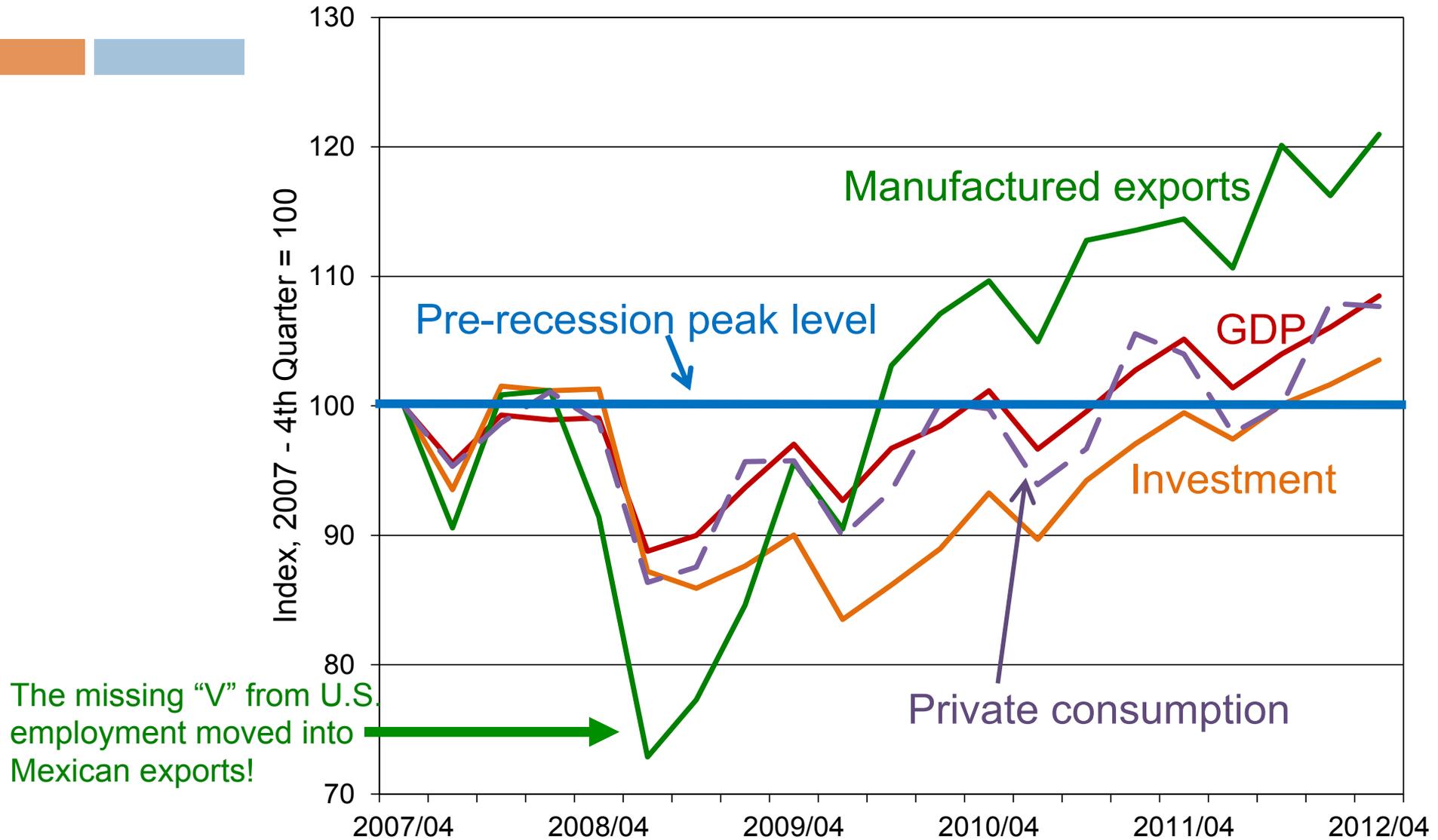
Average annual growth rates of 27 major emerging market nations, 2001-2012



Lessons of Mexico: The risks of being part of global value chains

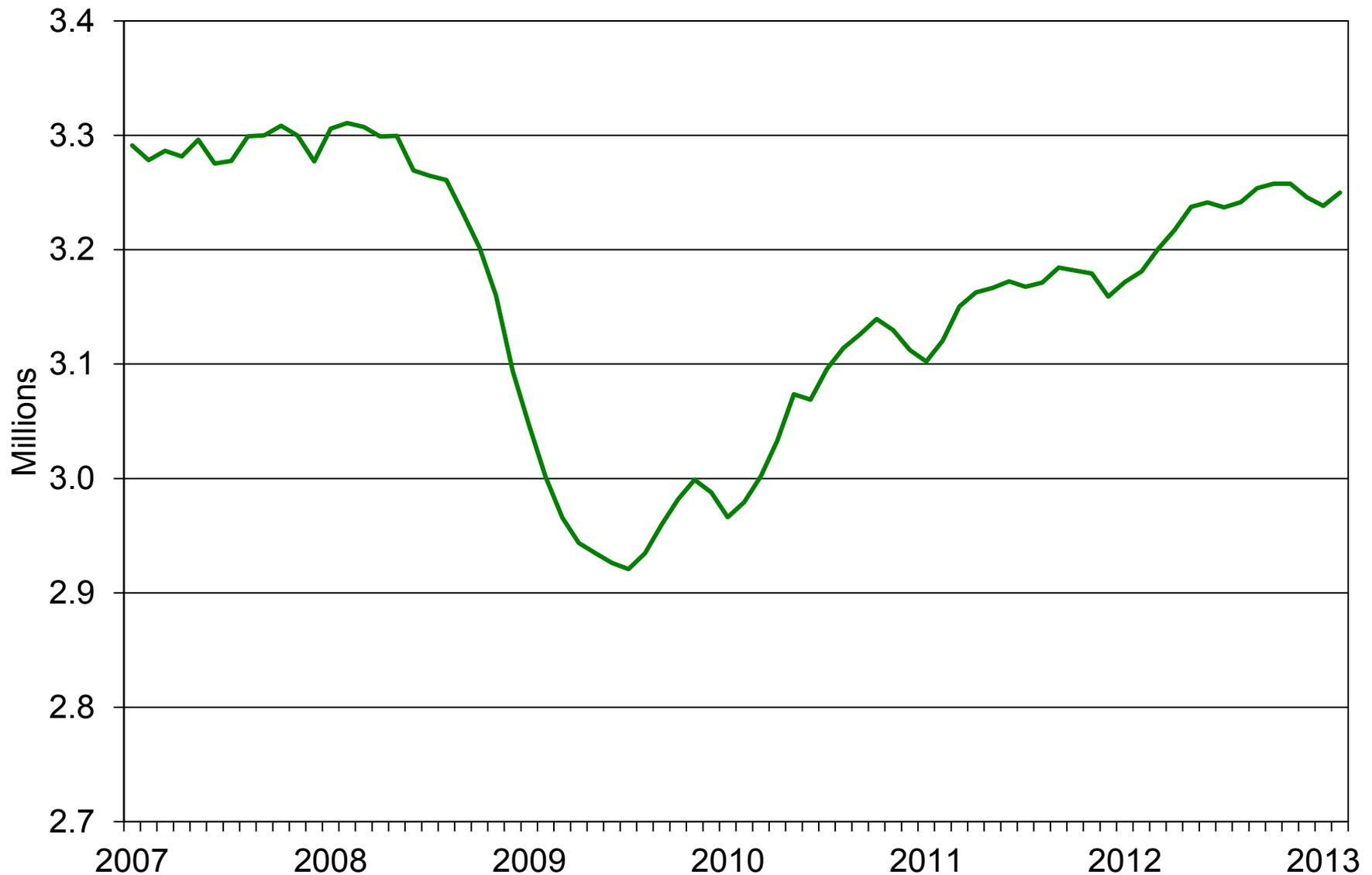
- The short-run cyclical volatility of output and employment has been “outsourced” to the countries that export manufactures to the United States, such as NAFTA “partner” Mexico:
 - ▣ Mexican exports of manufactures and employment in manufactures exhibit the “V” pattern that no longer appears in the U.S. economy
- Both before and after the crisis, exports have grown much faster than the domestic economy in Mexico...
 - ▣ Employment has not risen as much as the gross value of exports
 - ▣ Mexico does too much assembly of imported intermediate goods, and does not have enough value added or backward linkages—even in “high-technology” industries (electronics, automobiles)
- Mexico also has real wages that are stagnant and lagging behind productivity growth in manufacturing

Mexico: exports recovered quickly; domestic demand has lagged (quarterly data, indexed to 100 in 2007 4th quarter)



Source: INEGI and author's calculations. Original data in constant 2003 pesos, not seasonally adjusted (SA not available for all variables). Inspired by (and updated and extended from) a table in Carlos Ibarra (2013).

Total employment in Mexican manufacturing, millions of persons, monthly January 2007 to February 2013



Source: INEGI, EMIM.

Conclusions on Baumann's paper

- The point is not that Brazil should not reduce its trade barriers, but it should reduce them in a strategic way
 - Brazil needs to be careful about how it enters global supply chains
 - It is already in them—in primary commodity exports!
 - It would need to create incentives to establish high-technology and high value-added operations in the country
- Brazil needs to be careful about trade liberalization as it could lead to an even greater specialization in primary commodities (Brazil's “comparative advantage”) and more deindustrialization
 - Brazil needs to ensure a competitive exchange rate for manufactures before it adopts further market-opening measures
 - The author expresses doubts that the exchange rate can be managed, but it's important that the government figures out how to do this
 - Otherwise, trade liberalization in the presence of an overvalued currency can be disastrous in terms of balance of payments crises as well as locking-in a primary product specialization (worsening Dutch disease)

Oreiro, Basilio, and Souza,

Teoria e Evidência: Theoretical model

- It is not clear that the model is consistent in what is assumed about international relative prices or the real exchange rate in the long run
- In one part, the authors say that “a paridade do poder de compra não é válida”
 - ▣ This implies that the real exchange rate $\theta = ep^*/p$ can vary
 - ▣ It has important effects on profit mark-ups and other variables
 - I agree – see Blecker (1989a, 1989b, 1999, 2002a, 2011)
- But in relation to the basic Thirlwall model, the authors assume that “os termos de troca devem permanecer constantes”
 - ▣ Export and import prices change at the same rate $\Rightarrow P_x/P_m$ is constant
 - ▣ But isn't that another form of purchasing power parity, i.e., constancy of relative prices of domestic and foreign goods?
 - Changing relative prices (or real exchange rates) can be incorporated into modified Thirlwall models (Blecker, 1998, 2002b, 2013; Ibarra and Blecker, 2013)

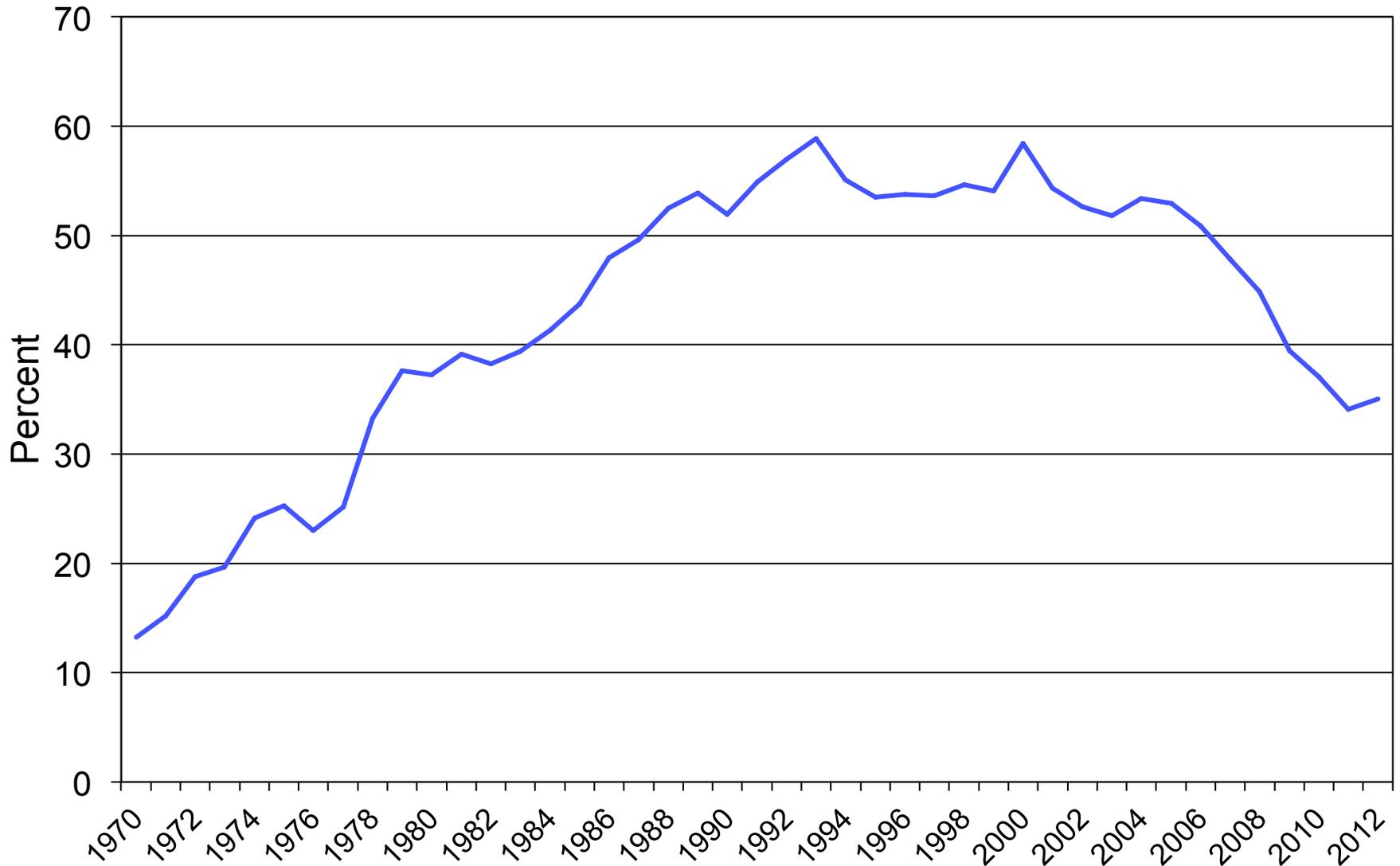
Investment function estimates

- The paper finds that investment is positively affected by the level of the real exchange rate (RER) and negatively affected by its volatility
 - RER is defined so that an increase represents a real depreciation
- This is an important channel through which the RER affects industrial capacity and competitiveness that deserves more study
- I found a similar result for U.S. manufacturing (Blecker, 2007)
 - Except I used the real value of the dollar so the sign is negative
 - I have a doctoral student currently doing more work on this topic
- But for Brazil I am surprised the effect is so strongly positive given the importance of imported capital goods
 - For Mexico, I found the opposite direct effect but an offsetting positive effect of depreciation via GDP growth and the accelerator (Blecker, 2009)
- I wonder if the paper's results might be a result of using a Tobin's Q model, instead of an accelerator-based model?
 - The positive effect could be picking up accelerator effects (sales growth)

de Araújo e Peres, Política cambial, estrutura produtiva e crescimento econômica

- Mostly an excellent paper, very informative and careful empirical analysis
 - ▣ I have only one question about the econometric results
- I am concerned about the negative coefficient on the interacted variable $RER \cdot A$ in the equation for VTI (value added in industries of transformation)
 - ▣ This seems to undermine the conclusions about the benefits of a depreciated currency in making Brazilian industries more internationally competitive
- Why would faster growth of an industry be positively affected by an appreciation of the real?
 - ▣ One possibility is that this makes imported inputs cheaper, but if so this is a serious problem for the strategy of devaluation
 - ▣ Alternatively it could be a spurious correlation and not causal:
 - The authors note that extractive (resource-intensive) have a high degree of openness, and these industries do well during a commodity boom in which the real appreciates
 - ▣ Econometrically, there could be an issue of endogeneity of the openness variable (abertura) defined as $(X+M)/Y$
 - This aspect of the model needs more thought and discussion

Manufactures as a percentage of total exports in Brazil, 1970-2012



“International Competition, Income Distribution and Economic Growth,” *Cambridge Journal of Economics*, vol. 13, no. 3 (September 1989), pp. 395-412.

“Markup Pricing, Import Competition, and the Decline of the American Steel Industry,” *Journal of Post Keynesian Economics*, vol. 12, no. 1 (Fall 1989), pp. 70-87.

“International Competitiveness, Relative Wages, and the Balance-of-Payments Constraint,” *Journal of Post Keynesian Economics*, vol. 20, no. 4 (Summer 1998), pp. 495-526.

“The Economic Consequences of Dollar Appreciation for U.S. Manufacturing Profits and Investment: A Time-Series Analysis,” *International Review of Applied Economics*, vol. 21, no. 4 (September 2007), pp. 491-517.

“External Shocks, Structural Change, and Economic Growth in Mexico, 1979-2007,” *World Development*, vol. 37, no. 7 (July 2009), pp. 1274-1284.

“Trade Liberalization and the Balance of Payments Constraint with Intermediate Imports: the Case of Mexico Revisited” (co-authored with Carlos A. Ibarra), *Structural Change and Economic Dynamics*, vol. 25 (June 2013), pp. 33-47.

“Kaleckian Macro Models for Open Economies,” in *Foundations of International Economics: Post Keynesian Perspectives*, edited by Johan Deprez and John T. Harvey. London: Routledge, 1999, pp. 116-49.

“Distribution, Demand, and Growth in Neo-Kaleckian Macro Models,” in *The Economics of Demand-Led Growth: Challenging the Supply-Side Vision of the Long Run*, edited by Mark Setterfield. Cheltenham, UK, and Northampton, MA: Edward Elgar, 2002, chapter 8, pp. 129-152.

“The Balance-of-Payments-Constrained Growth Model and the Limits to Export-Led Growth,” in *A Post Keynesian Perspective on Twenty-First Century Economic Problems*, edited by Paul Davidson. Cheltenham, UK, and Northampton, MA: Edward Elgar, 2002.

“Open Economy Models of Growth and Distribution,” in *A Modern Guide to Keynesian Macroeconomics and Economic Policies*, edited by Eckhard Hein and Engelbert Stockhammer. Cheltenham, UK: Edward Elgar, 2011, pp. 215-239.

“Long-run Growth in Open Economies: Export-led Cumulative Causation or a Balance-of-Payments Constraint?” in *Handbook of Post-Keynesian Economics*, edited by Geoff Harcourt and Peter Kreisler. Oxford: Oxford University Press, 2013, forthcoming.