

# Why is Brazil's Economy a Closed Economy?

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## INTRODUCTION

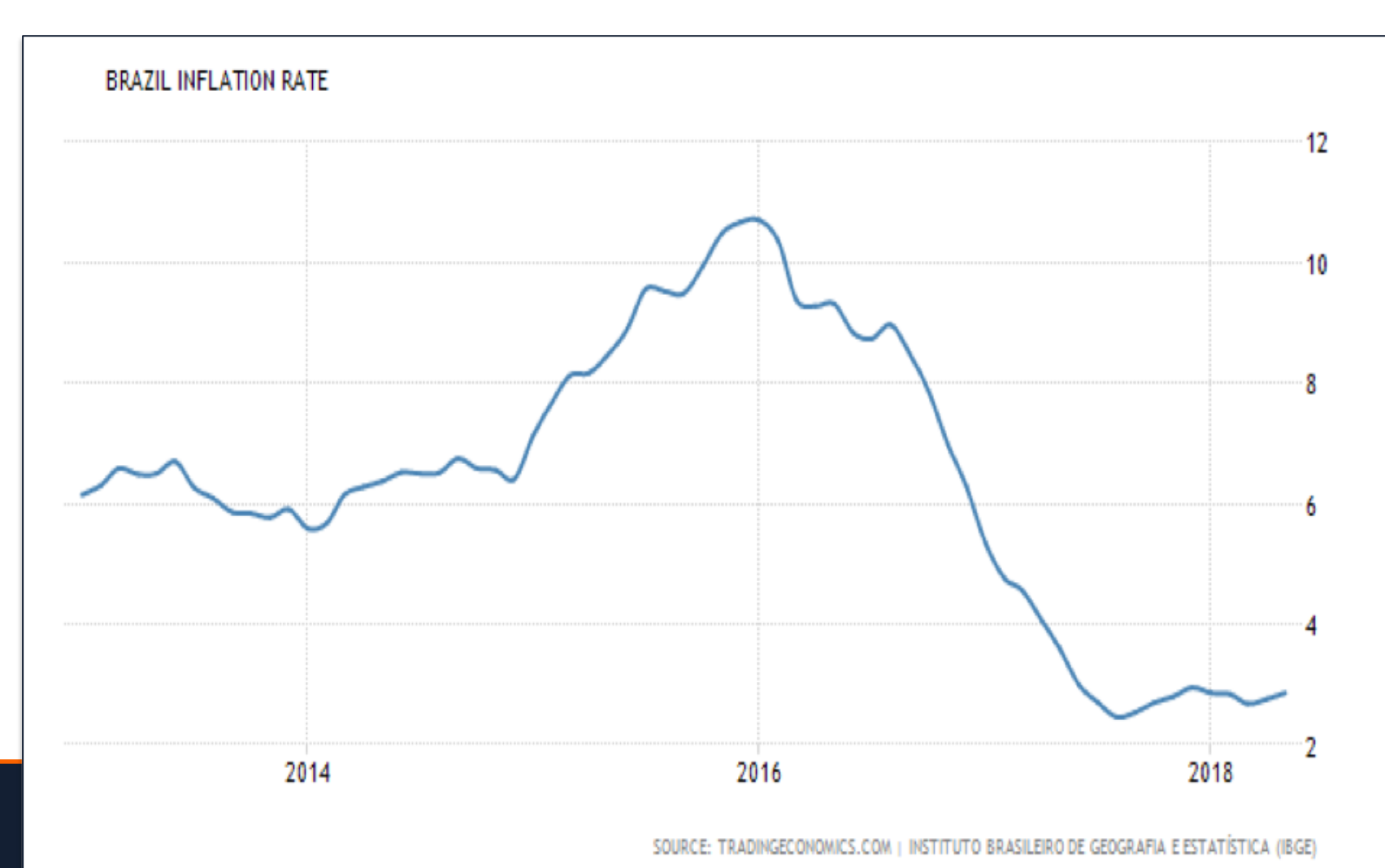
Brazil's economy is the most curious economy in the world. Brazil has closed their door for trading with the world. As measured by the trade penetration with export plus imports, Brazil has a remarkably close economy. It has the least imports in the world. In Brazil, most good and services are made within the borders. Interestingly, Brazilian prefer Brazil's goods over foreign.

In 2013, 27.6 percent of the GDP of Brazil was made up of import and exports. According to the World Bank economist, the average trade to GDP ratio of the six countries with the larger economy was 55 percent. Brazil's ratio should be three times the actual given its size of the current economy. Holding other factors of trade constant such as country size and manufacturing, the absence of trade is still not explained by Brazil.

Note, Brazil's economy is not a completely closed economy, but its behavior is similar to it.

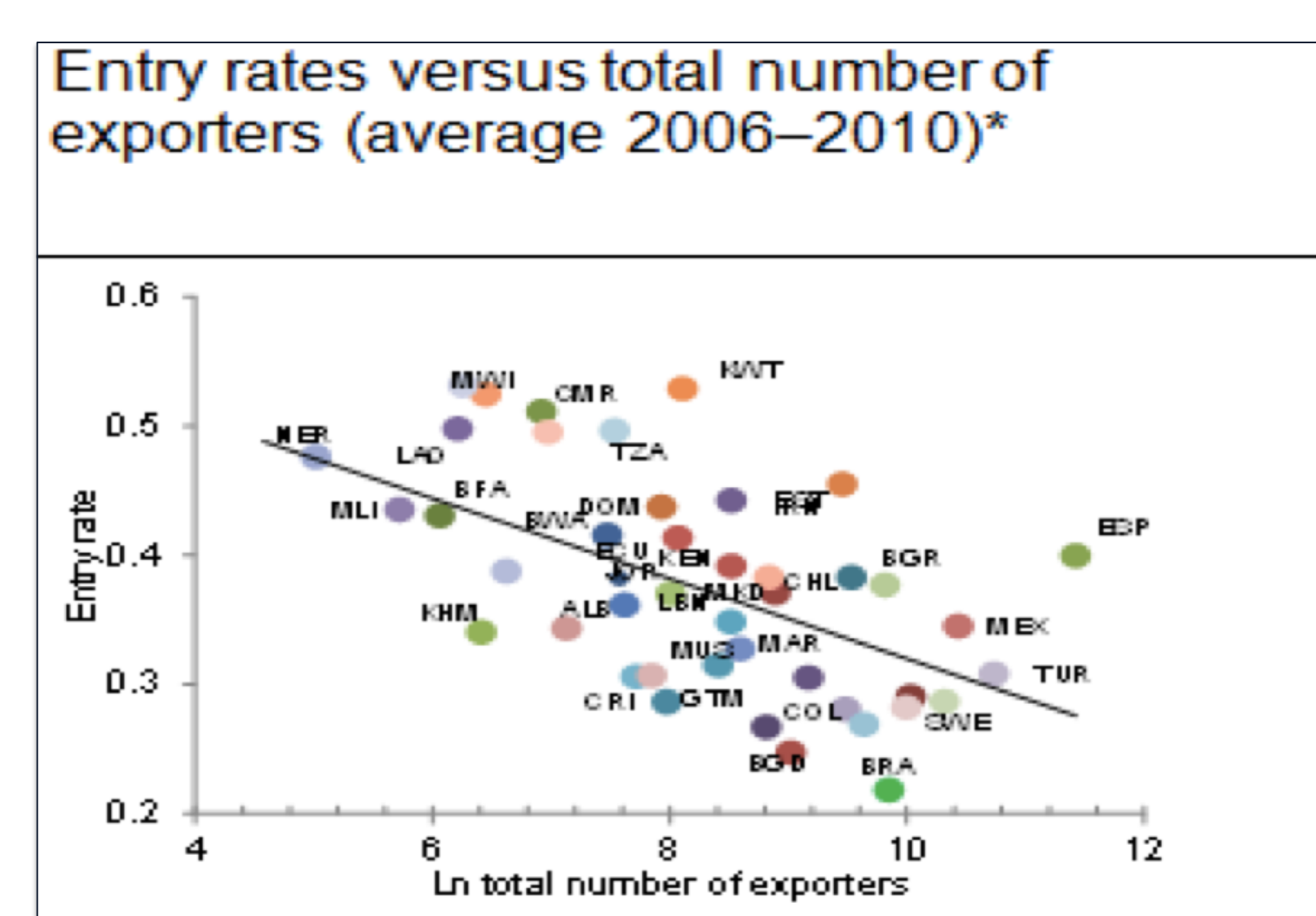
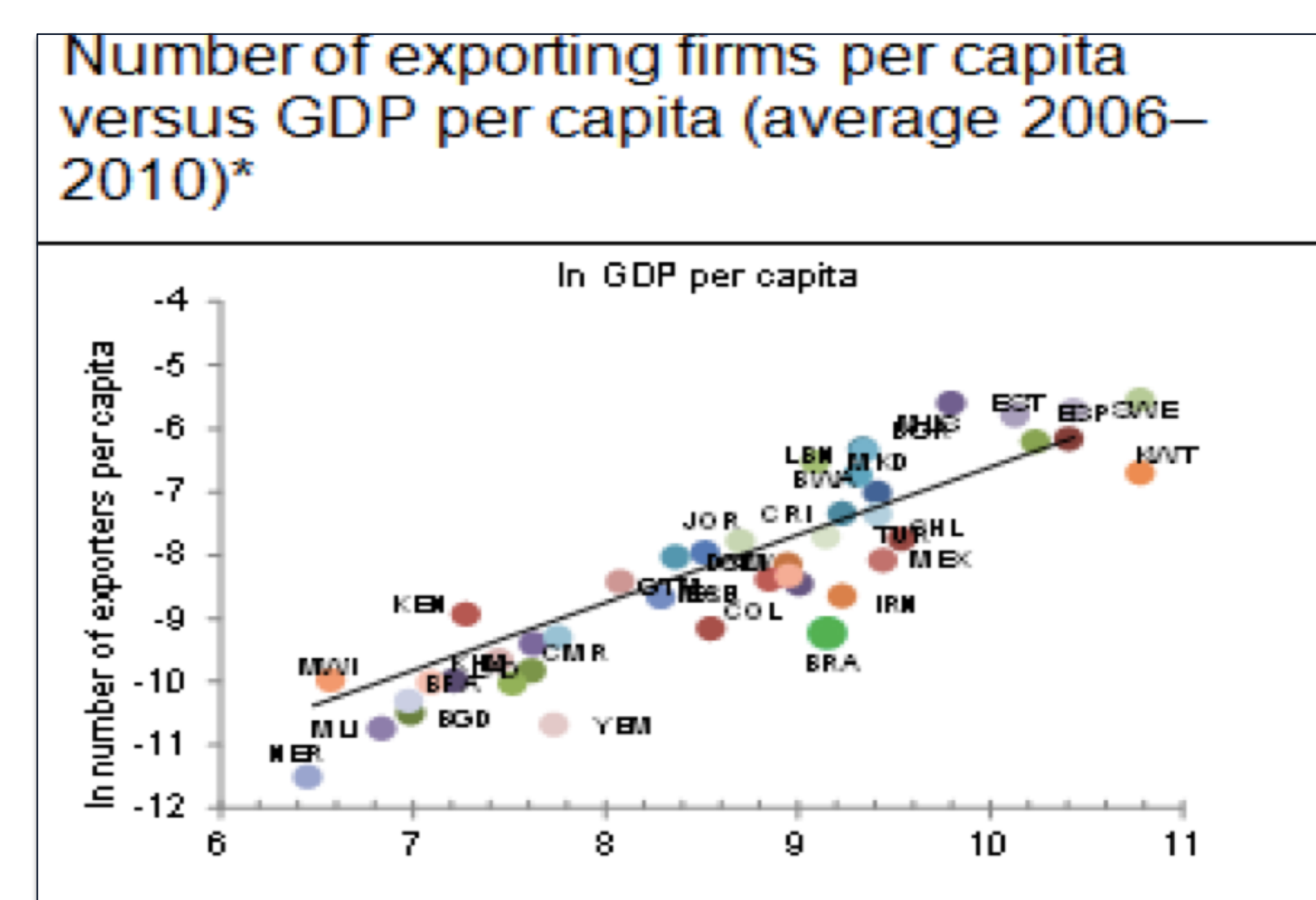
## Inflation Rate

In a closed economy, the inflation rate tends to stay high. This is because of the money supply. The inflation rate decreased as Brazil became more open to trade.

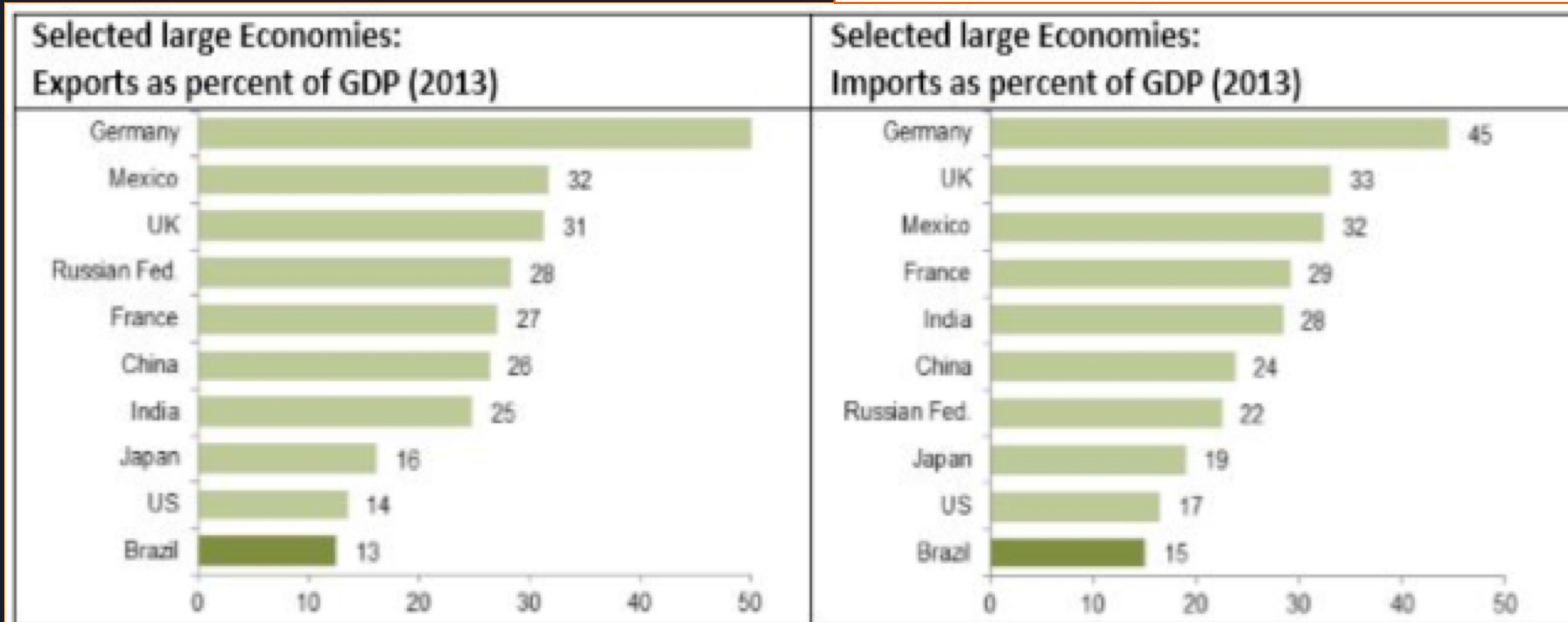


## Close Economy

A closed economy is when a country has no trade activity with other economies in the world. In a closed economy, a country plans to provide their citizens with everything they need by using resources within the border.



**Brazil's export and import have the lowest contribution to GDP in 2013. This proves why Brazil's economy is called closed economy when compared to its size.**



## Cause of Closed Economy

The cause of Brazil's closed economy is the lack of trade dynamism at a company level. The characteristic of exporting companies in Brazil makes the lack of trade more apparent. There are fewer than 20,000 exporters in Brazil, roughly same as Norway.

In comparison to larger countries, Brazil is an outlier. Looking at the graph on the left, we observe Brazil is far off from the best fit line. Even in control of GDP per capita, the number of the exporters is low relative to the population.

Another reason for the closed economy is the low entry rate. The new exporters in the market have very low survival rate where the established exporter has a very high rate. As seen in the graph on the left, Brazil has the lowest entry rate when compared to the total number of exporters. Companies with significant economies of scale are the only one to overcome trade barriers.

## Example of Closed Economy Behavior

Below are some examples of how Brazil is known as the closed economy.

### Coco-Cola Brazil

Brazilian prefer drinks that are made in Brazil. Coco-Cola came up with Fanta Guarana that is made in Brazil and only sold in Brazil.



### Salcomp

A company that produces Samsung Chargers. Most production is consumed in Brazil.

### Nubank

A fintech company that provides services like online banking. Nubank representative mentioned there are many laws they have to follow to go international. In other words, there are many trade barriers.

- Almost all of the cars on the roads are produced in Brazil.

## CONCLUSION

Brazil's economy is the closing thing to a closed economy in the world. Keeping its door close is hurting Brazil, especially, when countries like Brazil are benefiting from trade. Opening the door for trade to full potential can help Brazil with economic growth.

Brazil can close the uncompetitive market by taking a part in the global value chains. In meaning, all types of business, small and big, can import inputs for production and create a competition. Thus, the competition will result in high quality and lower cost products. The entry rate of a new business in a market will increase and create competition. In general, importing inputs can strengthen the production.

The future of Brazil looks better when it participate in trade. Brazil is a country that is rich in commodities and various resources. The idea of trading can help the economy grow plus appreciate the Brazil currency, real. The inflation rate can decrease and make everything affordable for the people. In the end, Brazil can become a developed country by taking a part in the global value chain.

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