

## Australia's commodity boom: Any lessons for Brazil?

Alicia Garcia Herrero<sup>1</sup>

A quick trip to **Sao Paulo and Sydney** could leave us with a similar impression: the boom in commodities is the hottest economic topic in town. No wonder this is the case sin both Australia and Brazil have been increasing the concentration of their exports in commodities due to China's insatiable demand. In fact, the situation in Australia is much more striking than in Brazil as commodities have reached 77% of total exports compared to 64% in **Brazil**.

If we were to stay longer in both countries, though, we would realize that the perception of the situation and the economic policy response are different. In **Brazil** - after the terrible experience of the eighties - the current sharp improvement of the terms of trade stemming from the boom in commodities prizes- is seen as temporary and, thus, more as a "Dutch disease" This explains the array of measures taken by the Brazilian government to ease the effects of the boom. Several measures have been geared towards avoiding an excessive appreciation of the Real through the introduction of capital controls and a strong foreign exchange intervention. Others have targeted ailing industries, which is not difficult due to the significant and increasing role of public bank in the Brazilian banking system- and stepping up trade protectionism to prevent further deterioration of the current account deficit. **Australia** - on the other hand, seems to interpret the boom in commodity prices as a more structural phenomenon stemming from the urbanization and industrialization of the emerging world. Consequently, the Australian dollar has appreciated even more than the Brazilian Real in nominal effective terms and many industries are disappearing as they are not competitive anymore.

While difficult to guess which country is doing the right bet it seems clear that **Australia** is more optimistic about its future, but also more liberal. Time will tell who is right.

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<sup>1</sup> Alicia Garcia Herrero is Chief Economist for Emerging Markets at BBVA