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Arthur Kraft
George and Barbara Bush Chair in Internation Business
George L. Argyros College of Business and Economics
Chapman Universitys
Orange, CA 92864
USA.

John Kraft
Susan B. Cameron Chair in International Business
Warrington College of Business
University of Florida
Gainesville Fl 32611
USA
John.kraft@warrington.ufl.edu

Correspondence:
John Kraft
Susan B. Cameron Chair in International Business
Warrington College of Business
University of Florida
Gainesville Fl 32611
USA
John.kraft@warrington.ufl.edu

Brazil and the Auto Industry: Why Protectionism Does Not Work

Arthur Kraft, John Kraft

Abstract
Brazil was an example of an unexpected outcome from the implementation of tariffs, trade barriers and the failure of protectionism. In the early part of this century Brazil was touted as a candidate for exceptional growth. However, Brazil's protectionist policies doomed that prospect. High tariffs and a barrage of trade barriers reduced productivity, drove up costs for consumers, and restrained the growth of per capita gross domestic product (GDP). Manufacturing once the hallmark of the Brazilian economy dropped from 85% of GDP in the mid 1980's to 14% of GDP in 2020

Keywords: protectionism, tariffs, trade barriers, auto industry, Brazil.

Introduction

Various measures employed by governments included tariffs, quotas, tariff rate quotas, subsidies, local content requirements, voluntary export restraints, and administrative procedures, among others. The instruments of trade policy were implemented with the aim of advancing and protecting domestic firms and the workers they employ. The outcomes tended to be increased prices and decreased product quality for the domestic consumer. Domestic firms benefited from elevated profits as a result of the protection they enjoyed. In addition, domestic consumers were faced with reduced disposable income. Tariffs tended to become the most widely used instrument of trade policy (Pearson 2025b).

Imported goods and services became more expensive and the supply of available foreign goods and services was limited. Governments legitimately employed various trade instruments to protect jobs and industries, protect national security, retaliate against actions by foreign governments, protect domestic consumers, further foreign policy and protect human rights among other objectives.

Brazil was an example of the unexpected outcome of tariffs and a failure of protectionism (Brazil stagnant economy 2025). Brazil in the early part of the century was touted as a prospect for exceptional growth. However, Brazil's protectionist policies doomed that prospect. High tariffs, and a barrage of trade barriers reduced productivity, drove up costs to consumers and restrained growth of per capita of gross domestic product (GDP). Manufacturing once the hallmark of Brazil dropped to 14 % of GDP from a high of 85% in the mid 1980's (Pearson 2025a).

In 2010, Brazil's economy was growing rapidly, and its automobile manufacturing was projected as number four behind China, the United States, and Japan. As Brazil's economy expanded and consumer income rose, Brazil was on target to transition from a developing economy to a developed economy. Brazil economy grew 5% per year and the rapidly expanding Brazil automobile industry was expected to produce 3.3 million vehicles per year. FDI and production capacity was growing (Reed 2010).

The new income growth drove the demand for automobiles. Ford, GM Fiat and VW entered the market. Profit possibilities attracted interest from Hyundai and Cherry (Brazil 2010). Brazil misread the market and sought to protect current jobs. A series of protectionist measures limited entry and protected current automobile manufacturing.

Brazil's incumbent carmakers expected disposable income growth to drive demand for entry level vehicles. The potential for profits and a strong Brazilian currency created an opportunity for Chinese and Korean producers to enter Brazil and expand manufacturing capacity (Reed 2010).

Brazil misread the market and sought to protect current jobs. A series of protectionist measures limited entry and protected current automobile manufacturing.

Brazil implemented tariffs and local content rules that raised the supply chain costs of the incumbent foreign producers, limited the supply of automobile exports, and raised the prices of automobiles for Brazilian consumers. In the short run local production rose to 3.7 million vehicles in 2013 then rapidly fell reaching 2.5 million in 2024. High taxes, a 35 % tariff and inflation doomed the Brazilian juggernaut. Disposable income shrunk, factories closed, and global automobile companies exited Brazil. (Magalhaes 2025).

Despite the dismal situation facing Brazil automobile manufacturing Chinese companies, such as BYD (taking over a Ford plant) and Great Wall Motor(taking over a Mercedes-Benz plant) have entered Brazil. Brazil with population of more than two hundred million people, was BYD's biggest auto market outside China (Pearson 2024).

Inexpensive electric vehicles have seen unexpected demand growth. The automobile industry had been skeptical concerning Brazilians' willingness to purchase electric cars. Consumers, however, flocked to purchase the low-cost models of BYD and Great Wall. In several large urban areas EVs were exempt from vehicle taxes and driving restrictions during periods of congestion as well as exempt from purchase taxes (Pearson 2024).

BYD and Great Wall hope to benefit from Brazil's membership in Mercosur. Once they achieve the production rules, they will be able to export their Brazilian manufactured vehicles to other Mercosur members and avoid import taxes. However, the issue for Brazil until the recent entry of Chines EV makers into Brazil, automobiles manufactured in Brazil cost significantly more than comparable models manufactured in Mexico. This was due to the 35% tariff on parts imported to Brazil and the inefficiencies in Brazilian automobile manufacturing (Pearson 2025a).

In 2011 Brazil's real per capita GDP measured in current U.S. dollars reached a high of $13,396. In 2020 Brazil's real per capita GDP measured in current U.S. dollars had dropped to $7.074. In 2021 current dollar real GDP rebounded to $7,972 (World Bank 2025). The question remains that given the still protectionist bent of Brazil will Brazilian automobile production ever reach the levels and prosperity of 2010?

Source: World Bank 2025.

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