

Outward versus Inward Orientation: Head of State as Export Promoter

Outward-looking policies intending to increase exports have been implemented by many countries at different levels, with foreign trade missions led by heads of state being part of those policies frequently observed nowadays. The Brazilian case of Lula's administration (2003-2006) is interesting in this context, since exports increased considerably during an administration marked by many foreign trips and associated with a shift of focus in the announced official foreign policy from rich to poor countries.

In this paper, we develop a small country model in which presidential candidates compete for the presidency allocating their limited effort endowments between domestic activities and export promotion. Using the Brazilian data for Lula's administration we: (1) check whether the Brazilian export performance can be explained in the context of export promotion led by the president; (2) measure how much effort was spent on poor countries compared to rich countries; (3) find out whether Lula had any specific advantage in promoting exports to poor countries; (4) check whether the foreign visits related to trade that were paid by Lula can be explained in the context of export promotion and possibly legacy intent; (5) measure the legacy component in those trips led by Lula, if any.

Foreign Visits and Foreign Direct Investment Attraction

Heads of state pay foreign visits to other countries, leading delegations that vary in size and composition. In particular for developing countries, many of these visits have the official justification of attracting foreign direct investment (FDI). We propose a model of FDI attraction in which the relevance of delegations led by heads of state signals the domestic price of production factors, even when the actual usefulness of members in the delegation approaches zero. This model has a unique separating equilibrium in which lower costs of production are associated with more relevant delegations. Alternatively, we show the implications of using tax policy as signal of competitiveness. Signaling via profit tax policy does not lead to a unique separating equilibrium, the same being true for an export tax policy.