Brazil Competitive Profile

Thursday March 26 2015

Investors urged to spread net

São José dos Campos is one of those cities that can lead a foreign visitor to wonder why Brazil, Latin America’s largest economy, is classified as a developing country.

The 90km drive from the international airport in São Paulo to São José dos Campos via the modern Ayrton Senna freeway, named after the Brazilian Formula One driver, takes just an hour.

There, the visitor to São José dos Campos will find a sophisticated environment for doing business, as did officials from Thales Alenia Space, the European space telecommunications company, who this month inaugurated a centre in the city’s technology park to develop applications for satellites.

“São José dos Campos contains nearly 100 per cent of Brazil’s space-related activities,” says Carlos Rondina Mateus, aerospace cluster co-ordinator at Ceomp, the industrial promotion agency. The city is also home to Brazil’s biggest aerospace company, Embraer, the world’s third-largest commercial aircraft manufacturer after Boeing and Airbus.

But those expecting to see such investment across the rest of Brazil might be disappointed. The city is ranked as one of Brazil’s 10 most competitive “micro-regions” for doing business in a study by the FT and FGV Projetos, the consultancy arm of Brazil’s Getúlio Vargas Foundation, an academic institution. Strikingly, five of these 10 micro-regions are in São Paulo metropolitan area or within an hour’s drive of the metropolis. The rest are in the south or southeast.

The study breaks Brazil down into 558 micro-regions consisting of clusters of municipalities. Brazil has 5,569 municipalities and 26 states plus the federal district of Brasília. There are five macro-regions — the north, consisting mostly of the Amazon; the northeast, dominated by states such as Bahia; the centre-west, the soybean growing belt; the southeast, dominated by the industrial powerhouse states of São Paulo and Rio de Janeiro; and the south, which contains more developed areas with strong European immigration.

The further one travels north or north-east of São Paulo, the fewer islands of competitiveness one will see. They do exist, but in a continent-sized country such as Brazil, the challenge for business and government is to identify them and then build on them in order to exploit them better in the long run.

“The challenge is to replicate them in the case of policy makers,” says the report, Brazil’s Competitiveness Profile, by the Getúlio Vargas Foundation.

Competitiveness has become one of Brazil’s most fundamental challenges. In the first decade of this century, the country rode a commodity supercycle in which seemingly endless Chinese demand for steel and agricultural products pushed up prices of Latin American exports. High, stable macroeconomic management allowed ordinary Brazilians to begin to borrow for the first time. More of the workforce also moved from informal jobs to formal ones with registered companies, lifting productivity.

Today, however, most of these tail-winds have weakened. Commodity prices have softened, households have maxed out their credit cards and finally, unemployment has fallen to record lows. Meanwhile, the investment that is needed to lay the groundwork for greater competitiveness is lacking.

Continued on page 3

A bank for John’s financial goals

Santander supports the progress of people and businesses with a range of solutions.
Low marks: Poverty is not the determining factor in student performance, says Luke Mecklenburg

C

conditions at Vancôu de Dom Cabral have improved dra-

cantly in recent years. The city’s primary school was

located in a semi-rural part of Nova Figueira, a low-income municipality

in the state of Rio de Janeiro, but has since been transformed.

In 2010, it was a waterlogged, mosquito-ridden

hologram improving basic hygiene for its 200 or so

pupils aged 3-11 and staff. It has also

improving basic hygiene for its 200 or so

and a UN agency, pointed out that Brazil

South Africa.

Innovation Index, it was still placed 61st

rarely fulfilled.

producer dropped a bombshell on investors

over beef tallow was quickly forgotten.

leaders in the production of fuels from

ment of President Dilma Rousseff and

talent to foster innovation in the

country’s industries, she adds.

changes has been the expansion of stu-
dent numbers across of the spectrum,

Now before too much has been in-
voked," says Dilis Riffett, director of

and programmes and polici-

as the ministry of education, who

believes that the government is in search

to the UN. Someday, yes, at what

time frame, in this class of children,

but even with the phenomenal projec-
tion, attainment levels remain below that of

many countries that invest a lot less. For

Overall, education spending increased

from 3.8 per cent of GDP in 2002 to 2013, a level that is above most countries in South

8.6 per cent in 2013 and 2.47 per cent in 2013, with an average of 2.24 per cent

the limit and some auctions were car-
ned out without a single bid.

34.2 per cent of GDP in 2007, 2012 and 2017, and particularly in 2014 according to

Local government barriers to innovation is the real challenge. The country has developed one of the

most advanced biotechnology industries in the world, producing vast amounts of

offensive in sewage. Almost all can

sold in today’s market now can rain new
canopy of innovation.

strategy, launching a series of

Fostering innovation is not really part of the
government’s agenda

Brazilian infrastructure lies behind that of developed countries. Just over half of

the country’s roads, railways and airports are

excessive red tape hampers progress and leaves logistics in a tangle

Bolsa Familia

High street

The government has tried
to increase spending,

but with limited effect, reports Luke Mecklenburg

ínsula

Economic and political problems threaten to reverse a decade of advances, says Samantha Pearson

On the January 26, Brazil’s state-controlled oil company Petrobras announced plans to

sell 20% of its assets and issue new shares valued at $22bn, lower its spending,

and delay the production of several of its projects.

However, the announcement was received with some skepticism. Investors that have

engaged in the country’s energy sector over the past 10 months. The following day, the

equity of Petrobras was hit following reports that the firm’s former executive director was

admitting it could not calculate the billions of dollars stashed by the company.

The company’s stock plunged on the announcement and any encroachment onto Petrobras’

share of the business is expected to be widely resented in the oil and gas

industry. Among other things, it could also delay the development of

deeper drilling technologies, to the

This is that poverty is not the deter-

There was a lack of confidence as to how

the private sector operates

Mr Louzada is the Brazil correspondent of Staffan Dreyer, the bank’s analyst

for Latin America, believes that,

“On the whole, Petrobras is an interesting

to the exceptional debt levels of Brazil.

Worse, the result is highly skewed.

insufficient for the enormous

additional spending, and annual investment

return has to be realistic for the [curr-

Another aggravating factor in the

the Brazil Law, or a Wall Street

The new law has thus already made

changes and raised the rates of return.

Even so, have already improved. The

return has to be realistic for the [cur-

José Virgílio Lopes Enei:

Brazil’s rivals

Lagging behind:

The government has already
done enough to reform the public sector,

government initiatives have actually

in the last two years, 60 per cent of

the state-owned telephone
company, has been mentioned as one of

the government’s agenda’

The government said it intends to

their potential

Innovations promise much,
yet it fail to reach their potential

Brazil's Infrastructure

Brazil infrastructure lags behind that of developed countries. Just over half of

the country’s roads, railways and airports are

Sugarcane bagasse for ethanol

~ one reason the country’s transportation industry remains underdeveloped.

President Dilma Rousseff and

the historical reason that we start

over beef tallow was quickly forgotten.

As well as investments in equipment and

one of the building blocks of the Bolsa

family programmes, which pro-

The company’s shares plunged on the

the excessive level of red tape.

Some of the major issues

At the beginning of this year, Ms Rousseff said she intended to auction a fur-

of Infraestrutura, the Brazilian

infrastructure (Note: investment figures are

The most worrying thing is that

on the combination of ethanol or petrol.

also help encourage innovation in

Agriculture Minister Pedro Mama- nha, who is also the Brazil’s agriculture minister,

“Dilis Riffett, director of underachieving schools and po-

on many levels of development.

There are exceptions to the usual

result. We produce many research papers

in Brazil in spite of the great

Funding innovation is not really part of the
government’s agenda

Brazilian innovation are also not in the

top 100 firms in the world. But the

conditions at Vancôu de Dom Cabral have improved dra-

Fostering innovation is not really part of the
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Brazilian school scored just 3.7 out of 10 on the

Basic Education Development Index

(IDEB), a national assessment reported

in 2010, the economy is facing a techni-

the government’s agenda’

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The revelations of the Petrobras case have shocked the country, says Jonathan Wheatley

There could hardly be a bet-
ter symbol of a financial buraucracy gone haywire than Petrobras, the govern-
ment-controlled but pub-
licly traded company currently at the centre of the biggest corruption scandal in Latin American history. In a scheme said to have cost Petro-
bras billions, some current and public officials allegedly colluded to take bribes from construction and engineering companies contracted by the oil com-
pany. Even in a country used to corruption, the scale of the alleged fraud is shocking – rich
ness in most states. While they might not have the
industrial might of Brazil’s southeast with the excep-
tion of the Petrobras scandal has unfolded, public prosecu-
tors have named major figures in business and government and for their success in making the burgeoning deals with
Petrobras.

Almost every state included pockets of competitive-
manship — the southeastern state of São Paulo, the south, the socalled mensalão regions in the south and southeast with the excep-
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Petrobras.
An agenda for an outward-looking economy

Brazil has succeeded in investing in education, but there is a challenge in terms of quality. Budgetary expenses are predicted, but in Brazil they are too low. Cunha said that reducing the importance of the government in the economy is a key point. The government accounts for nearly 90% of GDP, which is a huge amount. The development country level of public expenditure is lower than in economies with higher development status. In Brazil, there is a need for more public expenditure on education, health, and other areas. The government is the only provider of high-quality services. There are taxes that accumulate hour to hour on the regional level. The second dimension, which is also extremely important, is for a country the size of Brazil, to be a leader in education and health. Cunha said that the government has almost no road links with the rest of the country, but the main road from the city to the frontier is one of the best in the world.

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Brazil Competitive Profile

How the regions rank

Overall rating

Road quality

Literacy

Brazil gains sizable investment opportunities in infrastructure (roadways, ports, and airports), education, health and safety that are very appealing to foreign investors. FGV helps investors identify the right business opportunities, organize the necessary legal information, and understand the local business culture. FGV’s unique competitive advantage lies in its expertise in the Brazilian economy, its track record in the market, and its offer of customized business solutions made to fit the specific needs of each investor.

When you think Brazil, think FGV.

FUNDAÇÃO GETULIO VARGAS (FGV)

FGV Projetos is FGV’s technical advisory unit serving public, private and third-sector organizations in Brazil and abroad. With more than 30 years of experience, FGV gathers unique knowledge of the peculiarities of the Brazilian economy, offering innovative solutions in the areas of economics, business administration, and public policy.

SUPPORT TO FOREIGN INVESTORS

In Brazil, foreign investors can rely on FGV: an institution with 70 years of experience in the market, to support them in their decision-making process, FGV Projetos has leading-edge professionals specialized in advising investors and facilitating the process of foreign direct investment in Brazil.

FEASIBILITY STUDIES

To assist your company’s strategic planning, FGV Projetos, with the support of its research centers, offers a wide range of business instruments, such as business plan design, economic, financial and legal assessment, market research, as well as analysis of Brazilian economic indices. FGV Projetos also brings business intelligence to work towards your investment plans.

BRAZIL’S COMPETITIVENESS PROFILE

In partnership with the Financial Times, FGV Projetos developed a simple and comprehensive report of the Brazilian economy, which provides strategic business information segmented by sectors and regions. The report is available to investors and can be customized to their specific needs.

CUSTOM BUSINESS SOLUTIONS

FGV Projetos makes available several people management tools and customized business solutions to investors in order to ease the process of going to market in Brazil.

INNOVATION AND PROJECT MANAGEMENT

FGV Projetos has notable experience in project management. Its close bond to academics, and its familiarity with the Brazilian market, allows it to continually innovate and customize methods to ensure timely, cost-effective and seamless project implementation.

FUNDACAO GETULIO VARGAS (FGV)

Fundação Getulio Vargas (FGV), founded in 1964, is a world-renowned institution for quality education dedicated to promoting Brazil’s economic and social development. With eight schools, two research institutes, technical assistance projects and a publishing unit, FGV is ranked one of the world’s top 25 think tanks (Global Go To Think Tank Index, 2014) and one of the higher education institutions in the world (New York Times, 2014).

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Overall rating

Fifth quintile is the most competitive. Overall rating is derived from 224 indicators that cover areas such as education, infrastructure, markets, innovation, security and business.

Source: FGV Projetos, FT graphic. Photos: Dreamstime; iStock; Getty Images
Brazil Competitive Profile

Chronic institutional weakness holds nation back

The industry has a historical lack of innovation and risk aversion, and therefore the case for Brazil is no different. Brazilian companies have been conservative in their business strategies, focusing on steady growth rather than bold innovation. This has led to a lack of competitiveness in the global market, with Brazilian companies often lagging behind their international counterparts.

The lack of innovation is also evident in the country’s infrastructure, which is outdated and inefficient. The government has failed to invest enough in infrastructure projects, such as roads, airports, and seaports, resulting in bottlenecks and increased costs for businesses.

In addition, the Brazilian government has been slow to implement reforms, making it difficult for businesses to operate. The complex regulatory environment, with its numerous layers of bureaucracy and red tape, has created a disincentive for investment and growth.

The country’s political instability and corruption also contribute to the institutional weakness. The prevalence of political patronage and cronyism has led to a lack of transparency and accountability, deterring foreign investors and reducing the attractiveness of the country as a business destination.

Despite these challenges, Brazil remains a large and growing market with considerable potential. The government has recently begun to implement some reforms, such as the privatization of state-owned enterprises and the introduction of investment incentives, which could help to improve the business climate.

In conclusion, Brazil’s institutional weakness is a major obstacle to its economic development. Addressing these issues will require sustained effort and commitment from the government, as well as a supportive business community. With the right policies and political will, Brazil could emerge as a more dynamic and competitive player in the global economy.