

# BRAZIL'S COMPETITIVENESS CHALLENGES VIEWED FROM ITS COMPANIES

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# Overview

## ECONOMIC

- + Brazil as global player, **7<sup>th</sup> largest econ.** 42% of LatAm total GDP, but unequal distribution: SE >50% of GDP
- + Robust investments: \$955B in infra during 2011-2014 (PAC, pre-salt, mega-sporting events, rail...)
- + Real wage growth: credit expansion
- + **5.7% unemployment rate:** one of lowest in the world
- **High cost** of doing business: #128 position
- Onerous tax regime
- Global slowdown and fluctuations in currency appreciation affecting **competitiveness** and slowing growth

## POLITICAL

- ☐ Rousseff to maintain solid **macroeconomic policies**, but deploying aggressive microeconomic policy
- ☐ **Expanding government** oversight of the economy
- ☐ Increased **industrial policy**: *Brasil Maior*
- ☐ **Setting stage** for 2014 Presidential Election: Dilma has tenuous hold over coalition, but enjoys high popularity

## COMPETITIVENESS

- Brazil's productivity grew **by only 1.3% between 1990 and 2010**, while **China** led the way at **8.3%**, followed **by India at 4.7%** over the same period.
- According to **2013 World Competitiveness Index** Brazil is the **least competitive** amongst BRIC nations
- +/- While Brazil's spending on innovation and R&D **is expected to increase in 2013** to 1.16% to 1.30%, it still **falls below the OECD average of 2.5%** of GDP spending on innovation.

## Macroeconomic Forecasts

	2012	2013	2014
<b>Inflation</b>	5.8%	5.67%	5.50%
<b>Int. Rate</b>	7.25%	7.25%	8.25%
<b>GDP growth</b>	1.0%	3.10%	3.65%
<b>Industry Output</b>	0.5%	3%	3.70%

# Industrial Policy: Deep Roots

- ❑ Military Republic (1964-85), but particularly the second phase (1969-79) led to the **1970's "economic miracle"**
  - ❑ **Pre-military regime, SOEs; now ISI** ruled the day
  - ❑ **Urban migration**
  - ❑ For domestic market in the 1970-80's, but industrial exports growing
- ❑ **1980's: "Lost decade"** to debt crisis, hyperinflation
- ❑ **1990's: economic opening**, tariff reductions, privatizations, trade agreements
  - ❑ Opening forced **increased competitiveness**, more outward looking
  - ❑ **Trade still not huge percentage of GDP** (30%, v. 65% China)

# Industrial Policy: Today

- ❑ Fear of **economic slowdown, deindustrialization** → aggressive stimulus spending and industrial policy, especially since 2008
  - ▣ Eurocrisis, China slowdown, manufacturing shift to Asia and Mexico
  - ▣ **Need to address tough reforms** (tax, labor, infrastructure, education), **but in short to medium term**, deploying industrial policy
  
- ❑ **“Brasil Maior,” announced 8/2011**, now a patchwork of **50+ measures**, implemented in an **ad-hoc manner**
  - ▣ 3<sup>rd</sup> industrial policy during past decade, **in tradition of centrally planned**, multiyear programs designed to accelerate economic development
  - ▣ **Attempt to return to strong state-led industrial policy**, after the blip of **more market-driven approach in 1990s**
  - ▣ Designed to address specific goals: economic growth; job creation; supply chain and export development; local R&D
  
- ❑ **Priority Sectors:** oil/gas, ICT, health care, defense, manufacturing
  - ▣ Local content requirements + “basic productive process” required for tax tariff benefits and BNDES financing
  - ▣ Government procurement policy gives price benefit of up to 25%

# The Bottlenecks

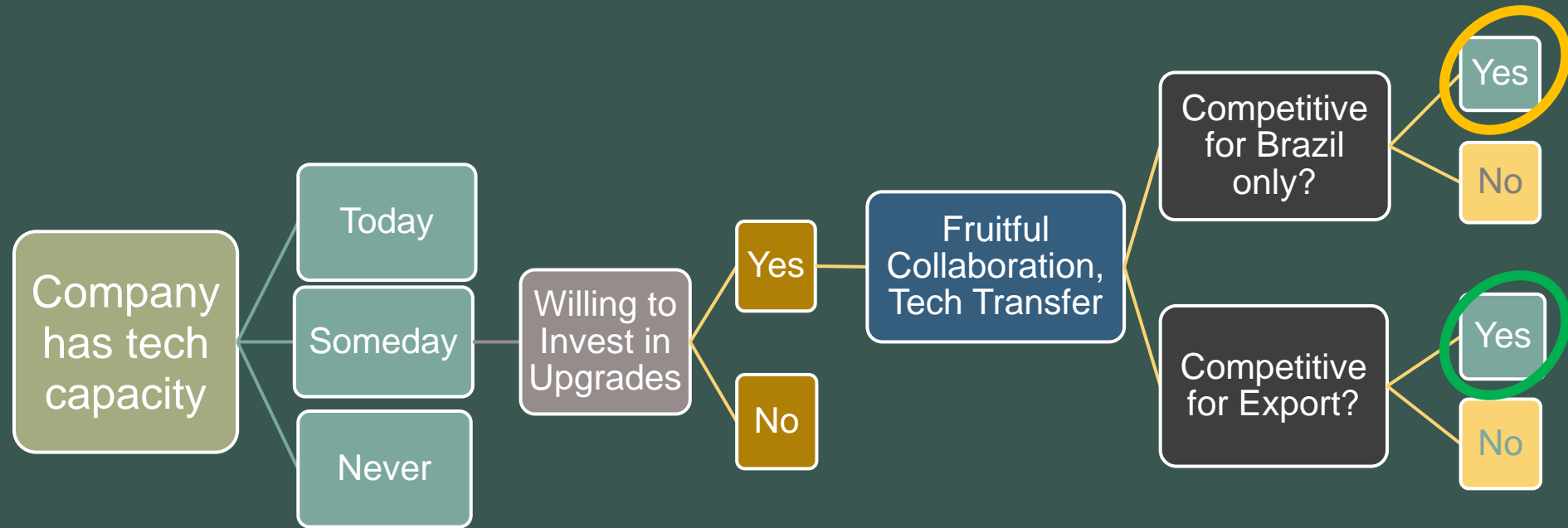
- Local content requirements for highest tech sectors
  - ▣ High value supply chain challenge
- Basic Productive Process (PBP)
  - ▣ Inflexibility with changes
- Educational Gap
  - ▣ Lack of skilled workers in key fields (STEM)

**To become more attractive for highest-tech investments, Brazil must address these challenges**

# Policy vs. Reality: High Tech

Policy	Reality
Local Content Requirements (LCR)	<ul style="list-style-type: none"><li>•Capacity, competitiveness are lacking; market yet to recognize</li><li>•Companies struggle to find appropriate partners and can fail to fulfill commitments made</li></ul>
Basic Productive Process (PBP)	<ul style="list-style-type: none"><li>•Rigid structure makes it hard for high tech companies engaged in constant upgrades</li><li>•Case-by-case negotiations lead to uncertainty and potential unfairness</li></ul>
Education	<ul style="list-style-type: none"><li>•Science without Borders is an important investment in the future, but hard to fill jobs today; visa policy can make even temporary importation of labor a challenge</li></ul>

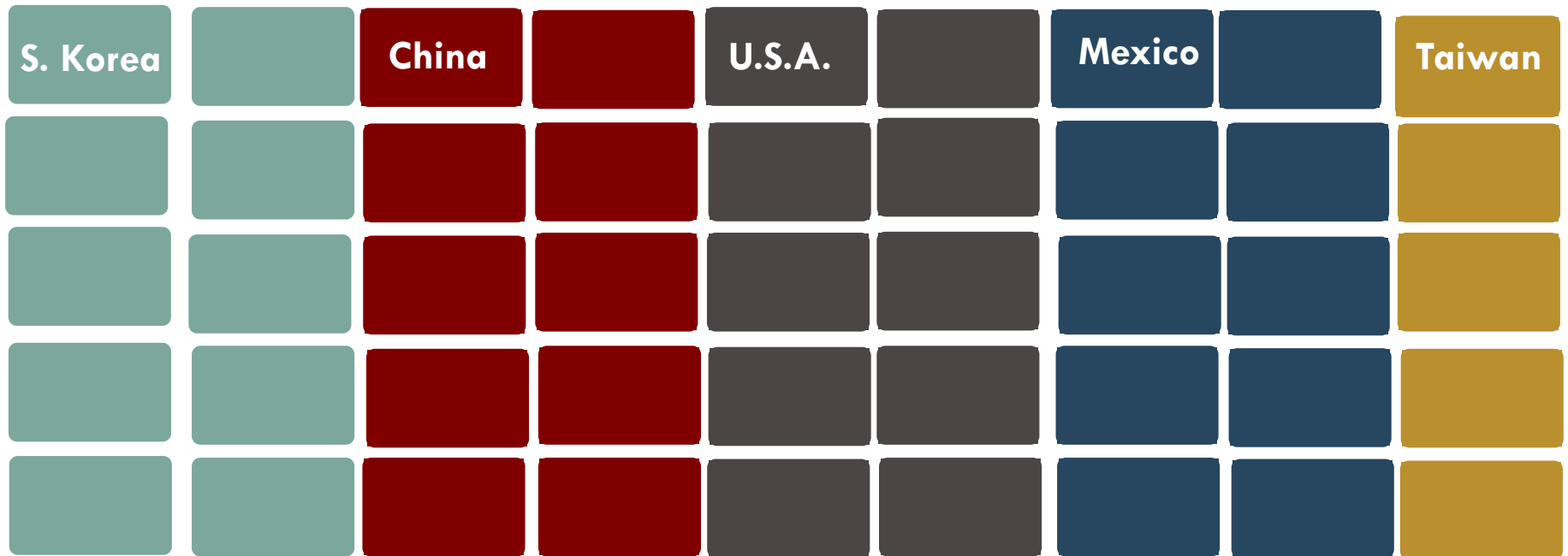
# Finding High-Tech Suppliers



Best Option 

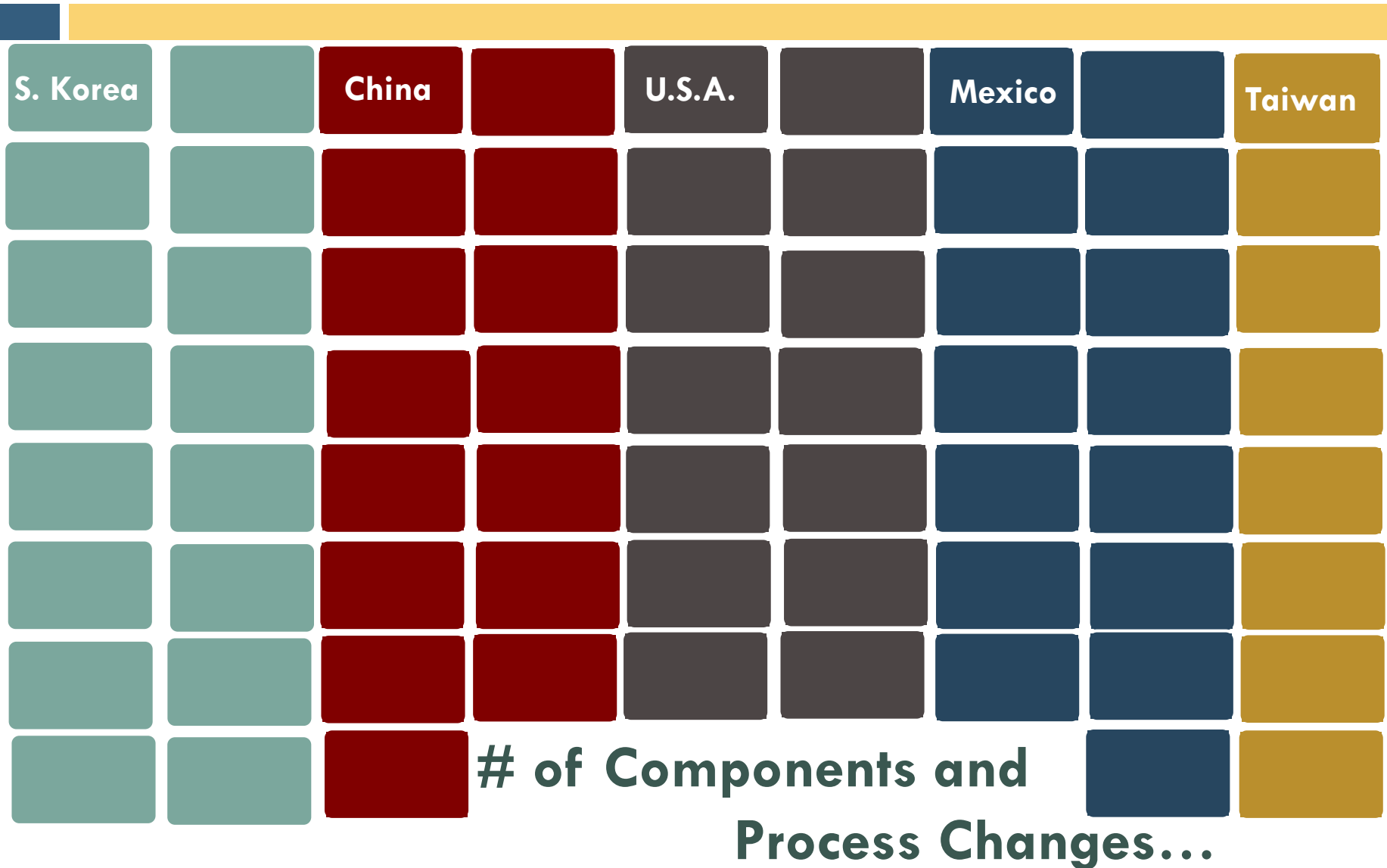
2<sup>nd</sup> Best 

## Supply Chain Complexity: # of Components



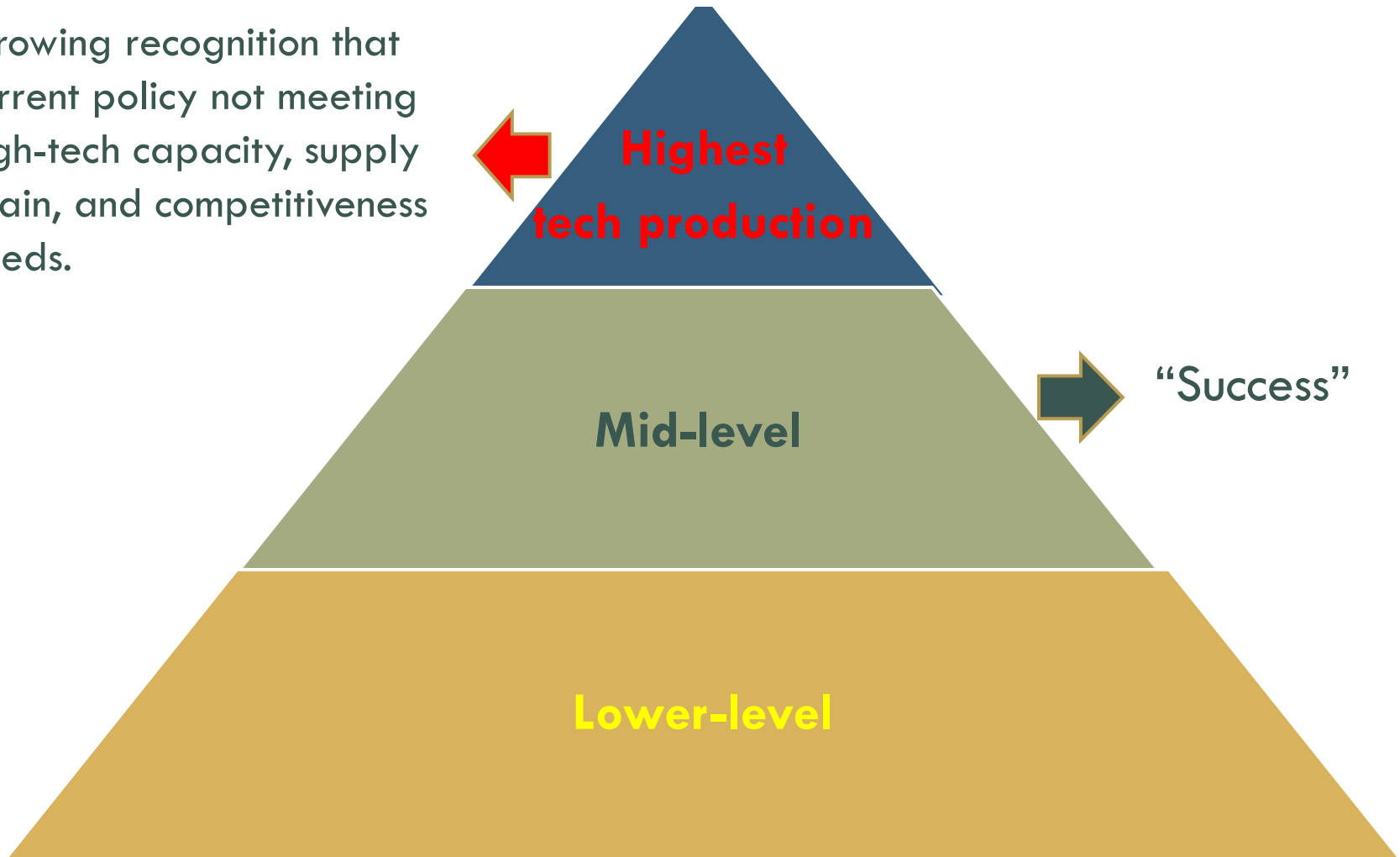


# With One Design Change...



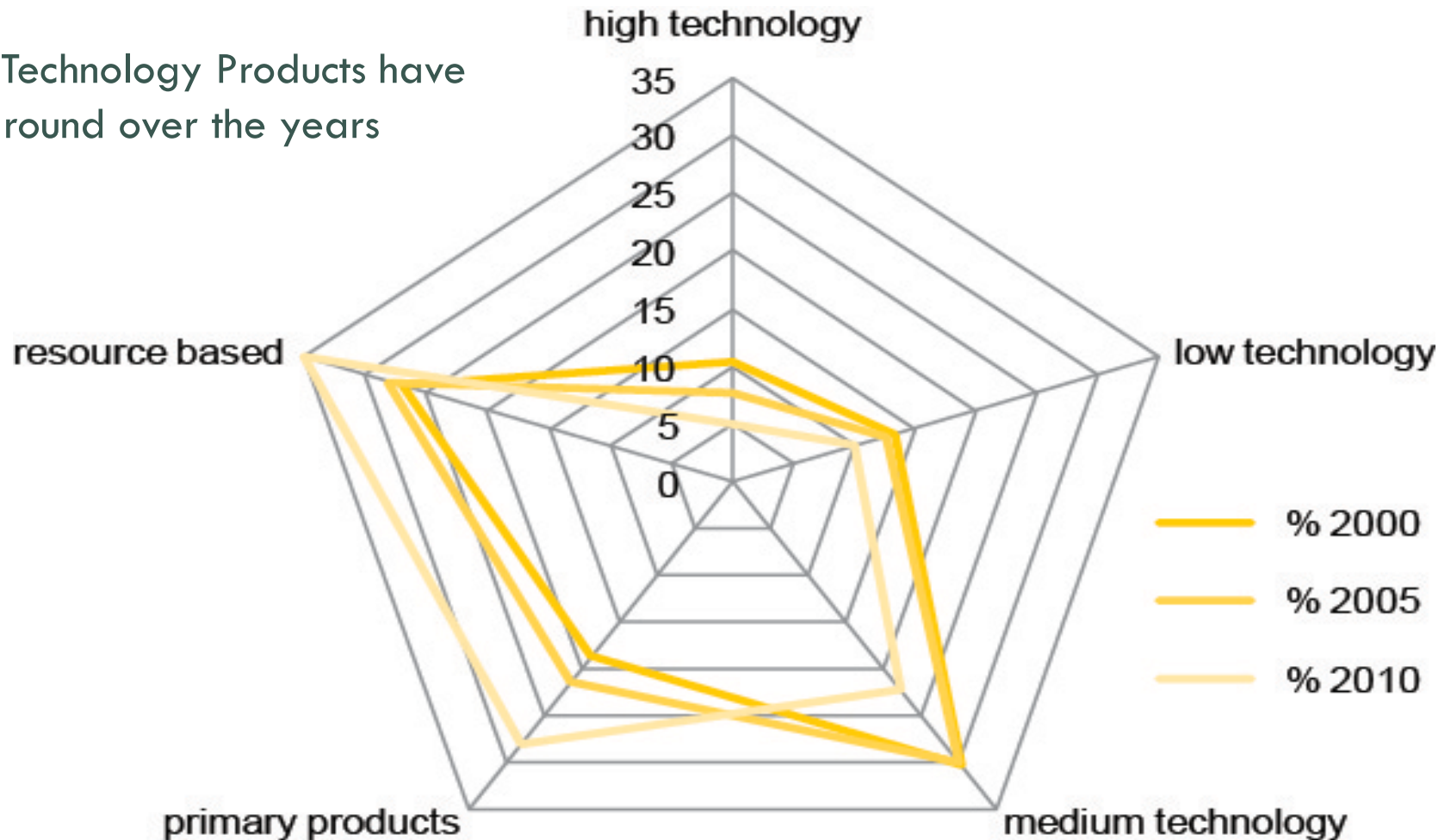
# What is the result?

Growing recognition that current policy not meeting high-tech capacity, supply chain, and competitiveness needs.



# Export Technological Content

High Technology Products have  
lost ground over the years



# A CALL TO ACTION

- ❑ Intensifying collaborative and constructive dialogue between the Government and key private sector players and trade associations representing high tech interests across sectors can help to tweak current policy to reflect reality, with a view towards more effective policies
- ❑ Result: truly encourage high tech investment in Brazil for the medium and long term

- ❑ Especially in these key sectors:

