Measures to bolster competitiveness

Brazil plans to use natural advantages, new policies to boost private sector

> **"Brazil has many great opportunities for investors, but we must improve our infrastructure such as roads, airports, ports and energy provision. We also need to be more industrially competitive."**
>
> PAULO SKAF
> PRESIDENT OF THE FEDERATION AND CENTER FOR INDUSTRY IN THE STATE OF SÃO PAULO

PROVIDED TO CHINA DAILY

Brazil's financial capital São Paulo

In 2009 Brazil climbed eight places to rank 56th out of 133 countries in overall competitiveness as other BRIC countries either climbed more slowly or even dropped significantly, as was the case for Russia.

After slipping back to 58th place in 2010, Brazil has climbed five places in this year's rankings to 53rd. Though, with China almost 30 places ahead ranked 26th out of 142 countries, many business leaders in the Latin American country are calling for new measures to significantly improve Brazil's performance.

Brazil recently announced that it would introduce new measures to shore up industry and encourage the private sector.

Brazil's booming economy and rising consumerism have led to an overvalued currency that poses challenges to the nation's industrialists and manufacturers to compete with affordable imported consumer goods.

The measures called "Bigger Brazil" intend to improve the competitiveness of Brazilian goods. "This is a defense of Brazil's industry, which faces an international market where competition is frequently unfair," President Dilma Rousseff said when she announced the measures.

Since 2008, the Brazilian currency — the real — has risen nearly 40 percent against the benchmark US dollar, resulting in increasingly expensive Brazilian exports and an influx of cheaper imports.

The new measures include $16 billion in tax breaks for the clothing, software and furniture sectors and other industries that have suffered from the currency's strength.

Those sectors will also be exempt from paying the mandatory 20 percent social security tax and there will be a refund of half a percentage point of the tax paid by exporters of industrialized goods. Eventually this refund could rise to 4 percent.

The government will also begin to favor Brazilian goods over foreign products in procurement by paying 25 percent over the market price if the product comes from a sector that generates more jobs, fosters development or inspires technological innovation.

Advantages

Brazil also has many natural advantages that will generate growth and encourage investment.

Investors are looking very closely at Brazil due to its abundant oil and gas, minerals, vast tracts of agricultural land and a long coastline coupled with a young population, an emerging middle class and its strategic location as a gateway to Latin America.

Two Chinese carmakers find the "Bigger Brazil" allays concerns about inflation and potential economic overheating.

Chery Automobile Co, China's biggest auto exporter, is investing heavily in Brazil. Construction has begun on a $400 million factory in the state of São Paulo, where over 33 percent of Brazil's GDP is generated.

Though the company is aiming to triple its market share in the country by 2015, it is not looking for a significant financial return for 10 years, showing a long-term commitment to the country.

The Brazilian market share for Chinese automakers grew to 3.3 percent recently from almost zero at the start of 2010.

Chery is now looking to boost its number of dealers from the current 82 to 150 in 2012.

Jianghuai Automobile (JAC) has also announced plans to build a factory in Brazil to produce 100,000 vehicles annually.

As the world's fourth-largest car market, Brazil could become the biggest sales opportunity for both carmakers outside of China.

The state of São Paulo is the largest Brazilian consumer market, with over 42 million people. Most people associate the name São Paulo with the city, but they often forget that there is a surrounding state the size of Spain that has more than 600 urban centers.

Investors have the advantage of being in the interior of the country with access to all surrounding areas and yet they can still service the biggest market in Latin America.

São Paulo city alone has a population of over 20 million consumers and their purchasing power is the highest in the country.

"The state of São Paulo offers everything — land, water, energy, a large consumer market and interconnectivity," said Luciano de Almeida, president of Investe São Paulo, the state's investment promotion agency.

He noted that a Chinese investor located its new factory in the state "because it needed to employ 6,000 people within three months and we are the only state that could meet the requirement".

Investment needed

De Almeida also knows that Brazil and his state need investors from China and help in building the state's infrastructure.

The fastest-built airport in Brazil still took eight years to finish. With major global events around the corner, the state is looking to foreign partners, and especially Chinese expertise, for assistance in delivering the necessary projects.

The Federation and Center for Industry in the State of São Paulo (FIESP) is also clear that all the opportunities Brazil and the state of São Paulo have to offer will require changes to attract investment.

"Brazil has many great opportunities for investors, but we must improve our infrastructure such as roads, airports, ports and energy provision," said Paulo Skaf, FIESP president. "We also need to be more industrially competitive."

As a mediator between the private sector and government entities in the state of São Paulo, FIESP will play a large role in moving the state forward.

There are clear indicators that Brazil has realized that it cannot simply ride the economic boom of recent years. It needs to act now to protect its advantages and deal with issues that may curtail further growth.

One area that needs fresh ideas to remain globally competitive is the innovative technologies sector.

Despite the belief by industry insiders that the sector has what it takes to stand out in the global market, its export revenue was short of the expected $3.5 billion in 2010.

Brazilian President Dilma Rousseff reacted by presenting a variety of financial incentives for IT firms, which have been pushing for measures to improve production capacity and expand exports.

In parallel with the new initiative, the Brazilian Ministry of Science and Technology is drawing up a new action plan on science that includes measures to expand R&D efforts.