STATE SCALE USED TO SPUR INDUSTRY

- FHC was more liberal and his main concern was to stabilize the economy
- Lula and Dilma are influenced by development economists and, with a stabilized economy, were able to implement a successive number of industrial policies

2004-2008	2008-2010	2011-2014
PITCE	PDP	BRASIL MAIOR

Central Planning

- **Establishment of maximum rate of return for investment on new infrastructure concessions**
- **Tax incentives and public finance to selected sectors**

Nationalist Approach

- **National champion policy implemented by BNDES**
- **Trade measures to reduce imports**
- **Preferential margins to domestic companies on public procurement**
- **National content requirements on various industries**

- Series of harmonized public policies backed by state funding mechanisms to promote domestic production, innovation and export sectors.
- In practice focus has been more on import substitution than traditional innovation, with exception of biofuels. Industrial output over services and even R&D.
- The program has become the defining structural platform not only for economic development but of the Rousseff government as a whole.
- For example, *Minha Casa Melhor* program directs subsidized credit to lower income consumers earmarked for purchases of domestically manufactured products.

- MNCs are encouraged to participate in program
- All that is needed is to establish local subsidiary or JV
- Brazil has always been open to foreign investment and our experience is that *Brasil Maior* can in some ways be seen as an incentive for some MNCs if approached correctly
- That being said, the market remains open to those wishing to operate outside of prevailing industrial policies
- However doing so can bring additional challenges…

CHALLENGES TO MNCS OUTSIDE OF INDUSTRIAL POLICIES

- Tax structure makes imports cost prohibitive

  Must consider local assembly – “doing the least” to be considered Brazilian

- Many business opportunities are linked to government purchases giving government leverage to force localization and chose winners.

  In some sectors MOST are.

- In less regulated industries, incentives are granted to local companies or complicit MNCs, which tilt the playing field.

- *These dynamics often lead MNCs to form a constructive relationship with government agencies implementing industrial policies.*

- Brazil continues to suffer from a lack of competitiveness and increasing de-industrialization
- Current policies have not been successful in addressing these issues
- Instead they have:

  -Consolidated the market in specific sectors

  -Incentivized local production of goods already on the market

  -In the case of oil and gas, actually handicapped the access to natural resources
- Metrics have not been very strict or have been absent

- Despite this reality, Brazil must invest heavily over the next decade to meet development goals in:
  - Infrastructure
  - Education / Innovation
  - Technologic Incorporation / Productivity
  - Exports
- These government objectives require coordination and cooperation with private sector, specifically MNCs.
- Companies that will benefit from this phenomenon are those that understand the Government's predicament and tailor their strategies accordingly.

- Global Supply Chains – generally optimized w/o Brazil playing a role
- Spillover to other jurisdictions – risk similar demands from other countries. Local partner could export to 3rd countries.
- Compliance – additional oversight needed
- Financing – Government agencies like BNDES/FINEP can bring ancillary benefits and defray “custo Brasil”; qualify you as local partner.
- Human resources – Local team autonomy is important.
- Forging local partnerships – e.g.: JVs and/or local distributors.

- Despite challenges, MNCs have a long track record of success in Brazil. Showing no signs of slowing down
- In the 80s and 90s international business went through the globalization process leaving Brazil on the sidelines.
- Players have realized that to profit in Brazil, they will have to adjust structures that have been optimized. In order to adapt to unique macro landscape.
- But the companies continue to come…

Tel+ 55 11 3816 3636
R. Diogo Moreira, 135
05423-010 | SP | Brasil
www.prospectiva.com