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.

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