Brazil needs a better business environment



Luiz Fernando Furlan

Former Minister of Development, Industry and Foreign Trade

Solange Monteiro, São Paulo

IN THE 10 YEARS SINCE his service as a minister in the first term of former President Lula, Luiz Fernando Furlan believes that Brazil has recorded important achievements, but "We are prolific in diagnostics and announcements but meager in delivering results." Now a member of the boards of directors of such large companies as BRFoods (the merger of Perdigão and Sadia) and Vivo phone company and of the advisory boards for Panasonic (Japan) and Walmart (United States), Furlan says that investors still want to invest in Brazil, but the country needs to prioritize and make infrastructure concessions more attractive to keep Brazilian companies competitive.

***The Brazilian Economy*—Do Brazil's external trade balance deficit and the signs of a U.S. economic recovery indicate that the world may be losing interest in financing Brazil?**

Luiz Fernando Furlan—I do not buy that idea. Capital inflows to Brazil are behind only those to the United States and China, which suggests that the Brazilian market is still attractive. Consider companies like Fiat, the Italian carmaker—whose operation in Brazil is larger than in Italy—and Vivo telecommunications, for which Brazil is the most dynamic market . . . We are not as beautiful as we looked, but not so ugly as we are sometimes depicted. Many entrepreneurs I know still have plans to invest in Brazil because of our large domestic market. And with the devalued exchange rate, some are also considering exporting.

But the trade balance has fallen from a surplus of US$25 billion in 2003 to a deficit of US$5 billion so far this year. Have we lost an important source of funding for domestic consumption?

In 2003 there was no way to wake up the Brazilian economy except to export. Brazil could not make public investments, owed

the International Monetary Fund (IMF) . . . , interest rates were high, and the Brazil risk was above 1,000 basis points. The foreign market was virtually the only way out. And that's what we did: look for markets abroad, focusing on traditional products to new markets and new products to traditional markets. The Brazilian Agency for Export Promotion of Exports (Apex) worked diligently. The productive sector responded positively. And global economic growth was favorable. . . . Our share in world trade increased from less than 0.9% to something like 1.3%—a gain of 40% in market share. Foreign trade grew, trade balance surpluses turned into international reserves, and foreign debt declined—all in 10 years. I'm not pessimistic about either the current situation or Brazil's future.

But now there are demands, virtually unanimous, from society and businesses that need to be taken into account: better infrastructure, less red tape, punishment of corruption, better education and health services. And many of them, surprisingly, do not depend on resources, credit, or financing, because that is there. They depend on execution.

The public sector view of costs and benefits is not economic, it is political. So investments are often cut across the board to avoid complaints from governors of different states, and we end up with half a bridge, a third of a hospital, a piece of highway.

When you were appointed minister, it was already well-known that to be competitive Brazil had to invest in infrastructure. But there has still been little progress. Where have we failed?

I was minister when the government launched the Growth Acceleration Plan (PAC) in 2007. Again, the problem is government inability to carry out [large projects]. . . . São Paulo state, the richest in the country, may take over 20 years to complete the beltway, about 170 km of highway with no major technological challenges. And why take 20 years to improve traffic flow, which makes the population waste at least an hour of their day and generates more pollution and fuel consumption? . . . There is a lack of vision. In the private sector, if you have 10 projects scheduled and for some reason need to reduce your investment, you do not make cuts in all 10 across the board; you move forward with those that are more relevant and have a higher rate of return, and postpone the rest. Because the public sector view of costs and benefits is not economic, it is political, investments are often cut across the board to avoid complaints from

The solutions to the problems that plague Brazil today lie within the country.

governors of different states, and we end up with half a bridge, a third of a hospital, a piece of highway. … We are prolific in diagnostics and announcements and meager in delivering results.

I am an advocate of [environmental] sustainability, but also of rationality.

One of the main obstacles to major infrastructure projects in Brazil is environmental licensing. As chairman of the Sustainable Amazon Foundation, how do you see this situation?

Brazil has one of the more environmentally sustainable economies in the world. It has committed to reducing its CO_2 emissions by up to 39% by 2020 and unlike most other countries it can do that without major economic impact. That's because most of the emissions are related to setting fires, cutting trees, and deforestation to make pastures. These activities are being reduced with the collaboration of the private sector, as in the Amazon region, where slaughterhouses have pledged not to buy cattle from illegal areas, and the soy moratorium, which prevents planting in preservation areas. But we live with crazy overkill [regarding preserving the environment]. For example, near Congonhas airport, there is a parking lot. It took seven years to build because a group of neighborhood residents got an injunction against removal of 52 trees, even with the promise of planting trees after the work . . . I am an advocate of sustainability, but also of rationality.

When the public sector wants to arbitrate so many variables, investments become less attractive. A higher-risk investment should be awarded a higher rate of return.

Some say that one reason the economy is not recovering fast is the lower return on capital in Brazil as the government caps rates of return for concessions. Do you agree?

When the public sector arbitrates so many variables, investments become less attractive. A higher-risk investment should be awarded a higher rate of return. . . . Look at what happened with the tender for a high-speed train between Rio and São Paulo cities: it was suspended because only one company was interested. That is suggestive. We need to be aware of how much what we do not have is costing. Standing hours at the airport, for example, is expensive for both users and for the operating company. The main effect ultimately is a systemic loss of competitiveness for Brazilian companies.

Another example is the Port of Paranaguá in Santa Catarina state in southern Brazil. . . . One day I traveled to Santa Catarina, and when the plane passed over Paranaguá, there were more than 100 ships there. If you estimate the cost

of a stopped ship at about US$25,000 a day, that's throwing away US$2.5 million a day. Would US$2.5 million dollars a day pay for infrastructure improvement? . . . In the four months of the crop exporting season, the total loss is US$300 million. This money is paid by producers. … It is hard to explain why the cost of unloading a container is so much higher in Brazil than elsewhere. Peru has the most efficient port in South America. When we see that the infrastructure in other countries was built by Brazilian companies, clearly there is no lack of ability to execute [large projects].

Today, in Mercosur no member understands the others.

Must entrepreneurs operating in Brazil learn to cultivate patience?

On the contrary, it is necessary for them to be *impatient*. In the public sector, the most comfortable position is to say no, because that way you will never be sued. Therefore, it is important to reduce bureaucracy. When you create an automated system such as an electronic auction, you take away the power of people to be arbitrary and change the avenues of power. A few years ago in a friendly chat with then-Portuguese Prime Minister José Sócrates, I commented that Brazil suffered greatly from the Iberian heritage of notaries, stamps, notarization, and registration. He replied that Portugal had evolved: it had no official daily paper requirements, only electronic; and opening a company took only a few hours. In Brazil, we also tried to simplify company registry. The bill was stuck in Congress for several years, and was approved only after I left the government. Initiatives like this are important.

Are you optimistic about a trade agreement with the EU now?

At the first meeting of the World Trade Organization that I attended as a minister, the Japanese minister said Japan had no bilateral agreements. Ten years later, look at how many the Japanese have! They changed because others have changed. Chile, Colombia, and Peru also made trade agreements, but Mercosur has a rule that a member cannot make deals out of the bloc. Today, in Mercosur no member understands the others. Each passing day increases the list of exceptions to agreements signed by Mercosur countries. Should we stay tied to Mercosur?

What are the main global risks for our economic recovery by 2015?

The solutions to the problems that plague Brazil today lie within the country. If we can do our part, the external threat will be lessened greatly . . . If China demands less iron ore, how many people in Brazil are dependent on iron production? Not many . . . Will China demand less soy? It may. But there is an international market that regulates the price; Brazil is more productive than the U.S., and if Brazil solves its infrastructure problems, our commodity exports will be more competitive. . . . Also, improved productivity

would lower prices for consumers, which would also create additional demand.

As we approach the presidential elections we are troubled by inflation. What do you expect the government to do about it?

As Bill Clinton said in his first election: "It's the economy, stupid." Former President Fernando Henrique Cardoso used to say that when the price of the basket of basic staples rises, government approval plummets. We are now used to living with inflation stabilized at near 6%. How do you break this trend? A predominant source of inflation is the service sector, where productivity is less than in product markets . . . Will the economy be worse in 2014 than today? That is not very likely. Government approval bottomed out shortly after the demonstrations, and now the government is recovering some of its popularity. Moreover, the demonstrations attracted attention to the need to deliver results. Bringing in foreign doctors, although controversial, is a response to a popular demand. Public works will also accelerate. All this will happen during the presidential election campaign.

President Rousseff will have to convince voters that the four years of her first mandate were valuable in a context in which people's aspirations have changed, especially for those who had real income gains during this period.

I'm not pessimistic about the future, but Brazil must overcome certain dogmas. One, as I mentioned, is not being tied up by Mercosur. The other is that it's time to show results. Former President Lula was elected to a second term because of achievements in his first term . . . President Rousseff will have to convince voters that the four years of her first mandate were valuable, in a context in which people's aspirations have changed, especially for those who had real income gains during this period. ■



The BRAZILIAN ECONOMY

Subscriptions

thebrazilianeconomy.editors@gmail.com