BRAZIL NEEDS ECONOMIC REFORM POLICIES THAT IGNITE BUSINESS

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Slammed by COVID-19, can Brazil's economy pivot? As Economy Minister Paulo Guedes frankly admitted last month, Brazil came close to fiscal collapse; but the economy is now in recovery. To ensure things stay on track emergency pandemic assistance for informal workers and the unemployed will continue for 90 days, as the entire country should have received a least one dose of a vaccine by then.

The Central Bank seems upbeat with stronger than expected data, decent performance in job preservation, and high commodity prices. As such, Brazil's central bank has raised its economic growth outlook for this year to 4.6% from 3.6%. By sector, services—70% of all economic activity—is projected to grow from 2.8% to 3.8%, agriculture from 2.0% to 2.5% and industry from 6.4% to 6.6%.

What the Central Bank omits, however, is that the government is running near empty in pumping any more fiscal or monetary stimulus into the economy. The labor market is lackluster, price pressures have increased, and earnings and income are weak. Private consumption is down and low-income households have been pummeled on both the health and financial fronts. With high inflation and a blow to real incomes adding to consumers' troubles, it will be a slow, hard climb back to even the mediocre numbers registered by Brazil even *before* the pandemic hit.

Be that as it may, the perpetual ebb and flow of economic and financial cycles, commodity supply and demand, and currency valuations makes the environment for doing business in Brazil perpetually challenging.

However, the biggest impediment to Brazil's pivot to economic and business resurgence is *microeconomics*, such as competitiveness, supply, demand, prices, productivity, and labor economics. For example, the World Economic Forum's pre-pandemic report on competitiveness ranks Brazil 71st among 141 countries, behind Armenia and Kazakhstan; and in digital competitiveness it ranks 51 among 63 nations, with poor digital and technical skills, limited or no training within private sector and the failure to attract foreign highly skilled professionals.

When it comes to actually doing business, the World Bank ranks Brazil 124 out of 190, down from the year before. The private sector faces high taxes and import tariffs, a complicated tax system, cumbersome regulations, and inadequate IPR protection. In the World Economic Forum's Executive Opinion Survey of regulatory and legal burdens, Brazil and Venezuela scored lowest among 137 country sample.

The good news is that the Brazilian private sector is strong and competitive in a range of vitally important industries. World class companies such as Banco Itaú, Bradesco, AB InBev, Vale, JBS and Gerdau dominate the landscape. In fact, Petrobras, JBS and Vale take the top three spots of *Latin Trade's* "Multilatina Index" for the first quarter of 2021, and Brazilian firms account for 7 of the 10 highest growth firms in Latin America.

As Afonso and Maria Tereza Fleury point out in their groundbreaking book on Brazilian multinationals, windows of opportunity at the global level and waves of internationalization, combined with organization and managerial competencies, explain the winning formula of these world class companies.

At the other end of the corporate spectrum, Brazil's start-up community has been growing, and the country has the most venture capital funds of any nation in the region. Brazil is home to Wildlife Games, the largest mobile-gaming company in Latin America, and 5 of the 10 most innovative companies in the region ranked by *Fast Company* are Brazilian. Start-ups such as NuBank, Gympass, Easy Taxi, iFood, Quinto Andar, and Cargo comprise best case studies of entrepreneurship in new venture creation. With 40 innovation parks and over 350 business incubators, Brazil is poised to dramatically expand both its start-up and later-stage business enterprises.

And to fuel competitiveness at the firm level, Brazil is blessed with a number of excellent schools of business, engineering, computer science and design. They are producing talented young people who, in most cases, enter academic study already possessing several years of work experience. They are technically adept, multilingual, and driven to succeed.

As the Latin American region grows nearly 6% this year, propelled by Brazil and Mexico, it remains to be seen whether Brazil can remedy many of its institutional deficiencies and seize the expected economic opportunities that will present themselves in a post-pandemic environment.

If Brazil is to compete in this new environment, the winning formula for the nation's competitiveness is and has been the same for decades: a favorable external environment, sound fiscal and monetary policies, microeconomic reforms and companies that are resilient, agile, entrepreneurial and well-managed. This is the only combination that will produce long hoped for results, domestically and internationally for the world's 12th largest economy.

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