

DISTRIBUTION OF NEW INVESTMENTS IN BRAZIL BY SECTOR AND BY STATE: 1996 – 1998

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ABSTRACT

The scale and profile – by industry and by state – of investments announced in Brazil during 1996, 1997 and 1998 indicates forthcoming significant changes in the geographical distribution and weighting by sector of Brazilian industry, retailing and services. The study shows that in spite of the Asian and Russian crises the favorable conditions for investment – and thus economic growth – have persisted. Announced investments were primarily in consumer goods sectors in 1996, followed by petrochemicals, steel and chemicals in 1997 and 1998 – tending to consolidate the context of sustained growth for the coming years.

During the next three years we can predict that the decentralization – outwards from São Paulo State – will continue and that the governments of individual states are of great importance in the creation of a favorable environment for increased private-sector investment.

1. Introduction

After the Asian crisis, in late 1997, the high domestic interest rates in Brazil restrained credit, and consequently production and employment, while at the same time forcing the public deficit to increase due to the government's need to issue new debt to service debt previously contracted.

As in 1997, the Russian crisis in August 1998 again showed the flexibility of short-term foreign capital in its quest for arbitrage gains on the difference between Brazilian and international interest rates. Once again, the government was forced to ask for help from the IMF, and accepted its recipe of further increases in interest rates and drastic cuts in the public budget.

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1999 began with deep uncertainty, caused by both the domestic and international monetary markets, the fiscal crises of the governments of Brazil's individual states, and the changes in the FX regime. Also, the new state governors in the majority of cases found fiscal situations seriously prejudiced by excessive spending on personnel and the "payroll" of retired and inactive workers, and by the limited possibilities of balancing their budgets without direct help from the federal government, since practically all the ways of "issuing currency" by using the state banks had now been abolished – almost all the state banks having been privatized or being in the process of privatization.

After a long period of a rigid exchange rate band and deterioration in the trade balance, the Central Bank floated the exchange rate with a view to its reaching a level accepted by the market, and one which would serve as a stimulus for exports. To avoid the return of inflation, a decision was taken to replace the "exchange rate anchor" by an "interest rate anchor", increasing interest rates as a mechanism of restraining consumption, and restraining re-indexation of the Brazilian economy.

In this turbulent context, the increase in uncertainty has resulted in many investment decisions being postponed, and this has been the tone of many interviews by business people and executives of industry associations. In contrast to this, however, announcements that previously-decided investments will be maintained (seeking to demonstrate confidence in the country) have also been frequent. Indeed, these statements, which have now been a feature of the news media for several months – especially after August 1998 – have resulted in the total of investment announced (some US\$ 107 billion, up to December) reaching a high total, equivalent to that of 1996.

The new feature in 1998 was the extraordinarily high number of new plants being started up, as a result of the investment decisions of 1995 and 1996. Among the largest are the Renault

automobile plant in Greater Curitiba (Paraná State), the vehicle body plant of the Fiat-Stola joint venture in Greater Belo Horizonte (Minas Gerais State), the Volkswagen motor unit in São Carlos (São Paulo State), the Glaxo_Wellcome pharmaceuticals plants in Greater Rio de Janeiro (Rio de Janeiro State), the Lucent switching devices plant in Campinas (São Paulo State), and the Vonpar canned soft drinks unit in Greater Porto Alegre (Rio Grande do Sul).

From 1996 to 1998 the Brazilian economy, with all its ups and downs, was able to send out a signal that it was preparing itself for a period of sustainable growth, as it passed from a phase of announcement of investments in the consumer goods sector (1996) to a period of announcements of investments in basic products and infrastructure (1997 and 1998). The volume of announcements of investments in these years, especially in 1997, was extremely high, preparing a promising scenario for the subsequent years. A major challenge now facing the Brazilian economy is not to allow the period of stabilization and reduction of uncertainties to be characterized as a “mini-bloom” of investments brought to a close by the Brazilian market’s limited capacity to sustain expansion. From this point of view, 1999 is a key year for the elimination of uncertainties since, even if investment decisions are taken on the basis of long-term variables, the external repercussions of the local pressure in Brazil could act as an inhibiting factor on the entry of foreign companies fearing instability in the country’s institutional ground rules, and the vulnerability of its financial markets.

2. Distribution of Investments by Sector

The investments announced² in 1998 were at the same levels as the total announced in 1996. The sectors which showed significant growth over 1997 were telecommunications (116.8%), tourism, shopping and leisure (43.3%), and transport (255.5%), as shown in Table 1.

TABLE 1

Intentions of investments announced in 1996, 1997 and 1998, by sector

SECTOR	INVESTMENTS announced in 1996 (US\$ million)	%	INVESTMENTS announced in 1997 (US\$ million)	%	INVESTMENTS announced in 1998 (US\$ million)	%	1997/96 (%)	1998/97 (%)
Infrastructure	27,097	25.2	46,667	38.1	27,547	26.0	72.2	-41.0
Mechanical/Metal	15,539	14.5	12,234	10.0	12,653	11.2	-21.2	3.4
Telecommunications	9,851	9.2	8,531	7.0	18,492	17.2	-13.4	116.8
Foods, Beverages and Tobacco	9,559	8.9	6,754	5.5	5,184	4.8	-29.3	-23.2
Petrochemicals	8,980	8.4	11,186	9.1	11,064	10.4	24.6	0.0
Steel	5,897	5.5	5,928	4.9	4,500	4.2	0.5	-24.1
Paper and Pulp	4,067	3.8	4,770	3.9	2,240	2.1	17.3	-47.0
Tourism, Shopping and Leisure	4,063	3.8	4,033	3.3	5,778	5.5	-0.7	43.3
Household Appliances	3,741	3.5	2,218	1.8	1,513	1.4	-40.7	-31.8
Services	2,917	2.7	1,946	1.6	1,954	1.8	-33.3	0.0
Financial	2,860	2.7	2,471	2.0	610	0.6	-13.6	-75.3
Mining	2,721	2.5	1,776	1.4	1,951	1.8	-34.7	9.9
Chemicals, Plastics, Fertilizers and Pharmaceuticals	3,791	3.5	4,157	3.4	3,611	3.4	20.5	-13.1
Trade	1,911	1.8	3,574	2.9	1,755	1.6	87.0	-50.9
Transport	696	0.6	1,235	1.0	4,391	4.1	77.4	255.5
Textiles and Fashion	654	0.6	921	0.8	118	0.1	40.8	-87.2
Footwear	146	0.1	155	0.1	88	0.1	6.2	-43.2
Farming	117	0.1	55	0.0	90	0.1	-53.0	63.6
Other industrial	2,788	2.6	3,748	3.1	3,838	3.6	34.4	2.4
Total	107,395	100.0	122,359	100.0	107,377	100.0	13.9	-12.2

Sources: *Gazeta Mercantil, O Estado de S. Paulo, Folha de S. Paulo, O Globo, Jornal do Brasil.*

¹ The announcements of investments used in our data base are those for more than US\$ 5 million which were reported during the year (repetition from one year to the next is possible) by the newspapers *Gazeta Mercantil, O Estado de São Paulo, Folha de São Paulo*, and *Jornal do Brasil*.

++1. “?pode haver repetição” parece não ser claro o bastante em termos de descrição dos dados estatísticos++

++2. Muitas linhas “fonte” incluem O Globo também++

The telecommunications sector was the most widely publicized in 1998, due to the federal government's privatization program, which represented a total of US\$ 23.9 billion, including revenue from sales and transfer of debt from the public to the private sector. The companies privatized in the year were the federal fixed-line and long-distance companies (Telesp, Tele Centro Sul, Tele Norte Leste and Embratel) and the "A" band cellular telephone companies (Telesp Celular, Tele Sudeste Celular, Telemig Celular, Tele Celular Sul, Tele Nordeste Celular, Tele Leste Celular, Tele Centro Oeste Celular and Tele Norte Celular). During the period, concessions to operate cellular telephony services on the "B" band were also granted – the country was divided into 10 areas for these concessions.

After the auctions, investments totaling US\$ 10 billion in the recently-privatized services were announced, covering all the regions of the country. The remaining US\$ 8.5 billion of the total shown in the table for 1998 represents investments in: expansion of the cable TV and wireless pay TV services (Alusa, KTV, Tec Sat and TV Cidade); expansion of paging, telemarketing, call center and trunking services (Algar, Damos, Directel, Mextel, Mobitel and Teletrim); and building and/or expansion of fiber optic networks (Embratel, MetroRed and Netstream).

Announcements of investments in the tourism, shopping and leisure sectors, of which the volume increased 42% from 1996 to 1998, were largely in undertakings by international hotels chains, such as Accor, Blue Tree, Club Méditerranée, Maksoud Plaza, Marriott and Meliá, and in construction and/or expansion of 30 shopping centers in various Brazilian cities and towns, including some medium-sized towns.

The total of investments announced in the transport sector increased strongly with the purchase of numerous aircraft by the airlines TAM and Varig. The increase in passenger traffic forced these companies to move forward with expansion plans. The reduction in air

fares charged, and the effect of increased competition between them, were major attractions to passengers in 1998.

Transport infrastructure was also an area of significant development in 1998: the railroad concession holders Centro-Atlântica, Ferroeste, Ferronorte and Ferropasa announced investments of some US\$ 2.4 billion in recovery of track quality and modernization of rolling stock up to the year 2002.

Although some announcements of investments in the infrastructure have low credibility, some highway projects were able to be included in this survey³, due to the degree of commitment on the part of the concession holders undertaken as contractual obligations in accordance with the formal privatization offers for concessions. These examples include the construction of the downward route for the Anchieta-Imigrantes highway system (Ecovias), recovery work on the Curitiba-Apucarana highway (Rodonorte consortium), the expansion of the Campinas-Casa Branca highway from two lanes to a four-line divided highway (the Encalso/Paulista/Sempar consortium), construction of the São Paulo Beltway (the *Rodoanel*), and repairs and modernization of the Raposo Tavares and Castelo Branco highways in São Paulo State. [++MG I think typist left out the reference to the marginais Tietê and Pinheiros, which B Gould used to describe as beltways \(I no longer have the original?++](#)

In almost all the other sectors the volume of investments announced fell from 1997 to 1998. In infrastructure, the reduction was largely due to the pre-privatization phase of the electricity generation sector. As also happened with the companies in the telecommunications sector in 1997, a period in which a major effort to invest was made by the state companies to put their finances in order and make them attractive for new investors, which continued up to a few months before privatization, was followed by a subsequent period of lower investment activity before the new private-sector managements resumed investment, in projects to create new telephone networks and expand existing ones.

² In the case of transport infrastructure, our criteria for inclusion of announced investments were even more stringent, since funding had not yet been found for some of the investment announcements made.

During 1998 the state-controlled electricity companies were undergoing this phase in which investments were slowed down. On the one hand ~~During this period~~ (i) some ~~of the~~ stock in some distributors, such as Coelba, Cerj and Cemig, had already been sold or was in the process of being sold; (ii) control of the generating company Gerasul was sold; (iii) concessions were sold for the distributors Bandeirante, Elektro and Eletropaulo in São Paulo, Celpa (*Centrais Elétricas do Pará*), Coelce (*Companhia Energética do Ceará*) and Cosern (*Companhia Energética do Rio Grande do Norte*). On the other hand ~~At the same time~~ the processes of preparation of major energy generators such as Furnas (*Furnas Centrais Elétricas S.A.*), Chesf (*Cia. Hidrelétrica do São Francisco*), and Eletronorte-Tucuruí (*Centrais Elétricas do Norte S.A.*), and some smaller distributors in Piauí, Rondônia and Acre, were still underway. However, of the US\$ 19.4 billion in investments announced by the energy sector, some 64% were private-sector projects such as Cataguazes Leopoldina, British Gas, Coelba, Enersul, Enron, Entergy, Light and Tractebel.

Announcements of industrial investments have been falling continuously as a percentage of the total of investments announced: from 53.9% in 1996, to 44% in 1997 and 41.9% in 1998. This percentage fell from 1997 to 1998 in practically all the industrial sectors – 1997 was considered to be an exceptional year for attraction of investments.

During 1996, the outstanding sector in terms of intentions to invest was producers of consumer goods, including mechanical industry, household appliances, foods and beverages, principally as a result of the improvement in the level of consumption provided by the stabilization of the economy. In 1997, the outstanding areas in announcements of investment were the petrochemicals, chemicals, steel and paper and pulp industries – principally in expansion of capacity to provide the conditions for economic growth to be sustained.

As Table 2 shows, this situation was confirmed in 1998. Producers of consumer goods maintained the tendency to announce a lower proportion of intended investments – with the exception of the mechanical sector, which continues with projects to invest in new vehicle assemblers and in a more dense production chain: examples are (i) the investment in new units producing motors, such as those by Renault and Chrysler/BMW, and (ii) investments in plants to produce auto parts and electrical or electronic components close to the new units of the vehicle manufacturers Mercedes Benz, Fiat, Renault, Peugeot, Ford and General Motors.

TABLE 2
Investment intentions announced in 1996, 1997, and 1998
Broken down by industry in percentage terms

Industry	1996	1997	1998
Mechanical	21.0	20.1	23.7
Foods, Beverages and Tobacco	16.5	12.6	11.1
Petrochemicals	15.6	20.7	23.7
Steel	10.2	11.0	9.6
Paper and Pulp	7.1	8.9	4.8
Appliances	6.5	4.1	3.2
Metal Working	5.9	2.5	3.4
Mining	4.6	3.3	4.2
Chemicals (Plastics, Fertilizers and Pharmaceuticals, Hygiene and Cleaning Products)	5.2	7.7	7.7
Textiles and Fashion	1.1	1.7	0.2
Footwear	0.2	0.3	0.2
Other	4.8	7.0	8.2
Total	100.0	100.0	100.0

Sources: Gazeta Mercantil, O Estado de S. Paulo, Folha de S. Paulo, O Globo, Jornal do Brasil.

Investments announced by the petrochemicals sector increased as a percentage of the total mainly as a result of Petrobrás's investment program, which was much publicized by the press: firstly, because demands for raw materials by the chemicals sector increased and oil exploration and production in the Campos basin (Rio de Janeiro State) was being expanded; and secondly because of the constant attention focused on the company by the public and by

the government. The prospects of ending the monopoly on exploration for the new oilfields, and of greater control on the company's activities, was an incentive for Petrobrás to give greater publicity to its projects, and to its merits – especially because Petrobrás's volume of investments had always been significant. However, as a response to the opening up of new areas for oil exploration, other companies, too, announced investments in 1998 – these included Texaco and Thyssen (a refinery in Ceará).

The restructuring of the petrochemicals sector has also been a source of attraction for foreign capital. Two factors are (i) the mosaic of crossover stockholdings in the Brazilian basic chemicals producers, which tends to inhibit the freedom of strategic decisions, and (ii) the sector's financial fragility, which inhibits it from meeting its needs for increased scale (which are ~~the-dictated by result-of~~ international factors).

A third factor attracting investment, ~~at~~ not only from non-Brazilian investors, has been the process of integration within the industrial chain, which would make possible efficiency gains through partnerships, relationships and associations [Montenegro, Monteiro Filha e Gomes (1999)] and would in the long term serve to eliminate the price instability which is a feature of the sector. An improved predictability of demand, resulting from partner relationships, adjustments to production capacity and development of homogeneous financial conditions, could reduce the effects of the high variability of prices – and consequently the sector's periodic crises.

The fact that investments announced by the chemicals sector remained at the same percentage (7.7%) of total industrial investments from 1997 to 1998 ~~(7.7%)~~ reflected the changes in the sector: the increase in vertical integration in the production chain (BASF, Degussa, Dow Chemical, DuPont, Elekeiroz, Gexon, Merial, Novartis, Prodome), the increase in diversification of products (Akras, Fortilit, GPC, Procter &

Gamble, Shell, Votocel), and some construction of new units to take advantage of location advantages (Dyno do Brasil ~~at in~~ Araucária, Fairway Filamentos at Alfenas, Glaxo ~~_~~ Wellcome in Rio de Janeiro, Medobil in Porto Alegre, Monsanto at Camaçari, Perez Comp ~~a~~nc ~~at in~~ Triunfo, Roche in Rio de Janeiro, and white Martins in Imperatriz, Belém and Manaus).

The steel sector began a program of investments in 1996, and has kept to its established schedule (US\$ 6 billion by the year 2000). However, since the world steel industry has been going through a serious crisis of excess supply and increased price competition which is reflected in Brazilian exports, Brazilian steel-makers have sought to build the capacity to compete in the global market, which is only possible if both concentration and specialization increase.

Similarly to petrochemicals, the structure of the Brazilian steel industry is a mosaic of crossover stockholdings. We expect a restructuring of the stockholdings in the sector to focus on strengthening of the capital structure of Brazilian companies, to ensure the continued presence of Brazilian steel products in the world market.

A simultaneous development is the possibility of the use of minimill⁴ technology to produce flat steels in some regions of the country. At present, the only project under way is that of Companhia Siderúrgica do Ceará (CSC), but the advantages of a smaller-scale operation in relation to those of a fully-fledged integrated steel producer, tend to strengthen the possibility of regional markets being developed [Andrade, Cunha e Gandra (1999)].

In contrast to 1997, when almost all the companies in the paper and pulp sector announced investments, in 1998 the only investments announced – totaling US\$ 2.2 billion – were those of Cenibra, Klabin, VCP and Veracel.

³ This technology enables the blast furnace stage to be eliminated by the use of pre-reduced pellets (~~sponge iron~~ ~~ferro-esponja~~).

Although this total was 47% lower than in 1997, this volume of ~~an~~-announced investment is in line with the needs of the sector [see BNDES (1998a)], estimated at US\$ 8.8 billion for the period 1998/2005.

3. Distribution of Announced Investments by State

1997 showed a strengthening of the ~~conclusion results found in of~~ a previous study [Rodrigues (1998a)], that ~~investments were a de-concentration of investments~~, away from the municipality of São Paulo, ~~was occurring~~ with the central “axes” of production and distribution expanding in the direction of the states of the Northeast and the South. The states of Paraná, Rio Grande do Sul, Bahia and Ceará ~~were~~ seen as accounting for a considerable proportion of the announcements of investments, with the possibility of recovery in Rio de Janeiro and also of continuation of the growth trend in Minas Gerais.

The breakdown ~~by state of announced~~-investments ~~announced~~ in 1996, 1997 and 1998 ~~by states~~—is shown in Table 3. The figures suggest that the relative ~~de-concentration~~~~deconcentration~~ continued, to the benefit of not ~~only~~ one state, but several. The first state to become the source of a high volume of investments was Minas Gerais – perhaps the state most prepared, from the point of view of maturity of its institutions, to promote coordinated actions to improve the environment of attractiveness ~~of~~for companies.

The probable development of Minas Gerais is similar to that of São Paulo in the 1980s: diversification and increase of the number of industrial sectors present in the state, with ~~de-concentration~~~~deconcentration~~ of capital. The distribution of the new investments indicates the degree of maturity and diversification of the production chains in mechanical industry, and the transport materials, metal working and foods sectors. Further, the Minas Gerais state Planning Secretariat (Seplan – MG) says that only some 14% of the total of investments scheduled for the period 1995-2000 are in the metropolitan region of Belo Horizonte (the state capital) and

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that this is the result of an integrated action, strongly directed to deconcentration, by Indi ~~++explicar o que é?++~~, the Minas Gerais State Development Bank (BDMG), the State Government itself, and the Minas Gerais Industries' Federation (Fiemg).

TABLE 3
Investment intentions announced in 1996, 1997 and 1998
Broken down by State

STATE	Announced in 1996 (US\$ million)	%	Announced in 1997 (US\$ million)	%	Announced in 1998 (US\$ million)	%	1997/96 (%)	1998/97 (%)
São Paulo	23,681	22.1	24,534	20.0	19,154	17.8	3.6	-21.9
Minas Gerais	12,935	12.0	11,451	9.4	8,583	8.0	-11.5	-25.0
Rio de Janeiro	7,407	6.9	10,650	8.7	12,915	12.0	43.8	21.3
Rio Grande do Sul	5,164	4.8	8,420	6.9	7,930	7.4	63.1	-5.8
Paraná	5,119	4.8	13,116	10.7	4,092	3.8	164.0	-68.8
Santa Catarina	4,104	3.8	768	0.6	662	1.6	-81.3	-13.8
Bahia	3,858	3.6	7,270	5.9	5,791	5.4	88.4	-20.3
Pará, Rondônia, Acre and Tocantins	3,099	2.9	219	0.2	214	0.2	-92.9	-2.2
Espírito Santo	2,770	2.6	845	0.7	1,734	1.0	-69.5	105.2
Pernambuco	1,948	1.8	440	0.4	1,160	1.1	-77.4	163.6
Ceará	1,915	1.8	2,382	1.9	3,702	3.4	24.4	55.4
Alagoas, Maranhão, Paraíba, Sergipe and Rio Grande do Norte	1,510	1.4	569	0.5	903	0.8	-62.3	58.7
Amazonas	1,319	1.2	2,125	1.7	424	0.4	61.1	-80.0
Mato Grosso and Mato Grosso do Sul	1,231	1.1	915	0.8	1,961	1.8	-25.7	114.3
Goiás and Federal District	1,061	1.0	1,037	0.8	1,791	1.7	-2.2	72.7
Total (excluding São Paulo)	50,957	49.8	60,207	49.2			18.1	
Investments in more than one state simultaneously	24,109	22.4	27,969	22.9	22,464	20.9	16.1	-19.7
State not yet decided	8,643	5.7	9,649	7.9	13,497	12.6	11.6	39.9
Total	107,390	100.0	122,359	100.0	107,377	100.0	13.9	-12.2

Sources: *Gazeta Mercantil, O Estado de S. Paulo, Folha de S. Paulo, O Globo, Jornal do Brasil.*

The growth in the volume of investments announced [in by](#) Paraná, Bahia, Rio Grande do Sul and Ceará from 1996 to 1997 is also a result of active policies by the governments of the states, seeking to strengthen institutions linked to economic development. These include actions by sector associations, labor associations and other group organizations integrated with action by the State's Industrial, Trade and Tourism, Employment, Economic Development and Financial Secretariats, coordinated with [research](#) institutions, municipal city halls and other centers of discussion of development.

In 1997, the year of the highest total volume of announced investments (see Table 4), Paraná was the location of a high volume of announced investments in the mechanical sector: BMW/Chrysler (motor plant), Chrysler (light trucks plant), the association between Volkswagen and Audi, Volvo (trucks plant) and the Multibrás group (household appliances plant). All these were concentrated in the greater Curitiba region, but the investments in infrastructure, especially because of the significant highway concessions program, could be a factor in spreading out new investments to other parts of the state

Bahia, like Paraná, Minas Gerais and Ceará, has sought to create an environment which is favorable to attractiveness ~~for to~~ investment, and in 1997 won some positive indications by large companies. Even taking into account that some of the projects announced were frustrated, such as the Asia Motors and Hyundai vehicle production plants, other sectors such as chemicals, paper and pulp and foods have been successful in making the economy of Bahia more dynamic.

Rio Grande do Sul, although it was slow to perceive the new economic environment, favorable to investments, which followed the introduction of the Real, also had its best results from efforts to attract new projects in 1997. Announced investments were strongly concentrated in greater Porto Alegre (the state capital). The most important were in steel (the Gerdau and Paratini groups), mechanical industry (Ford, General Motors and Agrale), auto parts (Arteb, Goodyear, Pirelli and Zamprogna), and in foods, beverages and tobacco (Elegê, Isabela, Grupo Josapar, Souza Cruz and Coca-Cola). However, in the early part of 1999 the Olívio Dutra administration has been seeking to reopen discussions on the terms of the agreements between his predecessor, Antônio Brito, and the boards of General Motors, Ford and Dell Computers to encourage them to set up business in the state since he believes that they are against the state's interests. We may thus expect a waiting period, until stability of the "rules of the game" is established, before we expect announcements of further investments.

The state of Amazonas has also been carrying out an active policy, although still strongly centered on the former concepts of strong incentives for the industries in the Manaus Free Zone, with limited integration with a local network of suppliers and clients. All the investments announced in 1997 were in the electronics industry.

TABLE 4
State with the highest volume of announcements of investments in 1996, 1997 and 1998

1996	1997	1998
Minas Gerais	São Paulo	Rio de Janeiro
Santa Catarina	Paraná	Ceará
Pará, Rondônia, Acre, e Tocantins	Rio Grande do Sul	Mato Grosso, Mato Grosso do Sul
Espírito Santo	Bahia	Goiás, Federal District
Pernambuco	Amazonas	
Alagoas, Maranhão, Paraíba, Sergipe, Rio Grande do Norte		

Sources: *Gazeta Mercantil, O Estado de S. Paulo, Folha de S. Paulo, O Globo, Jornal do Brasil.*

São Paulo state continued to be the center of investments in Brazil, due to familiar factors such as scale of market and economic and social infrastructure. São Paulo's industrial production, however, depends significantly on development of the rest of the country. The ~~restraints~~ ~~on growth of the Brazilian economy~~, in the 80s, ~~were~~ strongly linked to industrial re-concentration in São Paulo state, after the relative ~~de-concentration~~ deconcentration of the "Brazilian Miracle".

Inefficiencies of Brazilian production, and "Brazil cost", were associated with production being concentrated in São Paulo, both because of (i) the excess burden of cargo on the state's infrastructure, for example, in the port of Santos,

on the Dutra highway ~~between, which links~~ Rio de Janeiro ~~to and~~ São Paulo, on the Tietê and Pinheiros river ~~highways~~ beltways, and on the Bittencourt highway between São Paulo and -

Curitiba ~~Bittencourt~~ highway, and also due to (ii) the inefficient allocation of resources which resulted from the years of a closed economy, in which predominance was given to a major trend ~~was~~ the “facility” provided by location of a project, rather than cost minimization aspects.

It is extremely symptomatic that, after a process of economic opening and exposure of Brazilian industry to international competition and globalization of markets, a process of ~~de-concentration~~ deconcentration similar to that of the 70s – when the Brazilian economy achieved high growth rates – should now begin again. The new investments in Brazil have sought ~~and~~ allocation efficiency which was completely forgotten in the phase during which the Brazilian industry, especially São Paulo industry, was protected; in the 80s. On the other hand, several sectors – among them, petrochemicals and chemicals – are now restrained ~~pressed by~~ against the limits of the size of the Brazilian market, ~~—among them, petrochemicals and chemicals—~~ and the need to increase ~~in~~ production scale to ensure efficiency ~~now~~ demands that other regions now become integrated into the market.

This is an important aspect of the limit to growth of São Paulo industry – a factor which, in essence, limits the whole of the Brazilian industry. ~~De-concentration~~ Deconcentration would make it possible for value to be added by networks of suppliers, integrated into the actual local situations, with appropriate costs – and these themselves would press municipal, state-level and federal government for improvements in infrastructure. This “new reality” for production costs could make some products internationally competitive, at the same time as incorporating new regions into the domestic market.

In 1998, awareness was consolidated that the existence of an environment which, from the institutional point of view, is favorable to new investment opportunities; is one of the factors which most attracts a company – in addition to the classic factors such as proximity to the market and to raw materials, and good transport, energy, telecommunications and logistic infrastructure.

The expression “fiscal war” which was used to describe the common interest of states in investment, turned out to be inadequate as an explanation of the changes in the location of new projects, since it does not take account of a new factor in the reality of Brazilian economic development: the importance of the state governments in inducing ~~ement~~ of development and attraction of companies. A state’s capacity to organize public and private institutions in such a way as to constitute an environment which is favorable to economic growth and ensure institutional stability, together with economic and social infrastructure and tax incentives, has become a crucial factor in the attraction of companies, and has also reduced the degree of dependence on ~~established to a less dependent relationship with~~ incentives provided by the federal government. For the states of Ceará, Bahia, Minas Gerais and Paraná, the fact that they understood the nature of the economic situation generated by the stability which came from the introduction of the Real meant that they were adequately organized to attract new investments and to cause existing projects to expand.

Rio de Janeiro and Ceará were the only two states in which the volume of investments announced has grown since 1996. Rio de Janeiro merits special mention because, although there has not been a coordinated action by the state government, Industries ~~the~~ Federation of Industries and ~~the~~ municipal town halls, investments flow there naturally, as they do to in São Paulo. Further, the volume of investments by Petrobrás is very heavy: US\$ 3.8 billion in investments worth by Petrobrás were announced in 1998 alone. Even excluding these investments, the state of Rio de Janeiro is still strongly attracted for investments in general – although, until 1998, it had still not taken advantage of the synergy provided by coordinated actions.

Ceará is perhaps the most successful example of reversal of a state’s apparently “predestin- established” role. In spite of all its disadvantages ~~the adverse factors against it~~ (~~its~~ climate, scarcity of water, ~~and~~ extreme poverty), it succeeded in mobilizing the agents which were important for structuring articulated actions, such as its Investments Attraction Program and

economic and social infrastructure projects, such as the Castanhão Dam, the Program to Link River Basins and its

Highway Program, in which the condition of 1,900 km of state highways was improved. Among the largest investments announced in 1998 in the metropolitan region of Fortaleza (the state capital) are the building of a refinery (Thyssen), a minimill (CSC) and an oil-fired power station (association between CSN, Texaco and Gaspetro) – these, when implemented, will transform the economy of the state.

The change in the investment climate in Ceará can be seen by the interest of companies producing consumer goods in setting up new plants in the state, since the introduction of the Real in 1994 ~~brought stabilization of~~ the economy. Among the resulting projects are the Antártica plant in Aquiraz, the Calói plant in Cariri, the plants of CD+ and Haco in Fortaleza, and the expansion of the recently inaugurated Kaiser beer plant in Pacatuba.

The volume of investments announced by Goiás and by the Federal District also grew from 1996 to 1998. In contrast to other states, here the infrastructure projects are not the largest – as can be seen in Table 5: the table shows, on the one hand, that Goiás in particular became attracted for private sector farming/food industry investments, with positive subsidiary effects for the farm machinery and equipment sector; and at the same time indicates that ~~the~~ bottlenecks may develop in trade transport and product storage in the next few years. The expansion of the “agricultural frontier” ~~outward from side~~ Mato Grosso and Mato Grosso do Sul brought Goiás and the Federal District into the group of states with strong factors for attraction of new projects.

TABLE 5
Investments announced in 1998, by state, showing number of municipalities and principal sectors

STATES	Investments announced in 1998 (US\$ million)	Number of Municipalities	Sector 1	Sector 2	Sector 3	Sector 4
São Paulo	19,154	41	Infrastructure	Mechanical	Services	Chemical
Rio de Janeiro	12,915	9	Petrochemical	Infrastructure	Services	Mechanical
Minas Gerais	8,583	22	Mechanical	Infrastructure	Steel	Foods
Rio Grande do Sul	7,930	14	Infrastructure	Petrochemical	Mechanical	Services
Bahia	5,791	12	Infrastructure	Paper and pulp	Petrochemical	Chemicals
Paraná	4,092	9	Mechanical	Infrastructure	Metal products	Paper and pulp
Ceará	3,702	6	Infrastructure	Services	Beverages	Foods
Mato Grosso and Mato Grosso do Sul	1,961	3	Infrastructure	Mining		
Goiás and Federal District	1,791	9	Foods	Mechanical	Services	Infrastructure
Santa Catarina	1,762	10	Infrastructure	Beverages	Mechanical	Construction
Pernambuco	1,160	4	Infrastructure	Foods	Construction	Chemical
Espírito Santo	1,034	1	Infrastructure	Steel		
Alagoas, Maranhão, Paraíba, Sergipe and Rio Grande do Norte	903	4	Mining	Services	Infrastructure	
Amazonas	424	1	Appliances	Infrastructure		
Pará, Rondônia, Acre and Tocantins	214	5	Mining/metals	Beverages		

Sources: *Gazeta Mercantil, O Estado de S. Paulo, Folha de S. Paulo, - O Globo, Jornal do Brasil.*

For a company, the most important external factors in attractiveness ~~for a company~~ – those not directly related to the characteristics of the product or the process of production and marketing – are the economic and social infrastructure, ~~the~~ environmental legislation, the degree of institutionalization of the investment incentive rules, and, ~~–~~ most importantly, ~~–~~ the state government's performance in integrating and coordinating the process. This is because, ~~since~~ the state governments have the capacity to bring the elements together, and also to propose solutions for any bottlenecks or limits arising from the state's economic or social infrastructure, ~~whether economic or social.~~

The combined effect of these factors and of bringing together the efforts of industry, retailing, services and farmers' ~~ing industries~~ associations, and other bodies identified with a development project for the state, ~~is to~~ -creates an environment favorable to investment. When several states take these ~~in~~ actions simultaneously, a macro-environment of integrated actions is created (for example, investments in infrastructure have effects across a range of localities, and sectors). It is a mistake to treat localities, or the states, as competitors of each other in relation to new projects, because this type of action in partnership creates a synergy with greater effects than that of isolated, separate actions.

This is illustrated by the example of attraction of non-Brazilian investment. ~~For~~ ~~t~~ The foreign investor groups regions into areas with similarities. ~~Normally,~~ ~~n~~ Not only bad news but also good news, is usually generalized. Thus a general concept was created ~~of~~ an “Asian crisis”, although it is well known that this crisis was different for each of the countries of Southeast Asia. Similarly, Latin America, in particular the member countries of Mercosul, are treated as belonging to a block with similar characteristics. The positive point about this generalization is what it shows about the creation of an environment of growth and development. A “development atmosphere” is created, ~~indeed,~~ by the simultaneous actions of several different economic agents in the interest of inducing growth. The result of this process is qualitatively and quantitatively greater than the ~~-divisiveness ++devicedness++cisões++~~ implied by a “fiscal war”.

4. Some conclusions

After three years of collecting statistics on announcements of intentions to invest in Brazil, there are some points to be made. Firstly, ~~++to a practiced eye++~~ the figures enable ~~a practiced eye us~~ to foresee the possible changes in terms of sector and in terms of geographical movement of investments in the next two or three years. Plants which began producing in 1998 were the results of decisions made in 1995 and 1996, probably by ~~a range of~~ sectors which had been analyzing their expectations for the market for the coming years and had seen that they were at the limit of their capacity.

Secondly, even with the crises in Asia, Russia and, subsequently, Brazil, few of the investments announced were cancelled or suspended. There was probably some delay in relation to investments which were still at the decision phase, but not yet announced. For this reason, it is fundamentally important that the “Brazilian crisis” should not last long, so as not to affect the decisions of 1999 and 2000, and so as to dispel the fear that the investments made after the introduction of the Real consisted merely of an investment “mini-boom”.

Investments in infrastructure are the most important in this stabilization phase, since ~~they have it has~~ a disseminating effect throughout the economy and as ~~a~~ strong generators of employment – although their visualization and ~~perception of~~ their effects takes longer ~~to be perceived~~. Investments by the petrochemicals, steel and chemicals sectors took on more importance after 1997, because until then the most important announcements of investments were associated with the sectors producing consumer goods, which had been stimulated by the improvement in purchasing power caused by the elimination of high inflation.

Third, the process of ~~de-concentration~~ deconcentration in relation to São Paulo State has been a continuous one. It initially affected only the neighbor states, mainly Minas

Gerais, Paraná and Rio de Janeiro, but soon expanded to involve important projects in Ceará, Bahia and Rio Grande do Sul.

Finally, practically all the states have created environments_ which are favorable to investment, although with different degrees of strengthening of the institutions linked to their economic planning and development. One of the states with the best interaction between government and society, until 1998, was Minas Gerais. The change of state government, however, as in Rio Grande do Sul, brought with it an element of uncertainty, the outcome of which has not yet become fully clear. In a period of strong investment by the private sector, the governments ++of these two states++ had agreed to contribute with infrastructure works, and in some cases to directly finance ing the companies directly concerned, but they refused to fulfill their previously agreed undertakings. Leaving aside any discussion on whether the agreements were in fact, or were not, prejudicial to the states' finances, the fact is that contracts were broken, and with them the chain of confidence between state government and companies.

An environment favorable to economic investments involves not only an increase in the degree of institutionalization of the program to attract companies and to provide incentives for private sector investment, but also real counterpart benefits provided by the state government in terms of improvement of conditions in terms of the environment, water services, and transport, and even in some cases labor training.

The States of Bahia, Ceará and Paraná developed this government-company-society relationship reasonably well, and are now able to enjoy part of the results of this effort, through the multiplier effect generated by a “development atmosphere”. Others, such as Rio Grande do Sul and Rio de Janeiro, are looking for forums in which to debate these subjects with their communities, and have not yet been able to reapeh the rewards, in terms of synergy, which come from integrated actions.

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