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FEATURED Q&A

Will Brazil Be Able to Revitalize its 'Aging Industries'?



Brazilian President Luiz Inácio Lula da Silva last month proposed a \$60 billion plan to invest in the country's agriculture, health and defense sectors. // File Photo: Brazilian Government.

Q President Luiz Inácio Lula de Silva on Jan. 22 unveiled a new plan to revitalize Brazil's "aging industries" with a proposal called, "New Industry Brazil." The plan calls for an investment of 300 billion reais (\$60 billion) in agriculture, health and defense, with funds also going toward decarbonization and modernization. What headwinds have these industries been facing, and how much will this financing help revitalize them? How much confidence do investors have in the plan, and what are its main drawbacks? How much will this plan aid Brazil's global competitiveness?

A Anabel Teixeira, senior associate for Brazil and the Southern Cone at McLarty Associates: "The Brazilian government's industrial policy is designed to foster national development through sustainability and innovation. Led by Vice President Geraldo Alckmin, the plan draws inspiration from Lula's previous terms but emphasizes revitalizing key sectors like agriculture, health and defense. The government views supporting the Brazilian productive sectors as essential given their recent sluggish growth, but international markets greeted the proposal with skepticism, causing the Brazilian real to depreciate against the U.S. dollar. Financed primarily by the national development bank (BNDES), the plan outlines six core missions targeting ambitious domestic production goals for agribusiness supply chains, health complexes, urban infrastructure, digital transformation, bioeconomy and decarbonization and defense. These goals help guide the missions and are subject to approval from the National Council for Industrial Development (CNDI). While proponents defend the plan as key

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TODAY'S NEWS

POLITICAL

Haiti's Henry Urges Calm Amid Protests

Haitian Prime Minister Ariel Henry urged calm in a brief speech early today following three days of protests seeking his resignation.

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ECONOMIC

Mexico Overtakes China as Top Source of U.S. Imports

For the first time in 20 years, Mexico outpaced China as the top source of imported goods to the United States, according to U.S. government data.

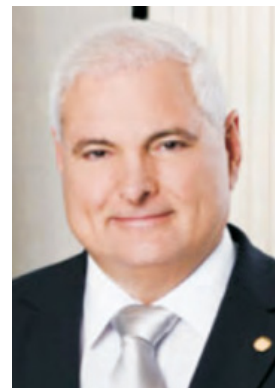
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POLITICAL

Nicaragua Grants Asylum to Ex-Panamanian Leader Martinelli

Nicaragua's government has granted political asylum to former Panamanian President Ricardo Martinelli, his lawyers announced. Martinelli was convicted last year of money laundering and is again seeking the presidency.

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Martinelli // File Photo: Panamanian Government.

POLITICAL NEWS

Haiti's Henry Urges Calm as Protesters Demand He Quit

Haitian Prime Minister Ariel Henry urged calm in a brief speech early today after three days of violent protests that have demanded his resignation, the Associated Press reported. "I think the time has arrived for all to put our heads together to save Haiti, to do things another way in our country," Henry said in the speech, without outlining any specifics, the AP reported. People who commit murder and other violence and choose destruction are "not working in the interests of the Haitian people," Henry added. The prime minister also urged Haitians not to view the government and the National Police as their enemies. This week, Haitians have been gathering by the thousands across the country to demand that Henry step down; protesters have said they will continue taking to the streets until he does, the AP reported. Wednesday was the day that Henry, who took office after the July 2021 assassination of president Jovenel Moïse, had agreed to step down in a nonbinding agreement he signed more than a year ago, Reuters reported. However, he said that security conditions must be re-established in the country so that it can hold elections. The country's legislature currently has no elected officials after the terms of its last 10 senators expired in January of last year, the AP reported. The country failed to hold elections as planned in 2019 and 2023. On Wednesday, at least five members of the BSAP, an armed environmental agency, were killed in a shootout with National Police officers in Port-au-Prince, Reuters reported, citing the police force's union. The National Police did not respond to Reuters' request for additional details, including whether any police officers were killed in the confrontation. In an apparent crackdown on the BSAP, Henry last week called on members of the BSAP to register with the country's environmental ministry. Kenya's government has offered to send 1,000 police officers to Haiti to lead a force to help the country fight the gangs

that have increasingly taken control. However, Kenya's high Court last month blocked that deployment. [Editor's note: See related [Q&A](#) in the Feb. 1 issue of the Advisor.

Nicaraguan Gov't Grants Asylum to Panama's Martinelli

Former Panamanian President Ricardo Martinelli's attorneys announced Wednesday that the embattled former leader had received political asylum from Nicaragua, the Associated Press reported. Martinelli, who served as president from 2009 to 2014, was convicted of money laundering last July in a case related to a 2010 purchase of a publishing company. Last Friday, Panama's Supreme Court denied Martinelli's appeal of that conviction, which carries a 10-year sentence. A spokesperson for the leader said he will remain in the Nicaraguan Embassy in Panama until he can safely travel to Nicaragua. Martinelli was elected in June to be his party's candidate for the upcoming May 5 presidential elections in Panama and his running mate on Wednesday confirmed Martinelli would stay on the ballot and return to Panama if they win office.

ECONOMIC NEWS

Mexico Overtakes China as Top Source of U.S. Imports

For the first time in 20 years, Mexico outpaced China as the United States' top source of imported goods, according to data released Wednesday, The New York Times reported. American businesses and consumers have increasingly turned toward Mexican goods, with imports from China falling 20 percent last year according to data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis, with Chinese imports totaling \$427.2 billion in 2023. Conversely, Mexican exports to the

NEWS BRIEFS

Ex-Honduran National Police Chief Pleads Guilty in U.S. to Drug Trafficking

Former Honduran National Police Chief Juan Carlos Bonilla pleaded guilty this week to a single charge of drug trafficking in U.S. federal court in New York, the Associated Press reported Wednesday. Bonilla's plea came ahead of next week's trial in New York of former Honduran President Juan Orlando Hernández, who had been Bonilla's co-defendant and is accused of drug trafficking and weapons charges, which he denies.

Ecuador's High Court Decriminalizes Euthanasia

The Constitutional Court of Ecuador on Wednesday decriminalized euthanasia, ordering the National Assembly to approve a law to regulate the procedure. The ruling stemmed from a case lodged by a terminally ill patient, Paola Roldan, who requested the court allow her a right to euthanasia due to the pain and deterioration she was suffering from amyotrophic lateral sclerosis (ALS). Colombia and Cuba have also recently authorized euthanasia in some circumstances.

El Salvador's Opposition May Seek to Nullify Legislative Elections

El Salvador's political opposition warned Wednesday that it may ask for the results of the recent legislative elections to be nullified due to irregularities, the Associated Press reported. The elections held Sunday saw President Nayib Bukele overwhelmingly win re-election, but the vote over 60 disputed congressional seats has come under scrutiny after glitches and irregularities caused the result transmission system to fail. The Supreme Electoral Tribunal subsequently called for a manual recount. [Editor's note: See related [Q&A](#) in Tuesday's Advisor.]

United States rose slightly last year, up to \$475.6 billion, continuing a steady climb since 2020 and surpassing China for the first time in two decades. America's trade relationship with China has suffered amid political tensions between the two countries. "We are decoupling, and that's weighing heavily on trade flows," Mark Zandi, chief economist at Moody's Analytics, told The New York Times. The tariffs imposed on Chinese goods by former U.S. President Donald Trump, and maintained under the current administration of President Joe Biden, have also had a large impact. While imports of Chinese goods that did not receive tariffs have continued to increase, U.S. demand for products with high tariffs fell sharply, according to research by Caroline Freund, dean of the School of Global Policy and Strategy at the University of California, San Diego, The New York Times reported. "There was a period where geopolitics didn't really matter for trade much, but as uncertainty increases in the world, we do see that trade becomes more sensitive to these positions," Stela Rubínová, a World Trade Organization research economist, told The New York Times.

BUSINESS NEWS

Brazil's Inter&Co Reports Five-Fold Increase in Profit

Brazilian digital bank Inter&Co on Wednesday reported a net profit of 160 million reais (\$32.2 billion) for the fourth quarter, a increase from 29 million reais for the same quarter a year earlier, beating analysts' estimates, Reuters reported. Analysts in a poll by LSEG had expected the bank to report 139 million reais in net profit for last year's final quarter. Inter&Co said its profit was driven by lower costs and a focus on more profitable categories, such as payroll loans and home equity loans, in its lending, Reuters reported. The digital bank also had an improvement by one percentage point in its efficiency ratio, which aided profits, said Chief Financial Officer Santiago Stel.

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to fostering the modernization and industrialization of the Brazilian economy, critics have voiced concerns that the local content requirements and other components could raise barriers to trade and investment. For instance, targets in the New Industry Brazil plan stipulate that 95 percent of agricultural machinery would be produced domestically and that 70 percent of demand for medicines, vaccines, equipment and medical devices would also be met through domestic production, but it is not clear if or how local supply chains could supply critical inputs. Additionally, concerns also arise regarding the plan's reliance on public resources through special credit lines and subsidies, posing potential risks to the country's fiscal health. The skepticism is fueled by doubts about the government's ability to meet its financial goals, especially as Lula has downplayed the importance of achieving a zero deficit this year. The Lula administration will have to overcome lingering skepticism regarding Brazil's mixed record of success on industrial policy, which has stifled industrial and work force innovation over the decades. If executed well, the plan can certainly drive growth in Brazil, especially if the government continues to incorporate private sector input, but the overarching question remains whether the government can convince international investors of New Industry Brazil's viability, especially those firms in high value added sectors."

A **Cleveland M. Jones, professor and researcher at the National Institute of Oil and Gas at the State University of Rio de Janeiro:** "The New Industry Brazil (NIB) plan exhibits a heavy dose of the ideological development agenda of prior Lula administrations, which were heavily interventionist and emphasized the government's role as the major force driving national development. The plan employs both demand-side and supply-side incentives to drive a much-needed reindustrialization of Brazil's economy, which saw

the industrial sector decrease its share of GDP from approximately 50 percent in the 1980s to 26 percent currently. Demand-side incentives include public purchases and even preferential purchases of domestic goods and services considered strategic. This is clearly a protectionist policy, and as such may ultimately not be effective. On the supply side, targeted investments and regulations to foster local content are likewise a return to prior Lula policies, based on government funding, and mandated unrealistically high local content requirements. President Lula, true to his origins as a union activist in heavily industrial São Paulo, sees the industrial segment as providing more social benefits, and a more solid base from which to develop further, while strengthening key technological, environmental and clean energy foundations. Reindustrialization along the lines that the NIB plan proposes could help Brazil break away from more than 10 years of slow growth. However, past experiences with plans relying on fiscal incentives and favorable credit lines do not augur very positive results. Still, the plan does focus on sectors considered to be key for the future of any major economy, such as technology, bioeconomy, clean energies, sustainability and social factors. This approach, and the sheer size of the incentives, may end up achieving at least some of the objectives of the NIB plan."

A **Elijah Oliveros-Rosen, lead economist for Latin America at S&P Global Ratings:** "Brazil was one of several major economies that grew more than expected last year. At the beginning of 2023, consensus growth expectations were shy of 1 percent, according to a central bank survey. However, the economy ended up expanding close to 3 percent last year. About half of GDP growth last year was driven by resilient activity in the services sectors, but the real surprise was very strong agricultural output, which alone contributed about one third of all GDP

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growth. As we look into 2024, agricultural output will likely be lower than in 2023 as harvests return to more normal levels, which means that to keep GDP growth strong, other sectors will have to pick up the slack. President Luiz Inácio Lula de Silva's recently announced industrial policy program seeks to stimulate growth through injections of BNDES credit into strategic sectors, such as agroindustry and renewables. The proposal does not offer any striking surprises—BNDES' plan already incorporates increasing

“Lula's plan alone will not reverse the under-performance of the industrial sector...”

—Elijah Oliveros-Rosen

its credit disbursement to 2 percent of GDP in the next couple of years, up from just over 1 percent of GDP in recent years. The industrial sector expanded only 1 percent in 2023, due to the impact of high interest rates and lingering disruptions to supply chains. Lula's plan alone will not reverse the underperformance of the industrial sector, but it will help keep momentum for policies that support sectors that will be strategically

important for Brazil to boost its global competitiveness. This is especially important for the renewables sector, as all eyes will be on Brazil when it hosts the COP 30 climate summit next year.”

A Paulo Valois Pires, partner at Schmidt, Valois, Miranda, Ferreira & Agel Advogados in Rio de Janeiro: “It seems to

some that this industrialization plan is a revised edition of the national guidelines adopted during President Lula's first term in 2003 when the government created a tax and financing package to foster the revamp of domestic industry. In the early 2000s, the Lula governmental plan targeted shipbuilding in domestic shipyards and increased the local content in oil and gas activities. Today, the revised program has the goal of tackling transition energy opportunities. Market skepticism derived from the fact that such guidelines only benefited a small group of companies and contributed to a sharp increase in the supply chain prices. Investors also fear that the funds to be allocated to such a revitalization plan could be detrimental to public deficit and inflation.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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