

## **Brazil is back. From the new chapter of the Country unprecedented opportunities for Italian companies**

by Davide Serraino

### **Executive Summary**

- **Brazil is the biggest economy in Latin America and the eighth in the world. The Country has always longed for a leading role in the global scenario** and the return of Mr Lula da Silva to the presidency after more than a decade assigns a new role to Brazil, in balance between US, China and EU, with a proactive role among the BRICS and at the head of the “Global South”.
- **The Brazilian economy proved to be very dynamic after the pandemic thanks to a prudent mix of fiscal and monetary policies, and the Country is still experiencing a positive economic trend.** To make it last and to prevent Brazil from disappointing again, it is important to connect more the Country to the world.
- **Lula's government, in order to make permanent the improvements achieved by the Country in the last three years, aims to reindustrialize Brazil and make manufacturing again the bone of the economy.**
- **The brand new \$320 billion Growth Acceleration Program (GAP or PAC in Portuguese) plays a key role in Brazil's reindustrialization ambitions and focuses on infrastructure development, social and digital inclusion, urban renewal.** However, the most important focus is on energy transition and security.
- **The government has the goal of making Brazil a leading Country in the energy transition, through a multi-level but step-by-step approach, suited to an Emerging economy.** The Brazilian energy matrix is already green, but the Country needs to reduce the weight of hydropower to the benefit of other renewables and to improve the transmission and distribution network.
- **The change of course of Brazil can bring new opportunities for the Italian companies. In 2022 the trade between Brazil and Italy already surpassed €10 billion but can grow further by intensifying the sales in different sectors and increasing the geographical diversification.**
- **SACE products, starting with the ESG Push Strategy, can help the Italian companies to access new value chains and to sell in areas of Brazil relatively unexplored so far. Finally, the great availability of raw materials makes the Latin American giant play an important role in the supply of strategic materials for Italy. In this case, too, SACE c'è.**

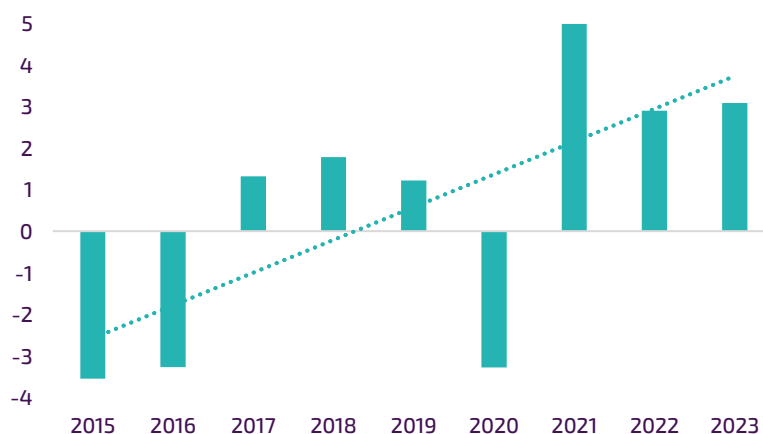
## Brazil's revived ambitions can benefit economic growth

As the fifth largest Country in the world (more than twice the area of the whole European Union), the seventh one in terms of population and the eighth one in terms of economic size<sup>1</sup>, **Brazil is the Latin American giant that has always longed for a leading role on the global stage.**

**The comeback to power of Luiz Inácio Lula da Silva**, former president from 2003 to 2011, marks the revival of Brazil's global ambitions. Lula won by a narrow margin the runoff of the October 2022 presidential elections against the incumbent Jair Bolsonaro. **Since taking office in Planalto in January 2023, the new/old president has sought through targeted trips to the United States, China and several EU Countries to bring the Country out of the isolation into which it had plunged in the previous legislature.** Moreover, Lula has placed himself at the head of the so-called 'Global South', a heterogeneous group of emerging and developing Countries that wants to take its own stance about the conflict between Russia and Ukraine and about that between Israel and Hamas. The leader of the social-democratic Partido dos Trabalhadores (PT), whose negotiating skills are acknowledged by admirers and detractors alike, has been also the director in the month of August of the enlargement of the BRICS<sup>2</sup>. This move does not aim at building an anti-American coalition but a bloc of Countries that, though heterogeneous within itself, is able to coordinate and to articulate a common position on major global issues.

**The new role of Brazil could also lead to better economic performances thanks to the greater connection of its productive system with the world<sup>3</sup>.** However, it is true that **the Brazilian economy in recent years has shown a partially unexpected dynamism (Fig.1).** Despite the sub-optimal health management of the pandemic, which was the result of political underestimation but also of the structural deficiencies in the national health system, from early 2020 the large fiscal and monetary measures passed by the government prevented the freefall of the economy. Indeed, GDP contracted by 3.3%, less than the regional average (7%) and less than many peers in the world. Moreover, from 2021 onwards, GDP growth at the end of each year fared always better than the consensus forecasted at the beginning of the year.

**Fig.1 Brazilian GDP growth from 2015 to 2023 (current values, %)**



Source: SACE elaborations on IMF data. 2023 forecast

**The question to be asked, which needs more in-depth investigations, is whether Brazilian growth is going through a structural strengthening or whether are at work only contingent factors.** Since the great crisis of the middle of the last decade - cumulative GDP declined by 6.8% between 2015 and 2016 - Brazil's growth rate has been sluggish in the three-year period 2017-2019 (+1.4% per year on average), while

<sup>1</sup> International Monetary Fund, *World Economic Outlook database*, October 2023. Data in PPP (purchasing power parity).

<sup>2</sup> Emiliano Guanella *Lula, il mediatore dei BRICS*, ISPI, 25 August 2023.

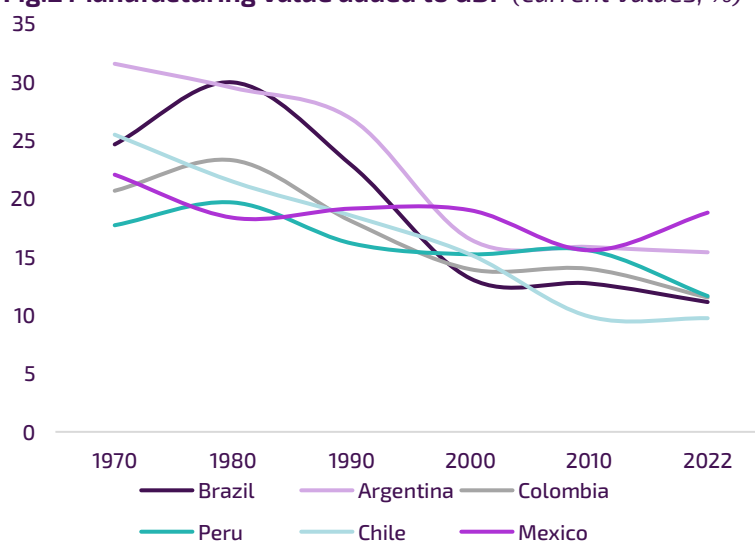
<sup>3</sup> Fabio Porta, Roberto Panzarani, *Un rilancio delle prospettive economiche (e diplomatiche) per il Brasile*, Aspenia, 8 November 2023.

in the post-pandemic period it has been more robust (+3.7% per year). However, it is true that the Brazilian crisis and the pandemic are two different types of downturns. The first was the unveiling of structural weaknesses in the internal political-institutional system while the second was caused by external factors. In any case, what has impressed analysts has been the responsiveness of a system considered too long unable of really taking off<sup>4</sup>. According to Lula, the main way to make the Brazilian growth structurally stronger is to reinvigorate Brazil's manufacturing.

## How to reindustrialize the Country to grow more and better?

**The term deindustrialization does not sound strange to those who live in an advanced Country:** with the increase in the hourly cost of labor, some productions - particularly those with low and medium value added - are no longer competitive and, as a result, relocation processes are triggered in search of lower costs<sup>5</sup>. In the worst case, the increase in costs leads to the complete stop of some productions in the national territory with negative spillovers on the human capital. **Instead, it is surprising that Brazil and the other major Latin American economies experienced 'early deindustrialization'<sup>6</sup> in recent decades.** Looking at the data about the ratio of value added from manufacturing to GDP, Brazil recorded a peak<sup>7</sup> in the late 1970s, ahead of all the other major Countries in the area except Argentina. In the following decades the Latin American giant experienced the most rapid and intense decline of all (Fig.2).

**Fig.2 Manufacturing value added to GDP (current values; %)**



Source: SACE elaborations on World Bank data

If we look at the components of GDP from the supply side, Brazil has a share distribution like that of the advanced Countries, but with a lower degree of development. It is true that the primary sector - 6.8% of GDP<sup>8</sup> - is in line with the Latin American average, but at the same time it is considerably higher than that of the OECD countries (1.4%). However, the Brazilian agribusiness is the leading sector of the economy, so it is normal for it to have a greater weight in the contribution to GDP. Consequently, a lower weight than the

<sup>4</sup> The growth performance of the Brazilian economy has been called "the flight of the hen" by many economists to indicate the inability to take off and to stay the course. See Carlo Cauti, *Perché il Brasile di Dilma ha smesso di crescere*, Limes online, 27 May 2015.

<sup>5</sup> The pandemic partially changed the picture because companies pay greater attention to safety in the value chains but issues of cost and of availability of skilled workforce remain crucial.

<sup>6</sup> Mario Castillo, Antonio Martins Neto, *Premature deindustrialization in Latin America*, ECLAC, June 2016.

<sup>7</sup> This is the benchmark for the analysis regarding the degree of industrialization of an economic system nowadays. In the past economists also used the ratio between manufacturing workforce to GDP but that indicator could lead to wrong conclusions in case of leaps in productivity thanks to innovations.

<sup>8</sup> *Agriculture, forestry and fishing, value added (% of GDP)*, World Bank 2022.

OECD average for services (59% versus 70%<sup>9</sup>) is acceptable. What is at odd is the limited share of industry, particularly manufacturing. **The relative weakness of the Brazilian manufacturing makes the Latin American giant more vulnerable to regional and global business cycle fluctuations. Moreover, this weakness makes the Brazilian currency particularly volatile**, unlike, to remain in the Americas, the Mexican peso, which proved to be particularly resilient, even in the negative phases of the business cycle.

**According to the government reindustrialize the Country means to design again active industrial policies with a long horizon.** The private sector itself, from the local business associations to the Conselho Nacional de Desenvolvimento Industrial (CNDI), has been calling for a public intervention to reverse course and guide the industrial development. The announcement by Lula's government in July 2023 to invest \$21 billion over the next four years in the reindustrialization of the Country<sup>10</sup> is a good starting point. However, the legislative horizon is certainly not enough to change radically the Brazilian economy. **The support of the government, that of the private sector and that of the development financial institutions is mandatory to foster a sector that generates 60% of the Brazilian R&D spending with positive spillovers on many other sectors. However, a broader parliamentary consensus is crucial**, like the one that led to the approval of the pension reform in 2019 and that is leading to the approval of the tax reform in the current legislature.

**Are domestic resources and the local (and foreign) funding enough for such a big shift? Probably not. Technology transfer and production inputs from abroad are needed, more than in the past. However, Brazil remains - not only in the region, but globally - one of the champions of trade protectionism.** The weighted mean tariff rate on goods imported from abroad in the last available survey<sup>11</sup> (2020) was 8.4% of the total price of a good, compared to 2.5% in China, 6.2% in India, 4.1% in the Russian Federation<sup>12</sup> and 4.4% in South Africa, to remain within the BRICS. Even in Latin America - apart from Argentina - the figure is very high, just think that Mexico, the second largest economy of the region, is only at 1.2%.

**Is there any sign of a change in the Brazilian stance with the comeback of Lula? So far not, the tariffs on Brazilian goods remain on average among the highest in the world, especially on finished products**, even if the story is different for raw materials and for intermediate components<sup>13</sup>. Sectors like textiles and clothing but also transports – starting from automotive - represent symbols of the Brazilian closure. Leaving aside the selective and temporary cuts in tariffs (around 10%) introduced from 2021 to 2023 to curb inflation<sup>14</sup>, **the most direct way for a foreign Country to penetrate the Brazilian market is that (not easy) of concluding a free trade agreement (FTA)**. Brazil, being a founding partner and member of Mercosur since 1991, cannot conclude free trade agreements separately, but only jointly with Argentina, Paraguay and Uruguay. The free trade agreements *tout court* concluded by the bloc since its inception have been limited to Bolivia, Chile and Egypt<sup>15</sup>. No major economy has no tariff and non-tariff access to a market of over 260 million of consumers that constitutes the 5<sup>th</sup> largest economy outside the EU with a GDP of over \$2 trillion<sup>16</sup>.

**European countries have been negotiating an agreement with the bloc for over 20 years. Eu-Mercosur FTA would greatly expand business opportunities between the New and Old Continent.** The two parties finally reached an agreement in June 2019 but technical and, above all, political hurdles have not yet allowed its ratification<sup>17</sup>. **Being the first bloc to make a trade agreement of this magnitude entry in force with Brazil and the other Mercosur partners remains in any case of fundamental importance for the entire**

<sup>9</sup> Services, value added (% of GDP), 2022 World Bank.

<sup>10</sup> Brasil destinará más de US\$ 21.000 millones en cuatro años para reindustrialización del País, América Economía, 7 July 2023.

<sup>11</sup> Tariff rate, applied, weighted mean, all products (%), World Bank 2020.

<sup>12</sup> This figure refers to the scenario before the invasion of Ukraine and the sanctions applied to the Russian Federation.

<sup>13</sup> Brazil: Boom, Bust and the Road to Recovery, IMF book, 2019.

<sup>14</sup> Bernardo Caram, Brazil set to make another 10% cut in import tax rates, Reuters, 24 May 2022.

<sup>15</sup> Database SICE OAS, Free trade agreements into force.

<sup>16</sup> EU-Mercosur trade agreement, factsheet, European Commission, 2019.

<sup>17</sup> For an extended insight about this issue see *Periferia contesa? La competizione tra Stati Uniti e Cina in America Latina* (chapter X), by Carlo Catapano, Antonella Ercolani, Lorenzo Termine, Il Mulino, June 2023.

**European Union and even more so for Italy, which has deep cultural, social and economic ties with the bloc's two main Countries, Brazil and Argentina.** After an acceleration in the past few months, the latest news about the negotiations is not particularly encouraging. Some issues remain on the table and it is difficult to meet the final ratification of December 7<sup>18</sup>. In any case, the right 'aligning of the stars' may yet materialize, especially after the first declarations of officials of the next Milei government in Argentina<sup>19</sup>.

## **Better infrastructures are necessary to fulfil Brazilian reindustrialization plans**

**If Brazilian reindustrialization hinges mostly on domestic technology and capital, for infrastructures and transports the story is different. These latter play a central role in the new (third) edition of the 'Growth Acceleration Program' (GAP or PAC in Portuguese) presented on August 11 by President Lula. The total investments expected from this plan amount to almost €320 billion, spread over 3,022 projects; 76% of the investments are expected by the end of the current legislature and the rest afterwards. The funds needed to execute the PAC, which already had two previous versions (2007 and 2010) with mixed results<sup>20</sup>, come for 22% from federal funds, for 21% from external financing, for 20% from public companies, and for the remainder from the private sector. In particular, the new PAC is structured around 9 investment axes: i) digital inclusion and connectivity; ii) health; iii) education; iv) social and inclusive infrastructure; v) sustainable and resilient cities; vi) water; vii) efficient and sustainable transport; viii) energy transition and security; ix) defense.**



More specifically, **the transport axis is worth €67 billion and includes 668 projects. The main objective is to reduce production costs for the domestic market while increasing Brazil's competitiveness abroad.** 90% of the funds are earmarked for the construction or rehabilitation of roads, railways and ports. However, **the relatively largest share of the PAC (€113.4 billion) is earmarked to provide a better quality of life for urban communities, also considering the challenge represented by the climate change.** Of the 476 projects under this axis, the largest, accounting for more than half of the total, is the *Minha Casa, Minha Vida* project. This is a housing initiative created by President Lula during his second term in office in 2009. This program aims to offer subsidies and reduced interest rates to make the acquisition of social housing more accessible to the poorest citizens, in order to bridge the Country's housing deficit. Already 6 million of such houses have been purchased since the start of the program. Within this category, funds have also been earmarked for urban mobility and for the revitalization of the suburbs, towards which the Lula government's sensitivity and commitment are very pronounced.

<sup>18</sup> Alice Hancock, Sarah White, Bryan Harris, *EU trade chief cancels Brazil trip as prospects of Mercosur deal recede*, Financial Times, 3 December 2023.

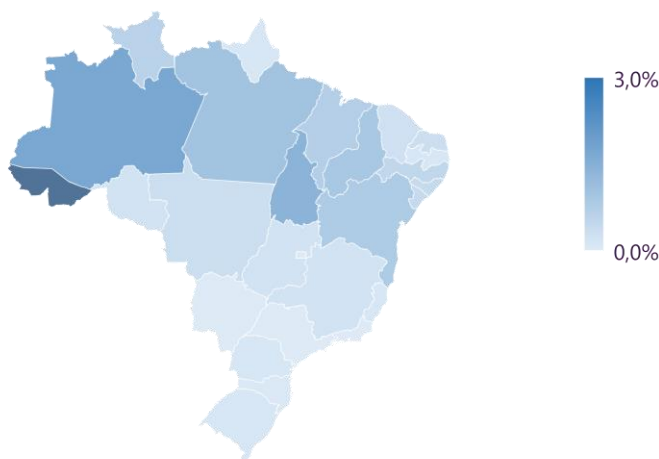
<sup>19</sup> Jorgelina Rosario, *Argentina's new government wants to strike EU-Mercosur deal someday, somehow*, Reuters, 4 December 2023.

<sup>20</sup> Martha Beck, Simone Iglesias, Mariana Durão, *Brazil sets sights on boosting growth with \$350 billion investment plan*, Bloomberg Linea, 11 August 2023.

## The Brazilian green agenda: a multilevel approach to make the Country, gradually, a leader in energy transition

Again, within the PAC, another axis to which huge funds are allocated (€100.3 billion) is that concerning energy transition and security. This axis, together with that on transport and that axis on quality of life in cities, take-up almost 90% of the total funds allocated to the program. Specifically, the one concerning energy security and transition aims to make the supply of electricity universal in the North-East of the Country and to do the same for the indigenous communities of the Amazon. SACE's indicator regarding the degree of electrification in Brazil, carried out in collaboration with Enel Foundation<sup>21</sup>, confirms that the Country, with a score of 67 out of 100, has ample room for improvement. Brazil is in the lower-middle range both in Latin America and among the Emerging Countries. The northern and north-eastern States are historically the poorest in Brazil but are at the same time Lula's voter base and have allowed Lula and the PT to return to power. These States are also those with the highest percentages of households still without access to electricity (Fig.3). **In a world moving rapidly towards increasing electrification, Brazil must keep pace with its peers.**

Fig.3 Percentage of Brazilian households without access to electricity (2019)



Source: SACE elaborations on data available in L.P.Thives, E.Ghisi e J.J.Thives Junior, *Regional inequalities in electricity access versus quality of life in Brazil*, published in December 2021 in the Brazilian review *Ambiente Construído*.

**The Brazilian energy matrix can already be considered 'clean' (88% of electricity generation comes from renewable sources<sup>22</sup>) but more than 60% comes from water resources, exposed to drought and floods episodes.** Brazil is the world's second largest producer of energy from water sources, but it also ranks second in a particular segment such as biofuels, which is important for energy transition. **The Plan Decenal de Expansão de Energia (PDE) 2021-2031** by Empresa de Pesquisa Energética (EPE), an entity controlled by the Ministerio de Minas e Energia, **foresees a further increase in the share of electricity produced from renewable sources, but with a switch in the composition of sources: hydroelectric power will lose its relative importance in favor of wind, solar, green hydrogen and biomass<sup>23</sup>.** However, the increase in energy generation of this latter source is controversial because it partly involves the consumption of new land and, in some cases, deforestation. The government's goal is to increase the importance of biomass without further deforestation of the Amazon rainforest. In this sense, the government has pledged to stop deforestation completely by 2030 and the figures for the last 12 months

<sup>21</sup> Indicator based on the level of electrification of final electricity consumption, the quality of electricity supply and the percentage of access to electricity services among the population. World Bank data. 0 worse context, 100 better context.

<sup>22</sup> IEA, *Latin America Energy Outlook*, November 2023.

<sup>23</sup> EPE, *2031 Ten-Year Energy Expansion Plan*, Chapter 11.

confirm that with Lula's comeback there has been a positive reversal in deforestation statistics<sup>24</sup>. The Brazilian proposal at the recent COP28 to establish a Global Tropical Forest Conservation Fund for the benefit of the world's 80 host Countries goes in the same direction<sup>25</sup>.

**The Country, which at a strategic level has agreed to cut greenhouse gas emissions by 37% within 2025 compared to 2005 levels, by 50% within 2030 and to reach net zero emissions by 2050, is adopting multi-level policies to achieve this goal, with a pragmatic and non-ideological approach that holds together the gradual transition with the energy security and the costs.** Hence, according to the government<sup>26</sup>, the non-contradiction with the intentions of further developing the Country's upstream oil and gas sector, which has already grown a lot in recent years with the exploitation of offshore pre-salt reservoirs and which could grow further with the exploitation of crude oil reserves not far from the Amazon part of the Country. The final goal is to make Brazil the fourth largest producer in the world by 2030. It is no coincidence that in the PAC more than \$64 billion is earmarked for the development of the sector.

In the end, which is the real Brazil? It is the Country that has just issued \$2 billion of green bonds with a record demand<sup>27</sup>, or the Country that still relies heavily on fossil fuels? It is difficult not to see the contradiction between the two, but it is too easy to blame a Country that is not (yet) among the advanced economies, that is making efforts to gradually decarbonize its economy but needs to do so even more gradually than an OECD Country<sup>28</sup> and within budgetary constraints. After all, fiscal spaces remain minimal and without a prudent management of public finances the euphoria of the markets could easily turn into deep distrust.

## **There is still room for the growth of bilateral trade between Italy and Brazil in sectors partially explored and in new areas of the Country**

**Trade relations between Italy and Brazil are historically important considering the deep historical and cultural ties between the two Countries. In 2022, Italian exports exceeded €5 billion, the new record in the time series and slightly higher than the previous maximum, reached in 2013 before the great Brazilian crisis of the middle of last decade.** The increase with respect to 2021 was 11.3%, certainly partly influenced by price dynamics given the high inflation, but it is nonetheless the proof of the newfound dynamism of the Brazilian demand. Compared to 2013, however, there are some significant changes, in particular the Italian export related to machinery is still almost half a billion lower than the peak, even if this reduction has been more than offset by the increase of sell of other product categories (Fig.4).

**Imports from Brazil rose sharply too in 2022 (+31.1% year on year), reaching a record level of €5.6 billion.** Brazilian sales to Italy, however, are less diversified, with one-third related to agricultural products, 21% to wood and paper, 14% to mining products, 10% to base metals and 7% to food and beverages (the other categories represent 'only' the 15%). **Total trade reached €10.7 billion, raising Brazil to the second largest trading partner in the Americas for Italy, behind only the United States.** It is true that Mexico and Canada come before Brazil in terms of Italian exports but this is not the case for imports, given the wealth of Brazilian raw materials and the consolidated ability of the Country to exploit them. Brazil, in this regard,

<sup>24</sup> Naigara Gallarraga Gortázar, *Amazon deforestation falls 22% in first annual figures since Lula's return to power*, El Pais, 10 November 2023.

<sup>25</sup> Lisandra Paraguassu, *Brazil proposes global forest conservation fund at COP28*, Reuters, 1 December 2023.

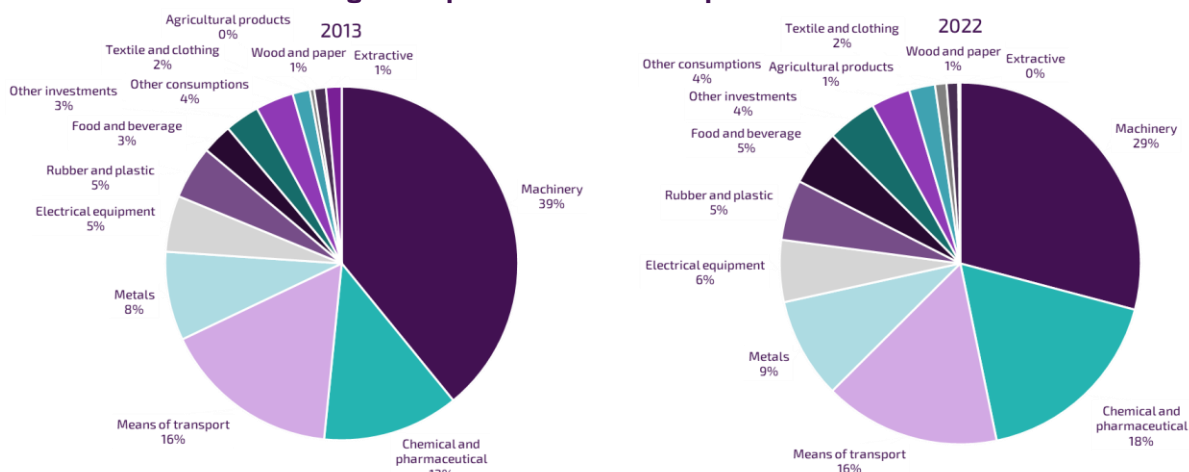
<sup>26</sup> Michael Stott, *Brazil minister says oil and green ambitions are not contradictory*, Financial Times, 27 September 2023.

<sup>27</sup> Simon Mundy, *Investors pile into Brazil's first sustainable bond*, Financial Times, 15 November 2023.

<sup>28</sup> The use of biofuels is emblematic in this respect. Although biofuels are not neutral in terms of carbon emissions and land consumption, they can be an important ally in the energy transition, particularly in non-advanced Countries. On this topic, and the controversies it raises, see for example Sarantis Michalopoulos, *Bioenergy chief: still stuck in 'food vs fuel' debate, EU is missing global biofuel trend*, Euractiv, 30 November 2022.

already plays an important role for Italian 'critical imports'<sup>29</sup>; almost 90% of goods imported from Brazil is linked to strategic products<sup>30</sup>.

**Fig.4 Composition of Italian export to Brazil**



Source: SACE elaborations on data by ISTAT

**From the graphs it is clear that Italian exports to Brazil are much more diversified than in the past, in line with the greater sophistication achieved by the Brazilian economy.** Above all, the leap in chemicals and pharmaceuticals is remarkable, but the growth in food and beverages is also significant. In the former case, all components increased, mainly chemicals for industrial uses (+95%), basic chemicals and fertilizers (+60%), detergents, perfumes and cosmetics (+50%) and basic pharmaceuticals (+55%). A similar discourse, with due proportions, applies to foodstuffs and beverages, which saw generalized increases for Italian exports, related to meat products (+115%), fruit and vegetables (+120%) and bakery products (+90%).

**In the first nine months of 2023<sup>31</sup>, Italian exports to Brazil grew further by 6.1% compared to the same period of 2022 and, at the current pace, are expected to close 2023 at around €5.3 billion. For 2024 SACE forecasts a further increase in our exports of 4.5%, followed by +3.6% on average per year in 2025 and 2026.** An important role in the growth of Italian exports will be played by investment goods. Sales of electrical equipment will increase by 4.5% in 2024 and by 6% on average in 2025 and 2026 thanks to the progressive execution of the PAC and the resulting higher demand for products needed to accelerate Brazil's energy transition and to make the energy matrix more stable. In any case, the expected increases in value are even higher for machinery (+4.8% in 2024, +4.5% on average in 2025 and 2026), which needs still to close the gap compared to 2013 and to surpass again €2 billion in sales. **The Country's still favorable macroeconomic conditions, which will benefit from moderately expansive monetary and fiscal policies, will support demand and it will be important for the Italian goods to find and reach little-explored market niches.**

**A first example is that of plants and equipment for the cold chain logistics.** This segment has been growing in recent years due to the change in the purchasing habits of Brazilians, who increasingly want processed foods<sup>32</sup>. Hence the surging demand not only of machinery suitable for food processing, but also of cold rooms and of other advanced devices necessary for food preservation throughout the supply chain.

<sup>29</sup> Centro Studi Confindustria, *Catene di forniture e nuova globalizzazione*, August 2023.

<sup>30</sup> SACE can support the Italian economy even in this case, through a guarantee of the raw materials needed by the economy in an increasingly complex geopolitical context. See *Materie prime, nuove forniture e opportunità di business all'estero per le aziende italiane grazie alla Push Strategy di SACE*, 21 febbraio 2023. The import push strategy is now also available in a green version to help the energy transition of Italian companies.

<sup>31</sup> Eurostat, *International trade in goods*, provisional data.

<sup>32</sup> Globnewswire, *Brazil's cold chain logistics industry flourishes with government support and meat export surge*, 1 September 2023.



This is even more important considering Brazil's export projection: the Country boasts numerous world records, it is the world leading exporter of sugar, coffee, orange juice, soya beans, beef, tobacco, alcohol and poultry meat<sup>33</sup>.

**A second example is that of precision farming**, which, through a series of 'smart' tools (sensors, drones, robotics, remote sensing, etc.) carries out statistical analyses to make processes and the use of materials and water resources more efficient. In Brazil, the issue of the crop yields is increasingly important considering the efforts being made to limit and, possibly, to completely stop net soil consumption.

**Moreover, there are opportunities in the water sanitation too.** The 2020 reform under the Bolsonaro government sought to catalyze greater investment in a sector that still has significant deficits throughout Brazil. In 2020, according to the Sistema Nacional de Informações sobre Saneamento (SNIS), which is part of the Ministério das Cidades, while 84% of Brazilian households had a connection to the water network, only 55% had a sewerage service and 51% had a wastewater treatment<sup>34</sup>. However, the federal average drops dramatically in the North and Northeast of Brazil (59% and 75% for the water network connection, 13% and 30% for the sewerage connection, 21% and 34% for the wastewater treatment). In these parts of the Country the Federal government and the State-owned companies are investing to reduce the gap with the more advanced areas. However, local capital is not enough, foreign funding is needed, as well as suitable technologies that are not available domestically or are not of the right quality.

**The territorial divides of Brazil are mirrored in the flows of our exports to the first Latin American economy:** according to data from the Ministério do Desenvolvimento, Indústria, Comércio e Serviços<sup>35</sup>, **the top 5 Brazilian States for goods import from Italy in 2022 (São Paulo, Minas Gerais, Santa Catarina, Paraná and Rio de Janeiro), are all located in the South-East of the Country and score the 75% of Italian sales in Brazil (São Paulo alone imports almost 40% of the total).** Are only the economic and the social conditions that prevent the other Brazilian States from buying more products from Italy? Undoubtedly the issue of per capita income levels in parts of Brazil different from the South-East is a real one, but there are also issues related to the awareness of the opportunities that Brazilian States offer, both in terms of exports and investments. **Lula's comeback to power opens greater opportunities than in the past in the Northern and North-Eastern areas, but there are also new possibilities in Brazil's less explored States.** An example, paradigmatic of the opportunities still partly to be discovered in Brazil, is the State of Goiás<sup>36</sup>: the Country's 9th largest economy (GDP of over \$32 billion), located in the Centre-West, has an important agricultural tradition but it is also growing in other sectors. Goiás benefits from a strategic location and from good infrastructural connections to the South-Eastern States but also to other Latin American Countries. This State has also developed a good manufacturing base in recent years. Goiás for example ranks second nationwide in terms of the number of pharmaceutical companies, acting as a hub for distributing pharmaceutical products to a vast area of Brazil. Today, Italian export to the State of Goiás is only 2% of the total, clearly undersized compared to the potential of the territory, which also boasts one of the best mineral endowments in Brazil.

**All in all, the issue is not only economic but also of knowledge of the features of a specific territory. The Italian system, which has a very extended presence in Brazil through the Embassy, the Consulates, the Institute for Foreign Commerce (ICE), various Chambers of Commerce, and SACE can provide support to enhance the awareness of the markets and make it easier to organize business matchings between the**

<sup>33</sup> *Guida agli affari in Brasile, presenza imprenditoriale italiana, mappatura delle opportunità e strategia di ingresso sul mercato*, made by Italian Embassy in Brazil, KPMG and GmVenture, update of March 2023.

<sup>34</sup> Banco Nacional do Desenvolvimento (BNDES), *Projects Hub, sector profile, sanitation*.

<sup>35</sup> *Estadísticas de Comércio Exterior em Dados Abertos*.

<sup>36</sup> Associazione Italia Brasile, *Lo Stato di Goiás*, April 2023.

# Focus ON



**parties.** SACE, through the Push Strategy<sup>37</sup>, which is now also available in a ESG version, promotes the Made in Italy and facilitates the meeting between supply and demand. Doing these activities in sectors that are different from the past and in contexts that are still little or partially explored represents the challenge of the near future.

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<sup>37</sup> SACE's Push Strategy was introduced in 2017: to date, 30 deals have been closed in 15 countries with €7bn of transactions closed and €1.7bn of incremental exports generated. SACE has organized over 100 business matching events involving more than 2,200 Italian companies. €10 billion of new transactions are under consideration.