BRAZIL

What’s happening in this economy

Brazil’s large, resource-rich and diverse economy is recovering gradually from deep recession during 2014–2016, although GDP growth in 2017 and 2018 remained low at 1.1 per cent. The new government, which took office in January 2019, is making headway in implementing an ambitious economic reform agenda of fiscal consolidation, deregulation, trade liberalisation, privatisation and tax reform.

The Brazilian government’s signature pension reform was approved on 22 October 2019 will deliver around AUD 300 billion in savings over 10 years. A regulatory reform package is forecast by the government to increase Brazil’s yearly GDP growth by 0.4 to 0.7 per cent and create up to 3.7 million new jobs. Liberalisation of the airline and banking sectors is underway, the latter resulting in a number of new fintech entrants to the Brazilian market.

An ambitious privatisation and infrastructure program has commenced with a range of airport, port and railway concessions already awarded. The government has announced its plans for a ‘New Gas Market’ including privatisation of gas production and distribution infrastructure. A program of oil, gas and electricity production auctions has started, though a November 2019 mega auction of new oil reserves estimated at up to 16 billion barrels failed to attract strong international interest. A major privatisation package aimed at driving investment in sanitation infrastructure is awaiting congressional approval. Discussions have also started on tax reform models, reform of constitutional restrictions on the federal budget, and redefining the roles and revenue sharing between the three levels of government.

Growth in 2019 however is projected by the IMF to remain subdued at 0.9 per cent. The government is looking to address this through short-term economic stimulus measures such as freeing up access to mandatory employee savings accounts to provide a cash injection to the economy. With the government’s reform efforts, low inflation (the Central Bank’s 2019 forecast is 3.26 per cent) and a supportive monetary policy (the Central Bank’s policy rate is at an historic low of 5.5 per cent and is forecast to fall further), industry and analysts are bullish about the prospects for a bounce back to growth of 2 – 2.5 per cent in 2020.

Trade, investment, and commercial opportunities and activities

- Brazil is Australia’s largest export market in Latin America by a significant margin, including in tourism, travel and education-related services:
  - the country accounts for half of Australia’s direct investment in the region.
- Exports of education services are strong:
  - Brazilian student numbers comprised the fourth largest source of international students to Australia in 2018.

Brazil key facts and figures

- Population: 208.3m (2018)
- Ninth largest economy and consumer market (2018)
- GDP growth: 1.1% (2018)
- GDP per capita: USD 8,968 (2018)
- Two-way trade (2018): AUD 3,590 million
- Australia’s investment in Brazil: AUD 10,023 m (2018)
- Brazil’s investment in Australia: AUD 1,379m
Brazil’s world-class agribusiness, mining and innovation, technology and research sectors—and large middle-class—offer new and ongoing opportunities:

– Australia has an opportunity to expand our existing trade in the region, including in tourism.

The Brazilian government’s ambitious privatisation and infrastructure programs offer specific opportunities for Australian companies:

– this includes opportunities in sanitation, and oil and gas.

Likewise, market deregulation and strong digital penetration provide opportunities across a range of sectors:

– these include fintech, agtech, edutech and medtech amongst others.

Over 75 Australian firms are doing business in a wide range of sectors in Brazil, including advanced manufacturing (Amcor and Noja), agribusiness (Macquarie), engineering services (Worley), financial services (Macquarie), logistics (Goodman and Chep), mining and METS (BHP, South 32, Orica), oil and gas (Karoon Gas), online services (carsales.com and Seek), plasma products and vaccines (CSL), and retail clothing (CottonOn, Billabong, Rip Curl).

Brazilian companies are exploring opportunities to expand operations and invest in Australia, in part to benefit from Australia’s extensive FTA network in Asia, including in bio-fuel production, broad acre cropping, animal protein production and processing, animal nutrition, and bio-pesticides. JBS accounts for a large portion of the estimated AUD 4 billion of investment stock from Brazil. Natura, a leading Brazilian cosmetics company, owns luxury Australian skincare company Aesop. Marco Polo owns Australian bus manufacturer Volgren.

Growing people-to-people links are enhancing this engagement. Brazilians now form the largest migrant group from Latin America resident in Australia, with an estimated 46,450 Brazilian-born residents in 2018—an increase of more than 800 per cent since 2001.

Key trade events in Brazil include:

- AgriShow
- ExpoZebu
- Showrural
- Expodireto (agriculture)
- Exposibram
- Rio Oil & Gas (resources)
- FPP/Study in Australia Fair
- FAUBAI 2020 Conference, and
- BETT Educar (education).
Trade policy and negotiations

Brazil is a member of the MERCOSUR trade bloc (along with Argentina, Paraguay and Uruguay). Free Trade Agreements (FTAs) are negotiated by the four countries as a bloc. In 2019 Brazil’s ambitious trade liberalisation agenda has supported:

- finalisation of in-principle MERCOSUR FTAs with the EU and EFTA
- MERCOSUR FTA negotiations with Canada, Singapore and South Korea
- exploratory trade talks between MERCOSUR and a range of other countries including Japan and Vietnam
- intra-MERCOSUR talks on unilateral tariff reductions, and
- bilateral trade talks between Brazil and the United States.

Australia and Brazil share a deep commitment to the multilateral, rules-based trade and economic order, although our priorities may differ in some areas. The Australian Government continues to work closely with Brazil to advance our shared interests in the WTO, particularly on agriculture through the Cairns Group, and in the G20. Australia is also a strong supporter of Brazil’s goal of OECD accession.

Brazil does not have an FTA with Australia. Australia continues to engage with Brazil through the CER-MERCOSUR dialogue and bilaterally to identify ways to strengthen trade and investment ties. Australian and Brazilian businesses cite non-stop flights between both countries and a double taxation agreement as priorities for enhancing their engagement.

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