

# The Potential of Agribusiness in Brazil

Monica Baumgarten de Bolle

21/11/2012

# Key Takeaways:

- It is not size that matters, it is interconnectedness.
- Agribusiness productivity is on the rise, despite Brazil's many structural problems.
- Agribusiness promotes innovation, contrary to a common myth...
- In a hostile global landscape, agribusiness is key to Brazil's short and medium term prospects.

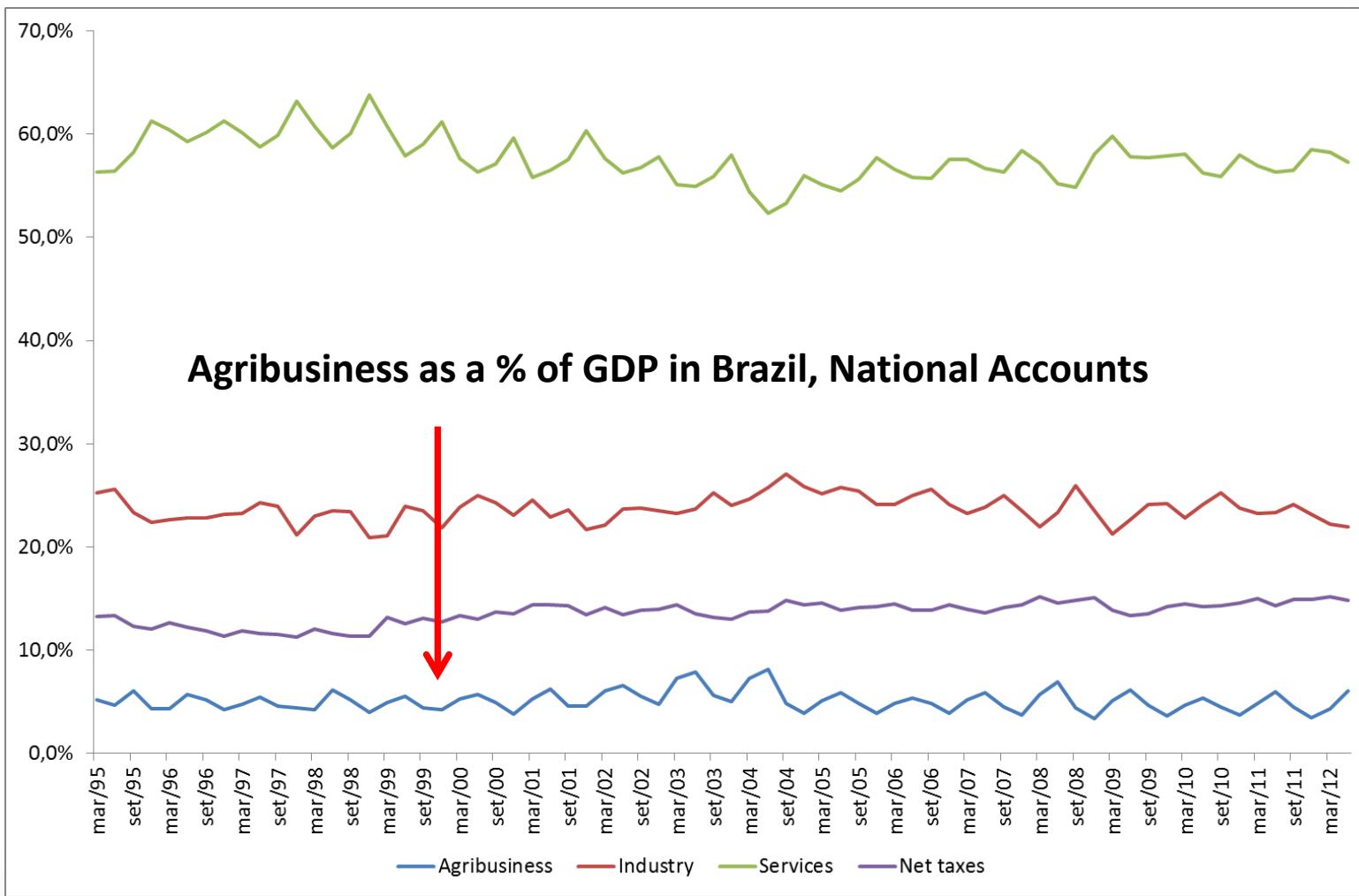
*“No sector is an island, entire of itself...”*



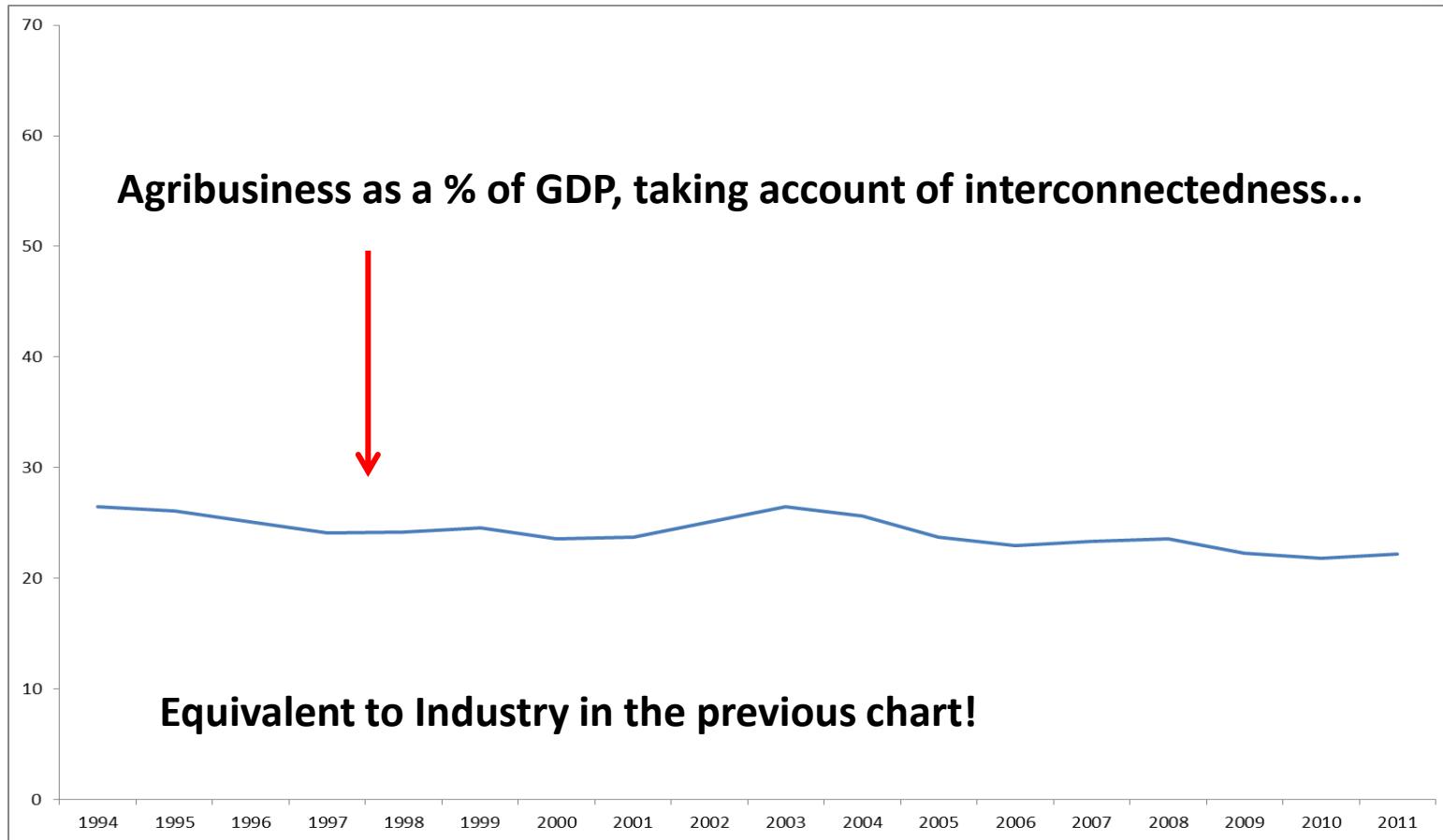
# *Does Size Matter?*

- Agribusiness accounts for only 5% of GDP in Brazil, according to the National Accounts. Industry represents some 25% of GDP, five times the size of agribusiness.
- However, agribusiness is a network hub. It is highly connected to other sectors, a crucial link in domestic production chains.
  - It demands services – transportation and logistics, for example.
  - It supplies inputs to industrial sectors – textiles, food processing.
  - It is present in over 70% of Brazilian export products (MDIC).
- Size matters, but interconnectedness matters more...(compare the two following charts).

# Not a Question of Size...



# ...but one of Linkages.

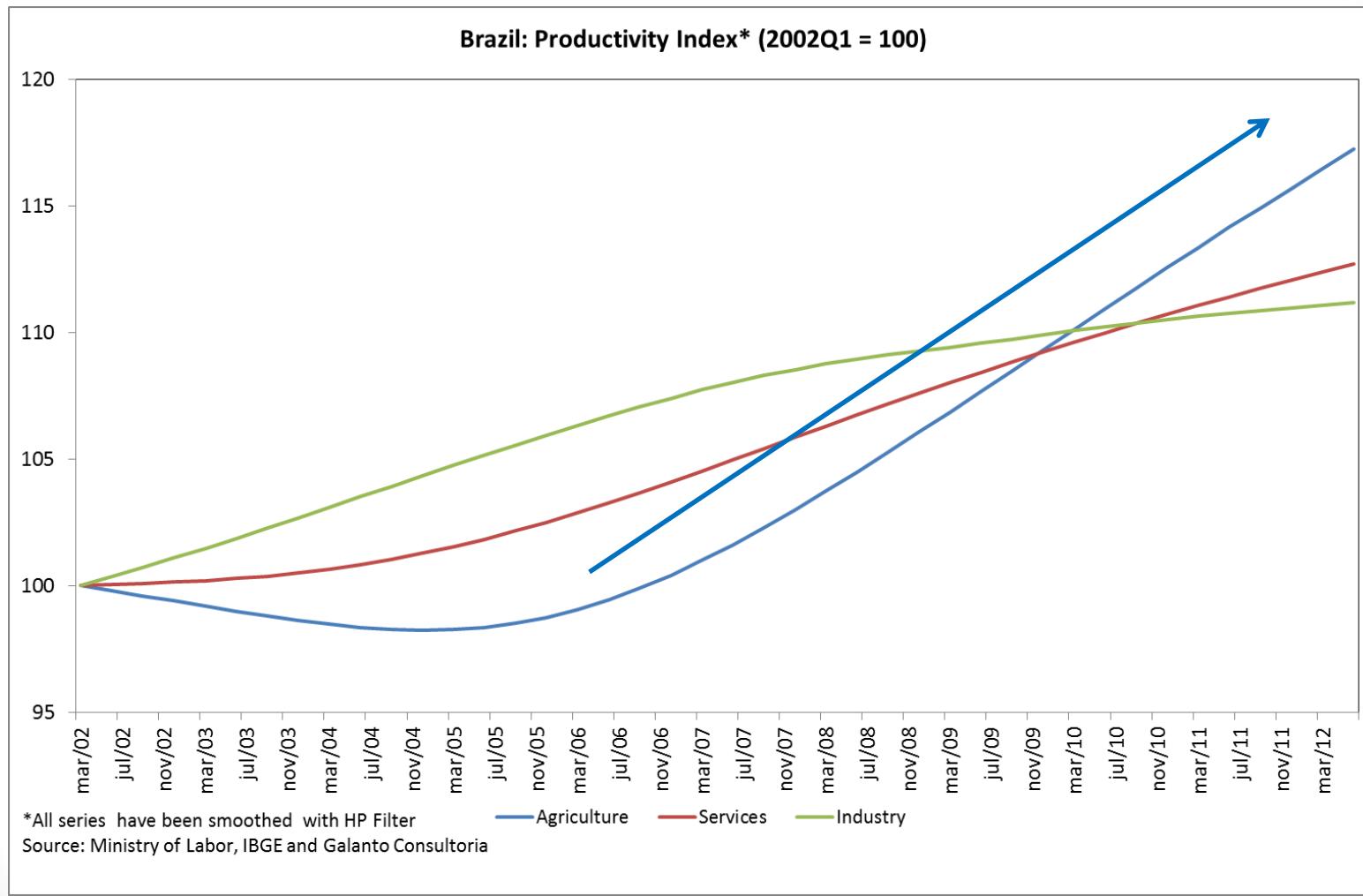


Source: CEPEA/USP

# Structural Problems and Competitiveness

- Much is said about Brazil's many structural problems:
  - Infrastructure and logistical bottlenecks;
  - An overly onerous tax burden (some 37% of GDP);
  - High labor costs.
- In fact, these problems have taken a toll on manufacturing and burdened the services sector with a widening gap between wages and productivity.
- What about agribusiness?

# Quite the opposite...



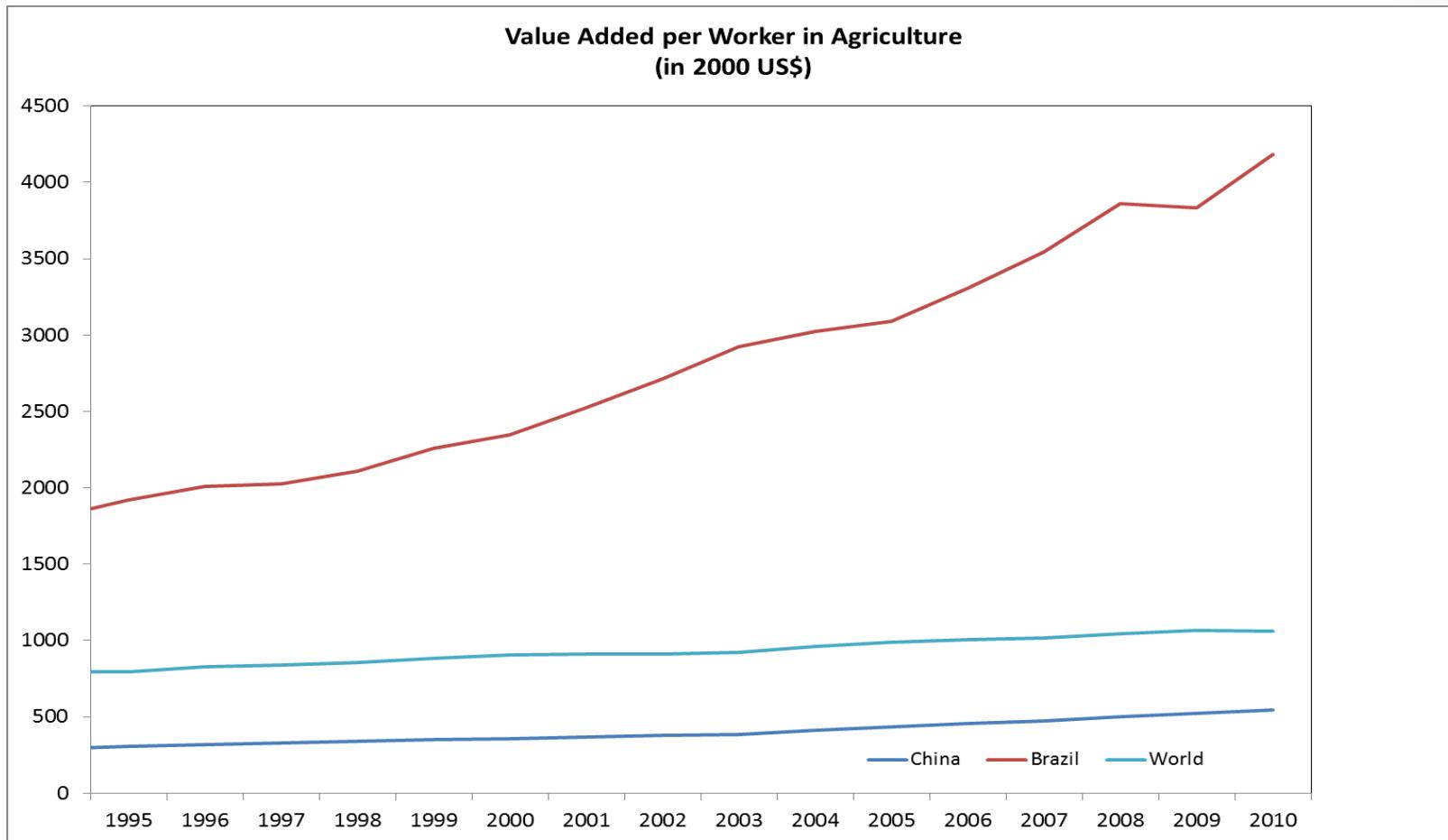
# Why? Innovation, the debunking of a common myth.

Brazil: Scientific Production, 2009

Area	Brazil as a % of the World
Agrarian Sciences	10.0%
Animals/Plants Sciences	7.0%
Pharmacology	4.0%
Microbiology	3.3%
Biology and Biochemistry	2.8%
Clinical Medicine	2.7%
Immunology	2.3%
Genetics	2.3%
Chemistry	2.0%
Physics	2.0%
Geological Sciences	1.7%
Engineering	1.5%
Computer Sciences	1.2%
All Areas	2.7%

Source: Ministry of Science and Technology, Brazil

# Value Added per Worker in Agriculture

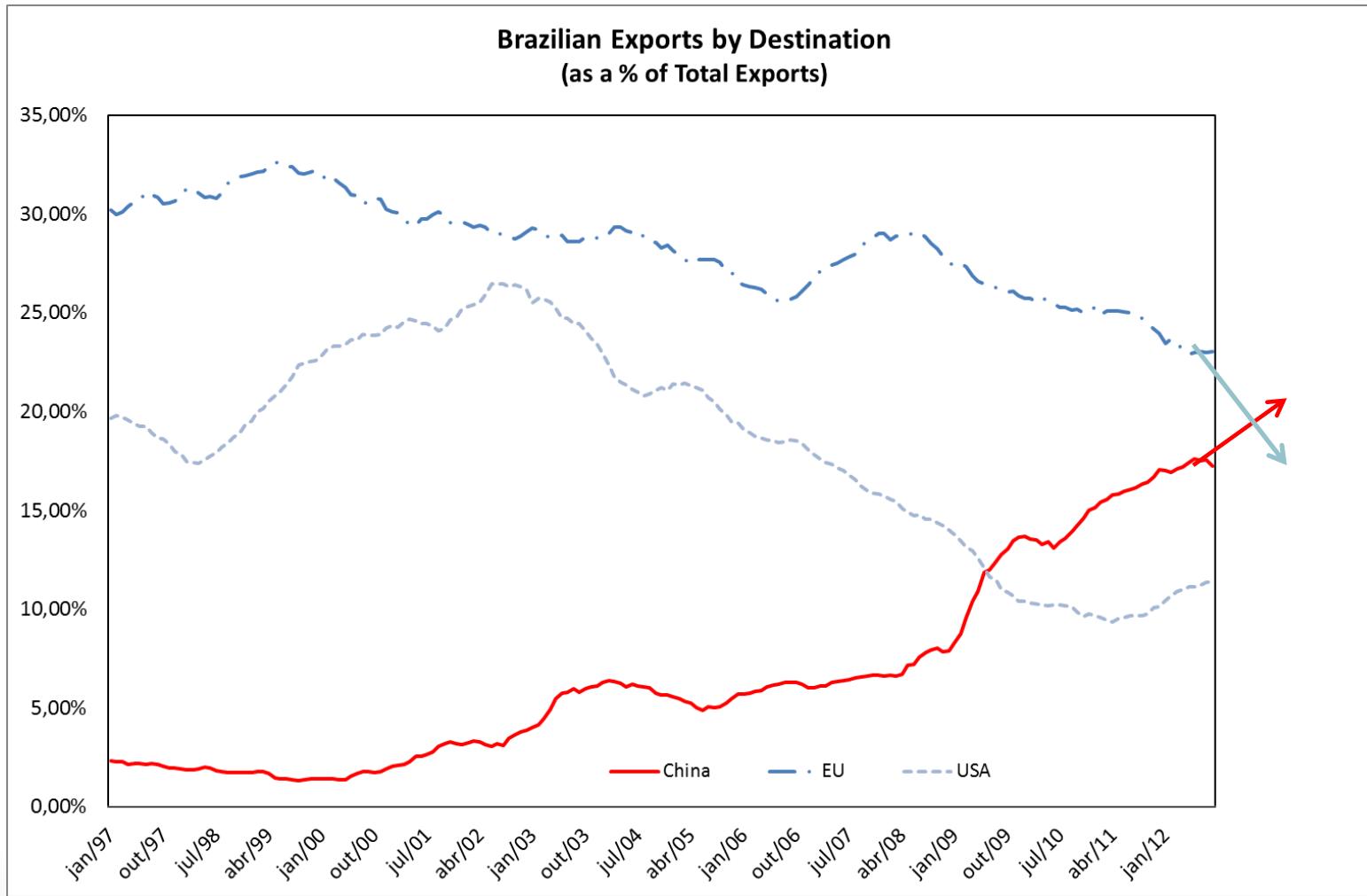


Source: World Bank and Galanto Consultants

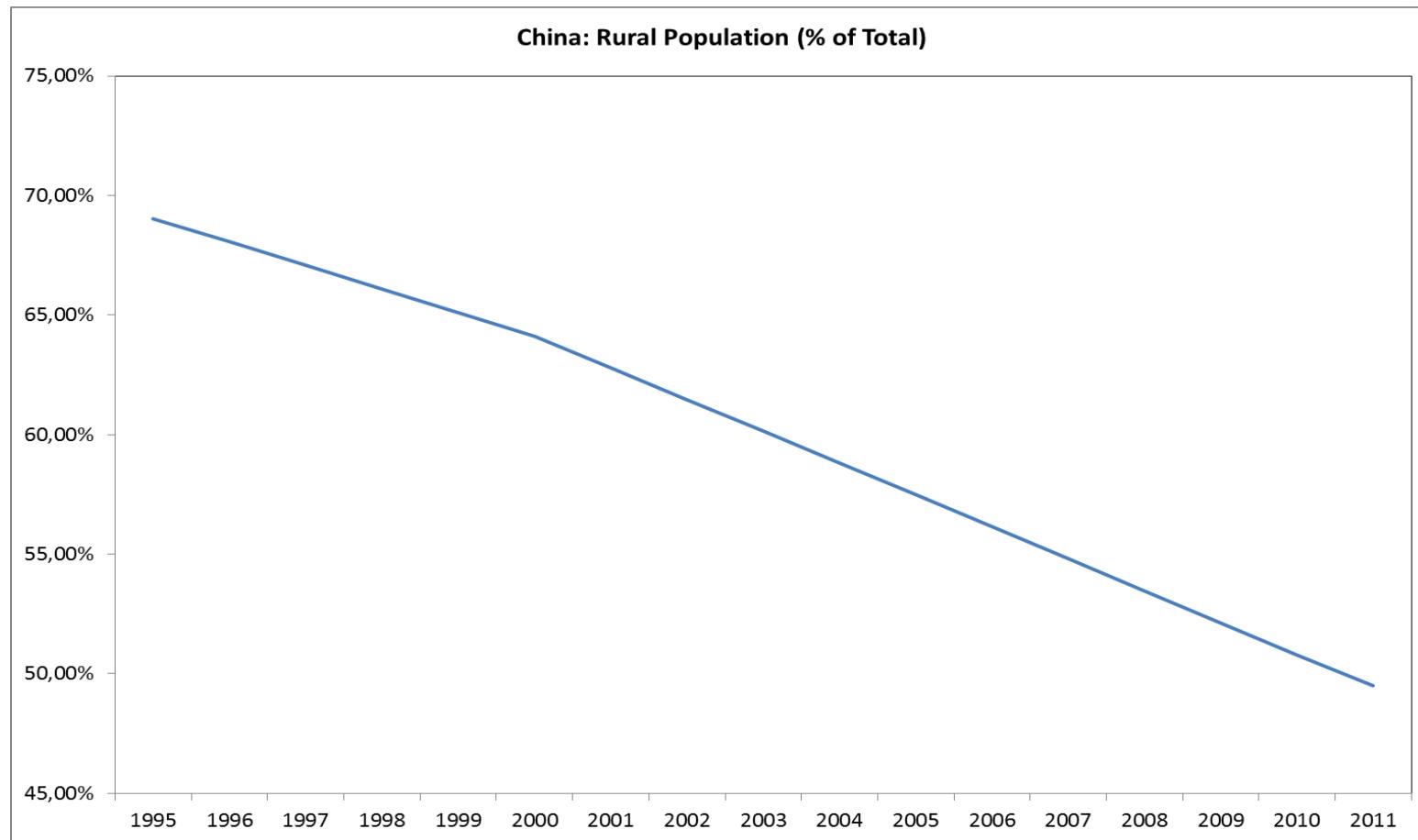
# A Dysfunctional Global Environment

- Low medium term growth in the developed world, due to the ongoing debt crisis;
- Large EMEs have to turn to each other.
- From a Brazilian perspective, China presents enormous opportunities for agribusiness growth:
  - China is fast becoming one of Brazil's main trading partners, having surpassed the US and closing in on the EU.
  - Change in the “Chinese growth model”, urbanization and decline of the rural population – likely increase in Chinese demand for agricultural products over the medium term.

# Brazil's Trading Partners

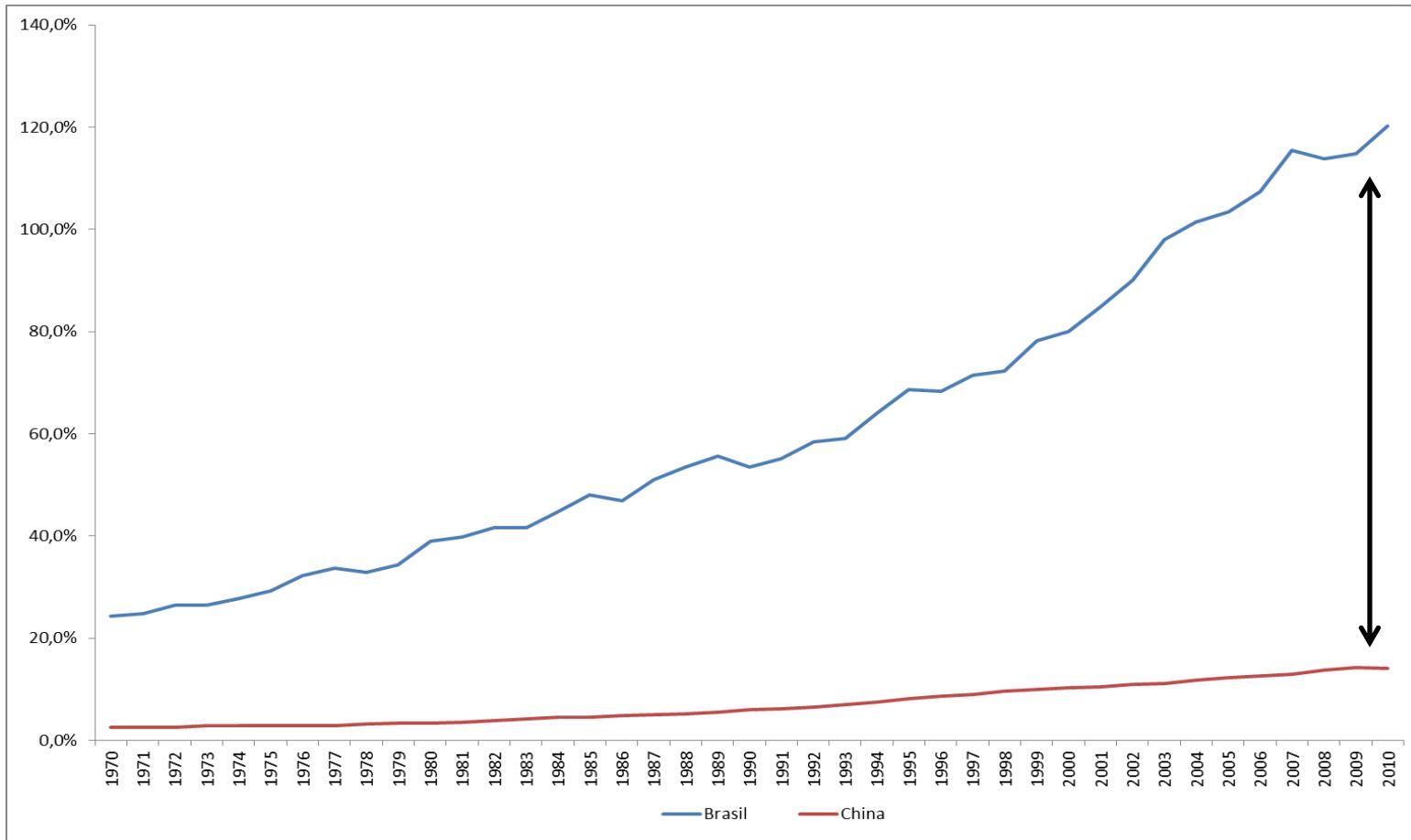


# Rural Population in China



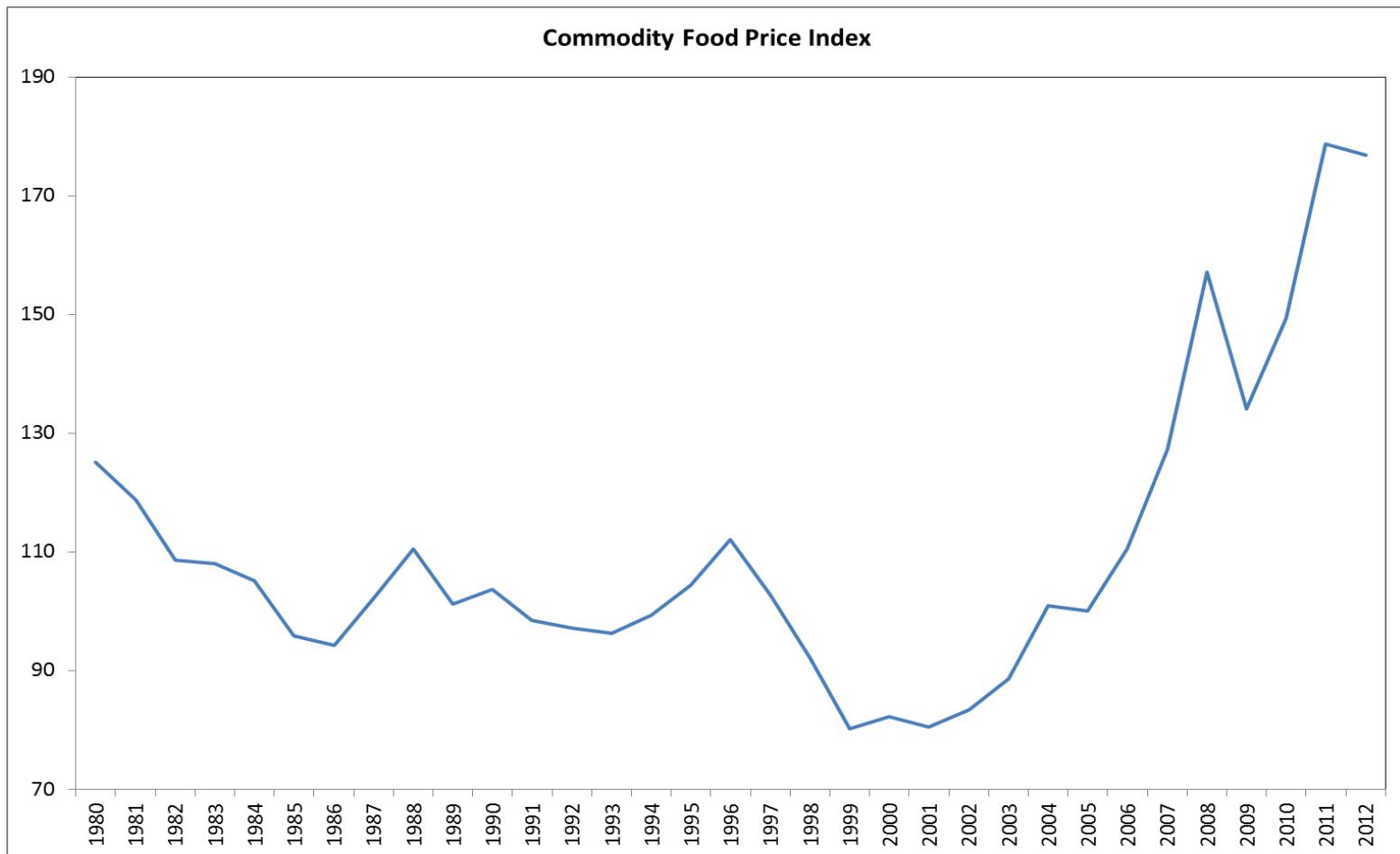
Source: World Bank

# Food Production per Capita



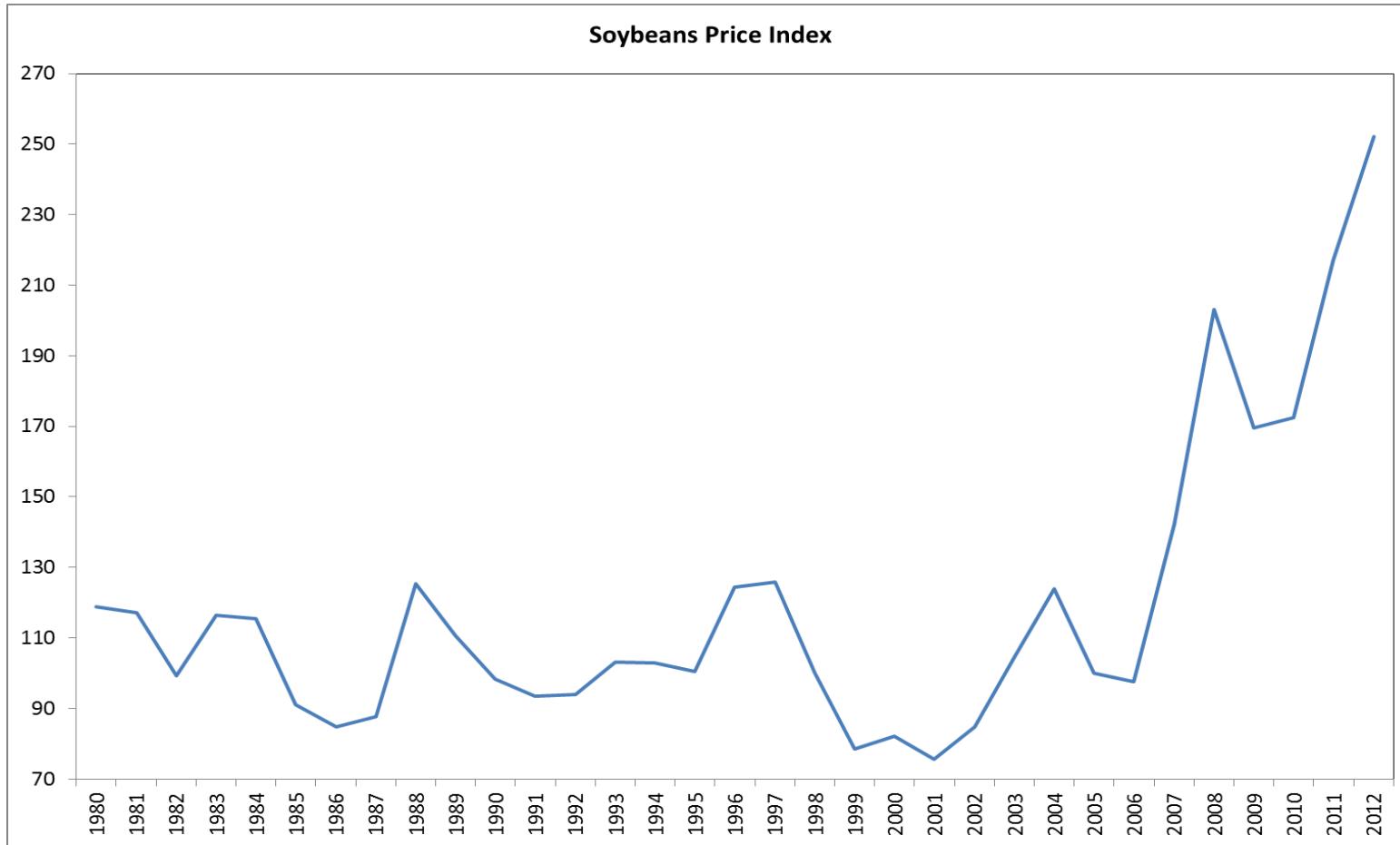
Source: World Bank

# Agricultural Commodity Prices are likely to remain high...



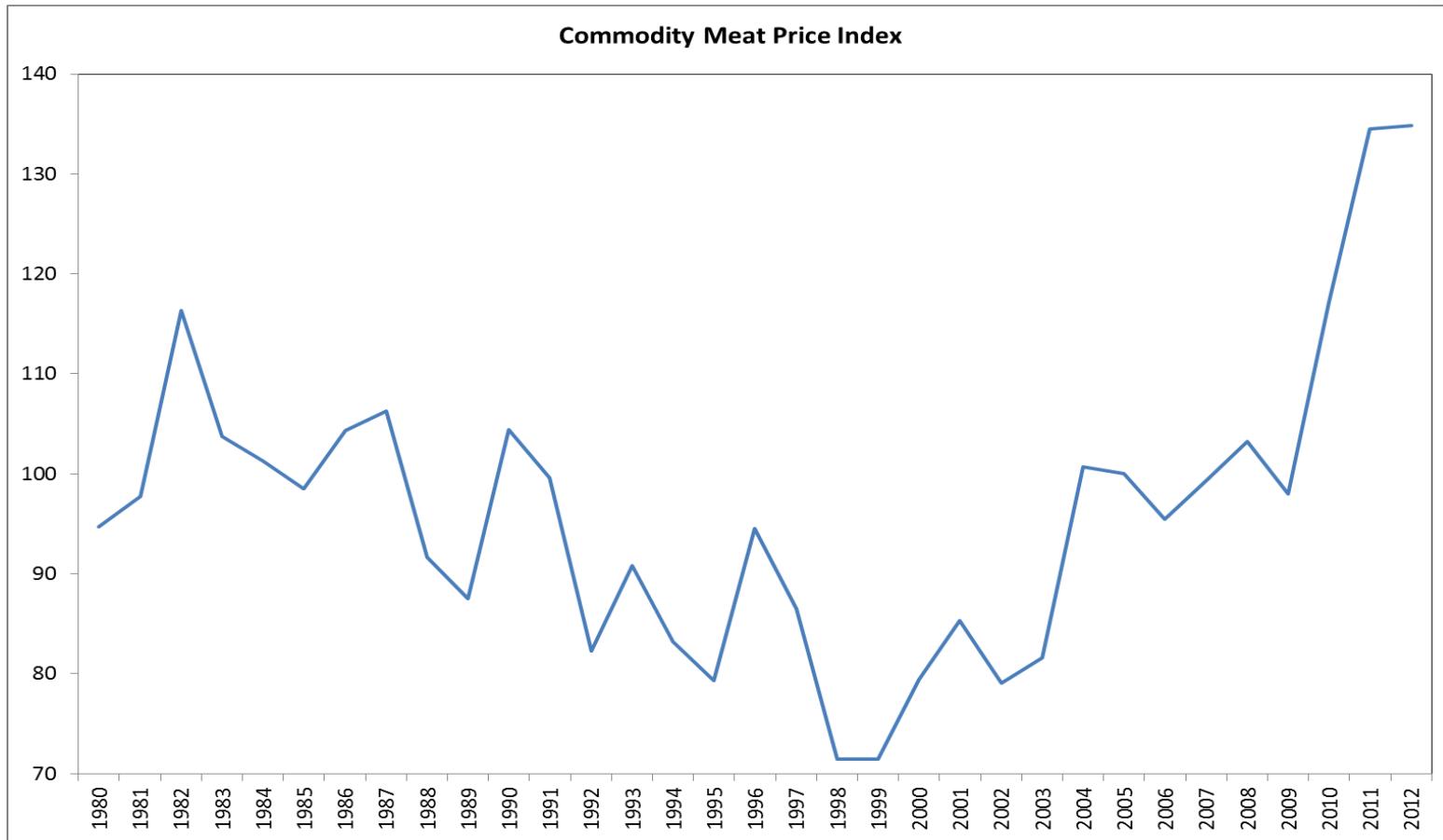
Source: IMF

# Soybeans



Source: IMF

# Meat



Source: IMF

# Concluding Remarks

- Brazil is at a crossroads, facing external headwinds and significant homegrown structural problems.
- Economic growth has fallen sharply and the government has started to tackle the many challenges hampering production and investment.
- But in the midst of all this, the agricultural sector remains fairly unscathed, helped by rising productivity and a natural comparative advantage.
- A dysfunctional global environment requires a continued search for new growth opportunities. China is a growth opportunity for Brazil. The expansion of Brazilian agribusiness is an opportunity for both countries.

# Last Thoughts

- *When the wind of change blows some build walls while others build windmills.*
  - Chinese Proverb
- *It's no use having a favorable wind if you don't know which way to turn the helm.*
  - Brazilian Proverb

# Thank you!

[monica@galanto.com.br](mailto:monica@galanto.com.br)