



Brazil Infrastructure Projects on Tight Schedule - Fasteners Required

by Steven Rainwater

Brazilians have in some ways been oblivious to the world economic crisis. While countries like the US and Britain had their economic growth almost come to a standstill, the Brazilian economy continued to hum, churning out a 5%+ growth rate from 2007-2011. During this time they chugged right past Britain, becoming the world's 5th largest economy in 2011. Now it's 2012 and according to all end of quarter reporting in July, the Brazilians are finally slowing down.

A Deceleration that Is not Permitted

In July the International Monetary Fund downgraded their prediction of growth in the Brazilian economy from 3.1% (already a huge decrease from previous years) to 2.5%, Brazil's slowest growth rate in more than 5 years. Quarterly reports at the end of June testify that production is falling, exports are slipping, and Brazil's overall momentum has slowed. This should be expected, a slightly delayed reaction, something that even China has experienced with its own massive 11%+ growth being reduced down to single digits - 8% according to the IMF report.

In the case of Brazil however, someone needs to remind them that slowing down is not permitted...at least for the moment. Brazil has important events to host!

That's right. Just when all economic indicators have Brazil planning for a break (let's be honest, the South American giant always does things more or less according to it's own schedule), the outside world is gently reminding Brazil - no breaks allowed. Brazil is slated to host the World Cup of Soccer in 2014 and the Summer Olympics in 2016 - and there's some getting ready to do!

In 2011 there was a fun graphic called *Countdown to the World Cup 2014*, being passed around social media among Brazilians who enjoyed making light of all the work still needed, to prepare for the World Cup. It translated something like this:

Still remaining: 3 years, 12 stadiums, 1 national team, 30 hotels, 14 airports, 120 thousand kilometers of highway, 2,000 kilometers of subway, 1 bullet-train, 115 slums reformed, 33 thousand soldiers prepared, 2,000 restaurants, 150 thousand taxi drivers speaking English and Spanish, 20 thousand kilometers of drainage, 50 million square meters of unpolluted water...

...a fun message chock full of truth, at the center of which is one of the most important economic concerns in Brazil's recent history... **Infrastructure.**

An estimated USD 1 trillion in potential public works spending is anticipated in Brazil over an extended improvement period covering the next 2-4 years. The infrastructure palooza in Brazil is one of the world's best opportunities for fastener and hardware manufacturers to weather the global economic doldrums.

Just when Brazil should be on hiatus with the rest of the world economies, it has stadiums to build. Twelve host cities will sport new and refurbished stadiums as 2014 World Cup venues. Right now they're pouring concrete around the clock in at least 7 cities. And they can't train workers quickly enough. There are good jobs available in construction and supporting industries which can't be filled quickly enough with qualified workers. Never mind that one of Brazil's largest construction companies, holding a plethora of open contracts related to World Cup and Olympics is battling corruption charges. Right now they

should be plowing through some building retrofits. In just a short time (now less than two years) people will be arriving in Brazil for these events, ready to watch some 'futebol.'

To ramp up for the pending event, Brazil is also building new airports and reconditioning old ones. The tourism city of Natal, RN is constructing what is reported to be Brazil's largest airport. Located at the closest point to Europe on the South American continent, it's poised to receive visitors from all points on the planet. At least 10 other cities are building or retrofitting airports. Rio and São Paulo, whose airports handle most of the air traffic coming into Brazil, do not even feel they are ready to handle the massive influx that will arrive, so they are each remodeling and installing new systems.

The larger of the two events is expected to be the Olympics, so Brazil still has time to gather momentum. But the speed at which the country now needs to accelerate is formidable. During the present time, work must continue at a frantic pace. This spells opportunities for fastener manufacturers who supply construction parts and processes as well as those who work with machinery OEMs and direct manufacturers.

Once all those visitors arrive, they'll be on the move. Fortunately Brazil's 200 thousand kilometers of paved roads place it among the larger highway systems on the planet. The problem with such an immense highway system, is the maintenance is never complete. In Brazil's case, road expansion must speed up exponentially. Brazil has already been adding more than 2 million autos to their road each year, even with no international sporting events. So...add highway repair and new road construction to the list of airports and stadiums.



Additional productive activity, which promises to unfold in terms of Brazilian infrastructure, includes high-speed rail, expanded subways and updated electric power grids to support the explosive growth. Will the country be ready? The world is waiting to see. But the questions for entrepreneurs and industry, such as hardware and fastener manufacturers and suppliers and their respective supply chains, focus on how to use this moment to best access opportunity. How do all these infrastructure projects come to bear on the outside world?

Action Needs to be Taken

It's no secret that Chinese businesses continue to look for opportunity to partner with Brazil both domestically and abroad. One of China's chief complaints in setting up large operations within the country is the significant amount of infrastructure weakness, chiefly citing roads, ports and the power grid, as well as the high amount of taxes and regulations. While the fiscal reaches of Brazil are not likely to diminish any time soon, some of the infrastructure problems are about to be solved quickly. **This is an**

interesting time for Chinese manufacturers to both plan long-term investments and short-term activities during this surge of Brazilian infrastructure.

First, and most importantly despite the world economic downturn, slowing economics, reduced demand, Brazil has to add infrastructure now. Roads that need upgraded, airports need completed, and power grids awaiting improvements all have deadlines imposed by the World Cup and Olympic events. Action needs to be taken.

This means construction activity and manufacturing of building components will grow. **China is Brazil's #2 source in the world for imported fasteners.** While demand for fasteners in sectors like automotive and furniture may fall off slightly, construction machinery orders, construction component fasteners and other hardware for varieties of manufacturing machinery should create opportunities for Chinese manufacturers with operations in Brazil, as well as opportunities to export to Brazil.

Additionally, **thanks to the infrastructure improvements, which are taking place by default in Brazil, Chinese reservations about doing business in Brazil may be reduced.** The most successful way to access Brazil and other markets in the Americas via Brazil is to set up joint ventures, partnering with national companies to open up local operations able to reach Brazilian markets and other markets in the Americas.

There has been high profile pullback from some major Chinese businesses because of concerns over specific weaknesses in Brazilian infrastructure. One of the largest projects to be put on hold recently is the proposed Wisco (Wuhan Iron & Steel) plant to be built in Rio de Janeiro. The company cites infrastructure such as roads and ports as the reason the project has been put on hold following a three year feasibility study. **Large projects like Wisco as well as other Chinese manufacturing efforts of smaller scope may receive new life as the Brazilians infrastructure projects are completed.**

A third key factor which should benefit the Chinese fastener market is that the infrastructure surrounding these events as well as the sheer continued growth of Brazil's economy, means **Brazil remains a magnet for foreign investment.**

Chinese fastener companies may find some of their best customers in other countries can also become strong relationships in Brazil. Brazil's four main import partners are the European Union, the United States, China and Argentina. While the amount of manufacturing and construction machinery moving from China to Brazil continues to grow, the Brazilian government continues to impose tariffs to keep imports honest, and strengthen domestic manufacturing.

Influx from Abroad is Must

For fastener and component manufacturers, the opportunity to increase any Brazilian customer base should be seriously considered. One way Brazil is reaching out to fastener manufacturers abroad is in November 2012 via the Fastener Fair Brazil to be held in São Paulo. The infrastructure projects are among the messages being communicated to invite foreign manufacturers to attend the show and explore opportunities.

The fact is, Brazil will only accomplish their monumental infrastructure goals with help from abroad. So, for Chinese fastener manufacturers, there are at least three positions to consider while looking at the possibility of doing business with Brazil sooner than later.

Look long. Build relationships in Brazil. Become a good partner, a good customer, and a good supplier.

Be patient. Even though the IMF recently downgraded everyone's projected 2012 economic growth by country (Brazil down to 2.6%, China to 8%), it will be back...and those infrastructure projects will help prop things up in the meantime, since they must be realized.

Buy your 2014 World Cup tickets. No one knows exactly how or even if Brazil will achieve all the deadlines which are staring it down at the moment, but it will certainly be worth the trip to find out how it went...and a World Cup not soon forgotten! ■