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BRAZIL DROPS IN THE GLOBAL PRODUCTIVITY AND EFFICIENCY RANKING, WITH LOW CAPACITY TO TRANSFORM WORK AND CAPITAL INVESTED INTO WEALTH

As pointed out in the latest Global Productivity and Efficiency Ranking, divulged annually by Fundação Dom Cabral in partnership with the International Institute for Management Development (IMD) as part of the International Competitiveness Report, Brazil is ranked #52 among the 61 countries evaluated, behind countries like Venezuela (#51), Mexico (#50), Bulgaria (#49) and South Africa (#48), for example. At the other end of the global ranking, the leader is Qatar (#1), followed by Luxembourg, Norway, Ireland and Singapore (#2 through #5, respectively).

The indicator assesses the overall competitiveness of countries, taking into consideration the resources they invest and the capacity of such investments to generate more wealth. "Brazil's position shows that the country's capacity to transform work and capital invested into wealth is at an average/low level in comparison to the other countries evaluated," said professor Carlos Arruda, coordinator of the Innovation and Entrepreneurship Nucleus at Fundação Dom Cabral.

According to him, Brazil's situation is perceived as critical for several years already, not only for the low productivity presented but also due to the little productive growth. "If we compare this same indicator of overall productivity from one year to the next, we will see that Brazil is ranked second to last on the list, with a 5.33% decrease from 2014 to 2015," he said about the latest statistical data divulged by these entities. "The fact that Brazil has low productivity is troubling, but the worst is that productivity is not growing in the desired and necessary way for the country," said Carlos.

In this month's Interview, Arruda provides more details about the evaluation, talks about the interference from the current political-economic situation and reveals what are the strategic paths for achieving changes that favor global competitiveness.

O Papel **–** What are the criteria for evaluating a country's productivity?

Carlos Arruda, professor and coordinator of the Innovation and Entrepreneurship Nucleus at Fundação Dom Cabral – This evaluation corresponds to one of the indicators of the International Competitiveness Report that we produce annually in partnership with IMD. These indicators allow building a general competitiveness ranking that together totals a set of 360 variables, which are grouped into four pillars: economic performance, government efficiency, corporate efficiency and infrastructure. In the corporate efficiency pillar, one of the most important blocks is productivity and efficiency, which analyzes the overall productivity of a country. In practice, this means measuring the capacity of a country to generate growth of its income per capita with the capital invested, the workforce and resources it has at its disposal. The overall productivity indicator, therefore, considers the resources that the country invests and the capacity of these resources to generate more wealth. It is in this indicator that Brazil is ranked #52 out of 61 countries analyzed in 2015. Another indicator shows that Brazil is ranked second to last on the list, with a 5.33% reduction from 2014 to 2015. Comparing extremes, we can see that China posted a productivity gain of 6.63%. In looking at Brazil's position and how much it has accelerated, or better, slowed down in this evolution, it is easy to see that, in addition to not being in a good position, the country is losing productivity. When we analyze the statistical data regarding just the country's industry, this position is even worse, dropping to #56.

O Papel**–** Considering the criteria adopted by the ranking, what are the main reasons for Brazil's low productivity?

Arruda – There are several elements that influence these results in the rankings. A critical element is low corporate investment in generating added value in Brazil's productive capacity. When we compare Brazil's investments in innovation, technologies and more-advanced digitization systems for productive processes, for example, like those in other countries, we see that they are much lower. Another element is people. The low-quality of Brazil's labor has been heavily impacting the country negatively. A while back, Brazil generated many job opportunities and gratefully inserted a large number of people in the labor market. However, in spite of generating income, these people were not being allocated to high value-added positions and did not generate productive gains. This led to a decrease, since the country was including more resources in the productive process but they were not resulting in such a significant increase in added value. Hence, productivity declined.

O Papel **–** Does the collective bargaining issue also impact productivity of Brazil's industry? Considering that labor qualification does not accompany such increases, can this be considered an obstacle? What would be the best solution for this bottleneck?

Arruda – Brazil is a country that has another need, which is income inequality. If we look at things from the perspective of income inequality, the salary increase on top of productivity growth is an inequality-reduction instrument. This is a necessary and positive fact for Brazil's

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society and economy. It's just that associating increases without associating the increase in labor qualification and without associating it to productivity, you undoubtedly end up increasing pressure on the loss of productivity. We can't look at productivity without looking at the advantages that the salary increases create to reduce inequality, but from the perspective of productivity, we look at these increases in salary in relation to the increase in labor quality, which then could produce a loss of productivity. Had we qualified this labor, this would change things down the road, since we would be generating income for families and improving labor quality. Therefore, the negative factor is the non-improvement of labor.

***O Papel* –** What consequences does the low productivity of Brazil's industry lead to? What does this cost to companies and society as a whole?

Arruda – From the perspective of competitiveness, productivity is the main factor for corporate efficiency. Coupled with several other indicators, it determines the capacity of Brazil's industry to compete. If we consider productivity as one of the main factors of corporate efficiency, and see that it comes associated with a high tax load, low infrastructure quality and other deficiencies, we can conclude that this set makes Brazil be a less competitive country. The fact that we have this outdated variable coupled with other poor variables, generates a low competitive performance. And, as a result, leads to a drop in international competitiveness rankings. In the long-term, it causes low economic growth, greater inequality and worse living conditions for the population. In spite of continuing to be an attractive country for investing, given its market size and the opportunities it's still capable of creating, greater competitiveness could revert economic crises more easily and generate better growth perspectives looking forward, for example. Productivity is the means for ultimately achieving competitive gains.

***O Papel* –** What international examples could Brazil adopt to pursue productivity increases?

Arruda – Today, the main benchmark for Brazil should be Korea. It's a much smaller country than Brazil, but that came from a much worse base. In the 1960s, while Brazil was already a medium-income country, Korea was still a sub-developed country. Korea opted to invest in labor qualification and the development of productive companies. The result is that the country is presenting spectacular progress, not yet experienced in Brazil. More recently, we also have China as a good example, which associated its size potential with the effort of improving productivity and labor qualification, as well as investments in innovation and technology. These two countries were capable of making leaps, as we can see in the rankings. Both have in common the choice to develop their competitive base according to their human resources. In looking at examples in Latin America, I would point out the effort Colombia is making towards simplifying its regulatory environment and improving its institutional environment to seek competitive differentiation opportunities. It is still far from being a benchmark country, like Korea and China already are, but it's headed in the right direction, significantly investing in the training of its labor and creating mechanisms to incentivize companies to invest in competitive advantages.

***O Papel* –** Does the current economic and political scenario make it difficult to implement positive changes to boost Brazil's productivity?

Arruda – In fact, immediacy tends to overlap competitive advantages. Big companies that are a reference in the country are having to focus on the short-term to reduce indebtedness and increase margin potential, which ends up compromising the long-term. At the same time, the government's agenda of incentivizing the business environment is one that is very occupied with the short-term to include discussions pertinent to Industry 4.0, for example. Due to the critical issues of economic instability and political adjustment, there's no time to deal with these long-term topics. However, public and corporate leaders need to think about saving some time on their agendas and some investment resources to build this future agenda. If we wait for short-term issues to be resolved in order to plan the future, we run a serious risk of seeing other countries in positions much better than ours, increasing even more the gap we have today.

***O Papel* –** Do you believe that there are industrial segments that are more engaged in the performance of their own productivity?

Arruda – Yes. Sectors that are exposed to the international market, including pulp and paper, have this long-term agenda as priority, precisely because they are aware that they're competing with global players. Customers also require this type of attitude. Therefore, we have companies in various sectors that have not ignored this agenda and continue investing in people, innovation and other strategic fronts. Our challenge as a country is for this be multiplied. There are sectors that are domestic-market oriented, which are paralyzed, such as the automotive and civil construction. These are very important sectors for Brazil's economy and are facing difficulties in advancing this future planning at the same speed as others. ■