



PERSPECTIVE

# Brazil's Olympic Ambitions

April 4, 2016



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Brazil has been in the media spotlight over the past year for political and economic reasons, and also for sporting ones as host of the 2016 Summer Olympic Games in August. Brazil is no stranger to hosting big international events—including last year's FIFA World Cup as well as its famous Carnival, an annual celebration that attracts tourists from around the world. I was fortunate to be in Rio de Janeiro again this year during Carnival and was able to gauge the mood of the Brazilian people in the midst of what has been Brazil's worst recession in decades. I also had a chance to tour some planned Olympic venues and see the preparations being made for the upcoming influx of athletes and spectators.

## Celebrating Carnival



Brazil's Carnival

When I arrived at Copacabana Beach, the Carnival festivities were already underway. Despite Brazil's dire economic situation (gross domestic product shrunk 3.8% in 2015 and a similarly negative reading was expected this year), it seemed that everyone was ready to party and enjoy themselves. On the streets of Rio there were block parties (blocos) with crowds of people dancing, ranging from a couple of hundred to more than a million people. Streets along the parade route were accompanied by trucks topped with platforms of dancers and singers and with huge speakers below them blasting out music.

At Carnival, procession groups are called “schools” because the first ones practiced next to a school. Rio has over 70 samba schools that select themes, write music and lyrics, make costumes and floats and practice all year to succeed in their parades. They are categorized in a strict hierarchy organized into different competitive leagues. When the procession of one of these schools finishes, groups of cleaners donning orange uniforms follow with big brooms and motorized sweepers to clean the avenue for the next school. Brazilians seem to be optimists by nature, often able to make the best of a dire situation or a menial, unappealing task. One year I saw one of the street cleaners playing with his broom and dancing around it, making it stand on end and generally having fun. The crowd loved it and he became a regular feature of the entertainment. This year, the threat of the Zika virus didn’t seem to dampen spirits—there were colorful Zika virus costumes and I even spotted a Zika-themed float. From what I’ve witnessed, to call the people of Brazil “depressed” or “unhappy” despite the difficulties they are facing is not accurate.



Brazil's Carnival

That said, the happy and carefree attitude that Brazilians or at least Cariocas (people from Rio) exude can be misleading—I have also found the people to be very hard-working and up to tackling challenges head-on. When Brazil was selected to host the FIFA World Cup football (soccer) competition in 2015, many people doubted the Brazilians could meet the construction deadlines and properly prepare for the crowds. I didn’t doubt for one minute they could pull it off, because I had witnessed the Carnival parades at Rio’s Sambadrome where, from seven in the evening to seven the next morning, thousands of dancers, musicians and huge, complex floats danced and marched past the cheering fans in an orderly and disciplined fashion within strict time limits. I figured if Brazilians were able to organize such an event every year, then they could handle large sporting events like the World Cup or the Olympics.

### **Sights, Sounds—and Smells—of Rio**

Rio is important to Brazil not only because of its famous Carnival (which, in my opinion, is the greatest show on Earth) but also because it is the base of some important companies, even if São Paulo is considered the industrial and banking center of the country. Rio also has an important history since it was the country’s capital before that status was bestowed on the ultramodern Brasilia, which boasts unique buildings designed by Brazil’s famous architect Oscar Niemeyer.

In the early 1500s when Portuguese explorers entered the Guanabara Bay in Rio and encountered the giant round mountains, they called them Pão de Açúcar, which means “sugar loaf” in Portuguese. At that time, sugar was placed in clay conical molds for transport on ships, which looked like Rio’s mountain peaks. Guanabara Bay has become a bone of contention in recent days for something a bit more sour. On the weekend, we were cycling along the route bordering the beautiful white sand Botafogo beach at Guanabara Bay with Sugar Loaf mountain in the background. We were hit with an awful pungent smell caused by the intense pollution in the bay—the reason why no one was on that beach. There have been a number of oil spills in the bay and in one case, 1.3 million liters from a leaking underwater pipeline destroyed large areas of the bay’s mangrove ecosystem. In addition, surrounding communities have been releasing sewage into the bay. The sailing events for the upcoming Olympic Games are scheduled to be held on the bay, and we wondered if the government will be able to clean it up, even with the assistance of Dutch experts.



The ultramodern Museum of Tomorrow

Nonetheless, there are many spots in the city that are famous for other reasons and worth a visit. Driving for about a half hour along the coast out of Rio, we also passed the Barra district with many high-rise luxury apartment buildings along a wide beach, where rolling waves crashed on the white sands that stretched for miles. Lots of kitesurfers could be seen out on the ocean flying off the wave tips. Given that there must be a few thousand of such apartments in Barra, it is clear that many Cariocas are wealthy and enjoy an affluent lifestyle.



Lady Liberty reigns at the New York City Center Mall, Brazil

Behind the high-rise apartments were large shopping malls with all the famous brand names and plenty of food choices, from fast food to upscale restaurants. One mall is called “New York City Center” and has a giant Statue of Liberty in front of it. At the mall we watched the movie “Deadpool,” a satirical take on a Marvel comic. The film had Portuguese subtitles, but it made constant reference to a number of actors, characters and incidents from American television, theater, video games and films that I expected a foreign audience wouldn’t understand. I was surprised to find that the entire audience, mainly made up of young Brazilians, was howling with laughter throughout, while I barely understood half of the jokes. This brought home to me how global culture has become and how the young people of the world are being exposed to much more than what I was exposed to in my younger days.

### **Brazil’s Olympic Ambitions**

Driving from the mall, we headed for the nearby 2016 Olympics site, the HSBC Arena (that name may change to Bradesco Arena since Bradesco Bank recently purchased the HSBC operations in Brazil). We drove along a mass of highways leading to the Olympic village; there were at least seven stadiums and arenas in the area. The handball arena had a sign on it saying that it cost 158 million real (the Brazilian currency), or about US\$42 million, to build. Obviously, that kind of expenditure has attracted critics in light of the dire condition of Brazil's economy. On a wooden fence we saw protest graffiti "Lava Jato Olímpico" or "Car Wash Olympics," tying the Olympic expenditures to the on-going "car wash" corruption scandal in the country. Some people have been complaining that their tax monies are being wasted. Whether Brazil can recoup its Olympics-driven investments from increases in tourism remains to be seen, but Brazil will have the opportunity to shine, and hopefully will be able to generate some more positive press and goodwill from the Games.

Not far from the Olympic area, we passed the Cidade de Deus ("City of God"), a low-rise, low-income government housing area built in 1960 in an effort to move poor people from the favelas (slums) in the center of Rio to the suburbs. About 40,000 low-income people live in the development. It was the inspiration for the film "City of God" about child violence in the poor areas of Rio which I found very painful to watch. For a long time, the area was considered the most dangerous part of Rio, quite a contrast from the rich seaside neighborhood a 15-minute drive away.



Olympic stadium under construction

In addition to building the Olympic facilities, Rio has embarked on an extensive public works and beautification program. One project was rejuvenation of the old downtown port area that had become derelict and cut off from the sea by an ugly elevated roadway. That roadway has been demolished and traffic diverted into underground tunnels. The unobstructed area facing the bay is the site of the amazing new and modern Museum of Tomorrow designed by Santiago Calatrava Valls, a Spanish neofuturistic architect, structural engineer, sculptor, painter and designer. I had the pleasure of visiting his dramatic City of Arts and Sciences complex in Valencia, Spain; he also designed the soaring Transportation Hub at One World Trade Center in New York. Opened in December 2015, Brazil's Museum of Tomorrow is a white steel-and-concrete apparition with a soaring white roof and pools to capture rainwater for the plumbing system, in addition to pools naturally filtering water from the bay. The museum is very popular, and we had to wait in line for a half hour to get in. We thought it was worth the wait since the museum is packed with fascinating interactive displays about nature, the environment, population and so on.



At the Museum of Tomorrow in Rio

### **Cracking Down on Corruption**

Despite its rich natural resources, huge landmass and large population, stultifying bureaucracy costs Brazil's economy billions of dollars each year and is holding it back from achieving its economic potential. According to the head of the country's largest industrial association, Federação das Indústrias do Estado de São Paulo (FIESP), corruption costs the economy as much as US\$32 billion a year.

There have been more crackdowns on corruption in recent years, including the arrests of top executives, bankers, politicians and others. In one case, a suspect took his private jet to turn himself in, hours before his arrest in a hotel suite on Rio's Ipanema beach so he could avoid the embarrassment of being taken away in handcuffs. Videotaped testimonies have also been posted online for all of Brazil and the world to see. Of course, the financial sector was affected by the scandals, and the arrest of the chief executive of one of Brazil's largest investment banks actually threatened the liquidity of the system, since the firm was not only the leading investment bank but also a leading broker.



Renovation in Rio's old port area

### **Getting Down to Business in Rio**

It's important to remember that like many countries in the world, Brazil is striving to develop a viable political and economic structure, and these types of transitions aren't always smooth. Between 1964 and 1985, the country was ruled by a military dictatorship and one of its legacies was legislation that gave Brazilian contractors a monopoly on government contracts that shut out foreign competitors, and gave tax breaks and subsidized credit. But things seem to be slowly changing, and some of our company visits in Rio painted a more optimistic picture for the future.

Our company visits included the headquarters of a large retail chain that focuses on low-price merchandise such as cookies, candies, CDs, apparel, toys, electronics and other household goods. The company's officials said that despite the negative macroeconomic environment in Brazil, their low-price model helped drive resiliency in sales, which has accelerated the pace of expansion in the country. They proudly told us that they didn't make excuses for periods of bad performance and didn't hide behind bad weather or macroeconomic problems as reasons for poor sales. Instead, they were focusing on how to grow sales in physical stores and online, and were starting to add more private-label products which help increase profit margins as well as put pressure on suppliers to give them low prices. They are also starting to offer in-store pickup services for customers. They were also proud of the fact that all of the current store managers were trained in-house. When they open a new store, they said they would take junior managers of existing teams and move them to the new store.

This is inspiring to me as an investor and is just one example of how companies are continuing to work hard and can, in fact, surmount the negative economic and political environment. I believe the country will rise above the current turmoil and emerge again in the future as a high-growth, reformed country.

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