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Small Businesses as a Factor for Growth and Regional Economic Development in Brazil

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"Small Businesses as a Factor for Growth and Regional Economic Development in Brazil"

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Abstract

The objective of the article is to analyze the role of small (businesses) companies in regional economic development. The article analyzes the current structure of tax concession and financial incentives into improving regional development and how it can be modified and directed in promoting small companies, especially the small enterprises located in poor regions of Brazil. We discuss how the incentives for regional development can be used to foment small business environment in poor regions, more specifically, in the Northeast of Brazil.

A small business environment is a set of social, economic and institutional spaces where such companies operate, considering its opportunities and threats. The small companies are understood - in the vision of the official institutions of Brazil - as units of production of goods and services of reduced scale. This concept considers the formal organizations (with legal register and tax contributions), excluding the informal sectors of the economy.

The size of a company, its number of employees and its market share are criterias usually applied to the definition of small companies. We argue that tax and finances incentives to the small company in north-eastern of Brazil must consider the scenarios techniques, as anticipations of futures, conditioned of the determined hypotheses.

The methodology of construction of scenarios constitutes a tool for anticipation of the events, delimiting its probabilities and organizing the uncertainty.

It is assumed that the scenarios of small business environment are influenced by the national economic, political and institutional contexts. The work is based in social, economic and institutional sceneries available for Brazil adapted for the environment of the small companies of Brazilian northeast.

Introduction

Brazil is politically divided in 5 big macro regions. Historically, the northeast region is the most problematic region. The northeast concentrates the poorest population in the Country. Since the beginning of the last century, the Federal Government has been practicing regional policies with the objective of developing economically and socially the region. Despite these initiatives, in particular, represented by the Superintendency of Northeast Development (SUDENE) the region remains significantly poorer and underdeveloped than the richest and industrial of the Country, the Southeast Region. This article argues that a radical change is necessary in the way how regional policies are practiced in the region. In particular, it is criticized the fiscal and financial policy incentives given to the large industrial and agricultural enterprises. Such incentives do not promote a sustainable development of the region. Tax incentives are better allocated if destined for small and micro enterprises, especially when performed under a local sustained and development planning. Moreover, instead of keeping an organism assigned by the state machine, it should plan and implement regional development policies in the relevant sectors (ministries) of government, after the establishment of a regional development plan, as stated in the Constitution of the Country. This measure focuses efforts and avoids the spread and use of redundant public resources. In order to justify this point of view, the article is divided into the following sections. In the first section, the Northeast region is presented as the least developed region of the country. In the next section a historical overview of the regional policies initiatives since the beginning of the last century. In the third section the local and sustainable development is discussed as a paradigm shift for the traditional regional policy. In section 4, it is proposed a regional political model that addresses the issues discussed in the text.

1-The Northeast of Brazil as a regional problem

In territorial area, Brazil is the fifth largest country in the world, with 8,547,403.50 km². It's continental dimensions allowed the division of the country in five major regions. The Northeast, with 18.3% of the country, concentrating 27.5% of the population, according to Table 1.

Table 1 - Area and population of the large Brazilian regions

Regions	Area (km ²)	%	Popul.(1000/inhabitants)*	%
Brazil	8.547.403,50	100.00	189.820,33	100.00
North	3.869.637,90	45.27	15.402,92	8.11
Northeast	1.561.177,80	18.27	52.304,74	27.55
Southeast	927,286.20	10.85	80,845.45	42.59
South	577,214.00	6.76	27,704.35	14.60
Midwest	1.612.077,20	18.86	13.562,87	7.15

Source: IBGE, Geosciences Board, Department of Cartography.

* Estimates published in the National Household Sample Survey (PNAD), 2007.

The participation of the Northeast in the Country's generation of wealth, is only of 13%, contrasting with their participation in population, according to Table 2. The GDP per capita, it is observed that the Northeast region accounts for only 63% of national GDP per capita and 47% of GDP per capita in the Southeast.

Table 2 – Regions of Brazil Participation in national GDP (%) and GDP per capita

Regions	2002	2003	2004	2005	2006	GDP 2006 pc (R\$)
Brazil	100	100	100	100	100	12.688,28
North	4,69	4,78	4,95	4,96	5,06	7989.18
Northeast	12,96	12,77	12,72	13,07	13,13	6029.47
Southeast	56,68	55,75	55,83	56,53	56,78	16.911,66
South	16,89	17,70	17,39	16,59	16,32	14.161,59
Midwest	8,77	9,01	9,11	8,86	8,71	15.551,50

Source: IBGE, Brazil's Regional Accounts, 2008

More revealing of the Northeast's region underdeveloped character, is the set of data below. The infant mortality rate is an indicator summary of the degree of development of a population. The numbers in Table 3, makes clear that in this aspect, the Northeast is an underdeveloped region in a third world country. In 1997 this rate was 50.36 in the Northeast. A number 2.18 times higher than the Southeast's and 1.58 times higher than Brazil's rate. In 2005 the Northeast rate drops to 38.2. This significant reduction occurred during the period of greatest attrition at SUDENE. During these years (the 90s), the organization was basically limited in managing its incentive instrument for productive investments, the FINOR. This is, therefore, a result that should be attributed to the sectoral policies of federal and state governments. In Latin America, the infant mortality rate in the Northeast was only lower than that of Bolivia (54.0), Guyana (47.0) and Haiti (74.0)¹

In the same Table 3 are presented the life expectancy at birth and the HDI for the regions of Brazil.

Table 3 - Infant mortality rate, life expectancy at birth and HDI by regions

Regions	Infant mortality rate (2005)*	Life expectancy at birth (2007)**	HDI (2007)***
Brazil	21,17	72,57	0,816
North	23,35	71,59	0,786
Northeast	31,61	69,71	0,749
Southeast	14,2	74,06	0,847
South	13,8	74,71	0,85
Midwest	17,83	73,73	0,838

Source:

(*) Ministry of Health, Brazil (tabnet.dataus.gov.br)

(**) IBGE, boards complete mortality - 2007.

(***) Central Bank of Brazil, Bulletin of the regional Central Bank, 2009.

Table 4 shows the functional illiteracy rate, defined as the portion of the population with at least four years of study. In general, are people who can read and write, but have difficulty in interpreting a text. Note that more than half of the rural population from the Northeast is functionally illiterate.

¹ The numbers from Latin America are from 2004 and were obtained at the World Health Organization site (WHO).

Table 4 -Functional illiteracy rate per household situation, large regions

Large Regions	Functional illiteracy rate of 15 years or older people (%)				
	Total	Selected characteristics			
		Gender		Household situation	
		Men	Women	Urban	Rural
Brazil	21,7	22,3	21,1	17,8	42,9
North	25,0	27,1	23,0	20,5	40,9
Northeast	33,5	36,3	30,8	26,1	53,2
Southeast	15,9	15,2	16,6	14,4	35,5
South	16,7	16,1	17,3	14,7	26,6
Midwest	20,3	21,1	19,5	17,7	37,2

Source: 2008 PNAD, IBGE.

In regard to basic sewerage system, (Table 5), the household rate without sewerage system in the Northeast was twice, in 2005, the South East.

Table 5 – Basic sewerage system, by regions of Brazil

	Households without general water supply network(%)	Households without sewage system	Households without garbage collection
Brazil	7,5	5,2	3
North	33,5	9,2	8,4
Northeast	9,7	9	7,2
Southeast	3,4	4,5	1,1
South	5,3	2,8	1,2
Midwest	11,6	1,2	1,9

Source: IBGE, National Household Sample Survey 2005.

The numbers presented in the previous tables identifies the Northeast of Brazil as a problematic area. How this perception motivated the federal government to take action is discussed in the next section.

2-SUDENE and the regional problem

2.1 Regional Policies in Brazil: The Case of SUDENE

Created in 1959 to promote regional development in the least developed region of the country, SUDENE was not the first initiative for this purpose. This is because the misery which was - and is - the population of the region has always shocked the country, particularly in times of frequent droughts.

According to Andrade (1999, p.34), the population sertaneja is prepared to face droughts of up to eight months. Therefore, it uses the old and secular instruments available to store water in emergency situations: dams, reservoirs, tanks, among others. If the drought will continue for several years, the reserves are depleted, forcing the population to migrate. It is this influx of "miserables" that has moved over the years, the Brazilian authorities. "According to historical records, there were 85 years of drought in the Northeast, in the eighteenth, nineteenth and twentieth (...) Thus, in a very concrete sense, backed by 300 years of history,

the droughts (every two and a half years) are the rule, not the exception "(Maia Gomes, 2001, p. 75)².

Despite inhospitable living conditions, the northeastern "sertão" was largely populated by people who basically explored extensive livestock farming, a process described in *The Economic Growth of Brazil*, Celso Furtado (1989).

As a result of the first diagnostic approach to hydraulic characterized much of the federal actions during the first half of the twentieth century. As pointed out by Cohn (1976, p. 57): "From the end of the last century until the decade of 50, the performance of the Federal

Government in the Northeast is characterized by being of assistance to the scourge caused by drought"³. However, this hydraulic bias, Oliveira (1977, p. 50) asserts that state intervention in combating the drought was "the first manifestation of government activity in planning to address the regional economy problems."

Another drought in 1951, led to different reactions by the Federal Government. It was clear by then that the Northeast's underdevelopment problem was not only the drought⁴⁴. In 1952 it created the Bank of Northeast Brazil (BNB). Was left to the bank's first president, Romulo Almeida, the initiative in 1954 to draw up a development plan for the Northeast. Reflecting 30 years later, on those moments, Romulus Adams said: "The message from President Vargas to Congress, presenting the project of the Northeast Bank (BNB) was a first change of position: the Northeast is not a case of assistance is an economic and political problem to be faced with rationality and grandeur "(Almeida, 1985, p. 137).

BNB and the National Department of Works Against Drought (DNOCS) were not, however, the only federal institutions trying to solve the delay problem of the Region. Since the 1940s, inspired by the Tennessee Valley Authority were created two agencies whose area of operation in the San Francisco valley: The Commission (later Company) of the São Francisco Hydroelectric Company and San Francisco (CHESF). What motivated the creation of the Commission was "the world's growing enthusiasm for integrated development of river basins, aroused by the experience of the TVA" (Robock, 1964, p. 95). At state level, it is worth mentioning the initiative of the Development Committee of Pernambuco (CODEPE) who invited the French Dominican priest, Louis Joseph Lebreton (1955), a renowned expert on economic development, to conduct study indicating location for manufacturing facilities in Pernambuco. Father Lebreton was in France, leader of a economic studies group, the "Economy and Humanism", he understood that a regional planning tool for the advancement of man, not only to enrich economic groups and certain restricted sections of society. In 1953 there were therefore at least three federal agencies, plus the states, whose goal was to promote the development of the Northeast. As reported Robock (1964), there was a clear need to coordinate the actions of institutions in pursuit of a common goal.

It was evident the need for a coordinating body of various activities. In 1956, at the suggestion of experts from BNB, President Juscelino Kubitschek bought the idea of a

² The drought that took place between the years 1877 and 1879 was of great importance for the characterization of the Northeast as a problem area in the country. The picture was particularly impressive in Ceará, which led to the phrase from the Emperor Dom Pedro II, "will not be left a single jewel in the Crown, but no Northeastern will starve to death"(apud Andrade, 1999, p. 34).

³ In 1909 was created the Federal Inspectorate of Works Against Drought (IFOCS), which in 1945 would be transformed into DNOCS. The initiatives undertaken by DNOCS were of importance to the development of scientific approach to the drought problem. It was, as described Oliveira (1977), a rationalizing effort in finding a solution to the problem. ⁴Robock (1964) describes in detail the paradigm change in the Federal Government.

⁴ Robock (1964) descreve em detalhes a mudança de paradigma no Governo Federal.

coordinated action in the region and established the Working Group for the Development of the Northeast (GTDN), which was linked directly to his person (Decree No. 40,554 of 14 December 1956).

Added to this, the initiative by the Catholic Church, in discussing solutions to the drought problem. With this objective was accomplished in May 1956 the First Bishop Meeting of the Northeast which was attended by the President of the Republic itself. A second bishop meeting was held in 1959, sought to compromise, an example of what occurred in the first, the Federal Government in adopting practical measures to alleviate the suffering that affected large part of the northeast's population. The bishops wanted to "see economic planning, prepared for the Northeast supplemented by human aspects and social implications" (Declaration of the Bishops of the Northeast, 1959).

The GTDN, when Celso Furtado was in charge, managed to offer a radical vision of the problems faced by society in the Northeast. The intention was to present "a set of concrete recommendations that, put into practice, would alter the data of this (northeast problem) and route a final solution" (GTDN, 1959, p. 7). Nothing less.

The document characterizes the regional problem through numbers that express the disparity of wealth between Brazilian regions, for example, while the per capita income of so-called South-Central was of \$ 303, the Northeast was only 1 / 3 of this amount. Per capita income in the Northeast accounted for half of Brazilian per capita income. But what should be attributed to this underdevelopment of the Northeast in relation to Brazil? The GTDN (1959) lists the following factors as determinants of regional delay: unfavorable economic relations in the Northeast to the Center-South of the country; public sector expenditures that favor the richest region of the country and the existence of an institutional framework that perpetuates, in the Region, the economic and social delay. The GTDN document (1959) is quite restrained in pointing out the agrarian structure as an element of delay in the Region. There is not, in the text, any reference to land reform. Nearly 40 years later, in an interview, Celso Furtado (1997, p. 34) while retaining its original position that it's a must "to bring people to other areas, to Maranhão, to colonize where there is abundant land," mentions as an alternative to re - colonization forest zone through the evacuation of areas economically unproductive. According GTDN, the transformation vector for the economic landscape of the Northeast would be the industrialization. In this aspect, it is possible to say, the document is affiliated to the ECLAC tradition that advocated change in the productive structure of a country as a necessary condition for its development.⁵

"The (...) GTDN concludes that industrialization is the only solution, viable for the development of the region (Goodman, Albuquerque, 1974, p. 160)

The document caused a good impression on President Kubitschek who promptly transformed GTDN in Northeast Economic Development Council (CODEN) institution that would be processed soon after, into SUDENE.

The law that created the council was adopted and promulgated on 15 December 1959, beginning to operate in March the following year, incorporating both staff and CODEN program (Robock, 1964).

However, the creation of SUDENE was not viewed favorably by those who felt threatened by a sudden change in the status quo or institutional arrangement that prevailed in the region. Oliveira (1977) points out that opposition to the creation of the body was much greater, in the National Congress, by the northeast parliamentary.⁶ The support was given mainly by the

⁵ About this membership, see Silva Filho (1997) and Lafer (1997).

⁶ Furtado (1997, p. 132) is even more emphatic on this topic: "In reality, the Act was passed against most of the benches in the Northeast, thanks to the majority support from the Deputies of the Center."

congressmen from South Central, gradually allied, but expressive, Northeast parliamentary were more connected to more progressive bourgeoisie. The opposition was not, however, strong enough to avoid the appearance of the body. Also because the social situation in the region was viewed by many analysts as explosive. Explosive to the point where the U.S. government, fearing a spread of "Cuba" effect in Latin America, to defend what should be a technical solution to the misery of the Northeast: "Consequently, the support of the U.S. government to create a body that aims to solve the problem of the Northeast in new terms, before the explosive potential that is identified in the region is [also] evidenced by newspaper editorials *O Estado de Sao Paulo* "(Cohn, 1976, p. 82). Political fights aside, there is no denying the novelty represented by SUDENE. The same Republic President who enacted its extinction in 2001 had written earlier that: " More consistent as a technique for global planning and as a way to break the traditional system decisions was SUDENE, in the extent that its superintendence and its Council, in order to implement the policies adopted from technical criterias (...) had to intervene directly in the areas of private decision of the governors and the political parties of customers, as well as it had to be constituted shortly, a body and bureaucrats with technical objectives " (Cardoso, 1997, p.175).

Barros (1997), which also highlights the innovative aspect of GTDN proposal,⁷ notes that the intention of the body to act on several fronts to raise the income level and reach the Northeast economic situation less dependent on central-southern Brazil is correct, because otherwise, the predictions of the plan become unviable.

Oliveira (1977) further notes that SUDENE stopped, when it was created, the ability, under entirely new political administration of the country, to create joint enterprises, combining Union capital, the States and the private sector. The idea was to make the State also producer in the Northeast, "pratically in every branch of economic activity could SUDENE install these state enterprises, as indeed was implanted, from water supply companies destined to supply water in the cities to industrial production unit as unequivocalas as the steel plant in Bahia (USIBA). The state has never been producer in the Northeast, except in a few cases, this new state in the Northeast had appeared without the mark of its ambiguity in the Mid-South (Oliveira, 1977, p. 116).

SUDENE operated in most of its existence, with a dual structure, an Executive Secretariat, which in theory would be responsible for developing technical proposals and an Advisory Board, whose purpose was to consolidate the proposals and demands of state governments. It was also the Executive Secretariat's role the administration of what it had become, in practice, the flagship of the body, the Investment Fund of the Northeast (FINOR).

Over the years, the meetings of the Council during the first years of SUDENE were always crowded, which simply no longer interested the governors.⁸ Even government ministers despised the council, sending as their representatives, second and third levels technicians.

The way it was designed, SUDENE represented the state within a state. This notion is reinforced by the enormity of the building constructed to house it. Of course, many saw it, especially in his later years, as an unnecessary duplication of tasks within the federal government.

Moreover, the governors, with more direct access to federal authorities, found more

⁷ "Since then, attempts to formulate a new strategy: the solution to the problem would not be in the water supply, but on a broader set of measures to bring about economic development in the region as a whole, thus making it less dependent variations in rainfall "(Barros, 1997, p. 119).

⁸ According to the researcher on the subject, Ricardo Emmanuel Ismael de Carvalho, in an interview given to *Jornal do Comercio* on 11/08/2002 between 1987 and 1998, during which were held over 100 meetings, Sudene managed to gather all the governors in four occasions. And only had simultaneous presence of Bahia's, Pernambuco's and Ceara's governors in 15 opportunities.

profitable to address directly to that instance, thus avoiding the intermediation of a political space, moreover, was far more public and demanded effort - that is cost - negotiating with their Northeastern counterparts.

During the 1970s and 1980s, SUDENE lost functional identity: if the Education Ministry wanted to develop a certain program in the region he did it without the appraisal of governors meeting, much less by the technical evaluation of the Executive Secretariat of the body. The identity loss caused SUDENE to be seen only as the body that administrated the FINOR. Bresser Pereira (1998) says there has been a fundamental change in goals and methods of SUDENE in relation to those proposed by Celso Furtado. The body should be an instrument of public funds transfer to the Northeast economy, with the participation of states, "in reality, became [through its incentive scheme] the vehicle for transfer of industrial capital from South to North (Bresser Pereira, 1998, p. 96).

Criticized throughout all its existence⁹ what has become the reason of the body, the administration of FINOR, began to suffer even more damning criticism in the late 90's.

The criticisms and complaints about the misuse of the resources from the Fund led to the extinction of the body, by a Provisional Measure signed in May 2001 by the former President of Brazil, Fernando Henrique Cardoso.¹⁰

The accusations were fueled in large part, by a Parliamentary Commission of Inquiry (CPI) installed on 18/04/2000 to investigate irregularities in the release and application of FINOR resources. CPI held hearings and received testimony, as well as visited companies benefited. Between the irregularities found by the CPI are from inspections "carried out in a chaotic situation" (Final Report CPI-FINOR, p.46) to the issuance of "cold" notes by some companies.

Designed to reduce the concentration of economic activity between the major regions of the country, the incentive scheme administered by SUDENE was accused of allowing or instigating intra-regional concentration.

According to the Final Report of CPI-FINOR, dated May 2001, the spatial distribution of completed projects showed a concentration of projects completed during the three richest states in the region, Pernambuco (22%), Bahia (19%) and Ceará (17%). These states together received the equivalent of 63% of the funds released from the Fund for completed projects. Recreated by Complementary Law in January 2007¹¹, the question is to what extent the "new" SUDENE has a more advanced model of intervention in the main Brazilian regional problem?

In its Article 14 it is said that the body is responsible for analyzing the accomplishment of the Regional Development Plan Fund. This plan should include purely economic goals, such as income and employment generation and social goals such as the reduction of child mortality and improvement of housing conditions. Yet it kept the emphasis on funds for the promotion of economic growth, the Constitutional Financing Fund of the Northeast and Development Fund of the Northeast. The first would be more focused on the financing of infrastructure in the region. The second is very similar to the old FINOR: money for the company that wishes to install a unit in the region.

The dry terms of the Act do not permit, therefore, a glimpse into a change in thinking the regional development. A change that makes the instrument more effective is needed. Next, a different perspective, based on the promotion of small and micro enterprise is discussed.

⁹ Examples of this criticism are found in Tamer (1968), Oliveira (1977), Almeida (1985), Carvalho (1979) and, more recently, Bresser Pereira (1998), Villa (2000) and Maia Gomes (2001). May 04, 2001.

¹⁰ Provisional Measure n° 2.146, de 04 de maio de 2001.

¹¹ Complementary Law No. 125 of 03 January 2007.

2. The Micro and Small Enterprises and Regional Development in Brazil

The globalization phenomenon is generating profound changes in the international production system structure, creating new geographic arrangements in the global economy. The new media communication and control (internet, e-mail, cable television systems, on line etc.) as well as the emergence of new sectors (strong technological base) led by light technical base (foot loose) in highly intensive micro-electronics technology, is profoundly changing the nature not only of economic spaces themselves, with new economic arrangements, but also and above all, the social and political relations of these spaces.

This new economic arrangement is possible, eg, the rapid exceptional expansion of the strategic projection of the economy of China and of some emerging countries on the international scene as well as has given rise to a new block of countries with strong industrialization degree (India and the Asian Tigers), thus consolidating a kind of new international labor division.

These changes have, on repeated occasions, put at the heart of contemporary debate agglomerations of small and medium enterprises, which are now treated as a strategic tool in the promotion process and regional and urban planning.

The Brazilian case is special in this international global context, given its large territorial and internal diversity within Brazil. This has led us to constantly rethink the local development policies and new forms of regional development in place or proposed for Brazil in this new paradigm of international integration and globalization.

This need to constantly rethink new strategies for regional development policy for the Brazilian case, is due, ultimately, mainly to the constant imbalance or rather, the actual financial exhaustion of the state apparatus in the country.

On the whole the development problem and local planning is treated as a special strategy in the whole world, particularly in countries with large territorial areas. In recent years the Local Productive Arrangements (LPAs) are becoming an important instrument of economic policy in countries like the United States, England, Japan, France, Italy and others.

Directed to specific sectors, the success of LPA's assume the existence of pre-existing endogenous resources namely the favorable business climate, skilled human resources and engagement with large companies or public and private universities.

This strategy of differential treatment of local arrangements have been true and is to postulate classic in the historical process of economic development, and falls within the context of globalization with its current international economic restructuring, where economies and businesses are increasingly moving to integrate to specialize in sectors where they have comparative advantages and resulting internal economies of agglomeration economies and external economies of scale.

The small businesses play an important role in the economy of all countries and regions, often with different degrees of articulation with the medium and large companies, depending on the sector or branch of activity, conditions of locational market structure and its technological base.

In an attempt to better analyze the structure of the economic environment in which small businesses are included, we will highlight five variables separately determinants of their

behavior, namely: economic dynamics, the technological standards, the production structure, labor market and the model of institutional support .

The economic dynamic is fundamentally influenced by the pace of economic growth, governmental policies, the consumer market, the technological standard and the level of integration of the country or region in the international market.

The production structure shows the distribution of domestic and regional sectors and branches of production. The nature of the productive structure of a region is what defines several spaces for the performance and dynamics of micro and small enterprises, they may be, in turn, say that the structure of an economy depends on:

a) the level and pattern of consumption, and in those economies where there is a significant difference in consumption habits in the urban and rural areas, so that the process of urbanization tends also to cause a diversification of the demand profile by the change in cultural patterns and specific demand;

b) public policies that are defined by the state and are oriented to development policies and mobilize the behavior of consumers and investors;

c) the degree of external openness, which influences the level of expertise of national and regional economy and the degree of diversification of supply and demand for goods and services;

d) the technological standard, with particular attention to the extent that can alter the production process, the level of qualification and of labor, the segmentation and integration of the stages of the productive cycle working on defining the conditions of entry barriers . In turn, the technological standard follows, first of all, of public policy, particularly those policies that promote research and technological development and innovation process and diffusion of technologies in the production process;

e) the labor market that expresses the level of employment and unemployment in the economy and, particularly, underemployment, defining the portion of the economically active population mobilized in the economy.

f) and, finally, the institutional model that delimits the instances and performance apparatuses and public sector regulation.

2.1. The Weight of Micro and Small Enterprises in the Brazilian Economy

The micro and small enterprises¹² have significant weight in the Brazilian economy, particularly when it comes to the number of productive enterprises and employment of unskilled labor. In Brazil there are about 6 million micro and small enterprises, corresponding to approximately 97.3% of all formal productive establishments operating in the country. Such companies account for 55% of formal employment and 37% of wages paid, as seen in table 6.

¹² In Brazil, according to the national bureau of statistics (IBGE) a micro enterprise has up to 19 employees in industry and up to 9 in services and trade. A small enterprise has between 20 and 99 employees in industry and between 10 and 49 employees in trade and services.

Table 6 - Indicators of MSEs (micro small enterprises) in Brazil

Indicators	Total	MSEs	MSEs Part. %
Formal Employment (2005)	28,455,004	15,650,252	55%
Formal Company Billing (2005)	R\$ 244.3 billion	U.S.\$ 58.6 billion	24%
Export Companies	23,133	11,792	51%
Exports (2006)	\$ 137.8 billion	\$ 2.4 billion	1,7%
Federal Government Bids by Electronic Auction (2008)	R \$ 12.2 billion	R \$ 5.6 billion	46%
GDP (2008)	R \$ 2.3 tri	\$ 460 billion	20%
Formal Operating Companies (2007)*	6,887,900	6,815,958	
<ul style="list-style-type: none"> • 26.9% of wages paid (2006) • 61% of the GF for Tenders Electronic Bidding worth up to \$ 80 thousand (2008) 			

Source: MP, MDIC, IBGE e TEM

The vast majority of MSEs in Brazil are concentrated in two production sectors, as shown in the table 7: trade, gathering 50% of the enterprises; and services, comprising 30% of the enterprises. Meanwhile, the industrial sector accounts for only 11.1% of Brazilian micro and small enterprises. The weight of small enterprises in the activities of transportation and construction is relatively low compared with the previous ones.

Table 7 - Number of Establishments by Size and Economic Activity Sector, 2008

Economic activity	MSE	Micro	Small	Medium	Large	Total
Agriculture, Livestock and Forestry Production, Fishing and Aquaculture	376.001	357.030	18.971	1.824	1.358	379.183
Industry	822.344	763.607	58.737	12.434	2.300	837.078
Trade	3.048.883	2.902.657	146.226	10.641	5.843	3.065.367
Services	2.806.483	2.654.271	152.212	17.575	15.691	2.839.749
Total	7.053.711	6.677.565	376.146	42.474	25.192	7.121.377

Source: RAIS- M.T.E. Own Elaboration

The relative importance of the small enterprise in the national economy does not reflect, however, the level of competitiveness, in the measure that it tends to concentrate business units with moderate or low competitive ability, resulting problems in technology, human resources and quality of products and services.

The difficulties of small business to occupy a more favorable position in the Brazilian economy are even greater in less developed regions of the country. This, in turn, expresses in a more extended way the vicious circle of poverty: the combined effect and interconnected insufficient capital, management incapacity and technological delay leads to low level of competitiveness, low quality products and services, to difficulties in accessing the consumer market and the credit restriction.

2.3. The Strategy of APL¹³ in the economy as competitive model of territorial spaces

In Brazil, the importance of small business to regional economic development only became part of the Agenda of the Federal Government in the last quarter of the twentieth century, due to the success of the experiments of the Silicon Valley (USA), Route 128 (USA), M4 Corridor (UK), Sophia Antipolis and Japanese Technopolis, as well as the experiences of Italian Industrial Districts and the case of Mondragon in the Basque Country.

Given these successful experiences in the world, countries in Latin America and the Caribbean, throughout the 90's began to make a new approach to business development, focusing on creating the conditions for territorial competitiveness. The OECD (1991), the 90's represents a new shift in industrial policy in the world, with new business development contents, with emphasis on:

- i. the importance for cutting microeconomic policies;
- ii. the proactive nature of the public policies actions;
- iii. the interdependence between industry, agriculture and services;
- iv. the relevance of horizontal policies directed at the surrounding area (human resources training, promotion and support of small and medium enterprises with appropriate legal support, territorial basic social infrastructure,).

A major concern of countries has therefore been to create favorable environments to business development. (Albuquerque, 2009).

In the year of 1999, for the first time, the Brazilian government introduced in its Multi Annual Planning - PPA 2000-2003 a public policies agenda for the development of territorial agglomerations, called LPA - Local Productive Arrangements. From that moment, a number of institutions included in their strategic plans, support actions to LPAs like the Ministry of National Integration - MI, which included the LPA as a key instrument for development in the framework of the National Policy of Regional Development (NPRD)¹⁴.

In addition to MI-Ministry of National Integration, other institutions structured specific programs to support LPAs in Brazil, such as the Ministry of Science and Technology-MCT, which has structured the program to encourage the production and diffusion of innovation. In addition to its main ministries involved, the Brazilian government encouraged the structuring of programs of financial support through official financial institutions. Given the above, which has been observed over nearly a decade was a conglomerate of institutions supporting and promoting the APLs without syncing a strategic integrated action. It is therefore particularly the need to create an agenda more effectively, which stimulates the

¹³ To Mytelka and Farinelli (2000) and Lins (2000) apud Crocco et alli. (2001) the relationships between agents may be: (i) vertical, forward or backward, causing a decrease in the cost of access to information and communication, or the risks associated with introducing new products as well as the transition time and the market, (ii) horizontal, as group marketing, raw material purchase consortium, common use of specialized equipment, leading to the reduction of transaction costs and provide more and better access to new markets and accelerate the introduction innovations, (iii) location relations generating positive externalities, such as availability of skilled workforce, common infrastructure in a business environment (or industrial atmosphere) that provides information exchange and joint creation of conventions leading to a common system of learning and innovative behavior, (iv) finally, multilateral ties involving local producers, combining business associations and local government by setting up a public-private alliance, fundamental in the transformation of these productive structures arrangements into a more ample and competitive both locally as well as regionally and nationally.

¹⁴ In addition to the treatment given to the macro-regions in the battle against regional disparities MI-Ministry of National Integration adopted the policy of new local areas, through the program to promote sustainability in Sub-regional Areas (PROMESO). In addition to other support programs in of sub-regions such as the PROMOVER-Economic Program for the Promotion and Economic Insertion of sub-regions, as well as the program CONVIVER (Integrated and Sustainable Development Program of the Semi-arid). The program Productive Organization of the Poor Communities (PRODUZIR) is a partnership of MI with the UN / FAO and aims to combat unemployment and underemployment in low-income communities located in priority areas of NPRD by inserting the members in the Local Productive Arrangements (Costa, 007)

capacity for governance and hence the emergence of positive externalities by the actions taken to these APLs.

One of the key indicators that measure the innovative ability and aggregator of a Region is the degree of development of the Innovation Systems. The study conducted by IPEA- Institute for Applied Economics, from the federal government in 2006, is a snapshot of the situation of secondary sector activities in Brazil and up the innovative capacity of APLs in Brazil. According to this study, in 2006, there were in Brazil about 762 APLs, of which 74.7% are productive agglomerations of low and medium low-technology. Only 10.5% of high-technology, according to Table 8, below.

Table 8 - Number of APLs by technological intensity in Brazil - IPEA survey

Productive Sectors	Number of APLs	%
Secondary Sector	762	100
Low technology content	339	44,5
Medium – low tecnologia	230	30,2
Medium – high tecnologia	113	14,8
High intensive technology	80	10,5
Total	762	100

Source: Suzigan Et alli (2006) apud Costa,2007

From these productive arrangements, about 28% and are located in the Southeast Region (Country's richest region) and 26% in the Northeast of Brazil (the poorest region, with serious social problems, as seen in table 9).

Table 9 - Number of APLs in Brazil by geographical macro region – IPEA survey

Regions	Number of APLs	%
Midwest Region	98	13
Northeast Region	201	26
North Region	75	10
Southeast Region	211	28
South Region	177	23
Brazil Total	762	100

Source: Suzigan Et alli (2006) apud Costa,2007

From the point of view of the regional space, what is observed is that, following the capital logic, it is in the Southeast Region of the country (richest region) which concentrated the greater number of productive arrangements with high and medium high-technology (See table 10, below).

Table 10 - APLs by geographical macro region – according to technological intensity - IPEAsurvey

Productive Sector	Midwest		Northeast		North		Southeast		South		Total Brazil	
	Qtd	%	Qtd	%	Qtd	%	Qtd	%	Qtd	%	Qtd	%
Secondary Sector	98	100	201	100	75	100	211	100	177	100	762	100
Low technology content	43	44	97	48	33	44	86	41	80	45	339	45
Medium – low technology	35	36	72	36	21	28	56	27	46	26	230	30
Medium – high technology	8	8	17	8,5	8	11	43	20	37	21	113	15
High intensive technology	12	12	15	7,5	13	17	26	12	14	8	80	10
Total	98	100	201	100	75	100	211	100	177	100	762	100

Source: Suzigan Et alli (2006) apud Costa,2007

This result is basically the absence of a national policy for the Region. During the 80's and 90's, tended to strengthen the modern chemical and petrochemical facilities, electronics and computing, telecommunications, armaments, as well as a modern citrus juice agribusiness and ethanol and soya in the country's most developed region, more precisely the state of Sao Paulo. The structuring of specialized technological centers, like universities and well structured research centers is allowing this region to further advance (Diniz,1997).

Moreover, the absence of a proposal for regional development in Brazil, was weakening factor for the less developed regions (North, Northeast, and Midwest). It should be noted that the latest proposal for consistent development strategy for the Northeast region of Brazil, where almost 40% of the population lives, dates back to the 60's with Celso Furtado, the experience of regional planning from SUDENE, led by great exponent of the development theory, the economist Celso Furtado, who produced relatively positive and discrete results and did not receive adequate federal support.

Given the lack of an integrated regional planning strategy at the national level, what was seen throughout the 80's and 90's in the Northeast, was the emergence of a new form of economic development, that is, success stories with sustainable potentials in micro-regions with minimal government participation. It is noted in these areas a spontaneous and creative effort of endogenous growth (and sustainable) from the communities, which in many cases could be clearly defined as a new development paradigm. In general, these experiments consisted only of predominantly businesses of micro and small scale, always representing independent activities and directly sold to the consumer market (local or not), if not, are still providers or suppliers engaged to large companies.

It is then believed that in the current context of trade liberalization and globalization, it is imposed, therefore, rethink new forms of adjusted regional development and competitive within this new paradigm. Furthermore, add to this the need to think of new strategies for regional development policy in the case of northeastern Brazil, is due ultimately to their own exhaustion and fragility of the financial investment capacity of the state apparatus, which started in the 80's.

In turn, it is known that in recent years the Local Productive Arrangements (LPAs) are becoming an important instrument of economic policy in countries like the United States, England, Japan, France, Italy and others. Directed to specific sectors, the success of LPAs,

assumes the existence of pre-existing endogenous resources (ie favorable business climate, skilled human resources and engagement with private companies and universities). table 11, below, shows the degree of technological intensity of LPAs in accordance with the geographical macro regions.

Table 11 - APLs by geographical macro region – according to technological intensity - IPEA survey

Productive Sector	Midwest		Northeast		North		Southeast		South		Total Brazil	
	Qtd	%	Qtd	%	Qtd	%	Qtd	%	Qtd	%	Qtd	%
Secondary Sector	98	12,9	201	26,4	75	9,8	211	27,7	177	23,2	762	100
Low technology content	43	12,7	97	28,6	33	9,7	86	25,4	80	23,6	339	100
Medium – low technology	35	15,2	72	31,3	21	9,1	56	24,3	46	20	230	100
Medium – high technology	8	7,1	17	15	8	7,1	43	38,1	37	32,7	113	100
High intensive technology	12	15	15	18,8	13	16,3	26	32,5	14	17,5	80	00
Total	98		201		75		211		177		762	

Source: Suzigan Et alli (2006) apud Costa,2007

For Diniz e Lemos,1990:

"In terms of production there are the effects exerted by the educational foundation and civilization, represented by universities and research institutions, and technological environment, the 'critical mass' in the broad sense, the availability of technically qualified personnel in addition to other requirements or demands. In this sense, undeniably, Sao Paulo has enormous agglomerative advantages in relation to other Brazilian states, which may induce into a industrial reconcentration process focused on the expansion in leading sectors. [...] On the other hand, can not lose sight of that was due to technological changes that made possible the productive incorporation “do cerrado” (vegetation of the Brazilian interior), opening and expanding the new agricultural frontier, having a decentralized effect in the farming activities in Brazil. [...] It is therefore concluded that technological changes have different effects and, above all, are not neutral. "(Diniz and Lemos,1990:182).

2.4. The recent behavior of Brazil's northeast and the MSEs and Regional Development Strategy

2.4.1. The recent behavior of the Brazilian Economy

With a population of 191 million inhabitants and a GDP of U.S. \$ 1.3 trillion, with China, Russia and India, Brazil is part of the so-called emerging economic powers of the world, the BRIC's. In 2008, its GDP grew 5.6%; has foreign reserves of \$ 200 billion, and, above all, was already giving strong steps towards strengthening its internal market, which have been intensified Lula's government.

Regarding the strengthening of the internal market, the main measures adopted were:

- a) controlled and low inflation, allowing to defend the purchasing power and consumption of the population;
- b) effective GDP growth, that is, the real average income of the population (5.60% in 2008);
- c) real growth policy of the minimum wage, which has always risen above the rate of GDP growth, nowadays around U.S. \$ 250.00, and strengthened with the constitution of social insurance, 30 days vacation with the addition of 1 / 3 of the wage and social insurance, as well as transportation passes and food vouchers;
- d) public policies to compensate for the unemployed and low income level, as the Education Voucher - PETI Program for the Eradication of Child Labor, food voucher and the current "Bolsa Familia", distributed in cash directly to the heads of their families and focused especially for the poorest regions of the national territory, like the North and Northeast regions of the country, benefiting nearly 12 million households and nearly 50 million people;
- e) expansion of consumer credit, with reductions in interest rates, which especially favored the expansion of demand for durable goods, appliances (TVs, DVDs, refrigerators, stoves, washing machines, cell phones), vehicles, housing and construction materials.

These factors positively affected the low-income groups in large "marginal propensity to consumption," particularly "wage goods", particularly food, medicines, domestic toiletries of bed and table, construction material, etc. that are largely local supply, with the potential to generate stronger effects on the MSE's markets.

2.4.2. The recent behavior of the Northeast of Brazil

The industry was in the Brazilian Northeast one of the main activities favorable to contribute to the reduction of the concentration model of the industrial investments in Brazil. Begun in the 70's the industrialization strategy of the regional economy, led by SUDENE-started by the great theoretical development economist and ECLAC school Celso Furtado, fired and exiled from Brazil by the military government of 1964-was not adequately supported by the federal central government and not been able to effectively generate an internal dynamic sector and multisectorial integration between the various units of the Northeastern states, however, was able to generate clusters of modernity linked to the national dynamic, in particular linked and focused on the strong economy of Southeast the country.

Anyway, despite all that is described, this development effort over the past 50 years, with large discontinuities intervals in the development policies, aimed to effectively address the issues of the central region which is the reduction of poverty and misery, through quality in education and creation of labor policies in the region, were unable to create an effective sustainable trajectory and its own socially satisfactory development process of growth.

The rupture of this behavior pattern is called to ensure a sustainable development pattern, especially in terms of social and environmental requires a redefinition of public policies always based on efforts by the government and society, as well as the mobilization of financial means to accomplish them. Otherwise, the tendency is to increase the process of concentration of wealth in the more developed regions of the country, reducing the rate of growth, worsening social conditions and living standards of large stratum of the poor population, increased social violence, not being this however the most likely scenario for the Brazilian national framework.

In the Northeast region of Brazil lives nearly 51,534 million inhabitants (28% of the population). It has a GDP of U.S. \$ 155 billion (year 2005). In recent years the region has grown more than the national average, mainly due to compensatory public policies implemented by the current federal government and particularly by the heavy investments in infrastructure facilities PAC - Economic Acceleration Plan (under implementation). The implementation of major public private structuring, in the easternmost region of the northeast, has been the current strategy of the Federal Government to reduce the disparities between the Northeast and Southeast. One of the greatest examples of state investments, at present, is the major construction, which will be the most modern oil refinery of Petrobras. The partnership project between Petrobras (Brazil Petroleum SA) with 60.0% and PDVSA (Venezuela) with 40.0% is projected, budgeted at \$ 12.0 billion and the capacity to process 200 thousand bpd, as well as the construction of a large shipyard for the construction of large cargo vessels like Panamax and Suezmax, and also maritime platforms, oil wells, tends to contribute to the mitigation of regional disparities. Beyond this project the government has been implementing a series of investments in infrastructure like the gas pipeline of great extension, great railway (the Trans-Northeastern Railroad), duplication and paving of major federal highways that will modernize the transportation of cargo in the region allowing the flow of grain production from the North's central region and Northeast of Brazil to the main ports of the region.

As in any country, in the Northeast, small businesses have a striking presence, as seen in tables 12 and 13. In 2007 there were about 1,032,396 MSEs, of which 90% were micro enterprises (companies with annual sales up to \$ 120,000.00 U.S. dollars).

Table 12 - Number of Establishments by Size and Economic Activity Sector in Brazil, 2008

Economic activity	MSE	Micro	Small	Medium	Large	Total
Agriculture, Livestock and Forestry Production, Fishing and Aquaculture	34.425	31.581	2.844	399	330	35.154
Industry	110.905	103.183	7.722	1.653	328	112.886
Trade	536.628	514.292	22.336	1.543	886	539.057
Services	383.791	361.435	22.356	2.637	2.375	388.803
Total	1.065.749	1.010.491	55.258	6.232	3.919	1.075.900

Source: MTE / RAIS Self Elaboration

Table 13 - Number of Workers by Size and Economic Activity Sector, 2008

Economic activity	MSE	Micro	Small	Medium	Large	Total
Agriculture, Livestock and Forestry Production, Fishing and Aquaculture	111.217	54.303	56.914	27.718	98.933	237.868
Industry	528.821	210.942	317.879	334.845	518.089	1.381.755
Trade	863.778	461.504	402.274	105.210	177.503	1.146.491
Services	773.798	325.652	448.146	182.256	913.582	1.869.636
Total	2.277.614	1.052.401	1.225.213	650.029	1.708.107	4.635.750

Source: MTE / RAIS Self Elaboration

2.7. Business Environment Scenery of MSEs in Brazil

It is known that in the current context of globalization and extraordinary technological innovations, major changes are occurring in the socio-economic environment, technological and political-institutional where micro and small enterprises act in the world and in Brazil. In the following analysis is aimed to outline the prospects and likely behavior of Brazil's MSEs in next decade, sought to highlight the trends of weight and central uncertainties that determine the behavior of small businesses in the medium and long term. Weight trends indicate processes with high probability of consolidation in the future, and the uncertainties are determinant factors around which there is a high level of uncertainty.

2.7.1. Weight Trends

These variables stand out

- a) New Paradigm technoeconomic: in particular the diffusion of new information technologies and communications is a key entrepreneurial dynamism (Perez, 1986).
- b) Changing role of the State - the exhaustion of the models of state intervention is taking a new design of state and public institutions around the world and Brazil. Under these conditions, tends to occur a process of redefining the role of the state.
- c) Reorganization in the labor market - with increasing informality and fragmentation of work.
- d) Urbanization and changing consumer habits - the process of population concentration in urban areas by creating demands for goods of services.
- e) The aging population and expansion of free time - the combination of the change in age structure - the global and national levels;
- f) Creation of Territorial Innovation Systems

2.7.2 Central Uncertainties

Among the uncertainties of greater power determiner of the future are highlighted two in particular, around which are emerging opportunities for the development of Brazil.

a) size and nature of the State Reform - The different impacts on micro and small businesses depend on the size and nature of the state to be built in the coming years;

b) Stability and Economy Growth - This is a key issue in Brazilian politics today and is a decisive difference to the future of Brazil.

Scenario A - Production Integration and Expansion of Regional Economics

In view of the above-discussed factors, it is believed that this scenario is the highest probability of occurrence in the Brazilian economy in coming decades, and it is here that we will try to verify the role and importance of micro and small enterprises.

Philosophy

As already noted the small and micro enterprises in the Brazilian economy have on the Brazilian economy a significant and positive space to act within a context of a productive and optimistic scenario, marked in particular by the expansion outcome, diversification and strengthening of the consumer market and broad economic dynamism and financial stability of the Brazilian economy.

Constraints

It is believed that the combination of a national stage of stability, economic dynamism and proactive role of the state, with a scenario in the Northeast region dominated by strong productive restructuring, with decentralizing social and economic policies, strengthening of public institutions, tend to create a favorable environment, with strong impacts on the economic environment

Scenario Description

A scenario of high dynamism of the Brazilian economy and Northeast economy will necessarily lead to increased demand for goods and services and intermediate products and reduction of unemployment and underemployment. In turn the increase of credit facilities, both for investment and for working capital, will also create more favorable conditions for productive investment of MSEs.

As economic growth is accompanied by technological upgrading, with the spread of new technologies, tends to register higher productivity in the economy, including small and micro enterprise.

For its part, already under saturation of urban spaces and infrastructure issues it is noted that in more developed regions, decentralization of productive structure, facilitating the integration of production chains to large enterprises.

Finally, the increase in national income will lead, of course, change in consumption, expanding the market and the demand for durable goods and nondurable mass products, expanding the possibilities of development for the MSEs with flexibility and ability of answers to these segment, characterized by lower technology demand and are embedded in less oligopolistic structures.

Therefore the big challenge of small businesses within this scenario will be to explore strategic alliances and partnerships with large and medium enterprises. In sectorial terms there should be an expansion of opportunities in the industry, especially in segments of mass consumption (food, clothing, footwear) and in the branches of higher technology level (electrical equipment and communications, food processing, effluent

treatment).

In the service sector, stand out as particularly strong specialized services, technical-professional services, information services and communication services, allied health and educational services) and food service in high demand meant for growing mass consumption expansion.

In the sector of trade, expands the marketing of goods of mass consumption. While the agricultural sector increases the number of small businesses trailers, many of them, to large industries and agribusiness.

The following table summarizes briefly the likely scenarios for the future of MSEs in Brazil. However, in the face of everything that has been exposed, the most probable for small businesses in Brazil is certainly the A-Integration with production expansion of the regional economy. This is the most likely scenario in the face of current development prospects of the Brazilian economy.

Scenarios of environmental businesses

VARIABLE SCENARIO	Scenario A	Scenario B	Scenario C
	Productive Integration Expanding Expansion of Regional Economics “Ample possibilities for MSEs”	Dynamism with Dualism “More selective spaces for the MSEs”	Regional Economic Disintegration “More restricted spaces for MSEs”
NATURE OF THE STATE	◆ Intense support to MSEs through active policies for local clusters and urban areas in around the large production projects	◆ Limited support to MSE	◆ Immobility and inability to take action ◆ Limited support for MSEs
FOREIGN OPENING DEGREE	◆ Quality and competitiveness requirements ◆ Opportunities increase in foreign trade	◆ Ample opening, specialization and integration of new markets ◆ Quality and competitiveness requirements ◆ Moderate possibilities in foreign trade	◆ Moderate external opening ◆ Loss of space in the external market
PUBLIC POLICIES	◆ Proactive Character of public policies in constructing the conditions territorial competitiveness ◆ Intensification of active policies and structured investments (infrastructure, basic social) through public-private partnership in the peripheral ◆ Improving the legal framework for MSEs (General Law of MEPs)	◆ Moderate investment in products and social services and environment ◆ Reduction of active policies of income transfer to the peripheral regions	◆ Limited investment in products and social services and environmental ◆ Active policies of limited transfers of income to the peripheral regions
ECONOMIC DYNAMICS	◆ Growth of regional economy and demands for products of consumption class C, D and E ◆ Increase in credit growth in consumption among the less favored ◆ Reduction of under-employment and informal sector	◆ Average growth of the economy and demand ◆ Credit Facility ◆ Employment selective quality (moderate underemployment)	◆ Economic stagnation ◆ High unemployment and underemployment ◆ Credit Restrictions
TECHNOLOGIC AL STANDARD	◆ Orientation of the national C & T systems to the strengthening of territorial systems of innovation	◆ Passive guidance of the national C & T systems for the strengthening of territorial	◆ Moderate diffusion and technological modernization

	<ul style="list-style-type: none"> ◆ Integration of small enterprises with large industrial enterprises ◆ Increase in Productivity 	innovation systems <ul style="list-style-type: none"> ◆ Little productive integration ◆ Increase in Productivity 	<ul style="list-style-type: none"> ◆ Low productivity and outdated technology
INCOME STRUCTURE	<ul style="list-style-type: none"> ◆ Income Desconcentration ◆ New demands for consumption, with ample diversification for sophisticated and mass consumption 	<ul style="list-style-type: none"> ◆ Moderate income concentration ◆ High demand for consumption goods and services and sophisticated luxury and partial consumption of mass 	<ul style="list-style-type: none"> ◆ High income concentration ◆ Low demand for consumer goods and moderate demand for sophisticated products
CONSUMPTION PATTERN	<ul style="list-style-type: none"> ◆ Diversification and expansion of the habits of mass consumption, and higher quality ◆ Outsourcing demand for modern services ◆ Aging and urbanization and accelerated urbanization 	<ul style="list-style-type: none"> ◆ Diversification and sophistication of consumer habits ◆ Outsourcing demand for modern services ◆ Aging and urbanization and accelerated urbanization 	<ul style="list-style-type: none"> ◆ Lower diversification and sophistication of consumer habits ◆ Aging population and moderate urbanization
PRODUCTIVE STRUCTURE	<ul style="list-style-type: none"> ◆ Diversification of production (new products and modern services) ◆ Growth in the supply of consumer goods and nondurable mass goods, with ample space for performance of micro and small enterprises 	<ul style="list-style-type: none"> ◆ Production diversification, industrialization and modern services ◆ Elevated growth of sophisticated and luxury products and relative mass consumption 	<ul style="list-style-type: none"> ◆ Maintenance of the structure with moderate reduction in industry ◆ Growth of informal services in low-tech and production of sophisticated products

2.8. Final Considerations

In view of the foregoing, Brazilian case, we can conclude that any proposal for an appropriate regional development policy permeates mainly by micro and small enterprises and the development of territorial competitiveness.

The construction of competitiveness factors in the territorial spaces where these productive agglomerations are settled will turn into an important instrument of economic policy, as it is able to create dynamic effective internal market, employment, income and poverty reduction.

Within this perspective it is certainly of fundamental importance the appropriate and effective intervention of the State in all its dimensions, whether in the territorial planning, the creation of basic social infrastructure and horizontal policies directed to territorial surrounding (human resources training, promotion and assistance of small and medium businesses, legal and appropriate legal infrastructure, basic social territorial infrastructure).

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ANNEX:

Map1

Map of Urban Net with more 50 mil habitants in Regions of Brazil, 2007

