

# Political economy of brazil politics essay



**ASSIGN  
BUSTER**

In the year 2011, Brazil has successfully overtaken United Kingdom and positioned as the sixth largest economy in the world (Brokaw, 2012). Brazil gained 45 % of the South American region's global GDP and 47 percent of South America's territory, which made it the largest country in the South America and also Latin America. According to Brazil Population, there are approximately 196. 7 million citizens that currently reside in Brazil, recorded at the year of 2011 (n. d.). Since Brazil is the 6th biggest economy in the world with such a big number of populations in its country, it is might hold a good opportunity for firms from other countries to expand their business in Brazil. This is because when there are more people with good economy; therefore the demand for products will be high as well. According to The Official Website of the FIFA World Cup™ - FIFA. com, the upcoming FIFA World Cup 2014 will be held in Brazil as well (n. d.). This is a sign of the economy, which states that Brazil will continue to grow even more in the coming years.

It is not easy for a foreign company to extend their business in to an unfamiliar environment, as well as maintaining the sustainability of it in the long run. In order to expand an existing business into a foreign country, the company has to know the details of the country as well. Such as the political economy, economy system, legal system, culture, and religion of the country are important for the company to research on before making a decision on bringing in their business or investing into a specific country. All these different aspect of Brazil will be covered in the content below.

## **Political Economy of Brazil**

There are a great number of companies and firms that had set their eyes on Brazil and had already started the expansion their business into the country, and the reason behind why Brazil had successfully attracted so many foreign companies is because it is now one of the ' BRIC' country, " the four most important emerging markets", stated by Terry L. McCoy (2009). According to the New Zealand Trade and Enterprise, half of Brazil's economy is covered by services account (2011), but the country is also doing very well in terms of agriculture and industrial sectors. Besides that, Brazil's industrial sector can be considered as the most developed in Latin America (New Zealand Trade and Enterprise, 2011). The products produced by Brazil that includes cars, car parts, aircraft, petrochemicals, computers, steel and many more. It can be seen that Brazil has a very wide range of productions therefore it is ranked as the most developed country among others in the Latin America. Besides the productions, Brazil contains natural resources that help the country to maintain its economy and status as well.

According to the New Zealand Trade and Enterprise, Brazil is a federal and constitutional republic; it has 26 states in it, including the district capital, called Brasilia (2011). All 26 states have their own constitution, led by a governor and a chamber of state deputies, which is not very powerful compared to those in the federal government. The federal government includes the Upper House, which is the Senate, and also the Câmara Federal-united, they are also known as the Congress in Brazil. The President of Brazil has two titles, which is the head of state, and the head of government of Union. Elections for the president of Brazil is held every four-years, then it is

possible for them to be elected again after four-years for continuation in the second consecutive term. The current president of Brazil is apparently the first ever women president, and was elected in January 2011 - Dilma Rouseff (New Zealand Trade and Enterprise, 2011).

Since Rouseff took over the position of the president of Brazil, the poverty and economic growth has become the top priorities in the country, therefore, it is improving the lives of Brazil families. Besides that, President Rouseff has also gone beyond many expectations, as the very first female president of Barzil. According to Vincent Bevins (2011), there was a survey done on rating the Brazil president, and the result was up to 71% of them gave her their confirmation. This is because the participants of the survey like the way she responded on the series of corruption scandals. A political scientist from University of Brasilia, David Fleischer said, " She's done quite well. She managed to turn around her first big challenge, the corruption scandals, and make it into a political victory," (Bevins, 2011). From the responses of the voters and the comments made by the political scientist has actually prove that President Rouseff is leading Brazil into a positive path.

## **Economy System**

As mentioned earlier, Brazil is blessed with an abundance of natural resources. Therefore, in terms of economy, Brazil has become the most powerful country among those in the South America. At the same time, with the status in economy, it is also the leading country in South America (Economy of Brazil, n. d). Since the different sectors like agricultural, mining, manufacturing and servicing are growing very fast in the country, Brazil has obtained a very strong position in the global economy. Because of their

position of strength based on their economic standing, Brazil has developed economic policies and programs brought up by the President Cardoso, which has reinforced by President Lula Da Silva. Due to this, Brazil's economy did not breakdown when it was attacked by those international and national economic crises (Economy of Brazil, n. d.).

Since the year 2004, Brazil's economy has grown and developed at an alarming rate, which in return improved the employment rate and real wages (Economy of Brazil, n. d.). The Brazilian currency once dropped sharply which had brought a severe adjustment in current account and also caused trade surpluses in the country. Due to the surplus of the production in agriculture, the country has managed to increase its exportations. The country's export is one of the main components to increase the economic growth of the country, which in effect reduced international financial market instabilities.

Brazil's exports included fuels, oils, iron ores, and agricultural products. The top export countries of Brazil is China (US\$30. 79 billion), then United States (US\$19. 46 billion), followed by Argentina, Netherlands, Germany and Japan (New Zealand Trade and Enterprise, 2011). Below is the figure showing the exports of Brazil in the year of 2010.

Source: UN Comtrade Database via TradeMap

Brazil's GDP has grown six times in 19 years, from the year 1992 to 2011, which is \$427 million to \$2. 4 billion (Brokaw, 2011). This is mainly because of the exportations. Furthermore, from year 2009 to 2011, Brazil's total exports have also increase by 67% (Brokaw, 2011). This increase is mostly credited by the largest export of Brazil - iron ore.

<https://assignbuster.com/political-economy-of-brazil-politics-essay/>

While for imports, Brazil's imports huge amount of machinery and electrical products, from United States (US\$27. 25 billion), then China and followed by Argentina (New Zealand Trade and Enterprise, 2011). Total imports of Brazil in the year of 2010 were US\$181. 65. Below is the figure showing the imports of Brazil in the year of 2010.

Source: UN Comtrade Database via TradeMap

According to Brian Winter, there are five each weakness and strength in the Brazil economy (2012). The first weakness of Brazil's economy mention by Winter in his article is the cost of doing business in Brazil is very high. A basic sedan car can cost up to \$50, 000, an iPad is marketed at \$1, 100 and a steak dinner would cost \$50. This is because the taxes they need to pay are 35 percent of its economic output, which is much higher than the average taxes in Latin America. The second weakness is that the local consumers are getting weary. This is because the Brazilians only get to spend 78% of their income, while the other 22% has to be placed aside to settle their debts. The third weakness is they have very little trade in the country. The trading accounting is only 25% of its GDP. Brazil is considered as a large, self-contained domestic market. This has resulted in nurturing a vibrant manufacturing base in the country, but also made the process of finding other sources of growth difficult because the consumer will became fatigued, like what they are now. Tight labor market is the fourth limitation of the Brazil's market. Brazil has experienced a very low unemployment rate which is 5. 3%. Besides that, in order for companies to keep the current qualified employees they have, they have to pay them higher wages. Shortage of skilled labor has also caused a delayed in the constructions

<https://assignbuster.com/political-economy-of-brazil-politics-essay/>

projects that Brazil is preparing for the coming 2014 FIFA World Cup and the 2016 Olympic Games. The last drawback mentioned by Winter is the management of the current president of Brazil - Rousseff. She tried to revive the economy by depreciating the currency, and lowering the interest rates. This has resulted in the drop of investment into the country itself.

Although the weaknesses of Brazil might place a bad impression economically, there are still possible strengths and advantages as well. First of all, the Brazilians' view of the future is very optimistic. They believe that the current issues are just temporary and it will soon improve in the near future. This has also helped the employees in keeping their jobs because the companies hesitated to fire them. The second strength of the country is the stability of government's finances and that the government is able to sustain an improving economy. The country's net debt-to-GDP ratio is below 40%, and lately, it went even lower again (Winter, 2012). This is an economic status where the United States and other European countries are envy of because it is a hard feat to achieve. Even a super powered country like America is having difficulty in dealing with these issues. The third advantage is Brazil has more regular interest rates and currency compare to other countries. Brazil's interest rates have dropped which should permit the increase of sustainability of the consumer spending over time. The broad reallocation of capital has also move into the sector or productive investments. The industry is starting to turn around, the fourth point stressed by Winter. According to Winter, in the third quarter of 2010, the industry has increased 1. 1% (2012) which is already a good achievement by the country. The last point of strength mentioned by Winter is also the last

point of the weakness mentioned earlier - the management of the current president of Brazil. Under President Rousseff's management, many citizens of Brazil and the foreign investors hold the belief that when the rocky transition period is over, they will get solid growth. For example, she provided the private sector with higher level of involvement in the highway and airport construction, which has certainly made people to believe that she is capable of solving many of the country's economic problems and turmoil (Winter, 2012).

## **Legal System**

It is not an easy task to achieve in building a business in Brazil, because it could be time consuming and complicated. According to the World Bank, Brazil ranked 121st in terms of the ease of starting up a business and 115th in terms of doing business, out of 175 countries (DiPaola, 2006). DiPaola also stated that the reason behind doing business in Brazil could bring difficulty is because of the business regulations and administration procedure that the organization has to go through (2006).

Legal system is very important for investors to know because it provides sufficient and accurate information of the structural framework for doing business in a country. The Portuguese, the Napoleonic Code, brought about the legal system in Brazil, which is a Civil Code. Civil Code is very different from United States' Common Law, so it does affect the nature of doing business in that country. There is no room for negotiations when facing the Civil Code because of its tight rules and regulations. Therefore, if a company wants to bring in a business into Brazil, it has to be ready to follow and abide by the laws implemented in the country



If a foreign company wishes to venture into Brazil for business purpose, they have to make an application to the Brazilian Government. In order to complete the application, there are some formalities that have to be fulfilled, which includes completing the documentation with the National Department of Registry of Commerce (DNRC). The process of registering involves 15 different procedures; therefore it could be time consuming (James, 2011). Dipaolo (2006) stated that, according to the World Bank, averagely the completion of procedures will take up to 152 days. Since a foreign company needs to appoint a representative to act on their behalf, the representatives have to be either a resident in Brazil or native Brazilian.

Brazil's legal system can be considered as effective compared to other countries', but due to the lengthy progress, it always caused the court to "delay judgment and final sentences and force unappealing decisions", stated by James (2011). Therefore, for companies who plan to enter Brazil has to be preparing to devote the time for the completion of the procedures.

Besides all the information of the legal system of Brazil mentioned above, the local labor environment is also an aspect where a foreign investor should be concerned. According to James (2011), the labor system in Brazil is very complicated and costly, because it is governed by the Consolidation of Brazilian Labor Laws, which is grounded in the country's federal constitution; therefore it is never easy to make changes in it. Brazilian labor law is very different compared to the United States; it involves higher level of state involvement. If there is a conflict between the employees and employers, it will always be trialed in a court instead of apprehending the issues privately. Labor in Brazil is expensive because beside the base pay they get,

employers have to pay extra 70% of it to them, which includes taxes, insurance, meals, transportations, vacations, and also bonus. Hiring employees is costly; firing them is not cheap as well. If employees are fired with no valid reason or they were fired unfairly, the employers would have to pay a certain amount of reimbursement to them, from the FGTS, which is the Unemployment Compensation Fund (James, 2011).

## **Culture of Brazil**

Knowing the culture of a country where a company plans to expand the business is very important because it helps in knowing what is a preferable solution and method and what is negative to the locals. Knowing the culture of Brazil will definitely avoid many of the unnecessary steps before expanding the business into the country. Brazil is a rich and diversified country because it has a mixture of races and ethnicities, which results in the formation of a multicultural society. Therefore, they have different languages, different race and ethnicity and also different celebrations in the country. Due to the multicultural background Brazil has, the country is now well-known for its festivals and celebrations. This is also a benefit for the country because it is now a popular tourist destination (Kwintessential, n. d.).

Portuguese once settled in Brazil, during the 16th, 17th and 18th centuries; so, Portuguese has become the official language of Brazil. There are also other races, which immigrated into Brazil, speaking in other languages, which is their own mother tongue, but they are only the minority members of the society (Brazil Culture, n. d.). Therefore, it is better if the representative of the company knows the language of Brazil, which in this case is Portuguese.

There also so many different races in Brazil, which includes Americans, Portuguese, Black African, European, Arab, Japanese. Other groups of races included Korean, Chinese and Bolivians, but they are the minority of the bunch. Since they have so many different races in a country, it is possible for them to have marriages across the race. According to Brazil Culture (n. d.), many Portuguese settlers had married native women, and their children are a new race in the country, they call them 'mestizos'. Portuguese and Africans create 'mulattoes'. Cross-race marriage in Brazil has already reached to the point where almost everyone looks like a mixture of European, African and the natives.

Knowing when the holidays and celebrations in Brazil are is also very important because it could help quicken the progress of negotiating with Brazilian companies as well as showing respect to the local employees. The holidays and festivals celebrated by the Brazilian includes New Year, Carnival Tuesday, Ash Wednesday, Good Friday, Independence day of Brazil, Our Lady of Aparecida Nossa Senhora de Aparecida, St. Valentine's Day, Halloween, Soldier's Day, Indian's Day, Christmas, and more (Brazil Holiday, n. d.).

The hierarchy system in Brazil is based on the color of the skins, the social class, and also gender. Races with darker skins tend to be seen as lower class people in the country. Social stratifications are also one of the reasons why upper class people will only communicate with the people in their own classes. Although the president of Brazil is a woman, they still practice male dominance in the work settings. Women are usually hired as nurses or teachers, which are considered lower-paid jobs (Brazil Culture, n. d.).

<https://assignbuster.com/political-economy-of-brazil-politics-essay/>

Business negotiation in Brazil is very different from the United State.

According to DiPaolo (2006), it is never a wise move to go straight to the point when negotiating with Brazilians. This is because they will want to know more about the company the person represents, before considering a collaboration of business with them. Therefore, one must be prepared to answer and face questions from the Brazilians since they will start everything by exploration of one another.

## **Religion**

Many countries hold vast numbers of religions upheld by the population so it is important for organizations to be aware in order to expand their business without meeting unforeseen obstacles. Many of the citizens in Brazil take religion seriously so it should not be looked down upon at any given time. Based on an article by Higginbotham (2011), he stated that religion plays a vital role in the social wellbeing of most individuals in the large South American country.

Out of the vast number of religions practiced in the country, the five main religions in order of the highest number to the lowest are Catholicism which holds more than 70% of the population, Protestantism, The Church Of Jesus Christ of Latter-day Saints, Jehovah's Witnesses, and Eastern Orthodox. Brazilian's are given the freedom to freely practice the religion of their choice, very much like their American counterparts.

The majority of the population practice Catholicism so it is considered the main religion in Brazil. According to the article, Brazil holds the greatest number of Roman Catholics on the planet and the religion had been growing

rapidly since the 16th century (Higginbotham, 2011). Due to this, the politics of the nation itself is heavily affected by the religion and brought forth a huge change in the social and political system that is being run as well. Examples such as defending human rights and the resistance are all thanks to belief in the religion that these issues must be taken into consideration by the government in order to uphold the greater good of society. Another important issue for business organizations to take note is that the power of the churches in Brazil that had successfully made the order present in national politics. They were strongly against military rule and had their conflicts for almost a couple of decades since 1964. This very statement points out that the influence of religion is very strong in the country so it is vital to respect and further explore to gain understanding of their religion.

The second most popular religion upheld by the population in Brazil would be Protestantism, which covers an approximate 16%. They are closely related to their Roman Catholic counterparts but have differences as to who they worship and their belief system as well. The Protestants were believed to have led Brazil to capitalism because it is under the influence of personal welfare and their belief systems that led them there. An article by Max Weber (1905), mentioned how the industry of capitalism was owned by mostly protestants and that there is a greater relative participation by protestants in owning management, capital and the upper ranks. He also stated that, this is the very point of which Roman Catholics are against. So the gain of capitalism in Brazil is very much by the sheer actions of Protestants that had a different view.

The third largest religious population would be The Church of Jesus Christ of Latter-day Saints with over a million in number Higginbotham (2011). Some refer to them by another term, which are Mormons and they uphold the belief that their all mighty God is a very personal entity to them. He is omnipresent in the spirit of all of us thus every individual with this belief are regarded as siblings or in other words, brothers and sisters. Like every religion, their day of praise and worship usually falls on the weekends. Firms that wish to hire the locals in that region would have to consider if the employees are practicing this religion so they can be provided off days on weekends.

The fourth religion in sequence would be Jehovah's Witness with up to an approximate of 750, 000 in number. They are fond of spreading the gospel of God to others and base their beliefs from the principles that are stated in their holy bible (Higginbotham, 2011). Besides that, the people of this particular religion tries as best as possible to avoid conflicts that go against their Christian ethics and mandates.

Lastly, would be the Eastern Orthodox with a number of half a million and counting. Most of the members are actually citizens from Russia, Ukraine and many other countries that decided to settle down in Brazil and make it their home. The locals are also given a choice to join this religion as well (Higginbotham, 2011). The very moral thought of this particular religion is that this belief itself leads to the elevation of every possible creation that exists on the planet.

The rest of the population consists of minority religions like Islam, Judaism, Hinduism, Buddhism and many more reside within the country as well.

Therefore, it is for the welfare of the business firms that they thoroughly seek sufficient information on this issue before proceeding to opening a firm in Brazil.

## **Opportunities**

Based on the economic condition of Brazil, it is worth investing or venturing into the country for business purpose due to its high GDP growth and available workforce that can work in favor of business investors.

Furthermore, the fact that Brazil holds the position of being a BRIC country would be a promising factor that any business would be capable of growing in the country. The buildup of foreign investors over the years had proved that many firms and organizations worldwide views Brazil as an opportunity for growth and development in business purposes. A side factor that the South American country holds is also the availability of vast amounts of natural resources and minerals that becomes a plus point for business owners as well. To further strengthen the point, the political leaders in Brazil especially the current president encourages more foreign investors to step into the country, which benefits both the investor and the economic welfare of the country.

Although, Brazil has its opportunities for growth, there are also a few drawbacks that firms or organizations would have to face in future if the business opportunity is to be considered. High taxation rates are being implemented due to the constant growth of the economy in Brazil and it would be difficult to seek financial support especially for foreign business

investors. Hence, it is no surprise that with the increase of taxation, wages would have to be increased for the employees as well. Firms would face the difficulty of needing to handle high wages, which might bring more detrimental effects than good even though the country has an abundance of labor power. This could also be a contributing factor as to why the employment rates are not improving very much in Brazil even with the great economic standing it has. The import and export activities on the other hand is doing very well at the current moment so venturing into that line of business with Brazil would be an excellent idea. Besides that, the strength of the labor law in Brazil is fairly strong and as mentioned in the economic section, every hiccup received by the business owners must be dealt in court so they would have to be very careful in this field.

Another deciding factor would be the country running on a capitalistic system, which allows the business owners the flexibility and authority to plan ahead for the business with minimal interventions from the government. The vast growing economy would definitely give business owners the competitive edge with fewer interventions. In addition to that, the laws in Brazil are more strict and complicated but it serves as a reminder to companies that the law has to be followed at all times. This would further assist the firm in ensuring that there are no loose knots and that the business would run more smoothly than ever. Moreover, the heavy three-tier taxation that is implemented by the government is a lot to handle but there is no double taxation. The paperwork on the other hand is very lengthy and may take a long period of time so business owners would have to start ahead of time.



It is also highly suggested that the religious welfare of the community is well understood is a business opportunity were to be looked upon by a particular firm. The vast majority of the population that are Roman Catholics and also other religions that are closely related to Christianity would require the firm to consider the circumstances that comes with it when building a business in Brazil. To further add to this, as the Roman Catholic have a heavy impact on the political system, it is well advised that the organization learn the norms of the religion before proceeding to doing business in the country.

Lastly, another point that would leave business owners more comfortable with venturing into Brazil is the no discrimination law implemented by the government. So even though the country practices social stratification, it will not become a huge breakdown in the business because Brazilians emphasize on building relationships as well. It is an essential value to them hence making it simpler for business owners to handle the workforce.

## **Conclusion**

To conclude this report, after stating all the deciding factors above, business owners and organizations would gain a good opportunity in starting up a business in Brazil. The great economic growth places the country as a place considered for possible investment but many criteria would have to be taken into account to ensure no unforeseen circumstances would occur. Brazil is without a doubt a promising land only if the investor is willing to emphasize on further research on the religion, culture traits and requirement needed for a smooth flowing business. It holds both advantages and disadvantages so its best for firms to further analyze whether their business would have

promising growth as well because not all categories of business can succeed in Brazil which is where the market demand has to be found out.