

Foreign investment in brazil 1628



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INTRODUCTION

" For those who believed that Brazil would forever be the country of the future, I have a piece of bad news. The future has finally arrived." For years, the largest and most industrialized nation in Latin America has been known as the country of tomorrow. That slogan may soon be out of date. Under the guidance of former finance minister and current president, Fernando Henrique Cardoso, this tenth largest economy in the world, once known for its high tariffs and even higher inflation, has entered a period of steady growth, the fruit of a newly-stable political and commercial environment. In combination with the upturn in its economy, Brazil's demonstrated preference for foreign products and strong direct investment presence bode well for expanded sales of equipment and services in future years.

EMERGING SECTORS

Access to Brazilian markets in most sectors is generally favorable, and competition and participation characterize most markets by foreign firms through imports, local production and joint ventures. Many sectors such as healthcare, the environment, transportation, telecommunications and financial services, have been growing at a phenomenal rate and opportunities to further expand trade and investment are highly encouraged.

Healthcare Technology

Brazil is an excellent market for U. S. manufacturers of health technology products and services. In the medical device sector, the products that should have the best long-term prospects in Brazil are medical imaging

equipment, electro-diagnostic apparatus and technologically advanced disposable medical products. In the pharmaceutical sector, long-term prospects for over-the-counter drugs and vitamins are excellent because of the high cost of private medical assistance and a growing trend towards home treatment. In the healthcare services sector, the best market opportunities include the following areas:

☞ hospital management and consulting services

☞ training for allied health-care personnel

☞ hospital renovation

☞ health maintenance organizations

In order to provide more efficient health care, the Brazilian government has begun to reform the country's entire medical care delivery system. It has decentralized the system, giving more autonomy to the states and cities in the planning and controlling of local health care programs. Overall, improvements in Brazil's public healthcare sector, coupled with its trade liberalization measures, should improve the prospects for U. S. technology firms in the Brazilian market.

Environmental Technology

The Brazilian market for environmental technology had an estimated value of over \$1 billion in 1994. However, the National Department of Sanitation and Environmental Equipment estimates that the total investments needed

to equip Brazil with necessary pollution control supplies and services amounts to over \$19 billion.

The Brazilian market-size, alone, makes it worth consideration: its population is the largest in Latin America. Additionally, Brazil's diversified industrial and agricultural base has proved a ready market for a wide array of environmental goods and services. Also significant are recent and anticipated moves towards trade liberalization. Brazilian tariffs affecting pollution control equipment have been lowered from 25 to 20 percent while non-tariff barriers such as quotas and voluntary export restraints have, in a large part, been eliminated. Finally, a growing environmental awareness, including stricter fines for non-compliance with environmental standards, is catalyzing demand for foreign environmental goods and services.

Transportation

Brazil is the tenth largest car producer in the world. Brazil's success in automobile sales is due to a government decree which virtually eliminated the federal industrial products tax on small "popular models" such as the GM Corsa, Volkswagen Golf and Fiat Uno. The decree includes commitments by the automakers to pass on the entire tax reduction to consumers and to expand production and employment. These incentives apply only to specific locally assembled vehicles meeting strict local content requirements.

Another aspect of the automotive industry is auto parts. Brazil's current market-opening policy is to promote the sector in order to boost investment in manufacturing processes, training and research. However, trade sources have reported that some manufacturers are unable to invest and therefore

achieve the necessary international quality and price standards. Thus, motor vehicle manufacturers are expected to increase purchases of automotive parts manufactured abroad. This condition represents a huge long-term trade opportunity for American automotive parts suppliers. The amount of imported U. S. equipment is expected to increase an average of ten percent per year during the next few years because of lower transportation costs (in comparison to Europe and Asia) and the relatively high acceptance level that American automotive parts have historically had among Brazilian customers.

Other important elements influencing sales of American parts in Brazil include:

- ☞ American products have been used in Brazil since the birth of their motor vehicle industry.
- ☞ The U. S. export potential is great as high-tech, high-quality U. S. parts will increase in demand as the market grows at its high estimated rate.
- ☞ U. S. competitive stance will improve in Brazil as demand for parts increases and tariffs decrease.

The most important purchasing factors are price and quality. Nevertheless, Brazilian customers favor products that have already been successful in the international market. Products that have been standard approved and have good brand recognition are readily acceptable to potential buyers in Brazil.

Telecommunications Equipment and Services

Brazil's telecommunications market has enormous potential. In order for the country to modernize its governmental and economic structures, it must upgrade its communications services. Further liberalization of the telecommunications sector should create a tremendous market for U. S. products and services. A constitutional amendment, which would allow greater private company participation in the telecommunications sector and eliminate their monopoly company, Telebras, is currently under review by the Brazilian congress. U. S. companies are also encouraged because the import tariffs on communication projects are falling. Liberalization of Brazil's telecommunications sector will also contribute to growth in computer hardware, software and information services, as communications costs drop and technology is upgraded.

Financial Services

Brazil has a large and sophisticated financial sector that provides a wide range of services, but despite their impressive credentials, they are in need of financial insurance providers. They are an especially large potential market for the U. S. Relatively recent data illustrates this market potential- Brazil's 1994 premiums per capita of \$34 and premiums/GDP ratio of 1. 8 percent are low compared to other key Latin countries. About 105 companies and a government-controlled monopoly re-insurer currently serve the Brazilian market.

A number of foreign insurers, including U. S. insurance providers, have ownership interests in Brazilian insurance companies. Nevertheless, access to and treatment in Brazil's insurance market is relatively restricted. Foreign

insurers" participation is limited to 50 percent of the capital and about one-third of the voting stock of a Brazilian insurance company. However, in a move that could benefit U. S. and other foreign insurers, Brazil recently agreed to slowly open portions of its market to private reinsurers in November 1995. Although Brazilian restrictions currently tend to limit commercial and investment opportunities for U. S. insurance firms, the prospect of growth oriented economic stabilization and global trade and investment liberalization could likely enhance future opportunities for U. S. companies in the Brazilian financial sector.

INVESTING IN BRAZIL

The 1988 Constitution restricts foreign investment in several sectors: petroleum and gas, telecommunications, mining, power generation, fishing, transport, media, construction and professional services. In the case of petroleum and telecommunications, state-owned monopolies dominate the market. In other sectors, investment is restricted so that individuals residing in Brazil hold the majority of voting capital and the actual decision-making power.

The distinction in Brazil" s constitution between national and foreign capital constitutes a denial of national treatment to foreign investors. However, President Cardoso has introduced legislation to the Brazilian congress, which, if approved, will significantly liberalize Brazil" s investment regime. He proposed constitutional amendments that would eliminate the distinction between national and foreign capital and allow greater foreign participation in the telecommunications and petroleum/gas sectors. Paulo Tarso Flecha de

Lima, Brazil" s Ambassador to the U. S. stated, " The election of President Fernando Henrique Cardoso was a watershed in Brazilian political history. It marked an end of a decade long process of democratic consolidation and opened up a new horizon for Brazil" s future in which a pluralistic and free society will be able to determine its hard won destiny, building a brighter future for all its members." We conclude that the old pattern of development followed until the 1990" s is rapidly being replaced by a new model based on a competitive integration into the international economy and modernization through gains in productivity. Competitiveness in both internal and external markets is now the name of the game. There is a widespread consensus within Brazil that this is the only solution through which they can resume economic growth.

MARKET ACCESS

Before a foreign country invests in Brazil, certain information is crucial. Recent data on tariffs and import barriers, government practices and competition between other foreign nations who are also interested in this investment, is vital. The next three sections describe these specific economic characteristics of Brazil.

Tariffs and Import Barriers

Most of Brazil" s import duties range from 0 to 20 percent; however, a few items are as high as 70 percent. The average duty is approximately 14 percent. Duties are assessed on the cost, insurance and freight (c. i. f.) value of the import. Under the Uruguay Round of the General Agreement on Tariffs

and Trade (GATT), Brazil agreed to bind tariffs on 100 percent of its industrial lines at a ceiling of 35 percent, with subceiling in certain sectors.

The internal Brazilian taxes of consequence to U. S. exporters are the Industrial Products Tax (IPI) and the Merchandise Circulation Tax (ICM). The IPI is a federal tax levied on most domestic and imported manufactured products. The ICM is a state government value-added tax applicable to both imports and domestic products. Some sectors of the economy such as construction services, mining, electrical energy, liquid fuels and locally produced machinery and equipment are exempt from the ICM tax. For the most part, Brazilian exports are exempt. Although deemed temporary measures to address Brazil's trade deficit, they have raised concerns that Brazil may be stepping back from its trade liberalization program.

Government Practices

Brazilian government acquisition policies apply to purchases by government entities and by parastatal companies. Price is usually the determining factor in selecting suppliers, and most government procurements are opened to international competition either through direct bidding or imports.

International bidding is allowed for most procurements with related international development bank funding.

Generally speaking, it is difficult for foreign firms to operate in the public sector in Brazil unless work is performed in association with a local firm. To be considered Brazilian, a firm must have majority Brazilian Capital participation and decision making authority- " operational control." A Brazilian State enterprise is permitted to services to a foreign firm if

domestic expertise is not available for that specific task. A foreign firm may only bid for government contracts to provide technical services when no qualified Brazilian firm exists.

A U. S. supplier may find that including local purchases of Brazilian goods and services within its bid, or developing a significant sub-contract association with the Brazilian firm, will improve the chances for success. Similarly, a financing proposal that includes credit for the purchase of local goods and services for the same project will be more attractive than one that ignores local business. The U. S. Embassy in Brazil advises U. S. exporters interested in supplying goods and services for Brazilian Government projects that advance descriptions of the suppliers' capabilities can often be influential in gaining a sale. These early proposals can be effective even before the exact terms of an investment plan are defined or the design of project specifications are completed. Such a proposal should influence presentations.

The Competition

The governments of key U. S. economic rivals are re-doubling their efforts to increase market share in Brazil. Widespread interest in emerging countries is prompted in part by reductions in trade barriers, recent economic reforms and improving growth prospects. Moreover, rival governments want to diversify their export promotion efforts away from a heavy East Asia orientation and do not want to concede the rapidly growing Western Hemisphere market to the U. S. Some specific countries to be aware of before investing in Brazil are:

☞ France - Paris emphasizes government lobbying, favorable financing and the use of its embassies and consulates in Brazil to push for sales.

☞ Germany a^“ Germans use trade missions and trade shows as key tactics for targeting the Brazilian market.

☞ United Kingdom a^“ London relies on high-level visits, preferential financing trade promotion activities and lobbying to boost sales.

☞ Italy a^“ Rome uses trade missions and lobbying in Brazil.

☞ Canada a^“ Ottawa" s strategy emphasizes high-level visits and trade shows for business in Brazil.

☞ Taiwan a^“ Taipei uses governmental agreements and high-level visits and trade shows to promote trade in Brazil.

CONCLUSIONS AND RECOMMENDATIONS

In light of the new Cardoso Administration" s commitment to pursue further economic reform and stabilization, the outlook for building a stronger U. S.-Brazil commercial partnership has never been more favorable. Although market access barriers, including government monopolies in certain sectors and restrictive government acquisition policies, continue to pose problems for the U. S. firms in Brazil, this country is determined to do everything they can to assist the U. S. private sector in reaping the tremendous commercial opportunities that Brazil offers, while at the same time, helping to promote Brazil" s economic development. Export investment in Brazil is definitely recommended for the future.