

Looking into Brazil? A primer for business expansion into Brazil

Our grandparents laughed at Hope and Crosby in *Road to Rio*, our fathers whistled *Girl from Ipanema*, Barry Manilow still sings *At the Copa*, and we all have Carnival on our bucket lists, but only very recently has Brazil entered our work lives as a viable country for investment. To understand why, consider a bit of history:



- Not until 1985, did Brazil complete a transition from military control to democracy.
- It wasn't until 1995, that massive inflation was brought under control.
- Since 2000, the pace of Brazil's modernization has increased. For example, the middle class has grown 31% since 2003, adding 26 million people to the market for consumer products.¹
- Inequality has decreased considerably over the past 10 years.²
- Brazil is now the 6th largest world economy, larger than the rest of South America combined and some studies project it to surpass France by 2020, making it "the fifth power."³
- Last year, President Obama announced a streamlined process for entry visas for Brazilians, anticipating a 40% increase in Brazilians visiting the US.

Brazilians own Burger King, Swift, Moyer, Packerland, OSI, Pilgrim's Pride and Gold Kist. And the largest brewer in the world, AB-InBev, is controlled by the Brazilians who just joined Warren Buffet to purchase Heinz.

Investments by Brazilian firms into the US have been worth billions of dollars during the past decade. Between 2003 and 2010, 47 projects were announced with a total capital investment of \$2.5 billion dollars. United States subsidiaries of Brazilian-owned firms employed 42,200 people in the United States as of 2008.⁴

Brazil has done a very good job of protecting itself from the worst ravages of the world economy. They have strong capital controls that manage speculation and capital flight. They have not defaulted on IMF loans; on the contrary, they are now a lender to the IMF. And when a Labor activist, founder of the Worker's Party, won the Presidency in 2003, the bankers of the world held their breath, but Lula led the country well; the economy moved ahead at a fine clip. Brazil has endured oil shocks better than most

¹ *Consumers, Producers and the New Middle Class*, Centro de Políticas Sociais, 2012

² GINI coefficient dropped from 0.609 in 1990 to 0.545 in 2003. US is 0.45 (2009)

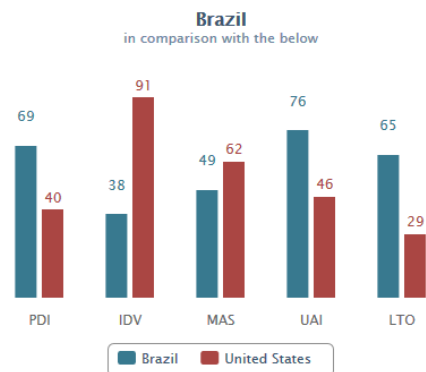
³ *Brazil on the Rise*, Larry Rohter, 2012, postscript

⁴ Fact Sheet: The U.S.-Brazil Economic Relationship--<http://www.whitehouse.gov/the-press-office/2011/03/15/fact-sheet-us-brazil-economic-relationship>, March 15, 2011

with a strong reliance on ethanol from bagasse, is a world leader in development of biofuels, and with the astounding discoveries of pre-salt oil, the country is poised to soon become a net exporter of oil.

But it is difficult to operate in Brazil. You should be aware of a few potential surprises:

- Hiring employees is a significant challenge and terminating employees is even more difficult. Burden on direct labor is at least 2.0. Severance costs are very high. Engineers are scarce and expensive, especially those with international experience. English competency is not common.
- Establishing a branch or subsidiary office requires proof of \$250,000 USD deposited in country for each US ex-pat you might wish to relocate to Brazil and you must have a resident director to register the company.
- If a Brazilian firm pays a US firm, there is a 40% tax on those payments, so establishing an in-country Ltda is one of the only options to doing work in Brazil. The US does not have a reciprocal tax agreement with Brazil, so consider hiring local tax advice a few minutes after your plane touches down.
- Obtaining a visa for US staff to work in Brazil is a challenge.
- Most importantly, business in Brazil depends on relationships. In many ways, there are more similarities to Japan than to Europe. Establishing relationships based on trust with potential partners is your most important first task.
- US culture and Brazilian culture is different in many important ways. A graphic from The Geert Hofstede Centre illustrates the significant divergence of several key cultural measurements. Although it requires a bit of further study, it should give you pause.⁵



Brazil offers a huge and growing market, is actively soliciting investment, needs products and services and does not have sufficient capacity to supply demand. Do not be surprised by how happy your staffs are when working on Brazilian projects, especially after completing tough assignments in China or India. Finally, most visitors come home convinced that Brazilians are the kindest, calmest, most generous and happiest people on the planet with a very high work ethic and a sincere desire to please.

So head south; the flight is shorter than to Hawaii. Learn *Tudo Bem?* and *Muito Prazer*. Leave your lawyers at home. Enjoy the best mangoes you will ever eat. And after your meetings in Rio, relax with a *Coco Gelado* on the most famous beaches in the world. Até breve!

⁵ <http://geert-hofstede.com/national-culture.html>