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Investing in Brazil: A Way to Increase U.S and Ohio Business Profits?

By

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As one of the fastest growing economies in the western hemisphere, Brazil offers investors the opportunity to reach a market of nearly 195 million consumers. The continued growth of Ohio exports and foreign direct investment (FDI) has encouraged Brazil to work towards eliminating trade barriers and improving the ease in which businesses must comply with investment procedures. In doing so, its government continues to cultivate a highly favorable business climate for imports and exports as well as for foreign direct investment in the region.

The leading category of exports from Ohio to Brazil in 2010 was machinery. This export category produced nearly eight billion dollars in revenue for Ohio. The other top categories of exports included vehicles, aircraft, electrical machinery, plastics, and optics. This is significant in light of the fact that these are all manufactured goods from industries that have been on the decline in the domestic marketplace. Further, Ohio not only exports millions of dollars' worth of products to Brazil, it also imports numerous products.

This data demonstrates that Ohio is actively involved in the export and import of products to and from Brazil. A report published by the Greater Ohio Policy Center, however, called for increased exports from Ohio to ensure continued growth for the state[1]. The report showed that the export of goods were almost three times higher than service exports to Brazil[2]. This data indicates that there is an opportunity to export services from Ohio to Brazil, as long as businesses analyze what major services are lacking in Brazil before attempting to meet its need.

Because of Brazil's active import/export culture, it is an increasingly popular location for foreign direct investment.

Surge of Foreign Direct Investment (FDI)

As many businesses know, FDI is generally a long term interest by a foreign investor to acquire an enterprise in a foreign economy. Over the past few years, U.S. businesses have recognized the value in investing these kinds of resources in Brazil. For example, in 2009 U.S. FDI in Brazil was $56.7 billion[3]. This was a 27.3% increase from 2008[4]. According to the Brazilian Central Bank market survey report, in 2010 U.S. FDI to Brazil is thought to have reached $33.0 billion.[5]

Despite the surge of FDI in Brazil, its regulatory framework remains complex. Under Brazilian Law 4.131, which was passed in 1962, foreign companies can invest foreign capital freely in Brazil, subject to registration at the Central Bank[6]. Under this law, 'foreign capital' is broadly defined as goods, machinery, and equipment entering Brazil. It also includes those financial resources allocated for investment in economic activities. This is provided that, they belong to individuals or legal entities that reside, have domicile, or are headquartered abroad[7].

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[1] Sarah M. Bacha, *Report Calls for Increased Exporting in Ohio*, GREATER OHIO POLICY CENTER (Summer, 2010; accessed July 20, 2011) <http://www.greaterohio.org/files/press-releases/export-nation-release.pdf>.

[2] *Id.*, at 2.

[3] *Id.*

[4] *Id.*

[5] United States Department of Commerce, *Doing Business in Brazil: 2011 Country Commercial Guide for U.S. Companies* (2011; accessed July 20, 2011) <http://www.buyusainfo.net/docs/x_2501465.pdf>.

[6] The World Bank, *The Regulatory Framework of FDI in Brazil* (2002; Accessed July 20, 2011) <http://www.fdi.net/documents/WorldBank/databases/brazil/fdilaw_brazil.pdf>.

[7] *Id.*, at 3.

Thus, in order to register a foreign investment, the central bank must issue the investor a Certificate of Registration by the Department of Foreign Capital.[8] Then, based on the geographic zoning system in place, a foreign investor must also apply for registration at the regional office of the central bank which has jurisdiction over the headquarters of the company receiving the investment.[9] Despite the bureaucracy involved, there are no fees associated with the registration process, and there is no limit for the effective registration by the central bank[10].

Once a business is registered, it is essential that an investor receive his or her Certificate of Registration, which is a necessary document. This certificate allows one to receive payments of profits and dividends abroad[11]. The certificate also allows for repatriation of the invested capital at any time following the initial investment. Today registration has become easier due to the introduction of the Registro Declaratória Eletrônico – Investimento Externo Direto ("RDE-IE"). This system creates a way for parties to register their foreign investments electronically.[12] As a result of the rapid growth of the Brazilian economy in the last five years, businesses now have greater access to Brazil's economy and fewer barriers to trade.

Improved Trade Relations & Favorable Business Climate

Trade relations between the U.S. and Brazil continue to improve. On March 19th, 2011, U.S. President Barak Obama visited Brazilian President Dilma Rousseff and signed what is referred to as the trade and economic cooperation agreement ("TECA"). This agreement creates a U.S.-Brazilian commission to expand trade between the two countries by removing non-tariff barriers[13]. Perpetuated by the Brazilian real's two-year 41% increase against the dollar, Brazilians are finding American goods increasingly more attractive[14].

TECA is revolutionary for businesses who seek to expand the number of exports to Brazil. It is the first free trade agreement of its kind because Brazil has only recently become a strong economic climate. Previously, its economy was severely limited by widespread political instability in the country. It was not until 1988, that a new constitution and democratic government was formed. More recently, Brazil has started to change its protectionist measures on imports because the country has realized that in order to grow, it must participate in the global market. As such, TECA is poised to open new doors to both Brazilian and American businesses in the future.

The TECA commission will be co-chaired on one side by officials of the Office of the United States Trade Representative and on the other side by officials of the Brazilian Ministry of External Relations as well as those from the Development, Industry and External Trade Commissions[15].

TECA, however, is not the only agreement between the U.S. and Brazil to encourage stronger U.S. Brazilian trade relations, there have been several important trade agreements made over the past two years. Some include, the Partnership for the Development of Aviation Bio-fuels which was entered into between the U.S. and Brazil to alleviate the aviation industry's heavy reliance on high energy density liquid fuels[16].Another is a recently signed Memorandum of Understanding

[8] *Id*.
[9] *Id*.
[10] *Id*.
[11] *Id*.
[12] *Id*.

[13] Eric Martin, *U.S. Brazil Sign Trade, Economic Agreement as Obama Visits*, Bloomberg Businessweek, Mar. 19, 2011, at 1, *available at* <http://www.businessweek.com/news/2011-03-19/u-s-brazil-sign-trade-economic-agreement-as-obama-visits.html>.
[14] *Id*.
[15] Agreement on Trade and Economic Cooperation Between the Government of the United States of America and the Government of the Federative Republic of Brazil., Mar. 19, 2011, < http://www.ustr.gov/webfm_send/2666>.
[16] Partnership for the Development of Aviation Biofuels, THE WHITE HOUSE, Mar. 21, 2011 <http://www.whitehouse.gov/sites/default/files/uploads/Partnership_Development_Aviation_Biofuels.pdf>.

between the U.S. Department of Labor and the Ministry of Labor and Employment in Brazil. This agreement promotes collaboration on labor issues in the region. Overall, Brazil's goal is to ensure equitable economic growth, support, and prosperity pursuant to the Hemispheric Decent Work Agenda[17].

These agreements demonstrate the number of opportunities for U.S. business in the Brazilian marketplace. Although many agreements will still require further cooperation between countries to have the greatest impact on trade relations, they represent a notable step in the right direction.

CONCLUSION:

In summary, Brazil has had several years to cure the majority of its fiscal problems that had traditionally posed risks to potential businesses. Investors and businesses should be aware that the U.S. and Brazilian governments are working to make access to the thriving Brazilian market more accessible to all businesses. Its improved trade relations and favorable business climate make it an attractive choice for U.S. businesses looking to increase profits for a greater global market share.

About the Authors

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[17] Memorandum of Understanding on U.S.-Brazil Labor Cooperation, THE WHITE HOUSE, Mar. 19, 2011 <http://www.whitehouse.gov/sites/default/files/uploads/MOU_Labor.pdf>.