

# Doing Business in Brazil

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**Abstract:** Brazil has become stronger and more attractive in the global markets with its high degree of economic diversification, strong domestic consumer market, broad selection of trading partners, and great financial system. Compared to the world, Brazil's unemployment rate is low. While wages are steadily on the rise in Brazil, the level of foreign direct investment is high. Brazil provide plenty of opportunities for Multinational Corporations, especially in the oil, gas, agribusiness, mining, retail, capital infrastructure, education, and healthcare. These industries make Brazil a primary target for any business leaders around the world. However, Brazil is also an emerging economy, which mean there will be issues and challenges that business leaders have to be mindful of before establishing operations. But even with the issues and challenges, Brazil still is widely acknowledged as a global commodities powerhouse and is a very good place for investment opportunities for any foreign direct investment.

**Keywords:** Brazil, Multinational, Corporations, Business, Negotiation, International

## INTRODUCTION

Exploring Brazil through Hofstede Geert six-dimensional model, enables us to thoroughly understand and develop a good overview of the country's culture relative to other countries cultures worldwide. Under Hofstede Geert six-dimensional model, each country is measured under six different dimensions. These dimension measurements include: Power Distance, Individualism, Masculinity/ Femininity, Uncertainty Avoidance, Long-Term Orientation, and Indulgence. Providing these measurements we are able to visualize cultural differences and their impact in Brazil.

### 1. CULTURAL DIMENSIONS

Brazil is ranked 69 out of 100 in its Power Distance. Cultures with a high Power Distance are known to express inequality among individuals in their societies and towards other cultures. Brazil reflects a society that believes hierarchy should be respected and inequalities amongst people are acceptable ("The Hofstede Centre," 2015). This implies that status of power is important within their culture to indicate an individual's social position. For example, in Brazil it is important to show respect to the elderly ("The Hofstede Centre," 2015) and in companies

there is one boss who takes complete responsibility ("The Hofstede Centre," 2015). Brazil's interdependence among its members ranks at a 38 out of 100. Brazil is more cohesive and collectivist among its members. These members usually include extended family, which continues protecting its members in exchange for loyalty ("The Hofstede Centre," 2015). In business, it is important to build up trustworthy and long lasting relationships: a meeting usually starts with general conversations in order to get to know each other before doing business ("The Hofstede Centre," 2015). In Masculinity/Femininity dimension, Brazil ranks at a 49. At a rank of 49, Brazil is considered to be intermediate within this dimension, which means it has a balance between both its masculinity and feminine counterparts. It also indicates that the country's culture encourages to level with others and consensus are important.

Brazil's culture strong need for rules and legal systems scores them at a 76 in Uncertainty Avoidance. This strongly indicates that Brazilian culture have a need for control and expectancy. Due to their high score in this dimension, Brazilians are very passionate and demonstrative people: emotions are easily shown in their

body language ("The Hofstede Centre," 2015). In addition, all members must adhere to any laws and rules implemented. Brazil under the Long-Term Orientation dimension ranks a 44 out of 100, making it an intermediary culture. Brazil makes it an effort to maintain traditional views and practices, while dealing with future challenges in their culture. Brazilian culture remains somewhat apprehensive of other societal views within this dimension. Lastly, under the Indulgence dimension Brazilian culture ranks at a high score of 59. People in societies classified by a high score in indulgence generally exhibit a willingness to realize their impulses and desires with regard to enjoying life and having fun ("The Hofstede Centre," 2015). In addition, they place a higher degree of importance on leisure time, act as they please and spend money as they wish ("The Hofstede Centre," 2015).

In conclusion, reviewing all of Brazil's six dimensional measures, we may assume the following in retrospect to the country's culture. Brazilians are strongly relationship focused, they act as a cohesive collective group. In addition, they seek to build trust, personal relationships, and face-to-face contact among their group of members. Brazilians also have a strong formal societal view, which is based on their hierarchical outlook, member's status or position among others, and non-verbal communication.

## 2. LANGUAGE

Brazil was a colony of Portugal beginning from the landing of explorer Pedro Alvares Cabral in 1500, up until 1815, when it was elevated to the rank of kingdom upon the formation of the United Kingdom of Portugal, Brazil, and Algarves ("SpainExchangeStudylands," 1999). Years later, in 1988, Brazil drafted its current constitution and defined themselves as a federal republic. Brazil's

proximity to its South American neighbors, its longstanding position as a Portuguese colony, and recent immigration, has greatly added to the cultural, ethnic and linguistic diversity of the nation ("SpainExchangeStudylands," 1999). Portuguese is the official language of Brazil. It is spoken by the majority of the population within the country. However, although Portuguese is the first language for the vast majority of Brazilians, numerous foreign words have expanded the national lexicon to give the national language its own unique identity ("SpainExchangeStudylands," 1999). This is a result of vast immigration into Brazil over the years, such as Italians, Germans, Japanese, and Spanish immigrants. These immigrants have contributed and introduced various words and expressions that are now considered Brazilian Portuguese. Technological innovations have also contributed to the introduction of new words among the Brazilian Portuguese language. This occurred because the Portuguese language lacked a uniform procedure for adopting such words ("SpainExchangeStudylands," 1999). For example, the word "*trem*" in Brazil means "*train*," while the Portuguese word for "*train*" is "*comboio*" ("SpainExchangeStudylands," 1999).

Due to vast immigration to Brazil, there are other minor languages that are spoken within the country. According to the 1940 Census, the most popular second language (after Portuguese) at the time was German ("SpainExchangeStudylands," 1999). The German language is soon followed by the Italian language ranked at third. Although today, there are some areas where both the German and Italian language is still spoken, Brazilians now focus more on the Spanish and English language. In larger cities, such as São Paulo, Brazil, the native languages of the Korean, Chinese, and Japanese people are fairly common in the immigrant districts ("SpainExchangeStudylands,"

1999). Only a significant percentage of Korean, Chinese, and Japanese speakers make up a small community of groups in cities, such as, São Paulo, Paraná, Mato Grosso do Sul, Pará, Santa Catarina, Rio Grande do Sul, and Amazonas. In addition to the immigrant languages occasionally spoken and heard in Brazil, dozens of indigenous languages also remain. For example, the Tupian or Tupi-Guarani language group. Tupian was the principal language of Brazil's native people before European contact, and it became the lingua franca between Indians and Portuguese traders, missionaries, adventurers, and administrators; it was widely used in the Amazon region and western Brazil until the 19<sup>th</sup> century ("SpainExchangeStudylands," 1999). The Tupian language has been a great influence in Brazilian Portuguese words and expressions over the centuries.

### 3. DEMOGRAPHICS

According to [1], Brazil's business atmosphere benefits from open policies that embrace foreign direct investment (FDI), the government backing to infrastructure and innovative activities, and the advancing information and communication technology (ICT) industry. Brazil has an estimated population of over a two hundred and one million, earning it as the fifth most populous country in the world. Brazil's most populated area is Sao Paolo followed by Minas Gerais and Rio de Janeiro. The labor force constitutes a hundred and five million people. The net migration rate stands at less than one per a thousand people. The birth rate and the death rate stands at 14.97 and 6.51 per one thousand people respectively. Low fertility rates of below two per woman illustrate the decline in Brazilian population regarding size while it raises the median age currently standing at 30.3 years old. However,

the population is expected to grow further to over 223 million by the year 2030 [2].

### Demographics

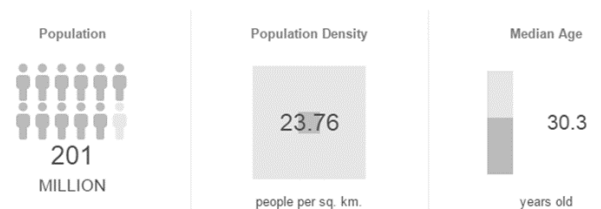


Figure1: Brazil's Demographics

The country boasts of the largest economy in the Latin America. It is also the ninth biggest economy in the world. Brazil has an estimated gross domestic product of 800 billion US dollars with a purchasing power equalling to over one trillion dollars and an actual three percent growth rate. It has the highest per capita income as compared to the other nations under BRICS, with over half of its people considered middle-class. The earnings of the labor force range from \$11,500 to \$29,000 annually [3]. The country encourages foreign investment as a result of its comparative accomplishments in the application Plano Real. The country is among the leaders in emerging world markets. Most multinational corporations currently consider it as an essential market for a truly global business. Also, the country's export market is not dependent on one foreign market. The European Union countries get 28% of the exports, 23% to the United States, and a 12% to the Argentina [3].

### 4. RELIGION

Colonized by a Catholic country, religion in Brazil constitutes of mainly Catholics, and then Protestants, Buddhism, Judaism and other religions. Religion in Brazil is not only a belief system but also the center of culture. As the epicenter of culture in Brazil, religion has gone to the extent of affecting how a business runs in this country. Having a widely practiced religion in Brazil is of an advantage to its business sector both in local and in international levels. Catholic, a religion widely practiced in Brazil is also spread all over the globe. As [4] states, sharing a particular religion by people in different countries may boost trust and, therefore, creating networks to facilitate intricate transactions. This is manifested by the many international investments in Brazil.

Religion practices are felt in the Brazilian business sectors. Brazilians have many holidays spread throughout the year, most of them being religion. As [5] states, work is prohibited on religious holidays. Furthermore, Brazilians extend some religious holidays ending up staying out of work than expected. For instance, Carnival is officially a holiday, on Tuesday, in Brazil but most people take off Saturday, Sunday, Monday, and Tuesday. These religion holidays limit the time employees would be productive in their places of work.

Buddhism and Judaism, among small religions in Brazil, are religions with positive influence to trade. According to [4], these two religions have constructive direct and indirect institutional effects as well as trade-enhancing linkage effects. This is seen in Japan, whose people practice Buddhism after World War II. On the other hand, being Catholics and Protestants have created an attractive business culture in Brazilians. As [6] observes, Brazilians are friendly and not easily offended therefore to foreign investors settling and doing business getting along with Brazilians will not be an issue worth worrying.

## 5. BUSINESS AND ECONOMIC OPPORTUNITIES

Brazil has a very broad based economy, which mean they have every type of industry imaginable. The economy is mixed with many different types of company like listed companies, closely held companies, state monopolies, semi-state companies, foreign owned companies, family enterprises, and many small businesses. Brazil is the leading country for investment opportunities in Latin America. In 2014, Brazil ranks as the world's seventh largest economy due to their Gross Domestic Product (GDP) of \$2.3 trillion U.S. dollar. But in 2014, Brazilian exports were reduced in demand by Europe and Asia, the GDP for 2014 actually dropped 0.1 percent from previous year. And recently, in May 2015, the government prioritized policies that control inflation, which cause inflation to increased 8.47 percent. Also, from mid-2014 to April 2015, urban unemployed increased 1.5 percent from 4.9 percent to 6.4 percent, respectively. All of this is happening while wages still continue to increase in Brazil. Banks in Brazil has also been steadily raising interest, currently at 13.74 percent.

The United States ranks second, behind only China, as the largest exporter to Brazil in 2014, which they accounted for 15 percent of Brazil's total imported goods. Argentina, Germany, and Nigeria ranks 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup>, respectively. A total of over U.S. \$229 billion of goods were imported by Brazil in 2014. Brazil is an excellent export partner for any experienced exporters from any country. Brazil has the fifth largest population in the world, 202 million. Brazil's population represented around 3 percent of the world's consumers. At the same time, more than half of Brazil's population represented the middle class, which is the highest per capita income of any of the BRICS (an acronym for Brazil, Russia, India, China, and South Africa).

Many Multinational companies considered BRICS as an emerging markets for truly global business, and Brazil is the leader among that market. Brazil's population of middle class is growing and thriving. This middle class represents a large potential consumer market for any foreign businesses.

All forms of foreign investment is usually welcome if the investment is in the national interest and the investment is a long term commitment to economic development in Brazil. Any forms of foreign investment should not contravene with local policy regarding foreign investment and Brazil's national security. And foreign ownership is imposed due to national security reasons, especially in the areas of defense and air transport. Generally, Brazil is very supportive of free trade, but they have very high tariffs imposed on many imports. In general, Brazil is a very attractive countries for any company looking for an investment opportunity. Brazil's emerging market presented opportunities for any foreign companies that are interested in tapping into Brazil's considerable potential market of many dissatisfied consumers. Foreign companies can also take advantage of Brazil's abundant raw materials and natural resources. Brazil provides sizable and growing labor force locally for any multinational companies. Also, the 2016 Olympic Games will be held in Brazil, which mean more opportunities presents in the future.

In conclusion, the chance of success will be higher for any multinational corporations that wants to develop businesses in Brazil's market to work through qualified representatives and distributors. And depend on the type of industry, multinational corporations may need to establish joint ventures. In Brazil, like anywhere else, there are direct costs and indirect costs which related to government procedures and corruptions, employee

benefits, laws and regulations, distribution costs, and tax structure. Like any other markets, logistics in foreign market pose a particular challenge for any companies that enter. Every market have it pros and cons, but in every challenge, there are opportunity.

## 6. LAWS EFFECTING BUSINESS

Brazil, the Latin American powerhouse is regarded as being among the most challenging places in the world to do business, which is why having local expertise in the country will ultimately improve the success rates of your overseas venture. Recently, a new development in the legal system, the adoption of the Anti-Corruption Laws and regulations, that affecting businesses in Brazil. The Anti-Corruption Laws was adopted March 18, 2015 in response to citizen protests. The new regulations provides strict liability to companies for any acts of corruption, especially any corruption acts to local and foreign government officials. As a result, the adoption of the Anti-Corruption Laws cause companies in every industry to create or improve compliance programs. Around the same time, on March 16, 2015, Brazil adopted a new Civil Procedure Code to modernize its dispute resolution procedures.

Brazil is a Federative Republic. The legal system in Brazil is based on civil law. Generally, Brazil is very open to foreign direct investment. But there are investments in certain industries that are restricted to nationals and subject to governmental authorization. Some of the more restricted industries for foreign investments includes financial institutions, press and broadcasting services, airlines with domestic flight concessions, postal services, private security and transport, nuclear energy, and property of rural land. Healthcare sector are no longer restricted to foreign investment due to the enactment of Law 13,097 on January 19, 2015. Before any establish of foreign direct investment,

registered with the Brazilian Central Bank must be made. And for investments in capital markets, registered with the Brazilian Securities Commission must be made. Additionally, registration to invest in Brazil must be obtained by foreign investors before any investment is established. Also, it will be a good idea for foreign investors to make sure they appoint a representative that is resident in Brazil.

Foreign investors are offered a wide variety of incentives at the federal, regional, and local levels by the Brazilian government. These incentives include taxation to industries considered strategic by Brazil's government, incentives to development of infrastructure projects, tax incentives in tax free areas and export processing zones, funding from public banks, investment in the capital market will have lower taxation, and distribution of dividends is not subject to income tax. For foreign investors, the most common used forms of business vehicles in Brazil are the limited liability companies and close held corporations. In general, foreign investments are welcome because competition is encouraged in Brazil.

In conclusion, it is wise for multinational corporations to carefully analyze opportunities and threats in the market they wish to enter. By researching the current laws and regulations of that market, doing so could save foreign companies millions of dollars. And by understanding the current and past laws that might affect the business will also prove useful in understanding what that market may find acceptable and unacceptable. However, foreign investors must always remember that any laws affecting the business in any country is subject to change. Some of those changes can be gradual and expected, but then some will be sudden and abrupt.

## 7. CONCLUSION

In summary, Brazil represents those countries with a strong relationship between foreign investment policies and large economic growth. Brazilian's require personal interactions and cohesive personal bonds in any business or political partnerships. The country needs a large inflow of foreign investments in order to attain a sustainable high arc of economic growth. Brazil is considered the fifth most populated country in the world. The country's high population provides a high workforce. As a result, it increases the country's economy, improve GDP, high per-capita income and high purchasing power. Furthermore, Brazil is a country consisting of different cultural backgrounds, due to its inbound stream of immigrants worldwide. As a country with different cultures, one of the leading challenges on conducting business within the region is understanding the assortment of business functions and characteristics practiced throughout the different sections of Brazil. For example, when negotiating with people in Sao Paulo, objectiveness and avoiding surprises when negotiating are important.

With half the population falling under the middle-class, Brazil is a leader of emerging world markets and serves a benchmark for international trade. In Brazil, religion has impacted the country's way of doing business in various ways. First, Brazil's religious platform is a cultural institution that directly guides the entrepreneurs' behavior. For example, the religious culture in Brazil, encourages both production and commercial activities. Secondly, different religious cultures in Brazil enhances trust; thus, effectively creating business networks that encourage complex global economic transactions. International economic deals spring to life when supportive government actions and social institutions are missing; therefore, religion facilitates an empirical relationship between Brazil's religious cultures and global trade.

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