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# **THE RISKS AND REWARDS OF DOING BUSINESS IN BRAZIL: CAN BRAZIL ESCAPE THE FATE OF GREECE?**

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## **ABSTRACT**

With the abandonment of import-substitution policies and state-led development, Brazil has undergone major transformations and today is seen as one of the 21st Century's major markets. Moreover, its economy is expected to weather the current economic crisis better than the economies of most nations. The outlook for Brazil as an investment opportunity is mixed as the country faces serious problems including HIV/AIDS, racial inequality, access to quality education, disparate distribution of wealth, high unemployment, and crime. Investors must weigh salient issues such as human rights, ethics, culture, access to knowledge workers, foreign trade restrictions, financial markets, and the political economy when analyzing Brazil as a potential investment opportunity.

## **I. INTRODUCTION**

This paper analyzes salient topics relative to exploring Brazil as a business opportunity for foreign investors and will include seven sections: (i) background; (ii) political economy; (iii) human rights, ethics, and freedom; (iv) culture distance; (v) foreign trade background; (vi) direct investment, taxes, and labor costs; and (vii) conclusions and recommendations. The final section includes key issues, conclusions, and recommendations based on balancing relevant risks with return potential. Can Brazil avoid the deficits that are currently plaguing Greece in the post-Olympic years? For Greece, relaxed fiscal policy in 2002 and massive expenditures associated with the preparation of the Athens 2004 Olympics resulted in excessive deficits and debt in 2003 and 2004. Can Brazil learn from the experiences of others to lessen the potentially devastating effects of hosting the Summer Olympic Games?

## **II. BACKGROUND**

### **1. HISTORY**

The recorded history of Brazil began in 1500 when the Portuguese mariner, Pedro Cabral, discovered Brazil (Elizabethan Era: Pedro Alvares Cabral n.d.). This claim led to three centuries of Portuguese rule and established Portuguese as the

country's language. By the mid-1500s profitable sugar growing boosted the European population and led to a demand for slaves. With the decimation of the native population from European diseases, African slaves were brought in great numbers (Economist Country Briefings: Brazil 2005). When Napoleon's troops occupied Portugal in 1807, the Portuguese monarch moved the court to Brazil and later declared a United Kingdom of Portugal and Brazil (Economist Country Briefings: Brazil 2005). Brazil became free from Portuguese rule in 1822. From 1822 to 1889 the country was ruled by descendants of the Portuguese royal family as an empire. During this time coffee exports supplanted sugar as the mainstay of the economy (Economist Country Briefings: Brazil 2005). The abolition of slavery in 1888 triggered the fall of the emperor and the proclamation of a republic (CIA World Factbook - Brazil 2009). Since the formation of the republic, the country has had a turbulent history with periods of democracy interspersed with long periods of military rule. Notable leaders include Getulio Vargas, who seized power in 1930, ruled until 1945, and served as an elected president from 1950 to 1954. He was followed by President Juscelino Kubitschek. Kubitschek's slogan was "50 years (of progress) in five" (Areal 2007). In addition to a new capital and turning attention to the development of Brazil's interior, the Kubitschek years began Brazil's era of hyperinflation and set the stage for a modern round of military intervention in Brazil's government (Economist Country Briefings: Brazil 2005). The military took power in 1964 bringing some economic stability but waged a dirty internal war of repression. Military rule ended in 1985 and after some difficult political periods Brazil today is a vibrant democracy (Economist Country Briefings: Brazil 2005) organized as a federative republic (BBC Country profile: Brazil 2009).

## **2. BRAZILIAN SOCIETY**

The rise of coffee culture and the ending of slavery brought sweeping demographic changes to Brazil as free laborers were now in demand. The need for coffee workers first led to the recruitment of European laborers, especially Italians. However, abusive working conditions led the Italian government to end paid transport recruiting schemes. To meet labor demand, the government of Brazil relaxed its "whitening policy" that banned African and Asian immigration and allowed Japanese to immigrate to Brazil (Wikipedia: Japanese Brazilian 2009). Today, in terms of racial composition Brazilians are mainly white with 53.7% of the population. Those of mixed black and white heritage (a.k.a. mulattos) comprise 35.5% of the population. Blacks comprise 6.2%. Other races total about 1.0% of the population. In particular, Brazilians of Japanese descent total approximately 1.4 million (Wikipedia: Japanese Brazilian 2009).

Brazil's population is estimated at almost 199 million and continues to grow at a pace of 1.2% a year. In fact, Brazil is the fifth most populous country in the world. Brazil faces excess mortality at the hands of AIDS which in turn results in a lower life expectancy, higher infant mortality and death rates, and lowers population growth rates (CIA World Factbook - Brazil 2009). Brazil is a young country with a relatively low median age of 28.6 years; nearly ten years younger than the median age in the United States. Although Brazil's official language is Portuguese, Spanish, English, and French are all spoken – especially in regions bordering Spanish, French, and English-speaking countries (CIA World Factbook - Brazil 2009). English is spoken widely throughout Brazil's business culture (CIA World Factbook - Brazil 2009; U.S. Department of State Country Background Note: Brazil 2009). A Christian society, the dominant religions are Roman Catholic and various Protestant denominations as claimed by 73.6% and 15.4% of the population respectively. All other religions (including those not claiming a religion) are less than 1.0% of the population (CIA World Factbook - Brazil 2009).

The state of Brazil's education system is problematic, and it bodes poorly for second stage economic growth (based on higher value knowledge application). The country's literacy rate is just 88.6% for people 15 years of age and older (CIA World Factbook - Brazil 2009). Moreover, educational achievement is low. The average adult has only received 6.2 years of formal education compared to 12 years in the United States (Wikipedia: Brazil 2009). Also, 45% of the heads of poor families have completed less than a year of school. In the OECD's worldwide tests of students' abilities in science, reading, and math, Brazil is near the bottom (see, for example, The Economist Magazine, June 4, 2009, *Still a lot to learn (Brazil's poor schools)*). As would be expected, Brazil's education problems are historic in nature. In the 1930s just one in five children attended school. However, when Brazil did embark on a universal education system, the needs of the elites came first with disproportionate spending on universities rather than on basic education (ibid). The federal government currently invests 4.3% of GDP on education but intends to increase that percentage to 7.0% in the near future (Wikipedia: Brazil 2009).

The gap between the poor and the elites is well documented. Unequal income distribution continues to be a problem in Brazil (CIA World Factbook - Brazil 2009). In fact, the gap between rich and poor in Brazil as measured by the Gini Index is one of the widest in the world. Based on 2005 CIA estimates, Brazil's index is 56.7 and only is surpassed by a handful of countries with long histories of income discrimination and differentials such as Zimbabwe and South Africa (Wikipedia: List of countries by income equality 2009). Landless peasants are common as much of the country's farmland is controlled by a handful of wealthy families. In addition, a third of the population in major cities such as Sao Paulo and Rio de Janeiro reside in

favelas (slums) (BBC Country profile: Brazil 2009). Crime is a serious problem in Brazil's urban and rural areas. Theft, kidnapping, quicknapping (holding a victim for a small immediate payoff), carjacking, and violence are commonplace. In fact, Brazil's murder rate is four times that of the U.S. (U.S. Department of State Travel.State.Gov Brazil 2009).

AIDS and HIV remains a serious problem in Brazil. In 2007 it was estimated that 0.6% of Brazilians age 15 to 49 were living with HIV/AIDS compared to 0.5% in Latin America as a whole. Numerically this is 730,000 Brazilians living with HIV/AIDS; in all of Latin America there are 1,700,000 people living with HIV/AIDS (Avert Statistics Summary: Latin America 2009). Nonetheless, education and prevention methods are seen as successful as Brazil's infection rate is half what it was in the previous decade (Pembrey 2009).

Brazil currently faces many environmental issues that include deforestation which destroys habitats and endangers a multitude of plant and animal species indigenous to the area (Careers.org - Brazil n.d.). Many countries around the world are putting extra pressure on Brazil to act quickly in preserving its rainforests. Rain forests play a key role in the regulation of the earth's atmosphere and Brazil has the most rainforests in the world. Illegal and lucrative wildlife trade is also another issue in Brazil (Careers.org - Brazil n.d.).

### **3. GEOGRAPHIC LOCATION AND CAPITAL**

The largest country in South America and located on the Atlantic coast, Brazil borders every country on the continent except for Chile and Ecuador. In total geographic size, Brazil is just slightly smaller than the United States (CIA World Factbook - Brazil 2009). The capital of Brazil is Brasilia, located in the central southeast region of the country. Brasilia is a planned city and a symbolic effort to develop the country's vast interior. The idea of a new inland capital had been proposed in the 1820s (Areal 2007) but it was President Juscelino Kubitschek who inaugurated the start of the city in 1956. Originally planned to accommodate 500,000, Brasilia and its satellite cities today house 2,000,000 people (Areal 2007).

### **4. ECONOMIC OUTLOOK**

Currently, Brazil pursues industrial, extractive, and agricultural growth and development of its interior. By exploiting vast natural resources and a large labor pool, it has become South America's leading economic power and regional leader (Careers.org - Brazil n.d.). Brazil's economy out produces that of other South American countries and is expanding its presence in world markets (CIA World

Factbook - Brazil 2009). In 2007, Brazil's GDP measured by purchasing power parity was ninth largest in the world (The World Bank 2009). Between 2004 and 2008 Brazil's economy grew at an average rate of 4.8%- -double the rate of growth registered in prior decades. In spite of the world economic crisis, growth of 0.5% is expected in 2009 (The World Bank: Brazil Country Brief 2009).

By June 2009, Brazil's stock market rebounded to pre-global financial crash levels and the central bank cut its lending rate to single digit levels—the first time since the 1960s. Some are expecting that growth in 2010 will return to 4.0% (The Economist Magazine: Jun 11th, 2009). Historically high commodity prices have aided the Brazilian economy in recent years. Moreover, with the discovery and tapping of offshore oil reserves by 2007 Brazil became self-sufficient in oil (The Economist Magazine: Mar 19th, 2009). Certainly, this has helped Brazil, but the real story of Brazil's success lies in sound macro-economic management. Public sector debt has been reduced to below 40% of GDP, foreign currency borrowing has been converted into Brazilian Real-denominated instruments, Brazil has almost \$200 billion of foreign currency reserves, its current account deficit is small, and inflation is under control (The Economist Magazine: Mar 5th, 2009). In short, the Brazilian economy is stable and has led to an “uncharacteristic outbreak of long-termism” (The Economist Magazine: Jun 11th, 2009).

### **III. POLITICAL ECONOMY**

Brazil returned to democracy from military rule in 1985. In an effort to repair past abuses, in 1988 a new constitution emphasizing human rights was adopted (Pembrey 2009). In addition, the country sought to repair its economic model and began opening its economy to trade, abandoning import substitution, and privatizing state-owned enterprises.

Brazilian import substitution industrialization (ISI) began in the 1930s under the Vargas regime and involved tariff barriers and currency devaluation to retard imports (and increase exports). In the Brazilian context, ISI was intended to stimulate industrialization through application of government capital projects for heavy industry and infrastructure, private capital for consumer products, and foreign capital for durable goods. For example, during the 1950s and 1960s Volkswagen, Ford, GM and Mercedes all established Brazilian operations. The goal of ISI is to emphasize domestic production and export higher value-added goods (Wikipedia: Import substitution industrialization 2009). Unfortunately, Brazil's economy stagnated behind these barriers and its products were not competitive on world markets.

A key part of Brazil's economy since the 1980s is its stance on trade. Brazil is a founding member of Mercosur – the southern cone trading bloc which was established in 1991 and also includes Argentina, Paraguay, and Uruguay. While the organization's charter is to promote trade, investment and human flows, it has been accused of trade diversion and blocking U.S. efforts to create the Free Trade Area of the Americas (Council on Foreign Relations 2009). Brazil became a member of the WTO on January 1, 1995. Brazil is granted MFN status by the U.S. as well as the European Union and the other members of the World Trade Organization (WTO).

Brazil is a federative republic with 26 states and a capital district. It has a vigorous multi-party system with 20 parties represented in its congress. The current government is that of Luiz Ignacio "Lula" da Silva. President da Silva was first elected in 2002 and re-elected in 2006 for a second four-year term. Brazil is a charter member of the United Nations (CIA World Factbook - Brazil 2009; U.S. Department of State Country Background Note: Brazil 2009). The quality and efficiency of government services and infrastructure is poor – surprising given the high amount of government spending as a percentage of total GDP (2009 Index of Economic Freedom).

#### **IV. HUMAN RIGHTS, FREEDOM, AND ETHICS**

Founded in 1941, Freedom House publishes an annual Freedom in the World Survey. This survey has become one of the leading tools used to assess citizens' political rights and civil liberties within a given country and contains reports on 193 countries and 15 territories. The factors considered in this annual survey include, among others: political participation; the electoral process; freedom of expression and belief; and associational and organizational rights. According to the latest data, 2008, and on a scale of one (1) to seven (7) (with 1 the freest and 7 the least free), Brazil's political rights scored a two (2) and civil liberties scored a two (2). Freedom House classifies Brazil to be a 'free' society indicating that the citizens of Brazil enjoy relative freedom (Freedom House 2008).

Transparency International (T.I.) is a nonprofit independent non-government organization (NGO) that is dedicated to exposing and fighting corruption around the world. T.I. exposes corruption in a country's government and business practices to the world in order to assist other countries and companies that seek such information. T.I. is the global leader devoted to combating corruption in public and private sectors. Since its founding, T.I. has led the anti-corruption movement while improving the lives of millions of people around the world. Its mission is to create a 'world free of corruption' (Hill 2009; Transparency International 2009). The Corruption Perceptions Index (CPI), published by T.I., includes a ranking of countries as to the degree in

which corruption is perceived to exist. T.I. defines corruption as ‘the abuse of public office for private gain’. T.I.’s CPI is a composite index that amalgamates corruption-related data from other various sources (expert and business surveys) that are carried out by other independent institutions and measures the degree of perceived corruption in the public sector. The survey includes questions about such things as bribery of public officials, kickbacks in public procurement, embezzlement of public funds, and questions that probe the strength and effectiveness of anti-corruption efforts thereby surrounding both the administrative and political aspects of corruption (Hill 2009; Transparency International 2009). A rating of 10 is seen as the least amount of perceived corruption and zero (0) being absolute corruption. The United States is ranked 18th with a score of 7.3 while Brazil is ranked 80th with a score of 3.5. This is of concern for businesses looking to locate in Brazil. It is also noteworthy that Brazil has been moving down the list since 2001 even though its absolute score has changed little. This suggests that the country is not getting worse in terms of ethics and its degree of corruption, but rather that other countries are beginning to make changes and step past Brazil in the overall rankings (Transparency International 2009). Businesses looking to expand to Brazil will need to consider the perceived corruption that exists in the country.

Like many ‘free’ yet developing countries, Brazil has recently grappled with corruption issues. The most recent incidents come from the rule of current presidential leader Luiz Inacio “Lula” da Silva. Incidents of corruption within the government were relatively quiet from 1994 to 2002 when Fernando Henrique Cardoso was the President of Brazil. After da Silva took office, there was some success in improving the country’s poor economic situation, but scandal has tainted the da Silva presidency. The first reported scandals occurred in 2007 when it was discovered that da Silva had been buying votes for his presidential bids. Additionally, a “bloodsucker” scandal reportedly occurred where government officials were selling overpriced ambulances to municipalities. Within the government, 91 members of congress were accused of corruption but only 4 were expelled after their terms had ended. In 2007 an undercover operation ensued, “Operation Razor”, which resulted in the arrests of 46 individuals for accepting kickbacks for public works contracts. Only days after these arrests, one of da Silva’s cabinet members was forced to resign after it was confirmed by federal surveillance that he had accepted a bribe from a major building contractor (Freedom House 2008).

Businesses looking to expand to Brazil should be aware that Brazil is consistently plagued by gang violence and police brutality. It is estimated that nearly 50,000 homicides occur each year (World Report 2009). Allegedly, police are often the cause of extrajudicial executions as well as involved in homicides committed by ‘death squads’ – believed to include off-duty police. These death squads are



responsible for approximately 70 percent of the homicides committed. The police are also suspected of being a part of the militias that terrorize Brazil. There have even been arrests of Civil Police inspectors on counts of kidnapping, assault, death threats, Russian roulette, and sexual assault (U.S. Department of State Human Rights Reports: Brazil 2008).

In light of the actions of the Brazilian police, the detention center conditions – including torture and ill-treatment of detainees – has become a major issue country wide. Some of these detainees experienced beatings along with electric shock when they were only being detained and had not been convicted of any crimes. It has been reported that one prison held 119 women in a cell built for 12 with four of those women being pregnant. The conditions that the detainees have to endure are a violation of international standards for human rights and human treatment (Freedom House 2008). Additional issues that businesses would be concerned with would deal with forced labor which has been an issue in Brazil for an extended period. Since 1995 the federal government has taken steps to eradicate forced labor and monitor labor conditions in rural areas. It has been estimated by the Pastoral Land Commission that 8,653 persons were in situations of forced labor in 2007, of those, it has been suggested nearly 6,000 have been freed. Though there have been considerable strides for the improvement of forced labor, there still is no criminal accountability brought to the employers who offend the laws (World Report 2009).

## **V. CULTURE DISTANCE**

This section will explore the dimensions and results offered by the GLOBE project to compare and contrast the Brazilian and American cultures. In other words, the GLOBE study's societal values ('should be') will be used to analyze the culture of Brazil. The GLOBE project clusters societies based on similar scores and regional traits (Gupta and Hanges 2004). In this regard, the U.S.A. is in the Anglo cluster while Brazil is in the Latin American cluster (unlike Ronen and Shenkar (1985) who listed Brazil as an independent nation that did not fit a cultural cluster).

### **1. POWER DISTANCE INDEX (PDI)**

Power Distance is the extent to which the less powerful accept or reject an unequal distribution of power. For cultures high in power distance, society accepts an unequal distribution of power. For cultures low on the PDI, society rejects an unequal distribution of power. Power distance also manifests itself in how many layers of management exist in the organizational chart, the level of empowerment, and the span of control (Carl, Gupta, & Javidan 2004; Hofstede 1980, 2001, 2003; Hofstede and Hofstede 2005). Certainly, inequalities in power within the workplace are normal as

can be seen by the typical hierarchical boss-subordinate relationship. Nevertheless, the extent to which subordinates *accept* unequal power is societally determined (Deresky 2006). The GLOBE study reported Brazil's score on the PDI to be 2.35 while the U.S.A.'s score was 2.85 (Carl, et al. 2004, p.540). This suggests that Brazilians would demand a more equal distribution of power (Carl et al. 2004; House, Hanges, Javidan, Dorfman, & Gupta, 2004). In countries lower on the PDI index such as Brazil, employees and their superiors often see each other as equals which leads to greater harmony and cooperation. One may experience Brazilians demanding equal access to power compared to the U.S. This difference may be attributable to the particularistic nature of societies heavily influenced by Catholicism. For example, Rosenn (1988, p. 143) offers a Brazilian saying that sums up the particularistic nature of Brazilian society:

“For friends, everything; for strangers, nothing; and for enemies, the law”.

## **2. UNCERTAINTY AVOIDANCE INDEX (UAI)**

How well a group tolerates uncertainty is categorized using the UAI – a continuum measuring degrees of uncertainty. Placement along the UAI indicates a society's tolerance of uncertainty. For societies high on the UAI scale, the group would tend to avoid ambiguity, risk, and implicitness; preferring certainty, predictability, explicit controls, and stability (de Luque and Javidan 2004; Hofstede 1980, 2001, 2003; Hofstede and Hofstede 2005). Brazil's score on GLOBE's UAI was 4.99 which is considerably higher than the U.S. score of 4.00 (de Luque and Javidan 2004, p. 623). The U.S. would tend to be more relativistic and allow differing schools of thought to coexist compared to the nature of the average Brazilian (de Luque and Javidan 2004; Hofstede 1980, 2001; House et al. 2004). Members in Brazilian society would view uncertainty as a threat that must be fought while Americans would be more likely to accept uncertainty about the future and take each day as it comes. In Brazil, there would be a higher degree of resistance to new ideas and a strong need for consensus (Adler 2008; Etounga-Manguelle 2000; Schneider and Barsoux 2002).

## **3. INDIVIDUALISM/COLLECTIVISM**

In an individualistic society, people would tend to see themselves as separate individuals and are committed to themselves or a very small group such as immediate family. Conversely, in a collectivist society, people establish tight social networks where they make distinctions at the group level, not the individual level (Gelfand, Bhawuk, Nishill, & Bechtold, 2004; Hofstede 1980a, 2001, 2003; Hofstede and Hofstede 2005; Trompenaars 1984). Higher scores on this dimension indicate a more

collectivist society. Second only to the highest scoring country on this dimension (El Salvador – another Latin America country), Brazil scored 5.62 while the U.S. scored 4.17 (Gelfand, et al. 2004, p. 470). In a collectivist society such as Brazil, members would prefer making decisions at the group level rather than the individual level (Schneider and Barsoux 2002) and would submit to the will of the group in determining beliefs and behaviors (Adler 2008). In countries lower on this scale (more individualistic) such as the U.S., traits such as democracy, individual initiative, and individual achievement are highly valued, and employees are emotionally independent and autonomous from their employers (Deresky 2006). The concept of ‘identity’ in the U.S. would likely be based on the ‘individual’, everybody would have a right to a private life, and people would have a need for specific friendships (Rodrigues 2001). Conversely, in a society exhibiting collectivistic tendencies such as Brazil, members form tight social networks, are emotionally attached to their place of employment, believe in group decisions (Deresky 2006), ‘identity’ would be based on the social system, private lives would be invaded by the organization, and friendships would be predetermined by the social system (Rodrigues 2001).

#### **4. GENDER EGALITARIANISM**

According to the GLOBE authors, the fundamental problem that societies must solve, and therefore can be measured along this continuum, is that of role differentiation between men and women. In this regard, a society must not only decide how to allocate social roles between the genders, but also whether to emphasize and reward behaviors that are stereotypically masculine or feminine. When divvying up social roles between the genders, some societies prescribe differentiated roles while other societies prescribe overlapping or egalitarian roles (Emrich, Denmark, & Den Hartog, 2004). *Gender Egalitarianism* is the degree to which a society minimizes the differences in roles between genders and promotes equality and the overlap of roles (Den Hartog 2004; Emrich et al. 2004; House and Javidan 2004). Along this dimension, Brazil scored 4.99 which was surprisingly close to the U.S. score of 5.06 (Emrich et al. 2004, p. 366).

#### **5. ASSERTIVENESS**

The GLOBE authors defined assertiveness as the degree in which societies are assertive, tough, dominant, and/or aggressive. The GLOBE authors are quick to point out that ‘aggressive’ tendencies in business are often seen as positive means to an end (e.g. aggressive strategy, aggressive marketing campaigns) in the Western business world (Den Hartog 2004; Emrich et al. 2004; House et al. 2004). Pinning the Assertiveness dimension, in part, on the work of Peabody (1985), the GLOBE authors speak of this dimension in terms of passive vs. forceful; conceited vs. modest;

selfconfident vs. unassured; bold vs. timid; active vs. inactive behaviors and values. This results in varying levels of societal acceptance of these differing beliefs and values. *Assertiveness* certainly relates to adaptation, survivability, and integration of a cultural group and these are consistent with Schein's (1992, 2004) concepts of cultural dimensions. Assertiveness, then, is the degree to which people within a society are assertive, confrontational, or aggressive in relationships (Den Hartog 2004; Emrich et al. 2004; House and Javidan 2004). The GLOBE study reveals that Brazil scored 2.91 while the U.S. scored 4.32 along this scale. One would likely experience noticeable differences between the two societies when it comes to the acceptance and presence of aggressiveness (Den Hartog 2004; Emrich et al. 2004; House and Javidan 2004). Brazilians would likely view aggressiveness as socially unacceptable and would value modesty and tenderness instead. Brazilians would be sympathetic toward the weak and value warmer relationships (Den Hartog 2004; House et al. 2004).

## 6. FUTURE ORIENTATION

Lewin (1942) is credited with conceptualizing time into three categories: past orientation, present orientation, and future orientation. This laid the foundation for subsequent research including the idea that some groups tend to use temporal frames and reference points while others do not (Ashkanasy, Gupta, Mayfield, & TrevorRoberts, 2004). Does society emphasize and value the past (i.e. respect for tradition, rely on the past to anticipate the future), the present (i.e. solving problems in the moment without regard to future implications), or the future (i.e. take into consideration the long term effects of decisions made today) (Kluckhohn and Strodtbeck 1961)? For the GLOBE authors, this dimension is defined as the extent to which members of society believe that their current actions will influence the future. This includes the degree to which societies focus on investment in the future, believe they will have a future that matters, believe in planning and developing their future, and/or base current decisions and actions with the future in mind. GLOBE calls this dimension Future Orientation. Cultures low in future orientation enjoy the moment and value spontaneity while culture high in future orientation imagine future contingencies and develop strategies and goals for meeting future aspirations (Ashkanasy et al. 2004). Along this scale, Brazil scored 5.69 while the U.S. scored 5.31 (Ashkanasy et al. 2004, p. 306). Differences between the two societies within this dimension may not be subtle. As could likely be predicted, Brazilians are more future oriented than Americans. The Catholic influence would likely result in Brazilians putting off rewards and delaying gratification. It is likely that Americans, with Protestant influence, would value more immediate evaluations and employer feedback; training that is designed to address an immediate company need (as opposed to long-term employee development); and immediate, measurable rewards

compared to Brazilians (Cullen and Parboteeah 2008; Hofstede 1980, 1991, 1993; Phatak, Bhagat, & Kashlak, 2005; Rodrigues 2001).

## **7. PERFORMANCE ORIENTATION**

This dimension is pinned, in part, to the work of D. C. McClelland's 1961 book *The Achieving Society* (House and Javidan 2004; Javidan 2004); the very essence of Trompenaars's "Achievement vs. Ascription" dimension (Trompenaars 1993; Trompenaars and Hampden-Turner 1998). Additionally, GLOBE and Hofstede both cite theoretical foundations for this dimension based on the theories of Max Weber (e.g. Protestant work ethic) and Confucius (e.g. work values) (Hofstede 2001; Javidan 2004). Compared to the U.S. score of 6.14, the Brazilians scored a surprisingly similar 6.13 along this dimension (Javidan 2004a, p. 251). This is rather odd given the fact that the Performance Orientation is grounded in the Protestant Work Ethic espoused by Weber (Hofstede 2001; Javidan 2004). In both societies, it is likely that hiring and promotion would be based on achievement or merit; people from both societies would more likely be motivated by rewards and bonuses; leaders would have a 'can do' attitude and would likely have a higher sense of urgency (Cullen and Parboteeah 2008; House et al. 2004).

## **8. HUMANE ORIENTATION**

Triandis (1995) and Schwartz (1992) confirmed the existence of values such as altruism, kindness, love, generosity, tolerance, understanding, protection, and benevolence which are the set of values that GLOBE seeks to measure using the Humane Orientation dimension. Brazil scored 5.68 along this continuum while the U.S. scored 5.53 (Kabasakal and Bodur 2004, p. 574). It is highly likely that both countries' managers and leaders would be equally oriented toward consideration of others on an individualized and holistic basis. Employees in both societies would be apt to have personal relationships with managers who may even provide individualized support for employees. Employees would feel motivated by a sense of belongingness (Cullen and Parboteeah 2008; House et al. 2004).

## **9. MISCELLANEOUS CULTURAL DIFFERENCES**

When doing business in Brazil, it is acceptable to wear casual clothing such as jeans and a nice shirt. Colors make a big difference as the summer months require lighter colors due to the oppressive heat. Suits in Brazil are fashionable in the winter but not in the summertime. Suits may be tailor made to distinguish one's position in the business world. In the northwest, it is more common to be casual including a nice shirt and pants; whereas, in the area of Sao Paulo, it is very formal with ties and suits

being the norm. Businesswomen wear dress pants, skirts, and blouses instead of more casual wear (Cunha, Barros, Franca, n.d.).

When making conversation with a Brazilian in a business setting it is important to maintain eye contact; to break eye contact is considered impolite. Brazilians tend to have conversations while being in close proximity and can be very fast talkers. They can be animated and even have physical contact in conversation. One topic that should be avoided is any comparison between the Brazilian football team (soccer) and the Argentinean football team. A topic as seemingly mundane as soccer could sabotage the entire business negotiation (Cunha et al. n.d.).

## **VI. FOREIGN TRADE BACKGROUND**

### **1. IMPORT RESTRICTIONS**

Brazil's weighted average tariff is 6.7% (2009 Index of Economic Freedom) and its Common External Tariff (CET), covering a variety of imported products, ranges from 0% to 21.5% (U.S. & Foreign Commercial Service and U.S. Department of State 2009). However, protectionism is present in the Brazilian market. Brazil uses a non-automatic import licensing system which means that importers have limited means to determine in advance which products require import licenses, so using as many local resources as possible could end up saving money and time. Furthermore, there are registration fees on some imported products such as medical and pharmaceutical equipment. These along with import bans, market access barriers in services, export support programs, opaque government procurement rules, and poor protection of intellectual property result in steep non-tariff barriers (2009 Index of Economic Freedom).

There are three main taxes that account for the majority of taxation on imported raw materials. The Import Duty (ID), the Industrialized Product Tax (IPI), and the Merchandise and Service Circulation Tax (ICMS) (U.S. & Foreign Commercial Service and U.S. Department of State 2009). There are also several smaller taxes that can be applied to imported materials.

### **2. IMPORT AND EXPORT STATISTICS**

Brazil is a founding member of the WTO and is granted most favored nation (MFN) status by the U.S., the EU, and other members of the WTO. Brazil's 2007 merchandise trade exports totaled \$160,649,000,000 and its 2007 merchandise imports totaled \$125,568,000,000. Its merchandise exports are agricultural products (30.0%); fuels and mining products (20.0%); and manufactures (47.2%). Its primary

merchandise export markets are the E.U., the U.S., Argentina, China, and Venezuela. Brazil's merchandise imports are agricultural products (6.0%); fuels and mining products (23.3%); and manufactures (70.6%). Its primary import markets are the E.U.; the U.S.; China; Argentina; and Nigeria. Brazil has a commercial service trade deficit. Its commercial service exports (2007) were \$22,615,000,000 while its commercial service imports (2007) were \$34,700,000,000 (World Trade Organization: Statistics Database 2009).

## **VII. DIRECT INVESTMENT, TAXES, AND LABOR COSTS**

Brazil is the largest recipient of foreign direct investments (FDI) in Latin America and welcomes foreign investments in most areas of business. However, certain sectors such as the media, aviation and aerospace, nuclear energy, fishing, health services, mail services, and rural and border properties are subject to foreign ownership limitations (2009 Index of Economic Freedom). Brazil's inward FDI has increased from an annual average of \$12,000,000,000 to \$34,585,000,000 in 2007. Brazil's stock of inward FDI in 1990 was just \$37,143,000,000; by 2007 this had risen nearly tenfold to \$328,455,000,000 (World Investment Report 2008). In 2008 inbound FDI hit a record high of \$42 billion. Although the world outlook for FDI in 2009 is rather bleak, the outlook for Brazil is improving. The most attractive sectors for new FDI include automobiles, metallurgy, and financial services. These sectors made up 50.2% of FDI investments in 2008 (Oliveira 2008). Brazil has a relatively small but rising outward FDI stock figure. Total outward FDI stock was just 41,044,000,000 in 1990 but has risen to \$129,840,000,000 in 2007 (World Investment Report 2008). Although it is thought of as friendly towards FDI, Brazil is known for high taxes and extensive regulatory requirements.

Taxes are complex and pose a major problem as most companies must hire tax professionals to plumb the difficulties. Moreover, tax evasion is a big problem in Brazil (Economist Country Briefings: Brazil 2009). Brazil has a corporate tax rate of only 15% but an additional surtax of 10% and a 9% social security contribution bringing the effective corporate rate to 34% (2009 Index of Economic Freedom). Brazil's individual tax rates range from 7.5% to 27.5%. By comparison, the United States has a 15% corporate tax and a top tax rate of 35% for individuals. A foreign company within Brazil is automatically granted resident status if it is incorporated within the country. Capital gains are treated as regular income (Complete WorldWide Tax and Finance).

Brazil's labor force is 99.5 million (CIA World Factbook - Brazil 2009) with an unemployment rate over 9.0% (Brazil Portal 2009). Also, Brazilian labor is not competitive at either the lowest skills/wage levels or at the highest skills/wage levels

(Pagés and Székely 2001); a product of its poor education system. In 2007, per-hour manufacturing and production labor costs in Brazil were approximately 1/4th those of the U.S. or about \$7.13 and \$5.96 for Brazilian manufacturing employees and production workers respectively (U.S. Department of Labor 2009).

## VIII. CONCLUSIONS

Brazil is Latin America's largest market, the world's fifth-most populous country, and the world's tenth-largest economy in GDP terms (Economist Country Briefings: Brazil 2009). Brazil has surpassed Canada as the second largest economy in the hemisphere and accounts for 60% of Latin America's economy (Wittman 2009). Throughout the 1990s, Brazil's financial services industry was overhauled and is currently sound (CIA World Factbook - Brazil 2009; U.S. Department of State Country Background Note: Brazil 2009). Because of the government of Brazil's ownership stakes in the major banks and mortgage lenders, the credit crunch that has affected the United States has not been as much of a factor for Brazil (Economist Country Briefings: Brazil 2009). Inflation has been tamed and between 2005 and 2007 has averaged 4.1% (2009 Index of Economic Freedom). Public sector debt is below 40% of GDP and most public borrowing is done in Brazilian Real-denominated loans. Brazil has almost \$200 billion of foreign currency reserves (The Economist Magazine: Mar 5th, 2009).

Brazil offers many benefits including a stable currency. The country has many natural resources, its economy is diversified, and it borders the Atlantic Ocean. Brazil has dealt with the current economic crisis effectively. Brazil has a strong agribusiness, extraction, and manufacturing base and a large labor force (CIA World Factbook - Brazil 2009; globalEDGE: Brazil: Economy n.d.; U.S. Department of State Country Background Note: Brazil 2009). Other strengths of Brazil are its domestic market potential and competitive labor costs (globalEDGE: Brazil: Economy n.d.). "The government of Brazil offers a variety of tax, tariff, and financing incentives to encourage production for export and the use of Brazilian-made inputs in domestic production" (Office of the U.S. Trade Representative n.d., p. 44). The Brazilian government offers incentives to make importing and exporting from the country easier.

However, the country has not invested enough in infrastructure such as roads, railways, airports, and power generation and transmission facilities. Lack of investment in much of Brazil's infrastructure is causing negative results for commercial transportation and energy needs. This is exacerbated because public/private partnerships are hard to achieve. Like many countries, Brazil is exposed to the fluctuations of world prices of goods it cannot produce domestically (CIA



World Factbook - Brazil 2009; globalEDGE: Brazil: Economy n.d.; U.S. Department of State Country Background Note: Brazil 2009). It is expensive and time consuming to open a business in Brazil (2009 Index of Economic Freedom). While the government and economy are stable, these are relatively new phenomena. Unlike other countries that have endured abusive military regimes, Brazil still has yet to prosecute the military officials responsible for many of the atrocities brought upon the people of Brazil. This is due to the fact that Brazil still has an amnesty law in place that has provided pardons for government agents and members of political groups that have committed abuses (Human Rights Watch 2007, 2008). Structural reforms are needed in Brazil for education, social security, taxation, and the employment market (GlobalEDGE: Risk Assessment 2009). The country lacks knowledge workers. Corruption and police abuse are common. Crime is prevalent (globalEDGE: Brazil: Economy n.d.). Although Brazil represents an exciting future market with many opportunities, particulars do matter and depending on the business and industry, Brazil may not be worthwhile.

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