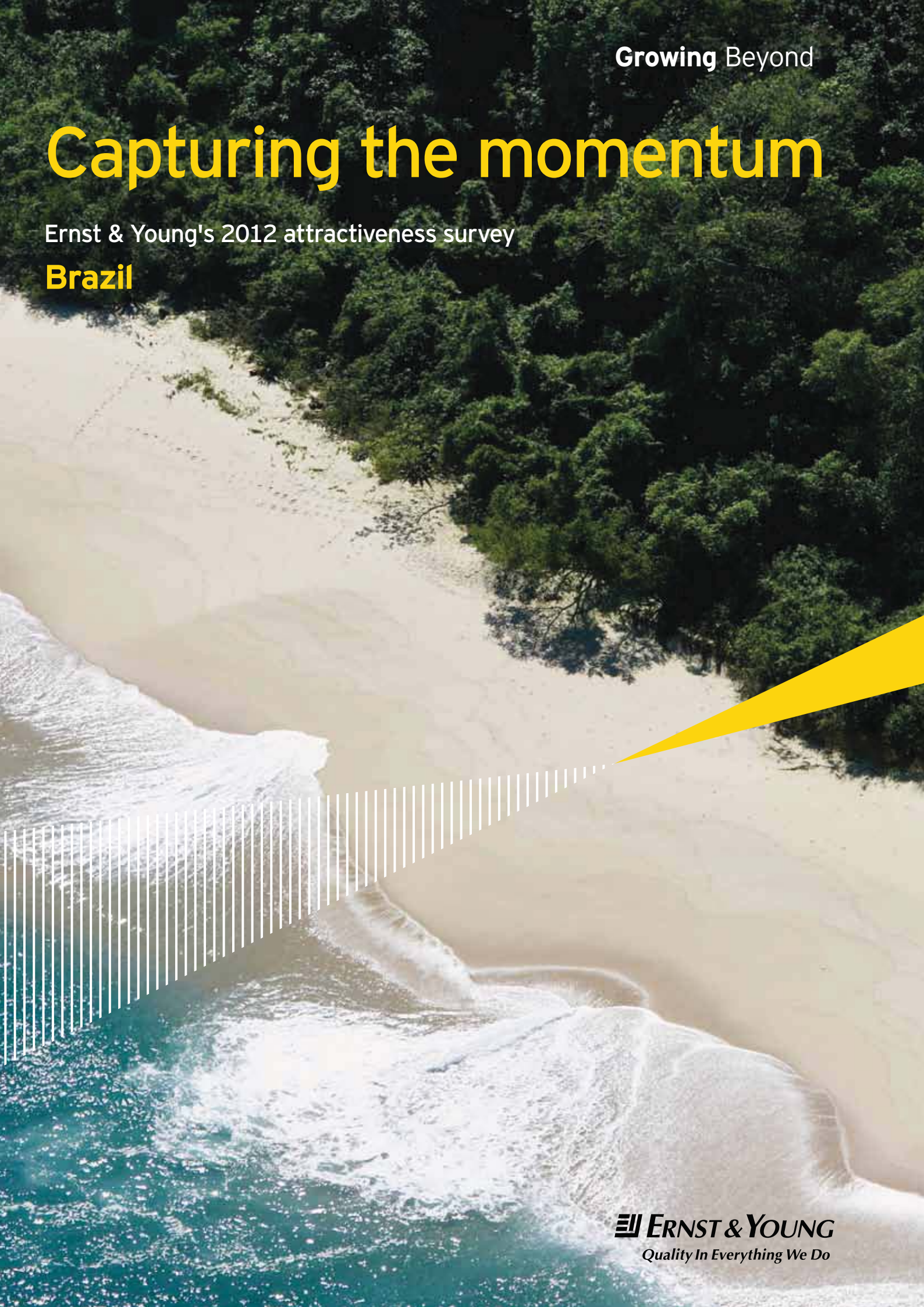
Growing Beyond

Capturing the momentum

Ernst & Young's 2012 attractiveness survey

Brazil



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Brazil

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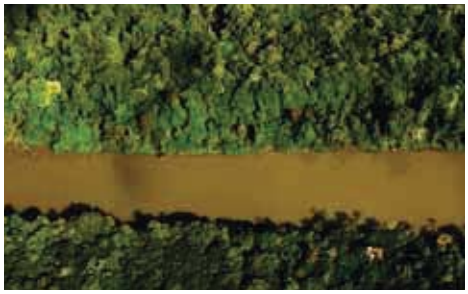


Viewpoint

Time for innovation

Mauro Borges,
Chairman, Brazilian Agency for Industrial Development (ABDI)

In 2004, the Brazilian Government embarked on a drive to realize the full potential of the country's industrial sector. It promoted strategies for science, technology, innovation and foreign trade. It was as part of this mission that the Brazilian Agency for Industrial Development (ABDI) was created. The agency, linked to the Ministry of Development, Industry and Foreign Trade (MDIC), liaises between the public and private sectors, contributing to Brazil's sustainable development through initiatives that drive industrial sector competitiveness.

Owing to the continental dimension of Brazil, it has enormous relevance to the world.

"The mission is not a simple one, as we need to overcome bottlenecks created by production costs," says ABDI chairman Mauro Borges. "In Brazil's manufacturing sector, we have bottlenecks related to both the cost of capital and labor, and the cost of basic inputs. Part of this stems from taxation on production elements and on basic inputs. It is a legacy of the Brazilian industrialization process which must be removed."

Borges cites the example of the power tariff for the industrial sector. "About 50% of the cost comes from taxation. It is far more than the average price of energy in countries that are direct competitors of Brazil," he says. Another point is the cost of labor. "Just remember that the cost for the company is almost twice the amount of salary that employees receive."

The increase in foreign competition, in the context of international crisis and uncertainty over the recovery of global demand, hinders the progress of Brazil's industrial sector — which grew by only 1.6% in 2011. However, according to Borges, Brazil is positioned to become a global leader in manufacturing — an expectation also expressed by many foreign businessmen — because it has a decisive element for industrial success in the 21st century: the scientific knowledge base of new technologies. On one hand, Borges says, Brazil has the knowledge centers of excellence to support the industry in strategic sectors, such as biotechnology and microelectronics. On the other hand, it is expanding funding for this knowledge to be transformed into concrete initiatives. "Fortunately we have The Brazilian Development Bank (BNDES), the second largest development bank in the world, which is enhancing and reshaping its credit lines to technological innovation. And we also have The Financing Program for Studies & Projects (Finep) — an agency linked to the Science and Technology Ministry — that provides funding for studies and projects, that focus on credit. It is restructuring its funding lines and shifting from grants to credit."

Development of the industrial sector is in line with a new economic reality that puts Brazil on the foreign investment map. "The most transcendent event of the last decade is our transformation into a middle-class country with a growing market of mass consumption. Owing to the continental dimension of Brazil, it has enormous relevance to the world." If this was the biggest development in recent times, there is also a major obstacle, according to Borges: the bottleneck in infrastructure. "This involves two major challenges: physical capital infrastructure (particularly the area of transport logistics) and human capital infrastructure. Brazil falls some way short of the basic and technical training required for industry in the 21st century," he says. "This is the problem that threatens our ability to take the big development leap."

Foreword

Tom McGrath
Americas Senior Vice Chair – Markets
Ernst & Young

Jorge Menegassi
CEO, South America & Brazil
Ernst & Young

Brazil has come on in leaps and bounds to become a stable economy. Despite the risks of an appreciating currency, the domestic market, driven by a burgeoning middle class, has continued to be the backbone of the Brazilian economy. The strong footprint of Brazil on the global map is evidenced by the fact that 60% of the respondents plan to invest in the country in the short term.

Brazil leads the attractiveness scores in Latin America with almost 7 out of 10 business leaders declaring the country as the most attractive place to establish operations. Rising domestic consumption of goods and services, and a wide base of industrial and natural resources are the foundation of Brazil's economy.

Brazil's image as a commodity-rich nation attracts foreign investment, which creates challenges such as the unwelcome side effect of pushing the currency value upward. To keep the momentum going and de-risk Brazil from the side effects of being commodity rich, the Government needs to continue to implement measures to diversify the economy toward value-added and innovative activities. Insufficient qualified personnel, high interest rates and a complicated tax system are some other main challenges the Brazilian economy is facing.

In terms of regional priorities, São Paulo clearly appeals most to investors. In our survey, more than 55% of the investors named São Paulo as the most attractive region in Brazil, followed by Rio de Janeiro (26%). The development of and promotion to foreign investors of tier two cities are key to Brazil's success in spreading the benefits of its economic development more evenly.

We believe that the next phase of foreign direct investment (FDI) competition will target less tapped activities such as establishment of headquarters, research and development (R&D) centers and innovative business services, driven by the entrepreneurial culture and stable political environment.

The outlook for Brazil as an FDI destination is robust, with 83% of the investors believing that attractiveness will improve over the next three years. Investors perceive Brazil will be a leader in the energy sector by 2020 with substantially improved infrastructure, and they expect improvement in the education system to bridge the skills gap and develop innovation capacity. Also, hosting the FIFA World Cup in 2014 and the Rio Olympic Games in 2016 is bound to attract international investors across a range of sectors. But Brazil also has to make efforts to ensure a secure and smooth operational environment, increase transparency, reduce corruption and create a simplified tax structure.

Our first edition of the *Brazil attractiveness survey* includes a section on Brazil's next phase of growth – driven by industry and the services sectors, as well as an analysis of the key growth sectors, which we believe will drive FDI momentum in the country.

We would like to thank all the decision-makers and Ernst & Young professionals who have taken the time to share their thoughts with us.

Executive summary

World economy outlook

Hope, actually

▸ **Hope, actually**
Coming out of the financial crisis, the global economy started 2011 in recovery mode, admittedly weak and unbalanced, but nevertheless with some hope and optimism. The prospects for the world economy may rely on the rapid-growth markets (RGMs) continuing to be the drivers of growth and recovery. The group of 25 RGMs we monitor at Ernst & Young as a whole are expected to bounce back to achieve an overall GDP growth of 5.9% in 2013 and 6.5% in 2014. Forecasts by the International Monetary Fund (IMF) in its quarterly update project the global economy to expand by 3.5% and 3.9% in 2012 and 2013 respectively.

▸ **Global FDI surpasses pre-crisis average; however, uncertainty prevails**
Despite the world economic turmoil, the total global inflows of FDI rose by 16% in 2011 – from its admittedly low basis in 2010 – to US$1.5t, according to the United Nations Conference on Trade and Development (UNCTAD). FDI inflows bounced back in all major economic groups: developed, developing and transition economies. The UNCTAD estimates that FDI flows will rise moderately in 2012 to approximately US$1.6t, based on the current prospects of underlying factors, including GDP growth and cash holdings by transnational corporations.

Reality

2nd: Brazil is the second most attractive global destination in terms of FDI value and fifth in terms of number of projects.

507 FDI projects were recorded in Brazil in 2011, an increase of 39% since 2010.

161,166 jobs were created in Brazil as a result of FDI.

52% of the FDI projects in Brazil were generated by services activities.

26% of FDI projects are established in Sao Paolo.

The reality of foreign investment in Brazil

A record year

▸ **Brazil in the global top five for FDI**
Brazil is the second most popular global destination in terms of FDI value and fifth in terms of FDI projects. The number of FDI projects in Brazil increased by 39% in 2011, to a record 507. These projects created an estimated 161,166 jobs.

▸ **Manufacturing brings 75% of the jobs, services bring 52% of the projects**
Investors entered Brazil to establish factories as well as tap the rapidly growing services sector in 2011. While industrial activity has brought the most jobs (75% of the total jobs), service activities have driven significant project numbers (52% of the total projects). However, Brazil still needs to improve on its attractiveness for strategic functions (headquarters, R&D centers and education and training). In 2011, Brazil received only 25 strategic projects.

▸ **Where from?**
The US, UK, Japan, Germany and Spain accounted for 59% of the FDI projects in 2011. China is emerging as a strong partner of Brazil, with investment and trade linkages increasing between the two countries.

▸ **Information, Communications and Technology (ICT) and business services performance: heading toward a service-led attractiveness?**
The ICT sector generated 105 FDI projects in Brazil in 2011. The sector emerged as the fourth-largest in terms of job creation in Brazil in 2011 with 17,724 jobs. Business services attracted 53 projects in 2011, constituting 10% of the total FDI projects, up by 8% on 2010, a record. Financial services attracted 35 FDI projects in 2011 (7% of the total), up from 20 projects in 2010.

▸ **São Paulo remains the undisputed leader for FDI**
The top region for FDI in Brazil is the Southeast; São Paulo is garnering the most attention (26% of the FDI projects). Rio de Janeiro comes second with 8% of the projects. The third destination is Curitiba with only 2% of the projects. The Northeast region is also emerging fast on the FDI radar; it attracted 93 investment projects and created more than 57,000 jobs between 2007 and 2011.

▸ **2013 investment plans**
Sixty percent of the business leaders surveyed indicated a positive outlook about setting up operations in Brazil in the near future; 33% of them highlighted firm plans for establishing activities in the country.

Brazil, the investors' view

Great momentum

▸ **Brazil: the continent's most attractive market**
Seventy-eight percent of the survey respondents named Brazil as the most attractive country in Latin America. Eighty-seven percent of investors consider Brazil's market size to be its most attractive asset. Brazil's strong entrepreneurial culture (cited by 71.9% of the respondents) has further bolstered its position as a top choice for foreign companies.

▸ **An energy leader in the making**
Brazil's oil and gas sector will drive the country's growth in the coming years according to 44.2% of the investors. A staggering 30.1% of the investors expect Brazil to be the leader in the energy sector by 2020, a view driven by the discovery of pre-salt reserves.

▸ **Questions on skills, costs and operating conditions**
Labor skills rank fifth in Brazil's most attractive criteria. Labor costs rank much lower (10th, which 40% don't find attractive), just ahead of the political, legislative and administrative environment (11th, which 41% don't find attractive). The low-quality, high-cost transportation system still remains a weak factor for investors (only 43.4% mentioned it as attractive).

▸ **Strong confidence in the future**
Nearly 83.4% of the respondents believe Brazil's attractiveness will improve over the next three years.

The future of attractiveness in Brazil

Boosting growth

▸ **Action 1: improve skills and secure the operational environment**
Of the survey respondents, 28.8% see the development of education and skills as Brazil's priority measure to increase its attractiveness.

▸ **Action 2: build innovation capacity and diversify sectors**
To build its innovation capacity, Brazil needs to focus on improving education and training in new technologies according to 60.3% of investors. Our panel of investors also think Brazil should increase tax incentives for innovative companies (29.7%) and develop joint research programs (26.1%). These measures will help develop a more diversified economy, decreasing exposure to the volatility of commodities markets (seen as the main sector driving growth for 44.2% of the investors).

▸ **Action 3: promote Brazil's regions**
Brazilian second cities are currently not on investors' radar. Thirty-nine percent of respondents could not indicate a strong preference for cities other than São Paulo and Rio de Janeiro. However, Curitiba and Belo Horizonte have drawn investor votes; these were highlighted as preferred cities by 24.5% and 20.2% of the investors. When asked about projects to increase the attractiveness of Brazil's cities, infrastructure development was the first reply from 55.8% of the respondents.

Perception

78% of survey respondents perceive Brazil as the most attractive country in Latin America.

60% of business leaders interviewed are considering setting up operations in Brazil (in 2013).

30% of investors expect Brazil to be the energy sector leader by 2020, a view driven by the discovery of pre-salt reserves.

60% of respondents consider the development of education in new technologies as the main driver to build Brazil's innovation capacity.

56% of business leaders think infrastructure development is the priority to increase the attractiveness of Brazilian second cities.

Picture: panoramic view of tropical beach, Fernando de Noronha.
Cover picture: sandy coastline, Brazil.

Brazil fact sheet

Capital
Brasília,
located in the Midwest region

Administration
Brazil consists of 26 States and one Federal District

Bordering countries
Argentina, Bolivia, Colombia, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela

Land area	8,459,417 sq km
Population (July 2012)	205.7 million (fifth most populous country in the world)
Proportion of urban population in total (2011)	84.6%
Age structure (2011)	0–19 years (32.8%); 20–54 years (50.9%); 55 & above (16.3%)
Languages	Official language: Portuguese (also the most widely spoken language) Note: other common languages in Brazil include Spanish (border areas and schools), German, Italian, Japanese, English and a large number of minor Amerindian languages
President	Dilma Rousseff (since 1 January 2011)
Vice President	Michel Temer (since 1 January 2011)
GDP (2011)	US$2.5t (sixth-largest economy in the world) RGMF expects Brazil to become the fifth-largest economy by 2017; GDP US$3.3t
GDP – real growth rate (2011)	2.7%
GDP per capita – PPP (2011)	US$11,600
Distribution of family income – Gini index (2012)	51.9
GDP composition by sector (2011)	Brazil: Agriculture (5.5%); Industry (27.5%); Services (67%) China: Agriculture (10.1%); Industry (46.8%); Services (43.1%) India: Agriculture (17.2%); Industry (26.4%); Services (56.4%)
Public debt (2011)	Brazil: 54.4% of GDP; China: 43.5% of GDP; India: 51.6% of GDP
Labor force (2011)	104.3 million
Unemployment rate (2011)	6.0%
Inflation (2011)	6.5%
Stock exchange	BM&FBOVESPA (third-largest exchange in the world by market value; leading exchange in Latin America)
Central bank	Banco Central do Brasil
SELIC rate (base interest rate)	8% (July 2012)
Federal corporate income tax rate	34%
Federal individual income tax rate	27.5%
State value-added tax	0%–25%
Major international airports	Brasilia International Airport Rio de Janeiro Galeao Antonio Carlos Jobim International Airport São Paulo Guarulhos International Airport
Major seaports	Ilha Grande (Gebig), Paranagua, Rio Grande, Santos, Sao Sebastiao and Tubarao
Major cities	São Paulo, Manaus, Natal, Porto Alegre, Recife, Rio de Janeiro, Salvador and Santos
Time zone	Three hours behind Greenwich Mean Time (GMT)
Currency unit	Brazilian Real (BRL)
Exchange rate (2011)	US$1 = 1.67251 BRL; INR1 = 0.03557 BRL; CNY1 = 0.258875 BRL

World economy outlook

Hope, actually

Coming out of the financial crisis, the global economy started 2011 in recovery mode, admittedly weak and unbalanced, but nevertheless with some hope and optimism.[1] However, the global economic recovery started to slow down in the second half of the year with prospects dimming, investor and consumer confidence weakening again and risks sharply escalating during the fourth quarter. Economic growth in many developed economies came to a standstill toward the end of 2011 as many Western economies came face-to-face with the likelihood of a double-dip recession. The increased uncertainties in the European Monetary Union, continued high sovereign debt and respective austerity programs now showing their real impact on GDP growth are the main forces holding back economic recovery in the West.

Rapid-growth economies recently showed some softening in their unprecedented growth trajectory, firstly with the impact of the financial crisis and, more recently, reduced demand for commodities and a slowdown in exports of manufactured goods caused by developments in Europe.

1. *Rapid-growth markets forecast*, Ernst & Young, July 2012.

Although many RGMs are likely to witness slower expansion in 2012 at 4.9%, these economies are expected to remain engines of global recovery, with growth expected to accelerate in the medium term. The group of 25 RGMs we monitor at Ernst & Young as a whole should bounce back to achieve an overall GDP growth of 5.9% in 2013 and 6.5% in 2014.

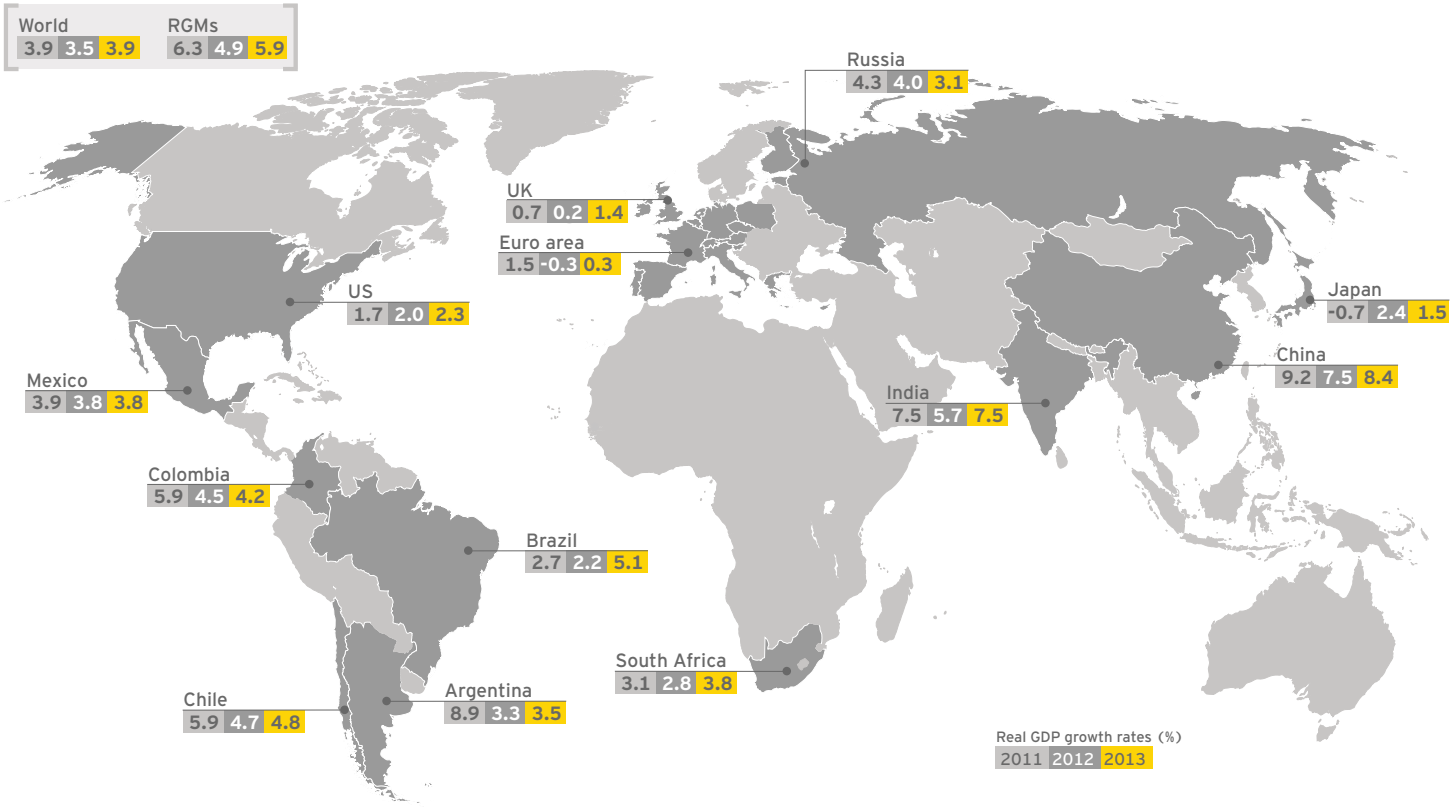
The continued emergence of an economically active middle class, combined with favorable demographics, fuels growth of domestic demand that is the backbone of growth in the emerging world. A sustained increase in trade among emerging markets will help further insulate economic development from unfavorable developments in the western hemisphere. Those developing markets that rely on energy exports may see some short-term variation; however, the mid- to long-term outlook remains strongly positive as energy prices are poised to increase further. Investments into emerging markets will remain strong as Western companies are seeking to participate in this projected growth and the emerging markets are themselves using their favorable financial positioning to drive development.

National and regional differences do exist among emerging market economies, and significant growth differences are opening up this year. Asian RGMs are projected to see higher growth rates of 6.2% in 2012 compared with RGMs in the EMEIA and the Americas region that are expected to expand at 4.0% and 3.2% respectively. Strong RGM performers in 2013 are expected to be Brazil (+5.1%) and Chile (+4.8%) in the Americas; India (+7.5%), Kazakhstan (+7.0%) and Qatar (+6%) in EMEIA; China and Hong Kong (+8.3%), Vietnam (+6.9%), Indonesia (+6.6%) and Thailand (+6.5%) in Asia.

The IMF in its July 2012 quarterly update projects that the global economy will expand by 3.5% and 3.9% in 2012 and 2013 respectively, versus the 3.5% and 4.1% growth projected in April 2012 for these years. Our map shows the projected GDP growth rates for both major Western economic zones and RGMs, with Brazil clearly continuing to outperform growth expectations in the West and around half of the emerging economies.

Picture: Pantanal wetlands, Brazil.

Summing it all up: signs of recovery emerge, but downside risks prevail



Sources: *World Economic Outlook (WEO): Growth resuming, dangers remain*, April 2012, IMF 2012. *Rapid-growth markets forecast*, Ernst & Young, July 2012.

Positioning Brazil in the world economy

Owing to Brazil's macroeconomic stability and growing domestic demand, the country has withstood the waves of crisis with resilience.[2] After a brief pause in Q3 2011, Brazil's economy returned to growth in the year's final months as domestic spending rebounded in response to government stimulus measures, including tax cuts. GDP growth in 2012 is expected to slow to 2.2%, as opposed to the earlier forecast of 3.1%, due to a less favorable global outlook.

2. *Growth resuming, dangers remain*, April 2012, IMF 2012; WEO update: *Global recovery stalls, downside risks intensify*, January 2012, IMF 2012; *Global Economic Prospects* January 2012, The World Bank, 2012; *Rapid-growth markets forecast*, Ernst & Young, July 2012.

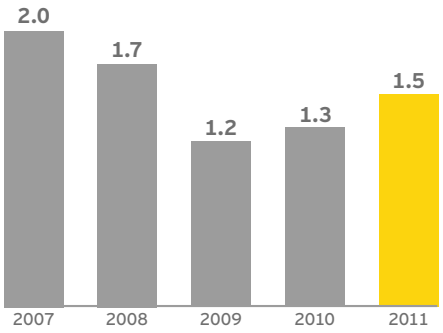
However, in the medium term, growth is projected to pick up to 5.1% in 2013 and 4.8% in 2014, driven largely by domestic consumption. Growth-supporting measures, such as lowering of lending rates by the central bank and additional fiscal stimulus by the Government, will provide further impetus. The risks to the country's growth forecast in 2013 now appear more balanced rather than skewed to the downside. Although Brazil remains exposed to the fallout from a more pronounced deterioration in global economic conditions, there is the potential for growth to accelerate more rapidly than expected given the counter-cyclical policy measures in the pipeline on the upside. Other factors such as the country's increasing trade with China and any uplift in the US economy will also benefit Brazil.

Achieving the Government of Brazil's ambitious goals for economic growth over the medium term requires a shift in focus away from using fiscal policy to stimulate demand and toward investment in infrastructure and education, which are the biggest constraints the economy is facing. Without this investment, GDP growth is forecast to average only around 4% per annum during 2015–20.

Global FDI surpasses pre-crisis average, but uncertainty prevails

Global FDI inflows

(US$t)



Source: UNCTAD.
Note: this data includes greenfield and expansion projects and M&As.

Despite the world economic turmoil, the total global inflows of FDI rose by 16% in 2011 – from its admittedly low basis in 2010 – to US$1.5t, according to the UNCTAD. FDI inflows bounced back in all major economic groups: developed, developing and transition economies.

Developing and transition economies accounted for 51% of global FDI in 2011 as their inflows reached a new record high, at an estimated US$776b, driven primarily by robust greenfield investments. The developing countries' rise was supported by a 10% increase in Asia and 16% increase in Latin America and the Caribbean. Brazil captured the highest share (31%) in Latin American and the Caribbean inflows of FDI. Inflows of capital into Africa continued to decline marginally for the third consecutive year. Egypt, Libya and Tunisia experienced sharp falls largely reflecting the unstable situation after the Arab Spring.

In developed economies, much of the growth in FDI resulted from cross-border M&As, particularly within Europe. FDI inflows into the European Union (EU) increased 32.2% to reach US$420.7b in 2011. The US remained the largest recipient of foreign investment in 2011, attracting US$226.9b; 15% up from 2010.[3]

The UNCTAD estimates FDI flows will rise moderately in 2012 to approximately US$1.6t, based on the current prospects of underlying factors, including GDP growth and cash holdings by transnational corporations. It expects only moderate growth in all three groups – developed, developing and transition economies.

3. *Global Investment Trends Monitor*, January 2012, UNCTAD, 2012; *World Investment Report*, July 2012, UNCTAD, 2012.

Viewpoint

The Rio 2016 Olympics: a great source for investment opportunities

Márcio Fortes, President of Olympic Public Authority

By hosting a succession of high-profile global events over the next four years, Brazil will enhance its standing in the international arena. They are "Rio+20," the UN world conference on sustainable development in 2012, the FIFA Confederations Cup in 2013, the FIFA World Cup a year later, and, finally, the Olympic Games 2016 in Rio de Janeiro. Preparations for the Rio Olympics have been transforming the city since 2009, when the nomination was ratified by the International Olympic Committee (IOC).

The Olympics are a great source of attraction of investments.

A study conducted by the Foundation Institute of Administration (FIA) estimates that public and private investments in the games infrastructure will inject US$14.4b into the country – Rio especially – impacting 55 different sectors of the economy. Preparations for the games are overseen by the Olympic Public Authority (APO), a public consortium that brings together federal, state and municipal representatives whose main assignment is to monitor and deliver the infrastructure and services related to the Olympics – respecting deadlines and basic requirements from the IOC and the 41 international sports federations involved with the event.

"Since Rio's candidature, we have aimed to demonstrate that the city has proactive management involving the three levels of government – municipal, state and federal – with major projects of urbanization, sanitation, housing and urban transportation. Regardless of the Olympics, those projects taken together show that the city is moving forward and will continue to do so," says the President of APO, Márcio Fortes.

Fortes, former Minister of Cities under Lula's Government, refers to projects such as the cleaning up of the Gloria Marina and the Lagoa Rodrigo de Freitas, which will host the nautical competitions; the revitalization of Rio de Janeiro's port, where the harbor will be deepened to receive up to six tourist ships; and the urban mobility projects such as the Bus Rapid Transit (BRT) that will link the four different competition areas in the city.

Other essential projects for the Olympic Games include the creation of a media center and broadcasting facilities, a modern anti-doping laboratory and the construction of the velodrome and athletics stadium, as well as facilities for each individual sport, such as canoe slalom, which requires complex hydraulic engineering that cost £90m at the London Olympics. "Without those facilities there is no competition. We can't afford mistakes and everything must be ready a year in advance for test events," he says.

Another major concern is to provide accommodation for the "Olympic family," which includes athletes, technical committees, referees and other professionals directly involved in the competition. It's expected Rio 2016 will involve 11,000 athletes, 40,000 journalists and approximately 80,000 volunteers. "The Olympics are a great source of attraction of investments. The hospitality industry, for instance, has an unprecedented opportunity for expansion in Rio and brand new legislation has encouraged the construction of hotels. There are also major opportunities in transport and restaurants, and there is an urgent demand for qualified manpower to meet visitors' demands. The Olympics also require expert advice in the construction of facilities, creating opportunities for associations between Brazilian and foreign companies and the arrival of skilled foreign professionals," says Fortes.

A record year

The reality of foreign investment in Brazil

Picture: Ibicui river and landscape, Brazil.

39% increase in FDI projects since 2010.

507 projects in 2011, a record number.

161,166 jobs created in 2011.

75% of total jobs generated from industrial activity.

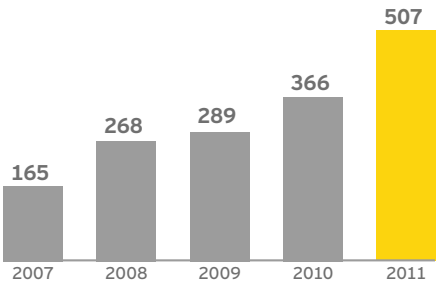
52% of total projects driven by services activities.

26% of FDI projects gather in Sao Paolo.

60% of the business respondents in favor of setting up operations in Brazil.

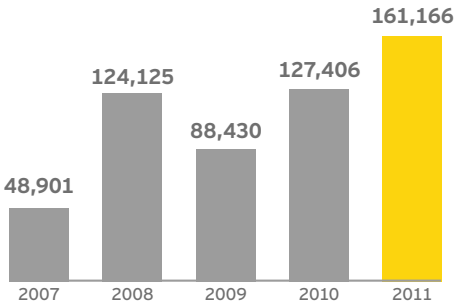
Performance 2011: FDI in Brazil reaches a record level

Number of FDI projects



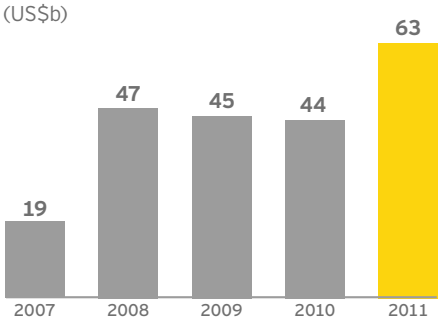
Source: fDi Intelligence.

Jobs created



Source: fDi Intelligence.

FDI by value
(US$b)



Source: fDi Intelligence.

Against the backdrop of a deteriorating external environment – an uncertain growth outlook for the US and a heightened European sovereign debt crisis – FDI in Brazil surged in 2011. The number of FDI projects in Brazil increased by 39% to reach 507 projects and FDI investment picked up pace with 43% growth in 2011.

Since 2007, the number of FDI projects has continuously risen, indicating investors' confidence. However, the sum invested in a project has been dependent on the macroeconomic conditions. In 2009 and 2010, while the number of projects increased, the risky global economic outlook kept the value invested relatively low. The average value of an FDI project declined from US$175m in 2008 to US$120m in 2010, mainly due to investors' unwillingness to commit large amount of funds, then increased slightly to US$124m in 2011.

A growing middle class, strong domestic demand and huge untapped reserves of natural resources has placed Brazil as a key investment destination among global companies with an emerging market-focused portfolio. Supportive government policies, including tax incentives for foreign investors targeting local production and content, simplification of licensing procedures and regulatory framework, subsidized credit and easy financing options have also acted as a major stimulus for international companies to invest in Brazil. Furthermore, Brazil's hosting of the 2014 FIFA World Cup and the 2016 Olympics will contribute to infrastructure development and attracting additional FDI into the country.[4] Our research panel confirmed these strengths in Brazil with respondents citing the large domestic market, the long-term economic growth trajectory and the wealth of natural resources as the most significant advantages for the country. A large number of our respondents also mentioned the openness of Brazilian society, which embraces diversity of race and religion – an important factor for foreign investors who might seek to locate personnel in the country.

Brazil recorded 507 projects in 2011, an increase of 39% over 2010 and the highest growth rate achieved among the countries on the list. It ranked second in terms of FDI value, behind China and ahead of India, the US and the UK. The average value of a project in Brazil in 2011, at US$124m, was higher than in China (US$71m) and India (US$63m). In comparison with its Latin American peer group, Brazil clearly stands out with our survey suggesting that Brazil has by far the highest awareness among foreign investors.

4. "Emerging Markets: Brazil and Chile," Frost & Sullivan website, *www.frost.com*, accessed 25 April 2012; "New FDI Record Set in Brazil," *IHS Global Insight Daily Analysis*, 27 January 2012, via Dow Jones Factiva, © 2012, IHS Global Insight Limited.

However, Brazil faces some challenges related to shortage of skilled workforce and the quality of its infrastructure, that act as impediments for global companies to invest in it.

Lack of qualified personnel is a key weakness of the Brazilian economy. According to research undertaken by the National Industry Confederation (CNI), 69% of the 1,616 companies interviewed face difficulties due to the lack of skilled labor. Fifty-two percent of industrial firms indicated that the poor quality of basic education is one of the main impediments to workers gaining qualifications. The problem is particularly acute in the case of companies seeking to recruit top technical and management talent. Measures undertaken by Brazil's former President Lula da Silva have improved access to education in the country. Further, ruling President of Brazil Dilma Rousseff's focus on enhancing Brazil's higher education is expected to create a nation with a more productive labor force. Initiatives, such as Brasil Maior (Bigger Brazil) launched by the Government of Brazil in 2011, that focus on increasing the country's competitiveness, enhancing productivity, raising investments and stimulating technological innovation, should reinforce investors' confidence in the mid to long term.

Viewpoint

Brazil sets records in FDI

Fernando Blumenschein, Projects Coordinator, Getulio Vargas Foundation (FGV)

Latin America raised US$153b in FDI in 2011, a record for the region, representing 10% of the global amount in the same period. The leader in the region, Brazil was the destination for 43.8% of investment – totaling US$66.7b, the largest amount in a single year in the history of the country, according to data released in May by the UN Economic Commission for Latin America and the Caribbean (ECLAC). "Big economies around the globe have been increasingly investing in Brazil for a number of reasons. One key point is the country's geographical size within Latin America. When it comes to logistics and geopolitics, Brazil's geographical location allows corporations to use it as a strategic entry point to the continent," says Fernando Blumenschein, Projects Coordinator for Getulio Vargas Foundation (FGV), one of the top higher education institutions in Brazil.

The reasons for the attractiveness of Brazil are more than just geographical, adds the expert. One important factor is the position of the country in Latin America as a more consolidated democracy, along with respect for the continuity of its policies and rules and the transition of power. "In some ways, this differentiates Brazil from other countries. The democratic continuity is an important issue which is globally noticed," defines Blumenschein.

Brazil has natural resources, tourism and agribusiness potentials and a diversified processing industry.

The Projects Coordinator for FGV also highlights the size of the consumer market, which saw the arrival of more than 30 million people who were lifted out of poverty and into the middle class in recent years, and a better distribution of income that has maximized the production and consumption of goods and services over the past decade. "Another factor is the diversification of the economy. Of all the Latin American economies, and even globally, Brazil has been attracting investments that would not be directed to countries with smaller markets, with less diversification or with a less appealing logistical position. Brazil has natural resources, tourism and agribusiness potentials and a diversified processing industry and a wide range of exports. These advantages place the country ahead of many global economies," says Blumenschein.

A further factor would be Brazil's macroeconomic stability, based on fiscal stability, public spending consistency and an inflation targeting policy. "Our monetary policy framework has been implemented for years and is still improving. Taken together, these factors provide predictability and certainty for investors and the arrival of capital is increased," concludes Blumenschein.

High interest rates and a complicated tax system also remain key concerns for the economy. Brazil's growth stalled in the second half of 2011 mainly due to the tighter monetary and fiscal policies adopted by the Government amid spillover from Europe's debt crisis. The country's central bank is now undertaking measures to stimulate investment and to spur economic growth through measures such as interest rate reductions, tax cuts and a relaxation of bank lending requirements.[5]

The Brazilian economy is benefiting significantly from its commodity boom, which attracts foreign investment and makes the economy thrive. However, this also leads to an unwelcome side effect of pushing the value of the currency upward. This currency appreciation puts a huge burden on the export competitiveness of the country, with many of its manufacturers struggling to remain competitive on the world stage. Another risk emanating from Brazil's commodity-rich status is the draining of resources away from other industry sectors. The shortage of talent coupled with the strong Brazilian real creates an additional risk of deindustrialization of the Brazilian economy. In the wake of the Brazilian economy's focus and dependence on commodities, the Government needs to undertake initiatives to diversify the economy and create a push toward developing and promoting value-added and innovative activities and sectors.

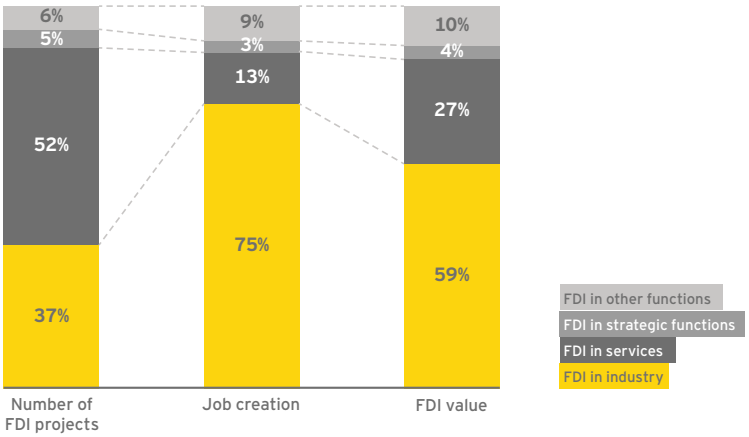
5. "Cash boost for schools in Brazil," BBC website, *news.bbc.co.uk*, accessed 11 July 2012; "Brazil and U.S. Accentuate the Positive," The New York Times website, *www.nytimes.com*, accessed 11 July 2012; "The 'Chinafication' Of Brazil," Forbes website, *www.forbes.com*, accessed 11 July 2012; "Wrapup 1-Brazil inflation slows more than expected," Reuters website, *www.reuters.com*, accessed 28 April 2012; "Brazil Economic Update," Deutsche Bank, 9 February 2012, via *ThomsonONE.com*; "Brazil blames all of its problems on the exchange rate, but keep ignoring structural reforms," Bloomberg website, *brazilianbubble.com*, accessed 30 April 2012.

Top five recipient countries by number of projects

Rank	Top five countries	Number of projects		Change 2011 vs. 2010	Value (US$m) 2011
		2010	2011		
1	United States	1,522	1,707	12%	57,275
2	China	1,344	1,409	5%	100,688
3	United Kingdom	941	1,014	8%	36,039
4	India	774	932	20%	58,261
5	Brazil	366	507	39%	62,916

Source: fDi Intelligence.

FDI by function



Source: fDi Intelligence.
Industry includes: manufacturing, logistics, distribution & transportation, electricity. Services includes: sales, marketing & support, business services, design, development & testing, customer contact center, technical support center, maintenance & servicing, ICT & internet infrastructure, shared services center. Strategic functions includes: headquarters, research & development, education & training. Other functions includes: retail, construction, recycling, extraction.

Industrial activities bring jobs

During 2011, investors committed US$62.9b in Brazil, 59% of which went into the industrial sector. A total of 190 projects and 120,774 jobs (75% of the country's total of new FDI jobs), with an average of 636 jobs per project, were created by the industrial sector. The presence of natural resources and vast land has always made Brazil attractive for industrial activities. The country ranks sixth in the world in labor force size. However, due to its long reliance on commodities and imports of manufactured goods, FDI in industrial activity has not attained its full potential.

When investing in industrial projects in Brazil, investors target the following sectors: industrial machinery, equipment & tools (32 projects); automotive (26 projects); and metals (20 projects). During 2011, the metals sector topped industrial projects in job creation, attracting 38,613 jobs, and automotive came in second (15,515 jobs). Investment in the metals sector underlines Brazil's strong position in the minerals space. Automotive, which has aroused interest from various European companies, can easily target the domestic population with growing disposable income.

Our survey participants ranked oil and gas as the top sector to attract FDI driven by the recent discovery of the pre-salt layer off the coast of Southern Brazil. Real estate and construction came next, creating an expectation that large infrastructure projects will be put in place over the next few years. Unsurprisingly, agriculture and tourism rank high for investors as well as consumer products, mining, transportation and automotive. The difference between existing FDI projects and investor sentiment revealed by the survey is interesting to note, showing potential not only for oil and gas but also for agriculture, consumer products, and tourism that is yet to manifest in investment dollars.

Over the past decade, Brazil has experienced fast growth on the back of its rich commodity base. However, the country will have to look to other areas for development to diversify further and to shield itself from the huge volatility inherent in the global commodities markets. Investment in industrial activity, including infrastructure, along with a strong culture of entrepreneurship, will help to drive a shift from commodities toward manufactured goods. Between 2011 and 2014, Brazil's National Economic and Social Development Bank (BNDES) forecasts that the county's industrial and infrastructure sectors will receive a total investment amounting to US$906b (BRL1.6t). According to BNDES, Brazil's manufacturing industry is expected to receive US$422b (BRL741b), and infrastructure and construction projects are projected to receive US$484b (BRL848b) during the same period.[6]

6. "BNDES Sees 1.6 Trillion Reais of Brazil Investment 2011–2014," The Businessweek website, *www.businessweek.com*, accessed 30 April 2012.

Services bring the projects

Brazil received 262 support services projects in 2011, recording the highest growth rate (53%) and accounting for 52% of the investment projects in the country. The services sector remains integral to the Brazilian economy since it contributes approximately 67% of the GDP. The services sector in Brazil is driven by its large urban population (80%) compared with some other RGMs such as India (40%) and China (around 50%).

However, these projects lack in both scale and size, costing investors on average US$65m and creating about 79 jobs per project, in comparison with industrial projects (average size of project: US$196m; average job creation per project: 636).

▶ Sales, marketing & support recorded the highest share within services sector

The sales, marketing and support sector attracted 141 projects, 54% of the services projects, dominating the sector and providing evidence of Brazil's growing importance among vendors across the world. However, it created only 17% of the total support services jobs, with an average of 25 jobs per project.

Function	FDI projects		FDI share 2011	Change 2011 vs. 2010	Jobs created 2011
	2010	2011			
Sales, marketing & support	92	141	54%	53%	3,530
Business services	44	71	27%	61%	3,218
Design, development & testing	12	23	9%	92%	6,091
Customer contact center	5	3	1%	-40%	3,729
Technical support center	3	1	0.4%	-67%	206
Maintenance & servicing	3	3	1%	-	131
ICT & internet infrastructure	11	20	8%	82%	3,791
Shared services center	1	-	-	-100%	-
Services total	**171**	**262**	**100%**	**53%**	**20,696**

Source: fDi Intelligence.

▶ Business services continue to attract investors

The business services function contributed 27% of the services projects, the second highest for services. Brazil has a mix of ICT, financial services, life sciences and real estate, hospitality and construction under the umbrella of business services. Business services recorded a growth of 61% in FDI projects during 2011 on account of increased perception of Brazil as a hot destination for business services. According to a 2011 European Commission study, leading foreign IT firms accounted for 40% of the industry's revenues.

Strategic functions: shaping the future of Brazil's attractiveness

Brazil still needs to improve on its attractiveness for strategic functions. In 2011, Brazil received only 25 projects of this type, up from 19 in 2010. These created 4,997 jobs or 3% of the total FDI jobs in 2011. The slow pace of FDI growth into strategic functions is mainly caused by the lack of top management talent, resulting from the country having historically neglected to invest in education and training because of its overreliance on commodities. However, Brazil is now focusing on R&D and investing in training and education to become a known player in this field. According to *The Economist*,[7] Brazil is the world leader in research on tropical medicine, bioenergy and plant biology, and spends 1% of its GDP on research – half the developed world's rate, but almost double the average in the rest of Latin America.

There were 13 FDI headquarters projects in Brazil in 2011, up from 7 in 2010. With stability in the political environment, and improvement in infrastructure and living conditions, more companies are expected to set up headquarters in Brazil. Also, as global companies seek to increase flexibility by providing greater management autonomy to regional offices, Brazil has an opportunity to attract more FDI headquarters projects to oversee and manage business operations across the Latin American region.

The competition for FDI into strategic functions will become more intense with the increasing sophistication in the business environment and government focus on R&D functions. Brazil's BNDES also supports companies with financing options to promote innovation and R&D.

Our survey results make it clear that Brazil is perceived as a highly attractive domestic market with several foreign investors setting up production facilities to cater to the growing demand in the country. Sales and marketing offices rank second as these investments enable local production facilities to operate successfully in Brazil's domestic market. Foreign investors, however, do not seem to show a significant intent to establish hub locations in Brazil that would provide offshore business services or R&D functions. In order to attract such investment, Brazil needs to take steps to create a push toward high value-added services.

7. "Science in Brazil – Go south, young scientist – An emerging power in research," *The Economist website, www.economist.com*, accessed 30 April 2012.

FDI by sector

Leading sectors of FDI

ICT and manufacturing

ICT and manufacturing are the top two sectors for number of FDI projects in Brazil attracting 105 and 94 FDI projects respectively, in 2011. The ICT sector emerged as the fourth largest in terms of job creation in Brazil, in 2011 with 17,724 jobs. Investors interested in manufacturing are pouring money into establishing their facilities to cater for both domestic and export demand. The sector has shown strength in terms of employment generation; it created 21,822 jobs in 2011.

Business services

Business services attracted 53 projects in 2011, constituting 10% of the total number of FDI projects, up from 8% in 2010. The rising share of the business services sector evidences Brazil's slow transition from a commodity-dependent country to a services-led nation.

Retail and Consumer Products (RCP)

The RCP sector has been driven by the country's ever-increasing middle class and growing consumption power. In 2011, the sector accounted for 9% of all FDI projects and created the second-most jobs at 23,051.

In transition

Financial services

Financial services attracted 35 FDI projects in 2011 (7% of the total), up from 20 projects in 2010. Even though foreign banks have been establishing their presence in Brazil, the country still remains dominated by domestic banks such as Itaú Unibanco, Bradesco and Banco do Brasil.

Mining and metals

Mining and metals also recorded 35 projects, and created the most jobs at 45,778 in 2011. With one of the largest mineral repositories in the world, this sector in Brazil provides strong prospects for foreign investors.

Automotive

Automotive attracted 33 FDI projects in Brazil in 2011, generating employment for 16,327 people, the fifth highest in the country. Buoyant consumer demand and the easy availability of credit have led to the growth of the sector.

Chemicals

Brazil's chemicals industry, which stands seventh in the world, recorded 32 FDI projects in 2011; the sector remains modest in terms of foreign investment.

Lagging behind

Real estate, hospitality and construction

Brazil's real estate, hospitality and construction sector attracted 12 FDI projects, and created a total of 4,075 jobs in the country in 2011. Although Brazil is growing as a leisure and business destination (by way of events, conferences and conventions), the country is yet to reach its full tourism potential. The investment in this sector is expected to gain traction as Brazil prepares to host the FIFA World Cup in 12 cities in 2014 and the Summer Olympic Games in Rio de Janeiro in 2016. However, of all the host cities, only Rio de Janeiro, São Paulo and Curitiba are well prepared to accommodate the tourists during these sporting events, with other cities facing a total projected deficit of hotel rooms. The challenge to overcome this deficit will require the industry to expand and adjust its capacity, thus demanding significant investments.[8]

Cleantech

Brazil is building its position in the cleantech industry. It is the third-largest producer and consumer of biodiesel in the world. Almost 50% of Brazil's demand for energy is met through renewable energy sources. However, FDI activity in the sector remained low with 11 projects.

Energy

The energy sector attracted 8 projects in 2011, remaining low on the FDI radar for now, but with abundant oil and gas reserves and recent discovery of the pre-salt layer, it presents big opportunities in the long run.

Life sciences

Life sciences recorded 8 FDI projects in 2011, down from 15 projects in 2010. Brazil would need to enhance its R&D culture to promote greater foreign investment in the life sciences sector.

Aerospace

Aerospace recorded 4 FDI projects in both 2010 and 2011, although the number of jobs created decreased from 542 in 2010 to 284 in 2011.

8. *Sustainable Brazil, 2011*, Ernst & Young, 2011.

Top 15 sectors by FDI projects

Rank	Sector	Number of projects		Share in 2011	Change 2011 vs. 2010	Jobs created 2011	Value (US$m) 2011
		2010	2011				
1	ICT	69	105	21%	52%	17,724	14,780
2	Manufacturing	47	94	19%	100%	21,822	4,678
3	Business services	29	53	10%	83%	2,043	687
4	Retail and consumer products (RCP)	41	44	9%	7%	23,051	6,872
5	Financial services	20	35	7%	75%	2,464	600
6	Mining and metals	18	35	7%	94%	45,778	18,965
7	Automotive	31	33	7%	6%	16,327	6,034
8	Chemicals	30	32	6%	7%	5,956	1,677
9	Transport and logistics	17	17	3%	0%	2,689	725
10	Equipment	11	16	3%	45%	7,519	375
11	Real estate, hospitality and construction	17	12	2%	-29%	4,075	969
12	Cleantech	13	11	2%	-15%	7,165	4,290
13	Energy	4	8	2%	100%	3,517	2,047
14	Life sciences	15	8	2%	-47%	752	108
15	Aerospace	4	4	1%	0%	284	110
	Total	**366**	**507**	**100%**	**39%**	**161,166**	**62,916**

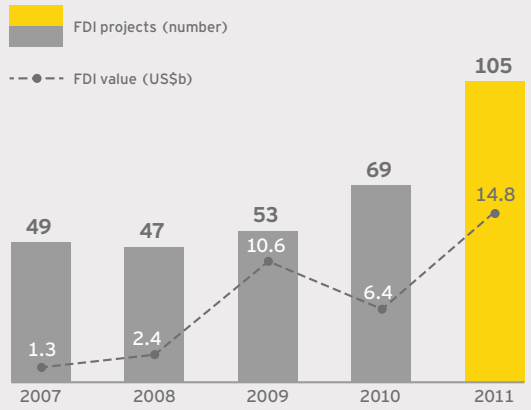
Source: fDi Intelligence.

Sector focus

ICT*

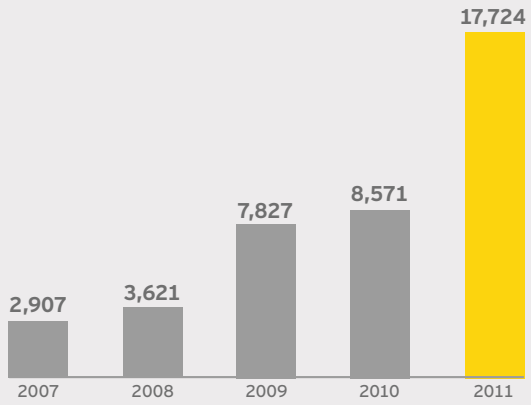
Software & IT services; communications; semiconductors

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+52.2%** FDI projects **+106.8%** No. of jobs **+130.5%** FDI value

ICT in Brazil attracted 105 FDI projects in 2011, 21% of the total number in the country. The sector created 17,724 jobs, the fourth highest of all industries in Brazil in 2011.

Brazil's ICT sector is the world's seventh largest and is the leader in Latin America. The National Broadband Plan, opening the cable TV market to telephone carriers and companies with foreign ownership exceeding 49%, will increase demand for IT products and services. The Brazilian Government's targets for 2014, which include extending broadband access to 68% of the population; launching 4G services in 80% of the metropolitan areas; and 100% telephony coverage in rural areas, will act as key drivers for infrastructure investments going forward.

Other government measures are also major boosters for the sector, such as incentives including tax exemptions. Already several foreign industry giants are present in Brazil, including Toshiba, IBM, HP, Accenture, Capgemini, Infosys and Tata Consultancy Services.

The telecoms market also has large, established foreign players such as Vivendi (France), Telefónica (Spain), Telmex (Mexico) and TIM (Italy). Brazil's IT market has a distinct regional structure, with most of the spending accounted for by São Paulo and Rio de Janeiro. Challenges persist, such as high dependence on imported electronic components and a shortage of skilled workforce. These challenges have put Brazil on the 39th position in the 2011 IT Industry Competitiveness Index, behind India (34th) and China (38th).

IBM Corporation (IBM)

US-based IBM has been in Brazil since 1917. The company provides end-to-end solutions to several companies in the country. According to the Brazilian Association of Information Technology and Communication (Brasscom), the company came top (by total revenue) of all IT-BPO exporters in Brazil in 2010. In April 2012, IBM formed a strategic partnership with Brazilian business group EBX Group. Under the terms of this agreement, IBM can acquire 26% of SIX Automacao, a subsidiary of EBX Group, with a focus on the oil and gas operations sectors. The companies would also work together to launch a Joint Industry Solutions Center at SIX Automacao. The center would undertake research programs focused on natural resources and sustainability. EBX Group would also outsource its IT operations to IBM for approximately US$1b until 2022. IBM, which operated through 23 branch offices in 2010, plans to increase this number to 43 by 2015.

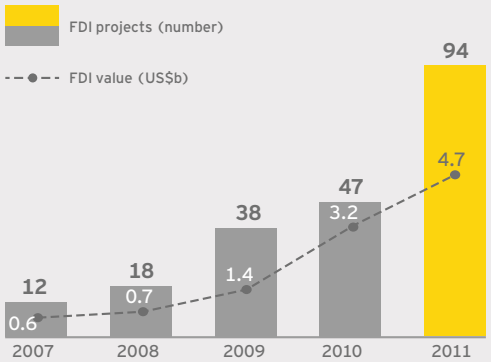
* Source: Business Monitor International's monthly regional report on political risk and macroeconomic prospects, *Business Monitor International*, March 2012.

Sector focus

Manufacturing*

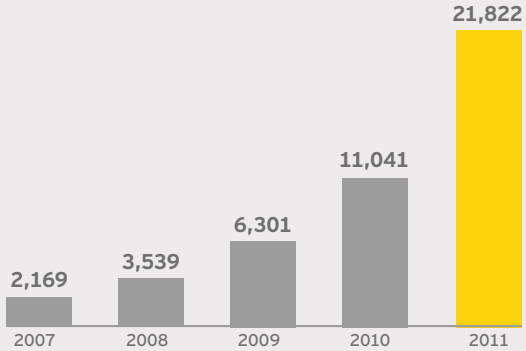
Engines & turbines; industrial machinery, equipment & tools; paper, printing & packaging; rubber; space & defense; textiles; wood products

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+100%** FDI projects **+97.6%** No. of jobs **+46.4%** FDI value

The manufacturing sector in Brazil attracted 94 FDI projects in 2011, 19% of the total number in the country. The sector created 21,822 jobs, the third highest of all the industries in Brazil in 2011. Our survey confirms the attractiveness of Brazil as a location for manufacturing activities with 52% of respondents seeking investment into setting up a factory or production unit in the country.

The President of Brazil Dilma Rousseff's Bigger Brazil Plan, launched in August 2011, aims to increase productivity and boost the role of industrial manufacturing in the country's economy. Its key measures include tax breaks on exports and a reduction of the 20% welfare tax to 0% for sectors that are sensitive to the exchange rate and are labor intensive – such as apparel, footwear, furniture and software. The policy also makes BNDES responsible for financing innovation and investment undertaken by companies.

Competitive manufacturers, with export capability, are an important element of the dynamism and stability of the Brazilian economy. BASF, Siemens, ArcelorMittal and Doosan are the players that have invested in the country's manufacturing sector during 2011.

Although Brazil's cost of labor is higher than that in other emerging economies, such as China and India, it is still competitive in comparison with developed market economies such as the US, Japan and the Eurozone. Brazil faces threats from the developed world's "manufacturing" of high-tech goods as well as from the low-cost and skilled labor of other emerging nations. These factors, coupled with appreciation of Brazil's currency, have increased the import of manufactured goods into the country. In addition, a complex tax system adds to the difficulties faced by the manufacturing sector.

ArcelorMittal

Luxembourg-based ArcelorMittal (Arcelor) operates in Brazil through its subsidiary ArcelorMittal Brasil S.A. and is the largest steel producer in the country. The company has a strong presence in Brazil for long and flat steel. Arcelor's Brazilian unit plans to boost its output of iron ore, a key ingredient for making steel, by 65% to 7.1 million tons in 2013. Through its Andrade and Serra Azul mines in Brazil's state of Minas Gerais, Arcelor supplies iron ore to its own steel plants in Brazil and also sells it to local customers. The move is part of the company's global strategy to boost self-sufficiency in iron ore production. Arcelor is also in talks with Brazilian steelmaker Usinas Siderurgicas de Minas Gerais SA to set up a consortium and make a joint bid for an iron ore port area – Area do Meio port – in the Rio de Janeiro state.

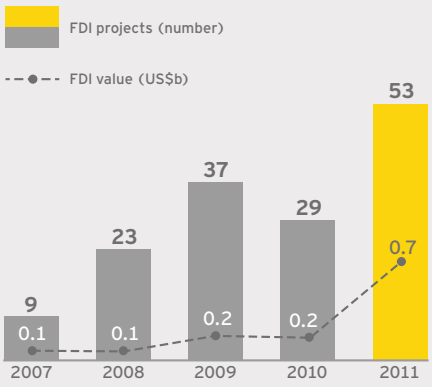
* Source: "Energy in Brazil – Ethanol's mid-life crisis," The Economist website, *www.economist.com*, accessed 30 April 2012; "U.S. sugar prices fall as supplies improve -Domino," The Reuters website, *uk.reuters.com*, accessed 28 April 2012; *Sustainable Brazil: horizons of industrial competitiveness report*, April 2011, Ernst & Young, 2011.

Sector focus

Business services*

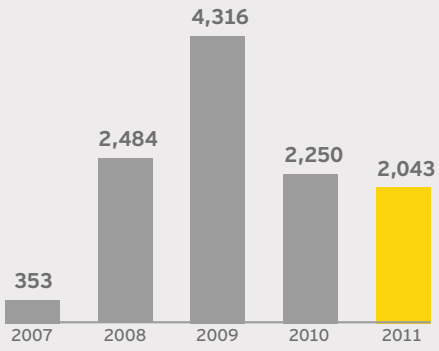
Business services; leisure & entertainment

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+82.8%** FDI projects **-9.2%** No. of jobs **+309.8%** FDI value

Brazil's business services sector attracted 53 projects in 2011 with an FDI value totaling US$0.7b, creating 2,043 jobs in the country. The FDI projects in the sector were directed primarily to functions such as sales, marketing and support; education and training; ICT and internet infrastructure; and customer contact centers.

Business services are core to Brazil's economy since the country acts as a major base for companies with operations in Latin America. Tax incentives and increased funding for companies focusing on R&D, along with a surging number of technology and business parks across the country, have provided further incentives for foreign firms to set up their offices in Brazil to focus on local customers and on serving the wider Latin American market.

The country has emerged as an important customer contact center market for companies across the globe. São Paulo, Rio de Janeiro and Minas Gerais are the three most prominent regions for contact center establishments in Brazil. Companies such as HCL, Wipro, Teleperformance, Genpact and Sitel, have their customer contact centers in the country.

However, supply shortage of high-quality properties in São Paulo, Rio de Janeiro and other major state capitals has led to sky-high lease prices in these areas, raising a concern for international companies planning to establish their base in Brazil. Rio de Janeiro has the fourth-highest office lease price in the world, and São Paulo the eighth-highest.

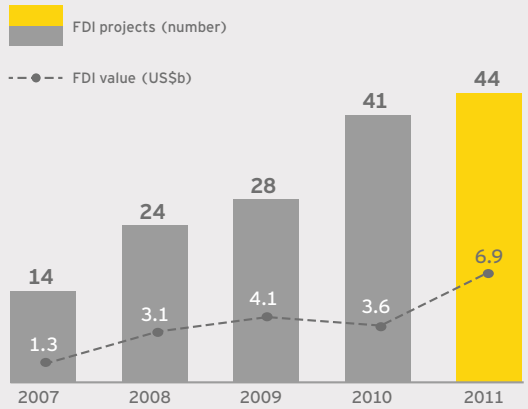
* Source: "Dark side of Brazil's rise," The Wall Street Journal website, *online.wsj.com*, accessed 6 May 2012; "Brazil sambas onto offshore outsourcing stage," Cio.com website, *www.cio.com*, accessed 5 May 2012; Marketbeat – Brazil, 2011, Cushman & Wakefield, 2011.

Sector focus

Retail and consumer products (RCP)*

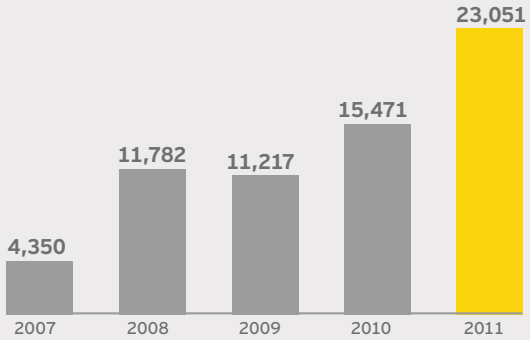
Beverages; consumer electronics; consumer products; food & tobacco; textiles (for retail)

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+7.3%** FDI projects **+49.0%** No. of jobs **+91.9%** FDI value

The RCP sector in Brazil attracted 44 FDI projects in 2011, 9% of the total number in the country. The sector created 23,051 jobs, the second highest of all industries in Brazil.

The RCP sector is driven by the country's increasing middle-class population. Currently, more than 50% of Brazilians belong to the middle-class (C class – with a family income in the range of US$750 to US$3,229 per month). Almost 40 million Brazilians climbed to this class between 2003 and 2011. Brazil's economically active population (age group 20–54 years) has increased by 12.3% to reach 101.6 million in 2011 from 90.5 million in 2003. Brazil is undergoing a strong retail expansion. It was ranked 1st in the 2011 A.T. Kearney Global Retail Development Index, up from 30th in 2002. Chile-based retailer Cencosud, Mexico's beverage company FEMSA and France's L'Oréal are the key players in Brazil's RCP sector. Many RCP companies such as Nestlé, Danone and Kraft Foods have announced plans to penetrate the Brazilian market further. Leading players such as Carrefour of France and Wal-Mart of the US have a strong presence in the country. Online marketing, with the growth of the e-commerce industry, has also contributed to the RCP industry in Brazil. The majority of RCP investments are concentrated in the Southern region of the country; however, with upcoming growth in the Northern part, companies plan to diversify their investments. Although we see a robust RCP sector in Brazil, many challenges still exist. High taxes have been imposed on imports to foster local production. Logistics and infrastructure bottlenecks in Brazil continue to impact not only RCP but other sectors as well.

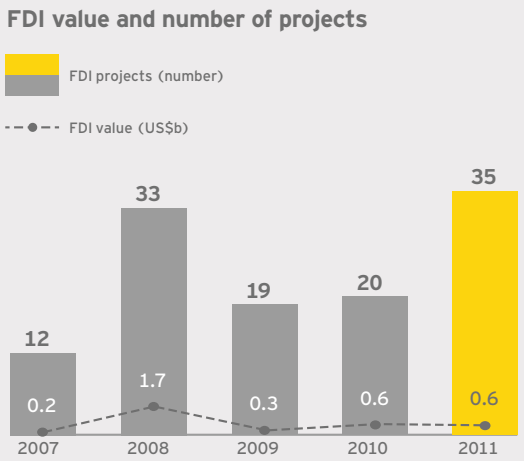
L'Oréal SA

French cosmetics group L'Oréal SA (L'Oréal) established its subsidiary in Brazil in 1959. L'Oréal Brazil offers a complete portfolio of brands in the country through various distribution channels. Brazil is L'Oréal's largest market for hair-care products in the world. L'Oréal plans to double its sales in Brazil and add 50 million customers in the country by 2015 by undertaking a host of measures that include offering personalized makeup services, strengthening retail channels to compete with direct sellers and investing in innovation to tailor its offerings to meet the needs of local customers. L'Oréal Brazil also plans an investment of US$39m for the construction of the Latin American Research and Innovation Center in Rio de Janeiro by 2014.

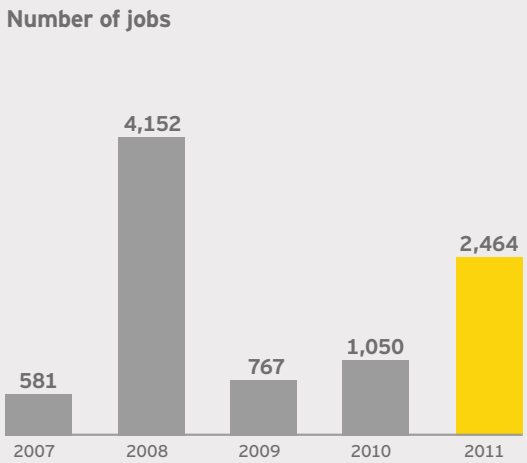
* Source: *Rapid-growth markets forecast*, Ernst & Young, July 2012; "FDI in multi-brand retail: The next big thing in reforms, but roadblocks persist," Knowledge@Wharton website, *knowledge.wharton.upenn.edu*, accessed 10 May 2012.

Sector focus

Financial services*



Source: fDi Intelligence.



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+75.0%** FDI projects **+134.7%** No. of jobs **-3.3%** FDI value

Brazil's financial services sector attracted 35 FDI projects in 2011, the fifth most of any sector in the country, and created 2,464 jobs – an increase of 134.7% over 2010. The total FDI value of these projects was US$600m in 2011.

Foreign banks have been establishing their presence in the country to cater to the new generation of consumers who are seeking credit for businesses, real estate and goods among other things. Driven by its impressive growth across sectors, Brazil has become an important destination for investment banks focusing on increasing their revenues by targeting the rising investor class. As a result, several leading global investment banks have established their Brazilian units; these include US-based Bank of America, Citigroup and Goldman Sachs Group; Germany's Deutsche Bank; Switzerland-based Credit Suisse; and China's HSBC bank. However, foreign banks face stiff competition in the Brazilian market, which is currently dominated by domestic banks such as Itaú Unibanco, Bradesco and Banco do Brasil.

Brazil's sophisticated financial system and structured investment funds industry has also enabled the inflow of FDI into the nation. The country's insurance sector has been open to foreign investors since 1996, with the majority of the US firms represented through joint venture arrangements.

Banco Santander S.A.

Banco Santander (Brasil) S.A. (Santander), a subsidiary of Spain's Grupo Santander, entered the Brazilian market in 1957 through an operating agreement with Banco Intercontinental do Brasil S.A. Through a series of acquisitions coupled with an organic growth strategy, Santander has grown to become the biggest foreign bank in Brazil today and the sixth-largest bank in the country by total assets. Santander has a strong footprint in the country with 3,775 offices and service points, 18,419 ATMs and 25.3 million customers. Brazil accounted for 28% of Santander Group's profits in 2011 – ahead of Spain, the UK and Mexico – making Brazil a strategic market for the group. Santander's goals for the Brazilian market include adding 100 to 120 branches per year during 2011 to 2013, becoming the number one bank in customer satisfaction by 2013 and capitalizing on its global branding initiatives to become one of the top three banks in Brazil by 2013. The bank also aims to achieve a revenue growth between 14%–16% and to expand net profit by 15% on average in the fiscal years 2012 and 2013.

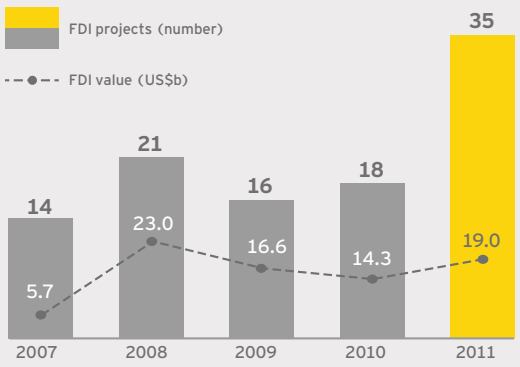
* Source: *Viewpoint: Brazil in focus*, September 2011, Ernst & Young, 2011.

Sector focus

Mining and metals*

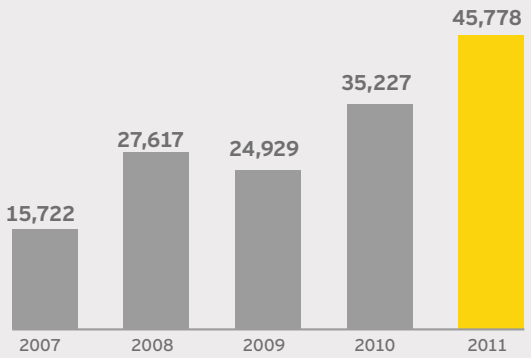
Mining and metals industry

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+94.4%** FDI projects **+30.0%** No. of jobs **+32.6%** FDI value

The mining and metals sector attracted 35 FDI projects in 2011, 7% of the total number in the country. The sector created 45,778 jobs, the highest in the country. Brazil has one of the world's largest mineral repositories and hosts the world's sixth-largest mining production.

Although Brazil's mining sector was affected by the 2008 financial crisis, companies have been increasing investment since then. Brazil holds leadership positions in the production of various commodities – it is the world's largest producer of niobium; second-largest producer of iron ore and tantalite; third-largest producer of bauxite; and fifth-largest producer of copper, tin and kaolim.

The mining sector in Brazil is run by a mix of both global and domestic players, including Vale (Brazil), MMX (Brazil), BHP Billiton (British-Australian multinational), Rio Tinto (British-Australian multinational) and Barrick (Canada). The mining companies in Brazil are largely concentrated in the Southeast and South regions, with the Southeast having the largest share (43%), followed by the South (24%), the Northeast (16%), the Midwest (12%) and the North (6%). The huge untapped mineral resources repository in the Amazon provides ample prospects for exploitation. The Government has developed the Manaus Free Trade Zone, a free trade area that offers special tax incentives to projects for the Amazon region.

The National Mining Plan 2030 foresees investments of approximately US$270b and threefold increase in gold, iron and copper output by 2030. Risks faced by the metals and mining sector are lack of infrastructure, shortage of skilled manpower, complex regulations, insufficiency of geological mapping data and overreliance on China as the primary export market for iron ore. Brazil's huge dependence on commodity exports also makes the country vulnerable to the risks associated with the volatile global commodity markets.

BHP Billiton

BHP Billiton (BHP) formed a joint venture (JV) named Mineração Rio do Norte (MRN – in which it has a 14.8% share), with a bauxite miner, in Brazil in 1976; MRN commenced operations in 1979. BHP subsequently expanded its presence in the country through JVs. BHP aims to increase its presence in Brazil through its 50:50 iron ore mining JV Samarco Mineração SA (Samarco). In 2011, Samarco commenced a US$3.5b expansion program to construct a fourth pellet plant, a new concentrator and a third slurry pipeline in the country. In 2011, BHP also signed a letter of intent with the state government of Minas Gerais in Brazil to invest US$2.4b in an iron ore production project. The project, expected to become operational in 2017, would employ 1,100 people and generate 1,100 indirect jobs.

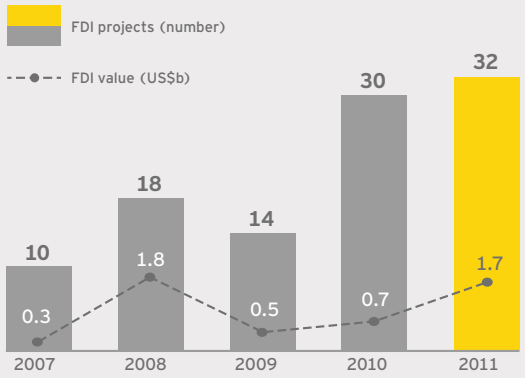
* Source: "Brazil to triple gold, iron, copper output by 2030," Reuters website, *uk.reuters.com*, accessed 10 May 2012.

Sector focus

Chemicals*

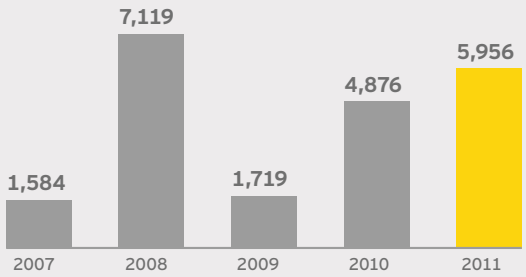
Chemicals; plastics

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+6.7%** FDI projects **+22.1%** No. of jobs **+126.4%** FDI value

The chemicals sector in Brazil attracted 32 FDI projects in 2011, 6% of the total number of FDI projects in the country, creating 5,956 jobs.

Brazil's chemicals industry is the seventh largest in the world. Production of chemicals in Brazil supports agriculture, mining, oil extraction, industrial, transport, health care and packaging sectors.

The demand for chemicals in Brazil is met through net imports as investment in this space has taken a back seat. Although Brazil has three big national chemical companies, and many large well-established multinationals with an integrated Brazilian culture, investment has been far below the needs of the country, resulting in a chemical product trade deficit that grew from US$1.2b in 1990 to US$26.5b in 2011. The 2010 National Pact for the Chemical Industry, an initiative by the Brazilian Association of the Chemical Industry (ABIQUIM), which represents more than 140 chemical producers comprising around 85% of industrial chemical production in the country, has outlined steps to strengthen the industry. It aims to promote competitiveness and sustainable development of the chemical industry by boosting investment and overcoming challenges that hamper new investments.

One of the key goals of this program is to make Brazil a global leader in green chemicals. To tap the opportunity in the green chemical industry, international players such as US-based Dow Chemical and Japan's Mitsui have formed a JV to establish an integrated biopolymer operation, using sugarcane ethanol to produce bioplastics for packaging. Despite being one of world leaders in chemicals, infrastructure bottlenecks, huge electricity costs (Brazil has the third-highest power costs in the world), high raw material prices, taxes, interest rates and an overvalued currency continue to pose threats to Brazil's position at the forefront of the global chemicals market.

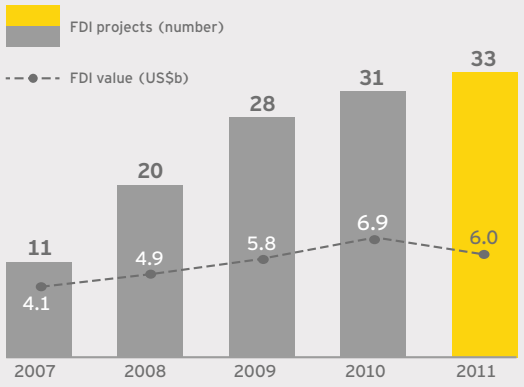
* Source: "Bioplastics in Brazil: Beyond the Green Speech," Frost & Sullivan website, *www.frost.com*, accessed 16 May 2012; "Exclusive: Brazil to cut electricity taxes to boost economy," Reuters website, *www.reuters.com*, accessed 16 May 2012.

Sector focus

Automotive*

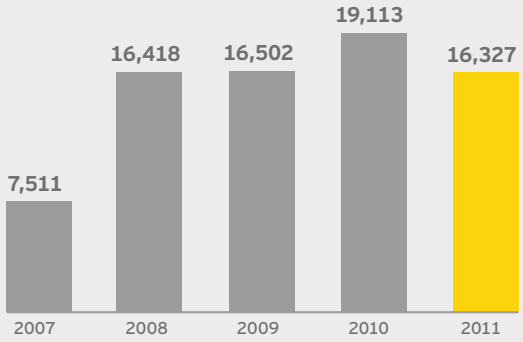
Automotive original equipment manufacturers (OEM); automotive components

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **+6.5%** FDI projects **-14.6%** No. of jobs **-12.9%** FDI value

The automotive sector in Brazil attracted 33 FDI projects in 2011, 7% of the total number in the country. The sector created 16,327 jobs, the fifth highest of all sectors. Brazil is the world's fourth-largest car market and the biggest auto market in Latin America.

The robust performance of the sector has been spurred on by a combination of tax breaks and buoyant domestic demand. Stimulus measures undertaken by the Government of Brazil, including the Real Plan that created inexpensive financing opportunities and the Bigger Brazil Plan that extended a package of loans to finance the working capital of small and medium-sized car parts makers to help support local production, have resulted in huge growth for the sector. Also, the Government has stepped up its efforts to encourage more FDI in car manufacturing and production of automotive components by giving tax exemptions to companies that have a local production.

The Government exempted 18 automakers from the US, EU, Japan and Brazil from paying a higher tax on autos in February 2012. Several auto industry giants are present in Brazil; including Italian automaker Fiat, Germany's Volkswagen, Japan's Nissan, and US automakers General Motors and Ford Motor Company. Brazil's rapidly expanding consumer class and low car density (137 cars per 1,000 people), should further bolster the demand for cars in the country.

However, an influx of cheap imports from China and Korea threaten Brazil's auto industry. To mitigate these challenges, the Government recently raised taxes on imported cars and plans to launch a graded-tax-credit program effective from 2013 to 2017 to grant a proportional tax credit corresponding with the amount of strategic local content used by the manufacturer.

Fiat S.p.A.

Fiat S.p.A. (Fiat), an Italian automobile manufacturer, has been present in the Brazilian market since 1976 through its subsidiary Fiat Automóveis. Fiat has been Brazil's car market leader for the last 10 years, selling cars catering to different consumer segments. According to Brazil's automotive distribution federation Fenabrave, Fiat Uno became the best-selling car in Brazil in March 2012, registering total sales of 23,109 cars. Fiat plans to bolster investments in Brazil to the tune of US$5.9b during 2011 to 2014 to develop new products, processes and technologies as well as to expand its production capacity. The company aims to sell more than one million cars annually in Brazil by 2014.

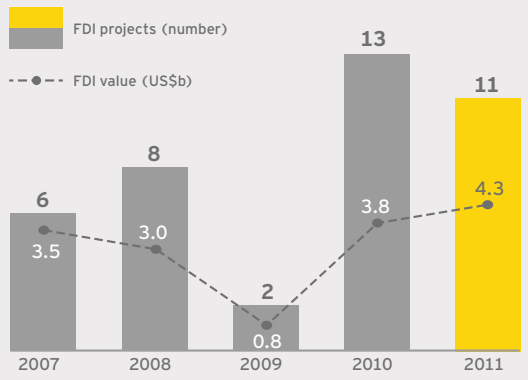
* "Car parts makers: Vehicle-buying surge in Brazil fuels component sector," The Financial Times website, *www.ft.com*, accessed 12 May 2012; "Eighteen automakers to be eligible for lower taxes, says Brazilian government," IHS Global Insight Daily Analysis, 1 February 2012, via Dow Jones Factiva, © 2012, IHS Global Insight Limited.

Sector focus

Cleantech*

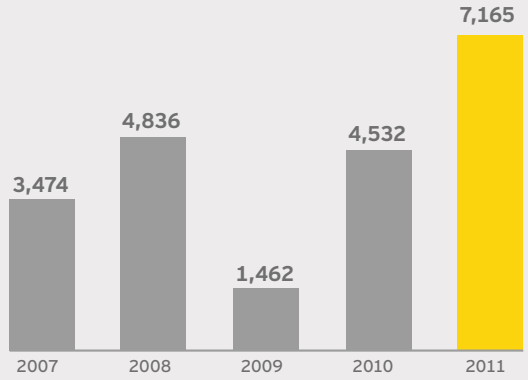
Alternative and renewable energy

FDI value and number of projects



Source: fDi Intelligence.

Number of jobs



Source: fDi Intelligence.

Growth 2011 vs. 2010: **-15.4%** FDI projects **+58.1%** No. of jobs **+14.1%** FDI value

The cleantech sector in Brazil attracted 11 FDI projects in 2011, 2% of the total number in the country, creating 7,165 jobs. Brazil has 15.3GW of renewable energy installed capacity and is ranked 10th globally.

The country meets almost 50% of its energy demand through renewable energy sources. Ethanol forms a critical part of Brazil's cleantech industry since 40% of the auto fleet and 90% of all new cars sold in Brazil are flex-fuel, gasoline blended with ethanol. The country is the second-largest ethanol producer in the world after the US. Shell, BP, Bunge, LS9, Dow and Amyris are significantly investing in the Brazilian biofuel industry. Recently, some concerns have been raised around Brazil's domestic supply shortage of ethanol following an output drop.

However, the Government of Brazil has announced that it will inject US$38b into the ethanol sector over the next four years in the form of subsidized credit to revive ethanol production and to attract investments in the sector. Under its National Cleantech Strategy 2020, Brazil aims to triple ethanol production.

The strategy aims to increase renewable energy generation by 11.5GW by 2019, with a 10-fold increase in wind and biomass energy generation. It also aims to have smart meters installed in every home by 2020 and to attain a 40% reduction in carbon emissions. Brazil will need to diversify its energy mix to tackle the challenges from deforestation, population displacement and power disruption.

Amyris

US-based Amyris, an integrated renewable products company, has been investing in Brazil's cleantech industry. The company conducts its Brazilian operations for the manufacture and trade of products through Amyris Brasil S.A. (Amyris Brasil), its majority-owned subsidiary. Amyris Brasil has been expanding its production capacity in Brazil by working with the country's sugar and ethanol manufacturers to produce biofuels and biochemicals. The company has adopted a capital light asset model wherein the producers invest a substantial portion of the sum required to establish the Amyris facility, and Amyris provides technology, plant designs and technical expertise. Amyris plans to invest approximately US$5b in Brazil by 2020 in partnership with local companies. Amyris is scaling up its renewable farnesene production in Brazil, branded as Biofene. Amyris Brasil has entered into agreements with Brazilian firms Usina Sao Martinho, Paraíso Bioenergia ETH Bioenergia, and Usina Alvorada to produce Biofene from 2012 to 2014. The company also has a partnership with Cosan to develop, produce and sell renewable base oils for the lubricants market.

* "Brazil plans $38 bln sweetener to revive ethanol sector," Reuters website, *www.reuters.com*, accessed 18 May 2012; "Brazil ethanol drive falters on domestic supply shortage," Bloomberg website, *www.bloomberg.com*, accessed 18 May 2012; *Cleantech matters: Seizing transformational opportunities*, Global cleantech insights and trends report 2011, Ernst & Young, 2011.

Where to: Southeast leads FDI, Northeast shows promise for the future

Brazil exhibits differing characteristics in each of its regions. The Southeast and South lead the country in terms of infrastructure development and educational institutions. To diversify investments and economic development across the nation, the Government has therefore introduced various incentives for the Northeast and North regions.

Brazil has started to witness FDI across all the regions, led by its efforts to decentralize investments and workforce. While São Paulo and Rio de Janeiro remain the most important economic hubs, other cities have also started to attract foreign investors' attention. The 2014 FIFA World Cup, set to take place in 12 Brazilian cities, will also promote the integration of investments in its various cities. However, corruption and bureaucracy remain as key challenges in many cities.

Our survey results also demonstrate the focus of foreign investors on the large metropolitan areas in the Southeast. São Paulo and Rio de Janeiro remain the top priority for nearly 80% of the respondents, with a sharp drop observed in awareness for any other location in Brazil. A staggering 25% of all companies that have not yet invested in Brazil cannot point to any specific location that would be attractive in Brazil, and the vast majority is completely unaware of even the largest tier-two cities within the country. For Brazil to succeed in spreading economic development more evenly across the country, it will be mandatory to work on profiling its tier-two cities and to inform and educate foreign investors about opportunities outside of Rio de Janeiro and São Paulo.

Southeast and South regions still remain investors' priority

▶ Southeast[9]

The Southeast is the most attractive region in Brazil with cities such as São Paulo and Rio de Janeiro gaining the most attention. The Southeast region attracted 901 projects between 2007 and 2011, creating more than 250,000 jobs and accounting for more than 55% of FDI projects. The projects are mainly directed toward ICT, manufacturing, business services and retail sectors. The Southeast contributes more than 50% of the country's GDP. The region also has availability of skilled manpower as important universities are located here.

9. fDi Intelligence.

▶ São Paulo

São Paulo, the largest city in Brazil, has created a strong position in the industrial, commercial, financial, arts and entertainment arenas. Besides being a large industrial base, it is also the financial center of Brazil. Rio de Janeiro is the second-most important Brazilian city, having foreign interest in ICT, manufacturing, tourism and energy sectors. Another city in the region, Campinas, has emerged as the technology city with sound IT, engineering and electronics infrastructure; an efficient transport system; and proximity to suppliers. The presence of large multinationals in Campinas, such as Bosch, Hewlett Packard and Dell, is evidence of its dominant position in the ICT sector.

▶ South

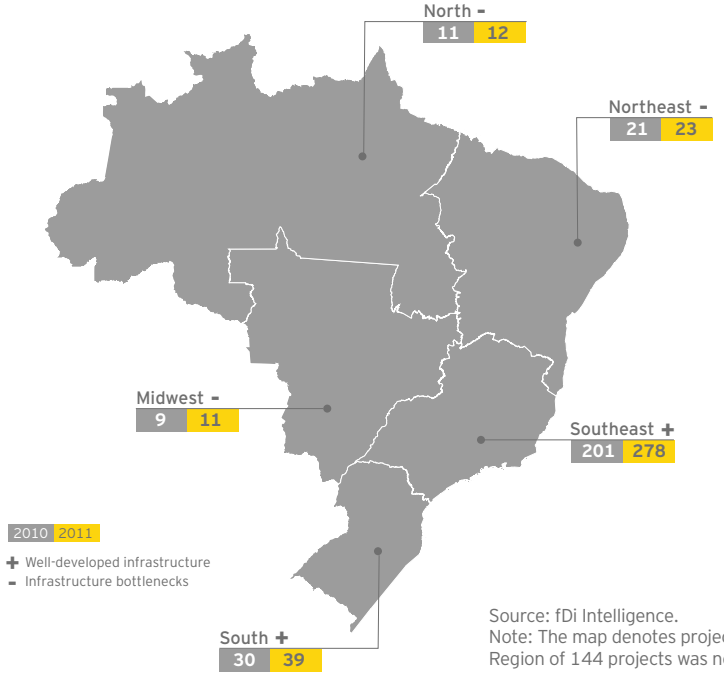
The South region has also been a focus area for investments since it offers quality infrastructure. It attracted 115 projects between 2007 and 2011, creating more than 48,000 jobs. Sectors including automotive, manufacturing and ICT are of interest to foreign investors. Large European companies such as Renault and Volkswagen have established presence in the region. Local government initiatives in the development of the technology industry are expected to boost private investment in the region. The cities of Porto Alegre and Florianópolis have already created a strong image as technology destinations.

FDI inflows by destination city

Rank	Region	City	Number of projects			Change 2011 vs. 2010	Infrastructure development
			2010	2011	Share in FDI 2011		
1	Southeast	São Paulo	93	134	26%	44%	+
2	Southeast	Rio de Janeiro	23	43	8%	87%	+
3	South	Curitiba	5	11	2%	120%	-
4	Southeast	Campinas	8	7	1%	-13%	+
5	South	Porto Alegre	3	5	1%	67%	-
6	North	Manaus	8	5	1%	-38%	-
7	Southeast	Taubate	1	4	1%	300%	+
8	Northeast	Salvador	4	3	1%	-25%	-
9	Northeast	Recife	3	3	1%	0%	-
10	Southeast	Pindamonhangaba	-	3	1%	0%	+
11		Others	218	289	57%	33%	
		Total	366	507	100%	39%	

Source: fDi Intelligence. **+**: Well-developed infrastructure / **-**: Infrastructure bottlenecks.

FDI projects by region



Source: fDi Intelligence.
Note: The map denotes project numbers.
Region of 144 projects was not specified.

Many local governments in the North and Northeast of Brazil offer significant incentives to attract businesses to their regions. Incentives include deferment or reduction of the state-based value-added tax (VAT), free land or free building leases and exemption from municipal service tax (ISS).

Emerging Brazil: Northeast and North regions

Northeast

The Northeast region has historically been low on the investment lists of foreign investors since it has been prone to poverty and poor economic development. However, with the launch of various social welfare programs (such as Bolsa Família), the situation is gradually improving. The region attracted 93 investment projects between 2007 and 2011, creating more than 57,000 jobs, mainly in the manufacturing and metals and mining sectors. The expansion of industrial complexes in Suape is one of the major growth paths for the Brazilian Northeast region. State governments in the Northeast region of Brazil have been investing substantially in infrastructure projects, thus enhancing investment prospects for international companies. Demand from more than 55 million Brazilians residing in the region and fast growth has attracted several multinationals. These include Kraft Foods, Novartis, Unilever and InBev.[10] Other examples of development in the Northeast region include the recent announcement by Fiat of its plan to invest US$1.78b in an automotive OEM manufacturing project in the Pernambuco state as well as in the construction of a West-East railway and a freeway.

North

The North region is similar to the Northeast in economic development and has therefore lacked investors' interest. The region attracted just 48 investment projects between 2007 and 2011, creating around 42,000 jobs. However, the region hopes to derive foreign commitments from the 2014 FIFA World Cup because Manaus is an integral part of it.

10. "Brazil: country at a glance," The World Bank website, accessed 19 May 2012; "Brazil: Confidence is the keyword," Forbes website, *www.forbescustom.com*, accessed 19 May 2012; "Brazil's north-east: Catching up in a hurry" The Economist website, *www.economist.com*, accessed 19 May 2012.

Midwest

The region has not fared well in attracting foreign investments. Only 38 projects were recorded and 22,853 new jobs were created between 2007 and 2011. However, Brasilia, the capital city of Brazil, still offers a potential investment climate with demand for consumer goods and services being driven by the city's population that is characterized by people with high per capita income.

Where from: Brazil's FDI investors

The US, Japan and a few of the European countries, including the UK, Germany and Spain, lead the FDI investment activity in Brazil. This can be attributed to their historical investment and trade agreements with Brazil. Also, the country's proximity to other Latin American and North American markets makes Brazil more likely to become a key investment destination in the near to mid term.

FDI inflows by source country

Rank	Country	FDI projects			Change 2011 vs. 2010	Value (US$m) 2011	Jobs created 2011
		2010	2011	Share in FDI 2011			
1	United States	104	149	29%	43%	12,358	35,195
2	United Kingdom	20	45	9%	125%	12,248	21,040
3	Spain	36	37	7%	3%	4,483	7,660
4	Germany	33	36	7%	9%	3,045	8,678
5	Japan	23	36	7%	57%	4,954	14,069
6	France	18	26	5%	44%	4,899	13,704
7	Switzerland	12	19	4%	58%	330	1,729
8	China	10	17	3%	70%	4,487	9,049
9	Italy	6	15	3%	150%	1,832	7,215
10	Canada	11	13	3%	18%	1,002	1,479
11	Others	93	114	23%	23%	13,278	41,348
	Total	**366**	**507**	**100%**	**39%**	**62,916**	**161,166**

Source: fDi Intelligence.

▶ United States[11]

The US continued to be the leading investor in Brazil in 2011, in terms of the number of investment projects (149), value of FDI (US$12,358m) and the number of jobs created (35,195). This is largely explained by its geographic proximity and the existence and development of trade agreements. US companies target the ICT, manufacturing, business services and financial services sectors in Brazil.

The Overseas Private Investment Corporation, an organization that aims to promote American companies overseas, is continuously enhancing the collaborative investment climate between Brazil and the US. To strengthen its ties with Brazil further, the US signed the Agreement on Trade and Economic Cooperation in March 2011.

Leading US multinationals, such as General Motors, IBM, Dow Chemical Company and General Electric Company have expanded their presence in Brazil. These companies focus on both domestic demand and exports.

11. "Brazil," Office of the US Trade Representative website, *www.ustr.gov*, accessed 30 May 2012.

▶ United Kingdom[12]

The UK emerged as the second-largest investor in Brazil, both in terms of the number of FDI projects and their value, which stood at 45 projects and US$12,248m respectively. The number of projects more than doubled between 2010 and 2011. The country also created 21,040 jobs for the Brazilian economy in 2011. Several large companies such as Rolls Royce, BP, Royal Dutch Shell and BG group have been present in Brazil for many years. Investors from the UK seek FDI projects across the business services, manufacturing, mining and metals and ICT sectors.

▶ Spain[13]

Spain has maintained its position among the top five investors in Brazil in terms of the number of projects both in 2010 and 2011. The country undertook 37 projects in Brazil worth US$4,483m in 2011 and created 7,660 jobs. The strong ties between Brazil and Spain in terms of culture and language give an added incentive for investors from Spain to invest in Brazil. Leading Spanish firms including Telefonica and Iberdrola are present in Brazil and have plans to boost their investment in the country in the coming years.

12. "Brazil-UK Trade and Economic Relations," Embassy of Brazil in London website, *www.brazil.org.uk*, accessed 28 April 2012.
13. "New FDI Record Set in Brazil," IHS Global Insight Daily Analysis, 27 January 2012, via Dow Jones Factiva © 2012, IHS Global Insight Limited; "Spain's Telefonica to invest $14.7 bn in Brazil through 2014," Fox news Latino website, *latino.foxnews.com*, accessed 30 April 2012.

▶ Germany[14]

Another European country, Germany, initiated 7% of all FDI projects in Brazil in 2011, creating 8,678 jobs; however, the value of these projects remained low at US$3,045m. Brazil has been increasing its dialogue and communication with Germany. It has called on Germany to invest in the Brazilian economy to upgrade its infrastructure as it gets ready to host the 2014 FIFA World Cup and 2016 Olympics. Brazil also plans to attract foreign investment from Germany to exploit its deep sea oil reserves. Germany is considering expanding its investments in Brazil primarily in the areas of defense

14. "Daimler Mulling Small Car Production Site In Brazil – Report," Fox business website, *www.foxbusiness.com*, accessed 24 April 2012.

and energy. German car majors such as Volkswagen and Daimler AG are also present in Brazil. These companies plan to make further substantial investments in their Brazilian production facilities to cater to the growing domestic market.

▶ Japan[15]

The number of FDI projects by Japan into Brazil grew 57% to 36 in 2011. Japan's share in FDI projects was 7% with project valuing US$4,954m in 2011. Brazil has consistently encouraged Japanese companies to invest in Brazil's development. A number of Japanese firms such as automaker Nissan, steel producer Nippon Steel and cable manufacturer Furukawa Electric have a presence in Brazil. Japan's need for natural resources due to its energy shortage and Brazil's requirement for high technologies to build up its public infrastructure facilities has created prospects for a strategic partnership between Brazil and Japan for mutual investments.

15. "Japan's number 2 automaker plans to increase production in Brazil," MercoPress website, *en.mercopress.com*, accessed 29 April 2012; Invest in Brazil, 2011, Nikkei Business & Nikkei Business Online, 2011.

Also, Japanese companies are expected to seek more growth opportunities outside their home economy with their cash-rich balance sheets.

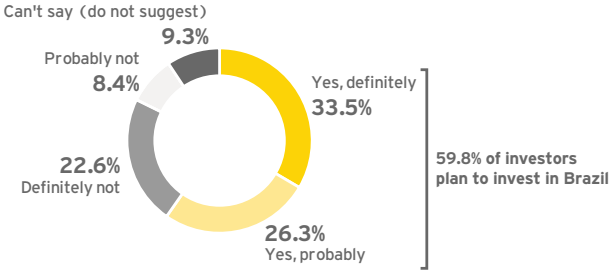
▶ Emerging relations with China[16]

China's FDI project count in Brazil has grown 70% – from 10 in 2010 to 17 in 2011. The country emerged as the fifth-largest investor in Brazil in 2011 in terms of FDI value at US$4,487m; a sixfold increase from its value in 2010. China also ranked fifth with respect to the number of jobs created in the country (9,049 jobs). Most of the Chinese FDI in Brazil can be characterized as resource-seeking, with Brazil's rich supplies of oil, gas and minerals acting as major attraction for Chinese investors. As China requires diversity and high volumes of natural resources, the country is sourcing these resources from Brazil.[17] Moreover, the recent boom in the Brazilian consumer market has led to an increase in investments by small and medium-sized Chinese companies in the country's manufacturing area. With Brazil urging Chinese companies to invest in non-raw material sectors, China's investments are expected to be directed to sectors such as technology, logistics and infrastructure in the future. The momentum of Chinese investment in Brazil is expected to increase as a result of a joint communiqué signed in 2011 to promote cooperation in trade and investment. However, differences in culture, management style and lower Chinese labor protection standards can create challenges for the development of Chinese business in Brazil.

16. "China invests $12.67b in Brazil," The Economic Times website, *articles.economictimes.indiatimes.com*, accessed 24 April 2012; "China, Brazil to promote trade, investment co-op," China Daily website, *www.chinadaily.com*, accessed 26 April 2012.
17. *Chinese Investments in Brazil*, May 2011, China-Brazil Business Council, 2011.

Investors' plans for 2013: a majority have Brazil in mind

In general, is your group considering establishing or developing activities in Brazil?



Source: *Ernst & Young 2012 Brazil attractiveness survey*. Total respondents: 250.

When asked about investing in Brazil, investors had mixed responses. The Brazilian economy's strong foundations mean that 60% of investors say they plan to establish operations in Brazil, while 31% do not.

Brazil has transformed itself from a country with bleak economic prospects during the 1970s, to a formidable force in the global economy enjoying growth rates above average world GDP growth in recent years. Brazil, which persistently underperformed for a long period, experiencing repeated crises and hyperinflation, has managed to reach a stable growth trajectory, making the country attractive for investors. Attainment of political stability is one critical factor in this. Brazil has been able to maintain low risk for investors through its stable government. Brazil ranked above some other Latin American countries such as Mexico, Argentina, Colombia and Peru, in *The Economist's Political Instability Index 2009–10*.

In the short term, investors can rely on Brazil's domestic consumption growth story and reap benefits. The Government has also taken various measures, including cutting interest rates, to create demand and boost industrial competitiveness. However, the success of these measures will depend a lot on the equilibrium between the future consumption and investment patterns of the country.

Factors that can deter investors include high interest rates and the complex Brazilian tax regime. Companies investing in Brazil will need to consider these in assessing likely outcomes for their investments.[18] Firms that are not already established in Brazil have greater concerns related to the challenges associated with the economy. Of the companies that do not have a presence in Brazil, a surprising 64% have no plans for an investment in the country, as these players are not familiar with Brazil's regulations and its business climate.

Companies that already have operations in Brazil are willing to face these challenges as they strongly believe that Brazil has sound economic prospects. In our survey, nearly 73% of the respondents said they do not consider relocating part of their activities from Brazil to another country. In the 15% of companies that may move operations, reasons for their possible relocation are linked to their desire to tap and develop new local markets and to increase market share in another existing market – rather than to perceived shortcomings of Brazil as a location.

18. *Rapid-growth markets forecast*, Ernst & Young, July 2012.

Despite this positive outlook, Brazil's FDI numbers for the first quarter of 2012 depict a different picture from investors' perceptions about expanding their activities in the country. Brazil recorded FDI inflows totaling US$5b in Q1 2012, a decline from Q1 2011's US$23b. The country recorded 110 projects in the period (down 19% from Q1 2011) creating 17,422 jobs (lower by 70% than Q1 2011).

The ICT sector and the sales, marketing and support function were the major areas of foreign investment in Q1 2012. ICT accounted for the largest number of FDI projects in the quarter with 35 projects, followed by RCP (14 projects) and manufacturing (13 projects). The ICT industry also emerged as the strongest in terms of FDI value in Q1 2012 (US$1.2b) and job creation (3,522). By function, sales, marketing and support attracted the most FDI projects in Q1 2012 (43), creating 1,291 jobs. The reality of FDI in 2012 will ultimately be determined by Brazil's ability to take advantage of its strengths and address the challenges the economy is facing.

Viewpoint

Brazil's real estate boom

Luiz Lopes, CEO, Brookfield Brazil

The Brazilian subsidiary of Canadian assets manager Brookfield recorded total sales of US$180m in 2006, the year it launched its initial public offering (IPO). Five years later, the company's financial statements recorded US$2.2b in properties sales. This represents a 12-fold increase that has guaranteed Brazil a 22% market share of the company's global business.

"The main reason for the attractiveness of investment and growth in Brazil is that the country has been growing fast and it offers a huge number of opportunities, with a low level of difficulty and risks. The company is currently much greater here than in Canada," says Luiz Lopes, Brookfield Brazil CEO.

From the US$12b of assets under Brookfield Brazil's management last year, 39.7% were allocated in properties and 19.9% in shopping centers. This is a good indicator of how sustainable GDP growth, the greater availability of credit and a rising middle class that is able to buy their first house has boosted the real estate industry over the last decade.

With the crisis in the Eurozone continuing and the economic recovery in the US looking shaky, Brazil will become the second-largest real estate investment market in the world in 2012, according to a survey conducted by the Association of Foreign Investors in Real Estate (Afire). The country is part of the investment plans for 18.6% of respondents, who were drawn from companies and funds that together control more than US$800b of assets under management around the world.

The main reason for the attractiveness of investment and growth in Brazil is that the country has been growing fast.

Brookfield Brazil's strategy is to invest in the areas in which most of the income and businesses are currently concentrated, such as the state of São Paulo and Centro-Oeste region, and penetrate new markets in the south of the country, especially in the cities of Curitiba and Florianópolis. The bulk of company sales is concentrated in the average property price range, valued at US$ 125,000. "We believe that the real estate market will have solid growth for many years, with capacity to grow 8% to 10% per year," says Lopez.

In addition to Brazil's strong macroeconomic performance, optimism is underpinned by two other factors: a young population with stable income and strong demand for housing; and a huge housing shortage of 5.5 million properties.

Currently, 10% of Brookfield's real estate investments are directed to Minha Casa, Minha Vida (My House, My Life), the federal government's low-cost housing program. "There is a third factor, not so visible yet, that we believe will be a big hit for the next 30 years: the exchange of shacks to apartments. Shantytowns represent a huge potential for new businesses," concludes Lopez.

Great momentum

Brazil, the investors' view

Picture: Amazon Forest, Pará, Brazil.

78% see Brazil as the most attractive country in Latin America.

87% of the investors see Brazil's market size as its most attractive asset.

72% of respondents believe Brazil has a strong entrepreneurial culture.

42% of investors expect Brazil's oil and gas sector to drive growth.

30% of respondents expect Brazil to be the leader in the energy sector by 2020.

Pre-salt reserves discovery to open up new opportunities.

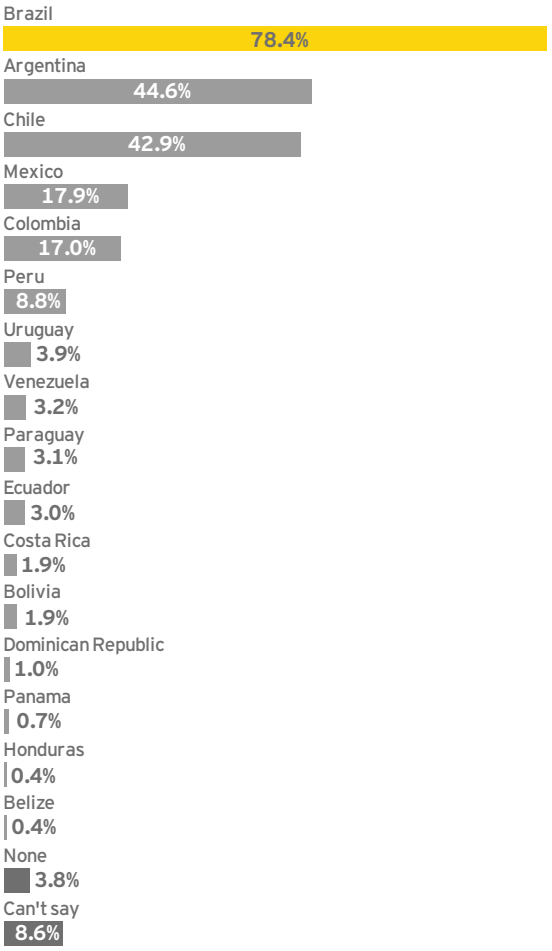
Challenges to be addressed: skills, costs and operating conditions as well as low quality but yet high cost of transportation system.

Brazil: Latin America's leader

Brazil emerged as the most attractive country for investment, named in Latin America's top three by 78.4% of the respondents in *Ernst & Young's 2012 Brazil attractiveness survey*. Brazil holds the top spot among investors because of its robust economic foundations: a burgeoning middle class, rising domestic consumption for goods and services and a wide base of industrial and natural resources. The country, in comparison with other Latin American economies, stands out in terms of attractiveness; our survey findings suggest that Brazil has by far the highest awareness and attraction. Brazil was the first country mentioned by 10 times more respondents than Argentina (which was next behind Brazil in awareness, along with Chile). Brazil was also mentioned many more times overall than any other country. Likely competitors for Brazil are to be found in the large rapid-growth economies as well as in the developed economies of the West. Our respondents (49%) believe that China is the largest competitor of Brazil, followed by India (14%) and the US (10%). From Latin America, Argentina's GDP growth rate, which was higher than Brazil in 2011, and its unique sustainable development model can make the country a potential competitor for Brazil in the long term.

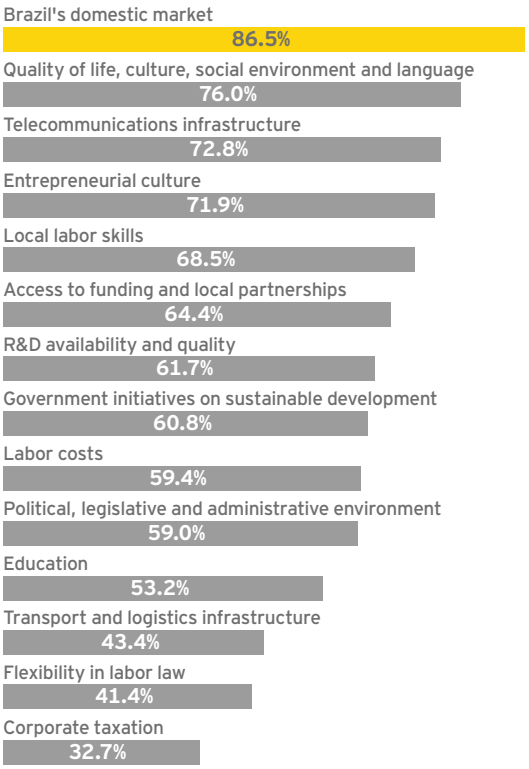
Led by a set of economic policy measures, Brazil's Class C (middle class) has expanded from around 66 million people in 2003 to 105 million in 2011, and is expected to grow to 118 million by 2014. On the other hand, the country's poor classes have declined from a total of 96 million people in 2003 to 63 million in 2011. Brazil's GDP per capita increased at a compounded annual growth rate (CAGR) of 11.8% between 2000 and 2011, larger than that for Latin America's other RGMs: Argentina (3.2%), Chile (9.7%) and Mexico (3.6%) during the same period.

From a general point of view, could you list, in decreasing order, the three most attractive countries in which to establish operations in Latin America?



Source: *Ernst & Young 2012 Brazil attractiveness survey.*
Total respondents: 250.

What is the criterion to evaluate how attractive Brazil is as a location for establishing new activities?



Source: *Ernst & Young 2012 Brazil attractiveness survey.*
Total respondents: 250.

Viewpoint

How to serve 40 million new customers

Ivan Zarur, CFO, McDonald's Brazil

Over the past decade, more than 30 million Brazilians have risen out of poverty and moved into the middle class. This figure is equivalent to the total population of Canada. Research conducted by Fundação Getúlio Vargas (FGV) shows that an additional 12 million people will have reached the middle class by 2014, when the country hosts the FIFA World Cup, another 5 million may be driven in the same direction.

In Latin America, we are now analyzing what Brazil is doing and what Mexico might do.

This new group of people with purchasing power, combined with the stability of income and employment in the last decade, has directly impacted upon the fast food industry in Brazil. From 2001 to 2011, the number of franchising supply chains operating in the country increased from 113 to 481. The market turnover was nearly US$9b last year alone, according to the Brazilian Franchising Association (ABF).

"Globally, Brazil is one of the top 10 markets for McDonald's. It is one of the fastest-growing countries next to China," says Ivan Zarur, CFO of McDonald's Brazil. "Regionally, Brazil is a fundamental power and a leader. In Latin America, we are now analyzing what Brazil is doing and what Mexico might do," he says. According to the ABF, in 2011, McDonald's was the second-biggest franchise network in Brazil by sales and the fifth by number of stores.

Sustaining growth and meeting the new demand brings a high number of challenges for companies in this sector. In Brazil, women represent 54% of the labor market – 10 years ago, they represented 43%. As they spend more time away from home, they have increased their spending on fast food.

For McDonald's, the first challenge is to increase its number of outlets. In Canada, for example, 1,400 restaurants serve a population of 32 million people. In Brazil, there are about 670 outlets catering for 200 million inhabitants. "Considering that our per capita income has been approaching that of more mature economies, there is room for growth," says Zarur.

Another challenge is manpower. With family incomes now higher, fewer parents need their children to work. So youngsters are continuing to study and looking forward to college. As a consequence, hiring staff has become problematic. "It is increasingly difficult to find, hire, train and retain staff: 55% of our restaurants are inside shopping centers, where competition is fierce. This is by far the biggest challenge our industry faces," says Zarur.

According to Nielsen's Q4 2011 global consumer confidence findings, Brazil recorded the highest consumer confidence in Latin America with an index of 112, the fifth-highest score among the 56 countries measured globally. Brazil offers many opportunities to investors in the thriving sectors of infrastructure, manufacturing, oil and gas, and tourism.[19]

Market opportunities and entrepreneurship as Brazil's main assets

Nearly 86.5% of investors indicated Brazil's domestic market as a criterion that makes it an attractive location for establishing new activities. Brazil's economic growth has created a huge domestic market with vast business opportunities. This draws investors to set up their facilities in the country. Its strong entrepreneurial culture (cited by 71.9% of the respondents) comprising a favorable business climate and funding support for firms has further bolstered its position as a top choice for foreign companies. In October 2011, Brazil was ranked as the third-best country among the G20 at providing young entrepreneurs with a favorable environment for business.[20]

Mixed perception on HR skills

Our survey revealed a range of views about Brazil's local labor skills. Of the companies not yet present in Brazil, only 56% identified workforce skills as a basis for investing in the country – as opposed to 76% of those already established in Brazil. While R&D was indicated as influential by 61.7% of investors, education was highlighted by 53.2%. The country still lags behind the G20 average in terms of university education and R&D according to *Ernst & Young's The Nice Côte d'Azur 2011 Entrepreneurship Barometer*. R&D as a function accounted for only 2% of the total FDI projects undertaken in Brazil from 2007 to 2011.

Questions on Brazil's business environment and operational costs

Brazil's political environment compared with those of RGMs such as Russia, India and China has made it reasonably attractive for international firms, with 59% of the respondents pointing to this option. However, the huge opportunities presented by Brazil need to be weighed against the shortcomings associated with operating in the country. A low-quality and high-cost transportation system still remains a weak factor for investors (only 43.4% mentioned it as an attraction) as it leads to operational inefficiencies. High labor costs compared with other RGMs such as Russia, China and Mexico, along with rigid and inflexible labor regulations, continue to raise concerns for foreign companies. A high corporate tax rate of 34%, compared with its Latin American peers such as Chile (18.5%) and Mexico (30%), also dampens investors' interest in Brazil.

19. *Reuters; Nielsen Global Consumer Confidence Q42011 report*; The Financial Times; CIA world factbook; Fundação Getulio Vargas (FGV); *The Economist*; Bloomberg.

20. *The Nice Côte d'Azur 2011, Entrepreneurship Barometer report*, October 2011, Ernst & Young,

Viewpoint

Brazil's US$70b boost

Ricardo Trade, Operations & Competition Executive Director of the 2014 FIFA World Cup Local Organising Committee (LOC)

In two years' time, an estimated audience of around three billion people will turn on their television sets to watch one of the world's greatest sporting competitions and the most popular one, the FIFA World Cup, which will be held in Brazil in 2014. In addition to the television audience, over 600,000 foreign tourists are expected to visit the 12 host cities. An event of this magnitude requires extensive preparation. A study by Ernst & Young Brazil, in collaboration with Fundação Getúlio Vargas (FGV), throws light on the different ways in which the World Cup will affect the Brazilian economy and shows how the event offers many opportunities for growth.

The direct investments of over US$11b by the Government and the private sector on infrastructure (stadiums and their surroundings, airports, highways, hotels and urban planning), are expected to have a knock-on effect that will inject additionally over US$56b into the country, considering all the productive chain. In total, the World Cup might generate over US$71b between 2010 and 2014, and create over 3.6 million jobs per year.

The figures consider investments in infrastructure, new businesses and the direct and indirect impacts on employment generation, income, the national production of goods and services, visitor spending and tax collection. Tourism alone may bring in around US$3b. Besides generating great international visibility, the World Cup can potentialize the attractiveness and interest from foreign companies and investors looking for development opportunities and business in Brazil.

The World Cup is a huge opportunity in terms of promoting our image.

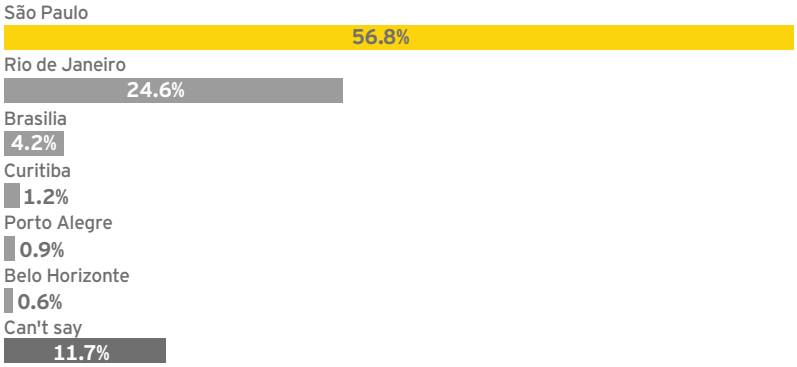
"The biggest challenge is to manage a competition with continental distances, where you need to transport people, ensure safety and efficient services and monitor the progress of works in order to have everything ready on time and with quality," says Ricardo Trade, Operations & Competition Executive Director of the 2014 FIFA World Cup Local Organising Committee (LOC). The current team of 80 employees from this private company has the responsibility to develop the logistics of transporting delegations, officials and guests of FIFA; analyze more than 240 football training facilities to select 64 that may be used for team training; set up the 12 different press centers; and be in frequent contact with the host cities and government agencies to guarantee that the stadiums, airports and public services will run properly during the tournament.

"The World Cup is a huge opportunity in terms of promoting our image. It is a chance to show that we have adequate public and private services; that Brazil is a safe country; and that there is much more here than Rio de Janeiro and São Paulo. Above all, it is our chance to show our ability to host an event of this magnitude. It is a big leap forward," concludes Trade.

Brazilian cities: the undisputed leadership of São Paulo

São Paulo maintains strong investment prospects while Rio de Janeiro rides high on Olympic spirit

What is the most attractive Brazilian city?



Source: *Ernst & Young 2012 Brazil attractiveness survey.* Total respondents: 250.

In *Ernst & Young's 2012 Brazil attractiveness survey*, 56.8% of investors named São Paulo, Brazil's largest city, as the most attractive metropolis in the country, with another 24.6% of the respondents favoring Rio de Janeiro.

São Paulo has established itself as a prominent industrial and commercial hub for Brazil. The most important banking institutions in Brazil and the world, as well as the largest stock exchange in Latin America, BM&F BOVESPA, are located in the city. São Paulo presents considerable competitive advantages to investors for establishing and expanding their presence. These include a highly qualified workforce, well-developed business parks and an affluent consumer class. One of the main differentials of the city when compared with Brazil's other cities and regions is São Paulo's logistics and transportation infrastructure, which is made up of a network of modern highways, an international airport and developed waterways and railroads. São Paulo also has a good, professional education system and is home to several important research institutions, which together help promote and stimulate economic and technological development in the city.[21]

21. "Oil Investment in Brazil Continues," Riotimesonline website, *riotimesonline.com*, accessed 24 May 2012; "Skilled Labor Force," Investe São Paulo (São Paulo's Agency For The Promotion Of Investments And Competitivenes) website, *www.investe.sp.gov.br*, accessed 25 May 2012; "Reasons to Invest in SP," Investe São Paulo website, *www.investe.sp.gov.br*, accessed 25 May 2012.

Rio de Janeiro is also emerging as a preferred investment target, getting a boost from its recent oil discoveries and winning the bid to host the 2016 Olympic Games. The city offers opportunities in sectors such as tourism, energy and infrastructure. However, Rio de Janeiro's high crime rate continues to be an impediment for multinationals.[22]

Brasilia, the country's capital and the focal point for the Federal Government, was named as the city of choice by 4.2% of the investors in our survey. The city's young and well-educated population with a high per capita income creates an appealing investment climate for international companies.

22. "Brazil: Creatively coming out ahead," Forbes website, *www.forbescustom.com*, accessed 24 May 2012.

Brazil's second cities face a critical lack of awareness

Respondents could not indicate a strong preference for cities other than São Paulo and Rio de Janeiro. Nearly 39% of investors faced a challenge in identifying a promising city outside Brazil's traditional business regions.

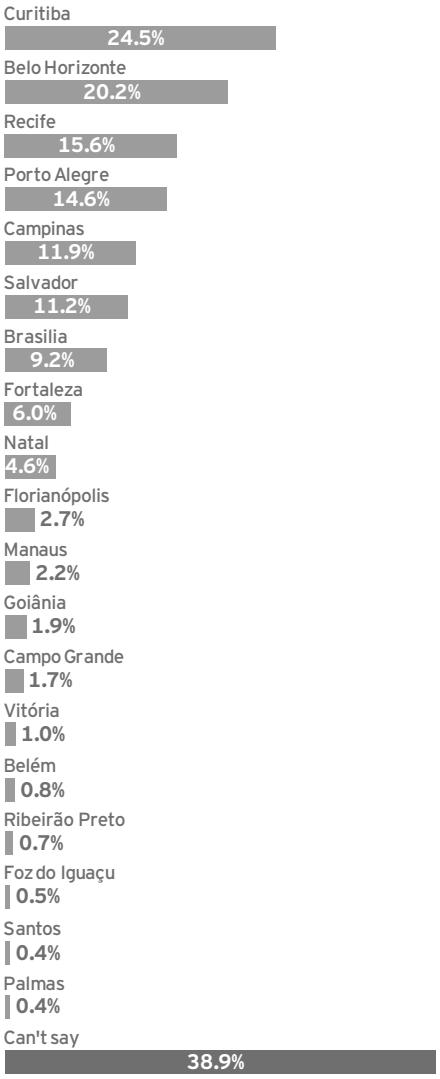
However, Curitiba and Belo Horizonte, both capital cities of their respective states Paraná and Minas Gerais, were named by more than one in five respondents, receiving nominations from 24.5% and 20.2% of investors respectively. Curitiba has gained importance as an IT hub due to its growing talent pool and low wages, along with factors such as a good transportation system and ease of connectivity to other regions of Brazil. Incentives in the form of tax exemptions and supportive infrastructure through establishment of facilities such as software and technology parks have also helped to build an attractive business environment in the city.[23]

23. "Curitiba," Israel Economic Mission in Brazil website, *www.brazil-israel2016.com*, accessed 28 May 2012.

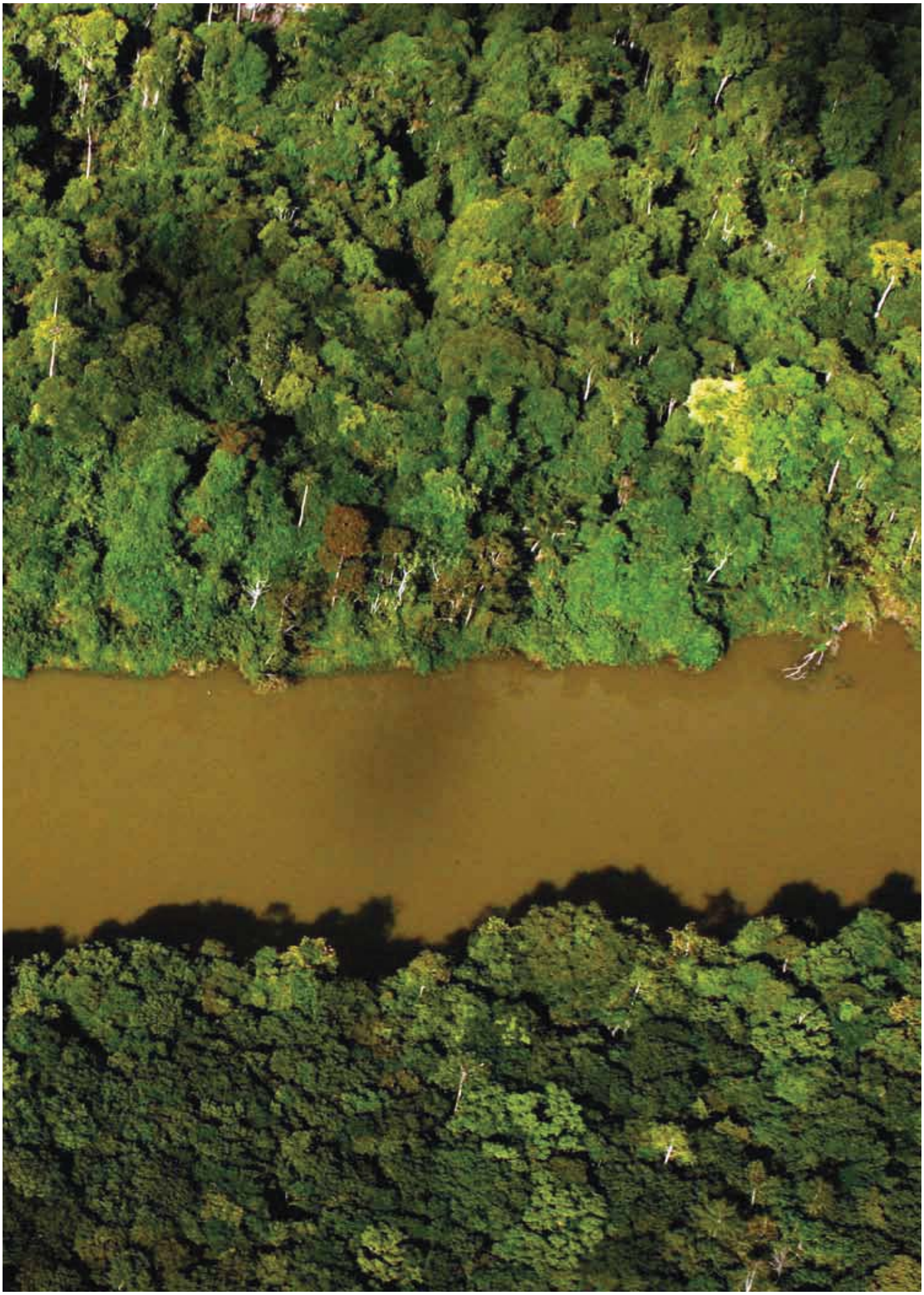
Belo Horizonte has a thriving mining industry backed by its rich mineral resources, particularly iron ore, and fast-emerging biotechnology and IT sectors as well as good connectivity and infrastructure. Foreign investors, particularly those that have not yet established their operations in Brazil, must be made more aware of the country's geography.

The Government needs to come up with a campaign highlighting the attributes of the different cities, encouraging investors to choose from a broader range of locations. This is particularly important because the high cost of real estate in Rio de Janeiro and São Paulo might make these locations unappealing for offshored services business.

What are the three most promising Brazilian second cities?
(excluding São Paulo and Rio de Janeiro)



Source: *Ernst & Young 2012 Brazil attractiveness survey.*
Total respondents: 250.



Boosting growth

The future attractiveness of Brazil

Picture: Fernando de Noronha island, Brazil.

83% of respondents believe Brazil's attractiveness will improve over the next three years.

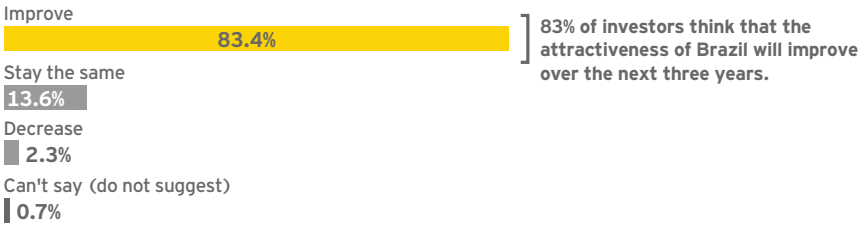
Improve skills and secure the operational environment. 29% of investors see development of education and skills a priority.

Build innovation capacity and diversify sectors: 60% of investors say improving education and training in new technologies can build Brazil's innovation capacity.

Promote Brazil's regions. 56% of respondents cite infrastructure development as key in the attractiveness of Brazil's cities.

Strong confidence in Brazil 2015

Over the next three years, do you think the attractiveness of Brazil as a place for your company to establish or develop activities will ...?



Source: *Ernst & Young 2012 Brazil attractiveness survey.* Total respondents: 250.

Investors are ready to bet on Brazil's prospects in the medium term. According to our survey results, 83.4% of the respondents believe that Brazil's attractiveness will improve over the next three years, 41.7% consider that this improvement will be most substantial. Only 2% of all the respondents believe that conditions in Brazil will deteriorate, illustrating strong investor confidence in the country given its mixed economic performance in 2011. By contrast, only 38% of the survey respondents believe that Europe's attractiveness will improve in the medium term, with 22% expecting a decrease.

According to the Economist Intelligence Unit (EIU), Brazil is expected to attract sustained inflows of FDI in the medium term as the country's domestic market size, natural resource endowment and political and macroeconomic stability will partly compensate for deficiencies in the business environment. Economic growth, along with a sustained increase in real incomes, is expected to create new opportunities for investors in the consumer goods and retailing industries. The pre-salt layer discovery will also create new avenues for growth in the oil-related industries.

Various investors have shown interest in Brazil in the medium term. For instance, in 2012, BG Group announced a US$2b investment in R&D in the Brazilian oil and gas sector, and US-based aluminum rolled products maker Novelis plans to invest US$400m in Brazil to raise production capacity to meet the expected increase in domestic consumption. The Government of Brazil will need to create a more favorable environment for investments, including private investments, to tackle logistical bottlenecks that hinder growth.[24]

24. . "Brazil Business Environment: Country forecast Brazil August 2010," The EIU website, *store.eiu.com*, accessed 24 May 2012.

Brazil's most attractive sectors in the future: industry supporting services

Brazil's oil and gas sector is expected to drive the country's growth in the coming years according to 44.2% of investors. The sector attracted 33 projects during 2007 to 2011, with a total value of US$5.7b, which created 7,312 jobs in the country during this period. Brazil's oil and gas sector is not only creating industrial projects, but also end-to-end services projects. Oil and gas projects create employment in business services; design, development and testing; and sales, and marketing and support functions.

The country's oil and gas sector has huge potential with the recent discovery of vast proven reserves in an area called the pre-salt layer. In addition to increasing Brazilian oil production, development of the pre-salt area is expected to boost job opportunities in the country as more and more foreign companies invest in oil and gas exploration and production. The boom anticipated by the oil and gas sector is expected to have positive spillover effects for other industries such as equipment manufacturing and to lead to greater R&D investments. Growing demand, coupled with incentives for novel and innovative technologies to explore the pre-salt reservoir, has encouraged international companies such as GE, Siemens, IBM, Schlumberger, FMC Technologies and Baker Hughes to establish their R&D centers in Brazil.

Various leading global operators have a presence in Brazil's oil and gas sector. Key operators include Total SA, Technip, Chevron, Royal Dutch Shell, Repsol, BG Group, Sinopec, ONGC and Statoil. With several oil fields under development and a large portion of the pre-salt province area yet to be sold, around 80 different operators have confirmed their plans to invest an estimated total of US$330b in Brazil in the next 10 years. Significant outlays are expected in areas such as exploration, evaluation, production, construction of ships, drilling and production units.

Viewpoint

The challenges of the oil industry in Brazil

André Araujo, President, Shell Brazil

Only a handful of activities are as relevant to today's strategic growth agenda in Brazil as the exploration of oil and gas in the pre-salt fields. The operational and technological challenges involving the exploration and production in deep waters are expected to generate investments of approximately US$250b over the next 10 years, according to a joint study conducted by Ernst & Young Brazil and Fundação Getúlio Vargas. Another study by Banco Nacional de Desenvolvimento Econômico e Social estimates that the domestic demand for goods and services in offshore exploration and production is around US$400b.

The Government and the private sector should be working together. I believe we are on the right track.

In Brazil, the pre-salt oil fields lie 2,000–7,000 meters deep underground in an area of approximately 800km in length off the coast. It is estimated that those fields hold 70 billion to 100 billion barrels of oil and gas. It is an amount which – if confirmed – would turn Brazil into an energy superpower and see it rise to sixth position among the largest holders of reserves in the world. In the past few years, the pre-salt fields have attracted the attention of 36 major international players to its upstream market, according to Ernst & Young.

"The pre-salt is a unique opportunity for Brazil, and Shell wants to contribute to the development of this huge production potential," says André Araujo, President of Shell Brazil. Shell has stakes in a block located in the pre-salt Santos Basin, the BMS-54, which is still in the exploration phase. Overall, the company has 10 blocks of exploration, development and production in Brazil – five onshore and five offshore. Of these, two have been producing oil and gas on a commercial scale: Parque das Conchas and Bijupirá-Salema, both located at the Campos Basin in Rio de Janeiro State. The average oil production of these two blocks was approximately 80,000 barrels a day in 2011. Over the next 18 months, the company will drill 8 to 12 wells in its concession areas.

"The fiscal adjustment is likely to be a decisive factor in attracting investors to Brazil. This applies for any industry, but especially for the oil and gas industry. That is because any project of exploration, development and production will result in long-term commitments and will demand a high degree of investment. The country must have a clear and stable regulatory framework to continue attracting investors. Brazil has honored the contracts so far. It's a long journey in which the Government and the private sector should be working together. I believe we are on the right track," concludes Araujo.

Which three of the following business sectors do you perceive as driving Brazil's growth in the next two years?

Source: *Ernst & Young 2012 Brazil attractiveness survey survey.* Total respondents: 250.

Brazil has approximately 14.0 billion barrels of proven oil reserves and 14.7 trillion cubic feet of proven natural gas reserves. The Government of Brazil plans to seek international capital to fund the development of these complex resources and to establish a production sharing agreement (PSA) for the pre-salt province. However, shortage of skilled labor due to insufficient training and education programs continues to plague the Brazilian oil and gas industry.[25]

The Brazilian real estate and construction market is expected to witness robust growth as highlighted by 27.7% of the respondents. Brazil's booming economy and safer investment environment has made the country's real estate market a hot spot for global investors. The 2012 survey of the Association of Foreign Investors in Real Estate (AFIRE) placed the Brazilian real estate market second in terms of attractiveness in 2012 – above China and all the countries in Europe. Also, São Paulo was identified as the 4th-best city for real estate investment in 2012, up from its 26th place last year.[26] The housing construction segment in the country has received an enormous push from the Brazilian Government's Minha Casa, Minha Vida (My House, My Life), an affordable housing program launched in March 2009.[27] The program, which has entered its second phase, aims to build two million homes for low-income groups before 2014, and involves subsidies to fund, construct and sell these affordable houses.

Tourism remains another prominent sector in Brazil. This is borne out by the responses received from 27.3% of the investors in our survey. Factors such as Brazil's natural beauty and improved tourism infrastructure have placed it among the best tourist destinations in the world and acted as a major magnet to international visitors. São Paulo and Rio de Janeiro, important economic hubs in Brazil, possess remarkable infrastructure that has paved the way for business tourism by way of events, conferences and conventions. Their natural landscapes have also acted as a strong attraction for leisure tourists. The World Economic Forum (WEF), in its 2011 Travel & Tourism Competitiveness Index, ranked Brazil first among the 139 countries for its natural resources. According to the International Congress and Convention Authority, Brazil ranked ninth as an international event destination measured by number of meetings organized in 2010.

25. "Brazil At Risk Of Becoming One Big Petrobras," Forbes website, *www.forbes.com*, accessed 28 May 2012; "Brazil: Country analysis briefs," Energy Information Administration website, *www.eia.gov*, accessed 29 May 2012; "Skills shortage in Brazil's oil industry," The Financial Times website, *www.ft.com*, accessed 28 May 2012.
26. "Foreign R.E. investors: Buying but seeking improved fundamentals and FIRPTA reform," *Business Wire*, 1 January 2012; "U.S. is top 2012 property investment pick," ABS-CBN news website, *www.abs-cbnnews.com*, accessed 28 May 2012.
27. "India, Brazil and South Africa Address the challenge of slums," The World Bank website, *wbi.worldbank.org*, accessed 27 May 2012; "Minha Casa, Minha Vida Phase Two," Riotimesonline website, *riotimesonline.com*, accessed 28 May 2012; "Minha Casa Minha Vida Development," Riotimesonline website, *riotimesonline.com*, accessed 28 May 2012.

The country's potential as a tourist destination, however, still remains untapped. According to the World Tourism Organization, Brazil recorded 5.2 million tourist arrivals in 2010, fewer than other countries in the Americas such as Mexico (22.4 million) and Canada (16.1 million). Arrivals in many Asia Pacific regions also remained higher than Brazil with Malaysia reporting 24.6 million tourists, Hong Kong 20.1 million, Thailand 15.8 million and Singapore 9.2 million.

The Government of Brazil has been actively promoting tourism in the country through promotional campaigns as well as by providing funding options. In 2010, Embratur, the country's Tourist Board, launched the campaign, Brazil is Calling You, to encourage business and leisure visitor flows into Brazil and to highlight the opportunities in the nation. The marketing initiative is part of Brazil's Plano Aquarela 2020 strategy, which aims to achieve approximately a 300% increase in foreign currency inflows from international tourists to garner US$17.6b and secure 113% growth in international tourism with 11.1 million inbound foreign visitors by 2020. Looking at the growth prospects for the sector in the coming years, Brazil's Ministry of Tourism along with BNDES has opened a credit line totaling US$0.5b (BRL1b) to fund upgrades, expansion and construction of new hotels in the country.[28]

28. "Brazil is leading the Travel & Tourism economy in Latin America," The World Travel & Tourism Council website, *www.wttc.org*, accessed 25 May 2012; "Brazil tourism board unveils Aquarela 2020 outlining international promotion as 2016 Olympic host city," *PR Newswire*, 16 December 2009.

Viewpoint

Economy boosts tourism in Brazil

Ricardo Amaral, CEO, Royal Caribbean International

The opening of an office in São Paulo three years ago was the first sign that Brazil had become a strategic market for Royal Caribbean International, the American giant that has operated in the global cruise industry since 1968.

Operating costs are high and there are significant infrastructure problems despite recent improvements.

Brazilian executive Ricardo Amaral has accumulated the functions of CEO in Brazil, Latin America and the Caribbean. "The operations of multinationals are often determined by geographical factors, but the business ends up being driven by results. Three years ago, my position was based in Miami and now it is in Brazil, the world's second top office in terms of results," says Amaral.

The strategic restructuring did not happen by chance. The movement of more than 30 million people from poverty to the middle class over the past decade has boosted Brazil's tourism industry. Last year, the expenditure of the 3.5 million Brazilians traveling abroad reached US$21.2b – 28% higher than the previous year. The Brazilian Central Bank described this spending as an all-time high. In comparison, foreign tourists who visited Brazil last year spent US$11.8b.

This boost to tourism has attracted the attention of the international major cruise operators. Offering local packages with prices similar to international vacations, the 20 vessels circulating the Brazilian coast carried 792,750 tourists (99,000 of them foreigners) in the 2010 to 2011 season. A joint study conducted by the Brazilian Association of Maritime Cruises – of which Amaral is President – and the Fundação Getúlio Vargas shows that the cruise industry contributed a total of US$650m to the Brazilian economy during the last season.

At the end of 2011, Brazil moved ahead of the UK to become the sixth-largest economy in the world. Brazil's economic rise has seen it become more central to the global operations of companies such as Royal Caribbean. "But there are still major challenges ahead. Operating costs are high and there are significant infrastructure problems, despite recent improvements. The taxes and fuel costs make operating a cruise in Brazil 25% more expensive than in other countries. Because of this, the country loses competitiveness," says Amaral.

"However, the complexity of operations in Brazil is also an interesting and positive element. It has a very specific legal and tax environment and the expertise gained here can be taken to other markets."

Long-term vision: diversification needed

How do you see Brazil in 2020?

Source: *Ernst & Young 2012 Brazil attractiveness survey*. Total respondents: 250.

Foreign investors see five main areas in which Brazil is expected to become more attractive. While 30.1% of investors see Brazil as the leader in the energy sector by 2020 due to the discovery of pre-salt reserves, 24.2% of respondents expect substantially improved infrastructure in the country. Nearly 24% of respondents think Brazil will become a leading country in the green economy due to its strong position in biofuels production and consumption; 23.2% expect manufacturing to grow significantly and another 20.8% see the country developing into a leading tourist destination in the long run.

The abundance of natural resources has benefited Brazil by enabling the economy to grow, while also creating a challenge by drawing FDI away from value-added sectors and innovation-based services.

Concerns remain in the long term for Brazil as only 5.2% of investors see it as a leader in high value-added services; 5.1% view it as the leading destination for shared services centers and only 3.3% of the respondents expect Brazil to emerge as the country with one of the best education and higher learning systems. The country needs to build its innovation capacity, stimulate its R&D efforts and develop its education system to build a highly qualified workforce.

▶ Shared services centers[29]

Geographical and time zone proximity to Latin American nations, as well as to the US and Canada, has drawn a number of outsourcing players to the Brazilian economy. The country has become an important location for companies to establish their business process outsourcing (BPO) offices, shared services centers (SSC), call centers and offshore delivery centers.

However, a deficiency of English-speaking personnel in Brazil presents a challenge for investors willing to commit their funds in establishing their contact centers in the nation. Global English Corporation's Business English Index 2012 (measures Business English proficiency

29. "GlobalEnglish Business English Index reveals skills shortage and unequal odds for international business success in 2012," *The GlobalEnglish Corporation press release*, www.globalenglish.com, 3 April 2012.

Viewpoint

Brazil's auto industry still in the fast lane

Cledorvino Belini, Chairman, Fiat Brazil

The automotive industry continues to set new records in Brazil. Only a year after registering the best performance in its history, the industry's sales totaled 3.63 million units in 2011, an increase of 3.4% on 2010, when sales had reached 3.51 million units. According to statistics released by the National Association of Automobile Manufacturers (Anfavea), production in 2011 had amounted to a record 3.4 million units, a rise of 0.7% on the previous year.

Fiat sells the most light commercial vehicles in Brazil. In 2011, the Italian carmaker's factory in Betim, a city in Brazil's Minas Gerais State, produced 762,181 cars, compared with 757,418 in 2010. Betim is considered to be Fiat's biggest manufacturing plant outside Italy. The company predicts annual growth of up to 4% in 2012. "The Brazilian market has been experiencing an unprecedented phase in its history," says Cledorvino Belini, Chairman of Fiat Brazil and head of Anfavea. "Four years after a crisis that has shaken economies that are traditionally stronger, Brazil is one of the few countries with real growth prospects. As a market with potential for vehicle sales expansion, we lag behind only the US and China," he says.

Brazil is one of the few countries with real growth prospects.

Stable employment and income, together with easy access to financing, partly explain the strength of the Brazilian automotive industry. There are 45 different brands and more than 2,000 models and versions of vehicles available to Brazilian consumers. As Belini says, even with fierce competition, the market still offers great opportunities for growth. The federal government is recognizing its value. In September 2011, for instance, the tax on industrialized products (IPI) for imported models was raised, in a bid to stimulate local car factories.

"In Europe, where the rate of motorization has already reached two people per vehicle, the car market is almost saturated. However, in Brazil, where there is one car for every six people, there is still great demand to be met," concludes Belini.

in the workplace) highlighted a lack of Business English proficiency in Brazil with a score below 4.0, placing the country at a disadvantage in the global marketplace. Brazil scored 2.95 in 2012, lower than Russia (3.60), China (4.44) and India (5.57). Brazil needs to enhance the English-speaking capabilities of its population in order to thrive on a global basis.

▶ Value-added services, and education and higher learning[30]

A weak higher education system has resulted in a shortage of skilled labor in Brazil. A study by the Institute for Applied Economic Research highlighted the lack of required skills in Brazil's workforce. Relatively few high school students have a technical degree. Companies in Brazil have to spend a considerable amount of money every year to qualify their workers. The shortage of qualified workers is particularly acute in Brazil's IT sector. According to Brasscom, the country will lack about 750,000 IT workers by 2020.

The Government of Brazil needs to bolster and expand measures such as the Pronatec project (part of the Bigger Brazil Plan) that offers educational financing lines to young professionals and recent school leavers. The goal of the initiative is to qualify four million people, by 2014, in different areas of technology. Brazil needs to increase its impetus on programs such as Science Without Borders, which provide scholarships to undergraduate students from Brazil for one year of study at colleges and universities in the US to boost innovation and education in the country.

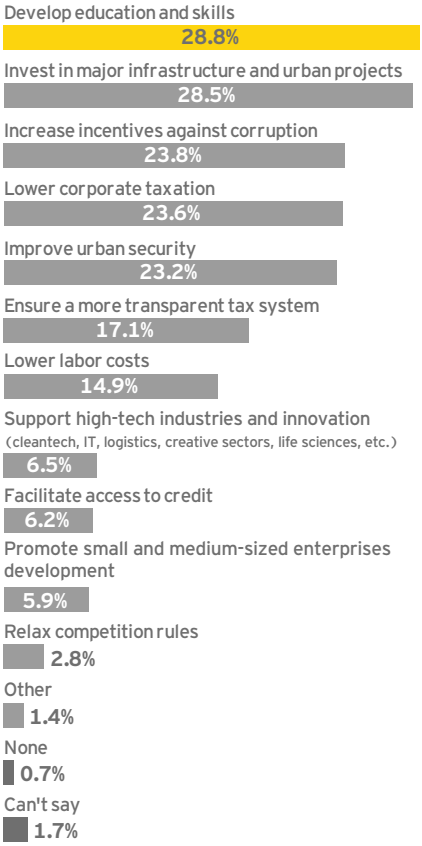
Brazil needs to diversify itself by focusing on higher value-added services if it wants to insulate itself from the volatility in commodities markets – and provide its population with the opportunity of higher-skilled and better-paid employment. This needs to be supported with favorable government policies that provide an enabling environment for innovation in the country.

30. "Brazil Science Without Borders Undergraduate Program," Institute of International Education website, *www.iie.org*, accessed 28 May 2012.

Brazil's action plan

Action 1: Improve skills and secure the operational environment

According to you, what measures should Brazil prioritize to improve its attractiveness in the coming years?



Source: *Ernst & Young 2012 Brazil attractiveness survey*. Total respondents: 250.

Of our survey respondents, 28.8% believe that development of education and skills will have a high impact on Brazil's attractiveness.

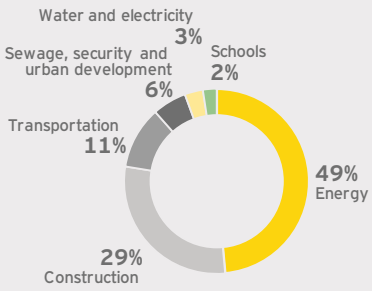
Brazil's steady growth in the past decade has amplified the industry's requirement for a qualified and productive workforce. The country, however, faces a shortage of skilled labor with the gap being more pronounced in the case of firms willing to hire managers, technicians and engineers.

According to the 2011 survey of talent shortages conducted by employment services company ManpowerGroup, 57% of Brazilian employers face difficulty filling vacant positions due to lack of available talent, compared with the global average of 34%. Another study by FGV predicts a deficit of 800,000 professionals in Brazil's industry by 2014. Amid this strong demand for skilled professionals, development of Brazil's education system is an imperative step.[31]

Investing in major infrastructure and urban projects was cited by 28.5% of respondents as a key focus area to enhance Brazil's prospects. The Government has been undertaking several measures to improve the country's infrastructure.

31. "Brazil faces highest skills gap in Americas-Manpower," Reuters website, *www.reuters.com*, accessed 26 May 2012; "Brazil's Boom Needs Talent," The Wall Street Journal website, *online.wsj.com*, accessed 28 May 2012; "Latin American Markets Aim for a New Decade of Gains," The New York Times website, *www.nytimes.com*, accessed 24 May 2012.

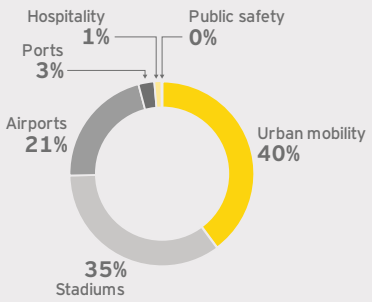
Growth Acceleration Program Phase (PAC II)



Source: *Business Monitor Internationa, Presidencia da Republica, Brazil.*

During 2011 to 2014, Brazil plans to spend US$526b (BRL959b) to increase the country's energy production capacity; build new homes and schools; improve transportation, water and electricity provision and enhance sewage, security and urban mobility.

Sporting events



Source: *Presidencia da Republica, Brazil.*

Brazil's planned spending on the 12 cities hosting the FIFA World Cup in 2014 amounts to US$21b (BRL39.4b). This is allocated to areas such as increasing urban mobility; upgrading stadiums, airports and ports; hospitality; and improving public safety. The Brazilian Government has also earmarked US$7b (BRL12.5b) for Rio to host the Summer Olympic Games in 2016. Plans include improvements in sports facilities, accommodation, transport infrastructure and security and technology.

Viewpoint

Effective public management

Jorge Gerdau Johannpeter, Member of Board of Directors, Competitive Brazil Movement (MBC)

Improvement of public governance and management, driven by greater efficiency and competitiveness, is key to Brazil's development.

This is one of the missions in which the businessman Jorge Gerdau Johannpeter is engaged, through the Competitive Brazil Movement (MBC). The MBC, a non-governmental organization recognized as a Civic Organization of Public Interest, was created to improve the competitiveness of private organizations sustainably and the quality and productivity of public organizations, with the objective of raising the quality of life for Brazilians.

"Technically, overcoming the shortcomings that stand in the way of Brazil's further progress will not be easy. Although the technology is available, the major obstacles to innovation in national public management have a strong political ingredient. The difficulties are political rather than technical and these political difficulties are always more complex," says Gerdau, who is today a member of the Board of Directors at MBC.

The difficulties are political rather than technical and these political difficulties are always more complex.

According to Gerdau, in order for Brazil to fulfill its full potential, a strategic debate is necessary. He emphasizes that the economic success of many Asian countries was only possible thanks to their clear and effective strategic definition.

"Since 2007, Brazil's average growth rate has been leveling at 2.5%, because we haven't managed to establish our goals adequately. At present, I would concentrate Brazil's strategic efforts on three key issues: education, logistics and tax reform, particularly on cumulative tax systems. There is currently a lack of transparency over tax, to the extent that nobody knows the actual tax burden embedded in products and services. By taking a strategic approach, we would eliminate between 50% and 60% of Brazil's existing tax management problems," says Gerdau. Turning to another key priority, he adds: "It is necessary to invest in education, particularly in the initial phase of learning, to provide citizens with good education programs and professional skills."

Gerdau also points to Brazil's current legal certainty as one of the major factors attracting investment to the country. According to him, none of the other BRIC countries can match Brazil's level of legal certainty. Gerdau identifies the emotional involvement Brazilian entrepreneurs have with their country as another asset.

All these investments by the Brazilian Government will substantially develop the country's infrastructure, creating an enduring legacy of benefits.

Corruption and bureaucracy in business also raise concerns among investors. Nearly 23.8% of the respondents indicated that increasing incentives to lower corruption would help the country become more attractive. Fraud, bribery and corruption are significant issues in Brazil. A recent study by the Federation of Industries of São Paulo found that corruption costs Brazil between 1.4% and 2.3% of its GDP each year, roughly US$146b. Brazil was ranked 73rd out of 182 countries in the Transparency International Corruption Perceptions Index 2011.[32] The country's current administration is, however, seeking to address the problem; the recent resignation of several ministers in connection with corruption allegations suggests a tougher approach in government. The National Congress is also considering a draft bill that would create direct liability for individuals and other entities caught trying to bribe foreign public officials. Corporate penalties could include fines of up to 20% of annual revenues and a ban on participation in bidding for government contracts.

In 2011, Brazil allowed the OECD to review public sector integrity in the country, the first such report into a G20 country. By 2014, the Brazilian Government plans to implement the International Public Sector Accounting Standards (IPSAS) for the federal level and for the state level as well as for all municipalities. IPSAS are globally accepted high-quality public sector accounting standards that require and promote the recording and reporting of government assets and liabilities on an accrual basis as well as the disclosure of additional supporting information regarding the use of resources. This major modernization process intends to change the governmental behavior on all levels focusing on the aspect of intergenerational equity. It is expected to enhance the transparency and accountability of the public sector in the country.

Investors not yet active in Brazil are more concerned about security in its urban areas than companies already operating in the country. Brazil's cities have started taking measures to address the problem of crime – improving security by establishing a more effective police presence; however, this needs to be communicated to foreign investors.

32. 12th Global Fraud Survey, *Growing Beyond: a place for integrity, Regional insights: Brazil*, Ernst & Young, 2012.

Action 2: Build innovation capacity and diversify sectors

What are the main areas of reform to improve Brazil's innovation capacity?

Source: *Ernst & Young 2012 Brazil attractiveness survey*. Total respondents: 250.

The Government of Brazil stimulates innovation through the Innovation Law in the country.[33] The law allows private companies to fund public institutions to carry out research on their behalf. It also encourages the public and private sectors to share staff and facilities such as laboratories.

In 2007, Brazil launched a new four-year science plan with a view to strengthening the role of science, technology and innovation. The plan included focusing on strategic priorities such as increasing human resources in scientific research, enhancing educational infrastructure, and promoting industrial innovation by offering tax rebates and funds to companies to undertake R&D activities. Brazil's Ministry of Science and Technology (MCT) initiated the second phase of this plan for the period from 2011 to 2014 to expand R&D in the nation. As part of this plan, the MCT will provide more funds to finance research and innovation in small and medium-sized enterprizes.[34]

Brazil is also one of the most attractive countries for young entrepreneurs. Yet challenges such as high tax rates and red tape when starting a business still abound for young entrepreneurs in Brazil. The Government, however, has launched programs over the years to provide financial support to start-up firms. With an aim to help innovative new companies in their initial phase of development, the Brazil Innovation Agency (FINEP) invests in a grant program called The PRIME Program (Primeira Empresa Inovadora). Together with various local and foreign banking groups, BNDES has created a fund, Fundo Garantidor de Investimento, to stimulate lending to Brazilian SMEs. There are also agencies to support innovation, such as The Brazilian Service to Support Micro and Small Businesses (SEBRAE), which focus on promoting competitive and sustainable development of micro and small enterprizes as well as on fostering entrepreneurship.[35]

However, Brazil still lags behind in its pace of innovation. It was ranked 47th in the publication by INSEAD,[36] *The Global Innovation Index 2011*, behind other RGMs such as the Czech Republic (27th), China (29th) and Poland (43rd). Respondents in *Ernst & Young's Brazil attractiveness survey 2012* said that Brazil will have to improve education and training in new technologies (according to 60.3% of them), increase tax incentives for innovative companies (29.7%), and develop joint research programs (26.1%) to enhance its innovation capacity.

▶ Improve education and training in new technologies

Brazil needs to focus on improving education and training in new technologies. A large number of investors cited the lack of skilled workforce in the country as a problem. The country's spending on R&D needs to ramp up. In terms of R&D as a percentage of GDP, Brazil ranked 30th, below other RGMs such as the Czech Republic (23rd) and China (24th) in

33. "Government of Brazil and ECLAC Create Programme to Train Promoters of Science and Technology," ECLAC website, *www.eclac.cl*, accessed 24 May 2012; "The many facets of innovation in Brazil," Thomson Reuters website, thomsonreuters.com, accessed 26 May 2012.
34. "Brazil economy: More stimulus," The Economist Intelligence Unit website, *viewswire.eiu.com*, accessed 23 May 2012.
35. *The Nice Côte d'Azur 2011, Entrepreneurship Barometer report*, October 2011, Ernst & Young, 2011; "Brazil launches US$23b science plan," Scidev.net website, *www.scidev.net*, accessed 22 May 2012; infoDev.
36. Acronym for the French name "Institut Européen d'Aministration des Affaires" or European Institute of Business Administration.

the 2011 Innovation Index. The Government is taking steps to improve this situation.

Recently, Brazil signed an agreement with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) to provide training programs for the promotion of new science, technology and innovation policies in Latin America. These programs are organized in cooperation with universities and scientific research institutions.

▶ Increase tax incentives for innovative companies

Brazil provides tax incentives to companies aiming to stimulate an environment of innovation across the country and enhance its competitiveness in domestic as well as foreign markets. In April 2012, the Government of Brazil announced four criteria for automakers to take advantage of a reduction in vehicle tax. In order to become eligible for lower taxes, auto companies will need to meet at least three of the four – which include investing at least 0.15% of gross revenue in R&D; spending at least 0.5% of revenue on engineering; establishing production onshore (at least 8 of the 12 production steps in the case of light vehicles, and 10 of the 14 production steps for heavy vehicles); and undertaking energy-efficiency evaluations for at least 25% of the vehicles. By 2017, companies will be required to spend 0.5% of their revenue on R&D, as well as double their investment in engineering to 1% of revenue.[37]

▶ Develop joint research programs[38]

The Brazilian Government has also been undertaking measures to encourage cooperation between universities and industry. As a direct result, 27% of all patents in Brazil are owned by universities.

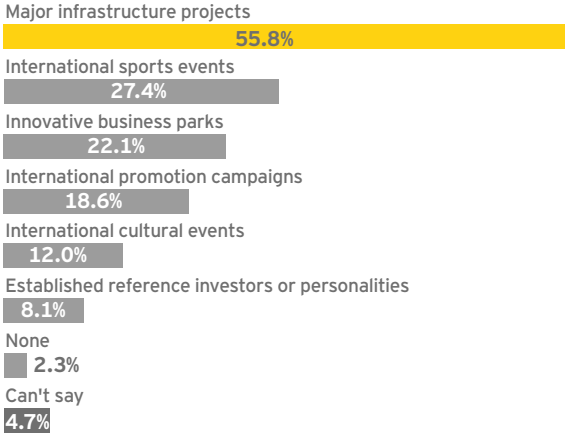
Several foreign companies are undertaking research and innovation in Brazil through partnerships with universities in order to leverage the existing R&D infrastructure of the country. Baker Hughes has cooperation agreements with several educational institutions, including the Federal University of Rio de Janeiro, Pontifical Catholic University of Rio de Janeiro and University of Campinas to develop projects in drilling and reservoir recovery optimization. FMC Technologies partnered with the Federal University of Rio de Janeiro in 2010 to establish a technology center in Brazil.

The Government has signed cooperation agreements with different countries to boost collaborative R&D activities. The Canada-Brazil Framework Agreement for Cooperation on Science, Technology and Innovation, signed in 2010, allows Canada and Brazil's industry, academia and Government to collaborate on joint R&D projects, scientific workshops and conferences. Brazil also entered into an agreement with the EU in 2005 to encourage cooperation in a wide range of scientific and technological areas.[39]

37. "Bigger Brazil Plan: $16b in taxes breaks to fight surging real and cheap imports from China," Forbes website, *www.forbes.com*, accessed 22 May 2012.
38. "Brazil becoming, 'the grown-up BRIC,' according to Thomson Reuters report," Thomson Reuters website, *thomsonreuters.com*, accessed 22 May 2012; "Rice's Baker Institute to partner with Brazilian think tank Fundação Getúlio Vargas," Rice University news release, *news.rice.edu*, accessed 29 March 2012; "Canada-Brazil Relations," The Government of Canada website, *www.canadainternational.gc.ca*, accessed 23 May 2012.
39. "Canada-Brazil Relations," The Government of Canada website, *www.canadainternational.gc.ca*, accessed 23 May 2012; "Policy framework: Brazil," European Commission, Research–International Cooperation website, *ec.europa.eu*, accessed 23 May 2012.

Action 3: Promote Brazil's regions

In your opinion, what are the projects that best contribute to develop Brazilian cities' attractiveness and visibility to foreign investors?



Source: *Ernst & Young 2012 Brazil attractiveness survey.* Total respondents: 250.

Investors consider infrastructure growth a key attraction in Brazil. When asked about projects that would increase the attractiveness of Brazil's cities, infrastructure development was the first choice for more than half of the respondents.

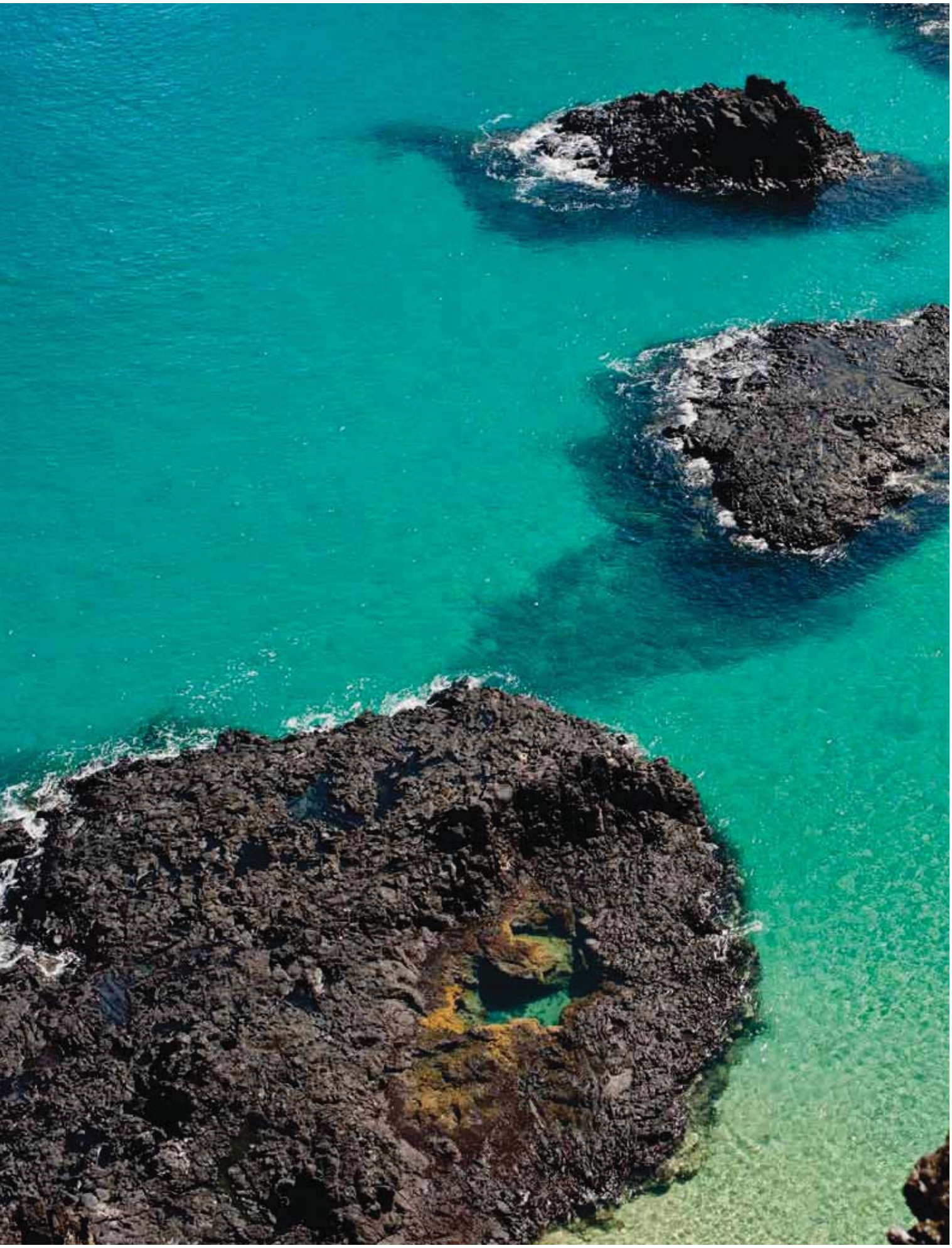
The Brazilian Government has been undertaking significant infrastructure spending as part of its multi-year PAC program, aiming to promote growth by creating an efficient and extensive infrastructure network across all regions of the country. PAC injected US$276b (BRL503.9b) in the first phase of the program, 2007–10. Phase two of the program, broken down into two periods 2011–14 and post-2014, allocates US$872.4b (BRL1.59t) for upgrading the country's infrastructure. This is expected to result in further economic growth and greater influx of foreign investment into Brazil.[40]

The hosting of the forthcoming FIFA World Cup and Olympic Games, cited by 27.4% of investors, will also enhance Brazilian cities' prospects. The Government plans to improve infrastructure across the cities hosting these events.[41]

40. "My House My Life Brazil," Minha Casa Minha Vida website, *myhousemylifebrazil.com*, accessed 24 May 2012; "PAC 2," Brazil government website, *www.brasil.gov.br*, accessed 23 May 2012.
41. "My House My Life Brazil," Minha Casa Minha Vida website, *myhousemylifebrazil.com*, accessed 24 May 2012; "PAC 2," Brazil government website, *www.brasil.gov.br*, accessed 23 May 2012.

Twenty-two percent of the respondents highlighted innovative business parks as an attraction to different cities in Brazil. Apart from providing the much-needed facilities for foreign investors to set up their offices, these parks offer incentives in the form of low taxes.

International promotion campaigns, selected by 18.6% of the respondents, have also driven investors toward different Brazilian cities. Apex-Brasil, the country's trade and investment promotion agency, organizes various seminars and forums to present the investment opportunities of the country to foreign investors.



Methodology

Ernst & Young's 2012 Brazil attractiveness survey is based on a twofold methodology that reflects:

1 The attractiveness of Brazil to foreign investors

Our evaluation of the reality of FDI in Brazil is based on fDi Markets, UNCTAD and Brazilian government sources such as the Banco Central do Brasil. The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. Mergers and acquisitions (M&A) and other equity investments are not tracked. There is no minimum size for a project to be included.

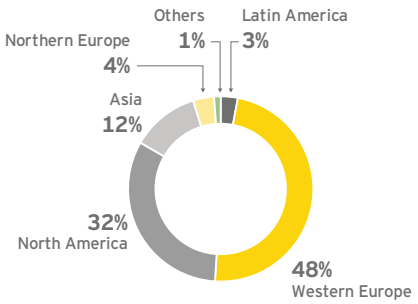
However, every project has to create new jobs directly. Project creation and number of jobs generated are widely available on FDI. As defined above, FDI includes equity capital, reinvested earnings and intracompany loans. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Brazil, Ernst & Young used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation with powerful tools to track and profile companies investing overseas.

2 The perceptions of and outlook for Brazil and its competitors according to foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. The field research was conducted by CSA Institute in May 2012, via telephone interviews, based on a representative panel of 250 international decision-makers. The companies with international development were identified using Dun & Bradstreet Family Tree and verified through individual company websites. Dun & Bradstreet is one of the world's leading and longest-established business information companies.

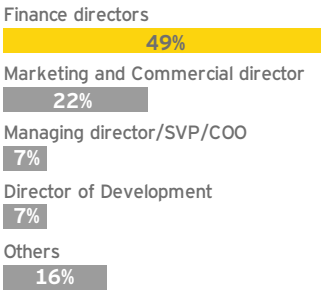
Profile of companies surveyed

Geography



Profile of companies surveyed

Job title



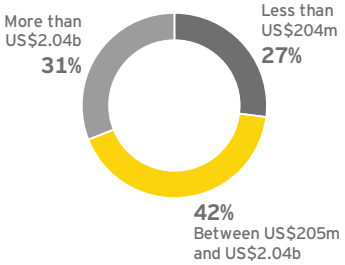
Profile of companies surveyed

Respondents per sector

Sector	Respondents
Industry, automotive, energy	41%
Consumer	25%
Private and business services	17%
Chemical and pharmaceutical industries	10%
Telecommunication infrastructures and equipments, high-technology equipment	7%

Profile of companies surveyed

Turnover



Ernst & Young in Brazil

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Our publications

Sustainability Report

- 2011

In our first sustainability report, we present the most salient information on our activities in Brazil as well as on the policies and tools which guide our daily activities. We also set forth the principles and procedures which orient the company's corporate governance, management and relations with its stakeholders.

Sustainable Brazil series

- An outlook on the oil, ethanol and gas markets

The Sustainable Brazil series provides wellgrounded projections on the main sectors of the Brazilian economy including analyses and perspectives on the housing, energy, consumer products, industrial and agribusiness industries, as well as a special study on the World Cup 2014 and the Oil & Gas sector.

Rapid-growth markets forecast

- Summer edition, July 2012

Our analysis in this quarter's Rapid-growth markets forecast suggests that rapid-growth markets are likely to weather the ongoing Eurozone crisis and remain engines of global growth, though many will see expansion slow this year. Their expansion is expected to accelerate once more in 2013, helping stimulate a wider pick-up.

Ernst & Young's 2012 European attractiveness survey

- Growth, actually

Despite the fragility of the Eurozone economy, inward investment continued to rise in Europe in 2011, with the total number of projects significantly higher than pre-crisis levels. That's according to Ernst & Young's 10th annual European Attractiveness Survey, which examines Europe's attractiveness for foreign direct investors.

Ernst & Young's 2012 Africa attractiveness survey

- Building bridges

This survey analyzes Africa's attractiveness as an investment destination, providing an overview of Africa's strengths and challenges, as well as an outlook for FDI into a selection of African countries. It highlights that despite a surge in FDI across the continent, negative perceptions of Africa linger among those not yet doing business on the continent.

Ernst & Young's 2012 India attractiveness survey

- Ready for transition

Foreign investors see India as an attractive investment option, despite the uncertain global economic climate according to Ernst & Young's 2012 Indian Attractiveness Survey, which combines an analysis of FDI into India, along with a survey of global executives on their views about the potential of the Indian market.

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