

# Foreign Direct Investment into Brazil

recent experience and emerging trends

Short presentation to the

## LATINFINANCE

conference



R I O B R A V O  
I N V E S T I M E N T O S

### Brazil 2003: A New Future

*29-30 September, 2003*



## Key figures 1993-2003 for Brazil and global flows



- ✓ Stabilization re-established, though partly, historical shares of global inflows into Brazil. Unfortunately Brazil lost first half of FDI global upswing starting in late 1980s; “intra-triad”, and mostly “intra-European” FDI increased their share over total flows (globalization); Brazil’s share peaked below 4% with amounts at \$ 25-30 billion in 1998-2000
- ✓ With the end of privatizations, elections, increased international risk aversion, and decreased M&A activity, FDI inflows were drastically reduced; abnormally high share of debt distress driven FDI.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>FDI into Brazil (gross)</b>	<b>811</b>	<b>1,615</b>	<b>3,552</b>	<b>10,720</b>	<b>17,200</b>	<b>25,978</b>	<b>27,189</b>	<b>29,393</b>	<b>20,129</b>	<b>14,724</b>	<b>11,224</b>
privatizations	0	0	0	2,345	5,249	6,121	8,786	7,051	1,079	280	0
% of total	0.0%	0.0%	0.0%	21.9%	30.5%	23.6%	32.3%	24.0%	5.4%	1.9%	0.0%
debt to equity conversions	239	150	314	322	713	2,010	4,425	1,792	4,276	8,560	4,698
% of total	29.5%	9.3%	8.8%	3.0%	4.1%	7.7%	16.3%	6.1%	21.2%	58.1%	41.9%
<b>FDI (net net)</b>	<b>571</b>	<b>1,465</b>	<b>3,238</b>	<b>8,053</b>	<b>11,238</b>	<b>17,847</b>	<b>13,979</b>	<b>20,549</b>	<b>14,775</b>	<b>5,885</b>	<b>6,527</b>
World inflows	218,094	238,738	316,524	386,140	481,911	686,028	1,079,083	1,392,957	823,825	651,188	593,046
<b>% coming to Brazil</b>	<b>0.37%</b>	<b>0.68%</b>	<b>1.12%</b>	<b>2.78%</b>	<b>3.57%</b>	<b>3.79%</b>	<b>2.52%</b>	<b>2.11%</b>	<b>2.44%</b>	<b>2.26%</b>	<b>1.89%</b>
LA and the Caribbean	18,072	26,974	25,424	52,856	73,275	82,040	108,255	95,358	83,725	56,019	51,017
<b>% coming to Brazil</b>	<b>4.49%</b>	<b>5.99%</b>	<b>13.97%</b>	<b>20.28%</b>	<b>23.47%</b>	<b>31.67%</b>	<b>25.12%</b>	<b>30.82%</b>	<b>24.04%</b>	<b>26.28%</b>	<b>22.00%</b>

## FDI censuses in 1995 and 2000, major changes and developments



- ✓ There were 6,322 foreign companies in Brazil in 1995 and 11,404 in 2000.
- ✓ \$ 100 billion entered Brazil during these years: previous stock in 1995 was \$ 42 billion
- ✓ Brazil moved to third place in 2001 A. T. Kearney “Investment Confidence Index”, poll conducted with 1,000 CEOs worldwide. Ranks 9<sup>th</sup> today
- ✓ Equity increases to R\$ 201 billion from R\$ 40 billion (141%) , assets to R\$ 914 billion from R\$ 273 (235%) (FDI refers to equity!) and sales to R\$ 510 billion from R\$ 223 billion (128%).
- ✓ Exports of foreign firms grew to \$ 33,2 billion or 60% of total, from \$ 21,7 billion or 47% of total exports. Imports of foreign firms grew to \$ 31,5 billion or 57% of total, from \$ 19,4 billion or 39% of total imports.
- ✓ Intra-firm imports grew to \$ 18 billion from \$ 8 billion, and intra firm exports grew from \$ 21 billion from \$ 9 billion. Such increases fully explain the increases in foreign trade of foreign firms in Brazil in these years.
- ✓ Employment of such companies grew 26% to 1,709 MM from 1,352 MM (from 10% of total employment to around 15%).
- ✓ Share of GDP: may have reached 20% from around 10% in 1995.
- ✓ Country distribution: US, France and Canada stable shares at about 37%. Spain, Portugal and Holland increased their share to 26,1% from 4%, other European plus Japan decreased their shares to 14,6% from 35,6%
- ✓ In 1995 2/3 of FDI was in manufacturing and 1/3 in services. In 2000 proportion reversed thanks mostly to electricity, telecom, banks and insurance

## More recent developments and challenges, domestic and abroad



- ✓ **Mild recession.** Domestic economy losing momentum since electoral turmoil and change in government. Better atmosphere after success with inflation fighting but uncertainties still relevant as to new government's pro business stance.
- ✓ **International factors.** ATKearney 2003 FDI Confidence Index, yet to be released, mentions "offshoring imperative" favoring emerging markets locations but as regards Brazil observes that "global investors ranked government support for pro-business policies as the leading factor likely to impact FDI attractiveness of the Brazilian market".
- ✓ **Gross fixed capital formation at low levels.** Horizons are short for the time being, but improving. Growth should respond to cheap money and confidence building measures.
- ✓ **Financial distress combined with low activity.** FX and interest rate fluctuations left a lot of damage. Vast fluctuations in exchange rates introduced great confusion as to the meaning of "FX losses" and "hedging policies" in foreign companies. Issues especially difficult to discuss in times of heightened risk aversion. Debt restructuring pervasive: has been a driver to acquisitions and divestment.
- ✓ **Regulatory questions.** Issues in sectoral regulation in key infra-structure sectors, especially electricity but also in water, telecom, oil.
- ✓ **"Low level equilibrium".** Exceedingly high levels of country risk leading to high cost of capital and low valuations. "Virtuous circle" of reforms and spread tightening should improve asset prices and decrease cost of capital and foster growth.

## Foreign Direct Investment into Brazil recent experience and emerging trends

Short presentation to the

# LATINFINANCE

conference

## Brazil 2003: A New Future

29-30 September, 2003

*Rio Bravo is a Brazilian financial services firm, specialized in structured finance, corporate finance, private equity and alternative assets' management. Rio Bravo has operational agreements with*



Dresdner Kleinwort Wasserstein



MILLER BUCKFIRE LEWIS



RIO BRAVO  
INVESTIMENTOS

