

January-February 2018

Despite it Corruption Scandals, Brazil Remains a Magnet for Foreign Investment

Jerry Haar

The “Country of the Future” has also distinguished itself during the last several years as the poster child for corruption. A federal investigation began in 2014 under the name Lava Jato (“Car Wash”) uncovered a huge and widespread conspiracy to defraud Petrobrás, the national oil company. Turning out to be the largest corruption scandal in Brazilian history, over 100 people have been convicted of 165 crimes and sentenced to prison, including former president Luiz Inácio Lula da Silva, the former speaker of the lower house, and the former head of Brazil’s biggest construction company, Odebrecht. Even the current president of Brazil, Michel Temer, has been accused of receiving \$12 million in bribes from JBS, a giant meatpacking firm; however, opposition lawmakers in the lower house of Congress failed to obtain the two-thirds majority needed to send the case to the Supreme Court. Sadly, Brazil has evolved into what Paulo Sotero, director of the Brazil Institute at the Woodrow Wilson Center, dubs a “corruptocracy.”

Has this dismal state of affairs dissuaded many foreign investors from entering the Brazilian market and a number of existing investors to exit? An analysis of recent data reveal *just the opposite*.

By all accounts, investment in Brazil remains resilient despite its recent recession and scandals. In 2016, Brazil’s inward FDI increased from 5.7% from 2015 and came in at nearly \$80 billion. Since the mid-2000s, Brazil has been the #1 market for foreign investment in the region, apart from being an important destination for multinational firms worldwide, according to the UN Economic Commission for Latin America and the Caribbean. In 2016 Brazil was the eighth largest recipient of FDI in the world, and the third emerging economy behind China and Singapore. Capital inflows —excluding reinvested earnings— were the most important component of FDI (57%).

The manufacturing industry received 38% of the total in 2016 with the automotive sector being the largest recipient. Not surprisingly, continued and greater investment by multinational firms domiciled in the country drove growth. Over 50% of FDI came from the European Union, with the largest investments being made by Italy and the United Kingdom. Outside Europe, the United States was the largest foreign investor in Brazil (12% of the total with China positioning itself as one of the leading investors in Brazil. Firms such as. China Molybdenum, China Three Gorges,

Hainan Airlines, and Hunan Dakang International Food and Agriculture have all increased their investment and acquisition activities in Brazil in recent years. Firms from within Latin America have also increased their investment in Brazil, most notably Mexican Coca-Cola FEMSA that bought the bottling and beverage distributor Vonpar Refrescos S.A., for a little more than \$1 billion.

Brazil's corruption scandals and volatile political system have no doubt deterred potential investors from entering the market and restrained a number of subsidiaries from expanding their operations there. On the other hand, one should bear in mind that, accordingly to Transparency International, perceived corruption is *greater* in Argentina, Colombia, Mexico, Peru and Panama. Additionally, with a population of over 207 million, vast natural resources, a diversified economy, extensive infrastructure, homegrown multinationals, and a huge consumer class, foreign investors believe they cannot afford not to be in the Brazilian market.

The fact that over 80% of the public strongly believes that judicial authorities should vigorously continue their efforts to root out corruption and punish the guilty bodes well for both democracy and the economy in Brazil. One can only hope this continues unabated.

Jerry Haar is a business professor at Florida International University and a Global Fellow of the Woodrow Wilson International Center for Scholars in Washington, D.C.