

Brazil surprises with surge in foreign cash

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By Richard Lapper and John Rumsey in São Paulo

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Barely a day goes by in São Paulo, Brazil's biggest city, without news of more foreign investment, and this week has been no exception.

Anglo American, the mining giant, said on Thursday it would pay \$5.5bn (€3.7bn, £2.8bn) to buy control of two iron ore mines from Brazilian company MMX. And a couple of days ago, news emerged that Symetrix, a US chip company, was investing \$1bn to make smart cards.

Flows of foreign direct investment are surging. For much of this decade Brazil's attractions have paled beside those of other gigantic emerging markets, China, India and Russia, hitherto the most rapidly growing of the BRIC countries. But in the past few months Brazil has begun to do better.

Figures published last week by the United Nations Conference on Trade and Development showed Brazil won twice as much foreign direct investment as India in 2007 and its investment grew at a faster rate than that of Russia or China.

Total flows of \$37.4bn were more than double the amount Brazil attracted in 2006 and also, in nominal terms at least, higher than flows attracted at the beginning of this decade when a privatisation campaign was in full swing.

Chinese investment dipped to \$67.3bn compared with \$69.5bn in 2006, while Russia brought in \$48.9bn, 70 per cent more than in 2006.

"It was a surprise," says Antonio Córrea de Lacerda, an economist with Sobeet, a Brazilian think-tank on transnational companies, who had been expecting Brazil to attract only about \$25bn. "The rest of the world is growing but Brazil is now getting a good share of the increase."

Why has Brazil been doing so well? Part of the story is that the country is rich in the natural resources – such as oil, soya beans and iron ore – for which world demand has been growing. In the first 11 months of 2007, Brazil attracted \$3bn into its mining sector, almost six times as much as in 2006.

The recent investment success is much broader, however. Central bank figures for the first 11 months show that more than a third of overall inflows have been directed to manufacturing.

Brazil's highly competitive steel industry is one focus. Lakshmi Mittal, president and chief executive of **Arcelor Mittal**, the world's biggest steel company, is an enthusiast.

Last year, he oversaw a big expansion at his company's Tuburão complex and in December made a \$1.75bn offer to buy the 43 per cent stake Arcelor Mittal did not already own in Acesita, a stainless steel maker.

Mr Mittal plans to spend another \$5bn over the next five years to increase annual capacity by more than 40 per cent.

Billions of dollars have been pumped into the ethanol sector, where Brazil's experience and technical expertise is an important advantage.

As Andrew Liveris, chairman and chief executive of **Dow Chemical**, explains: "When it comes to biofuels and related products, Brazil is the leader. The US is thinking about it. Brazil is doing it."

But much of the interest is related to Brazil's own improving macroeconomic prospects. Cautious monetary and fiscal policy has stabilised the economy and paved the way for a steady expansion of domestic credit.

Sectors oriented to the domestic market, such as construction, are surging. Growth, which reached 5 per cent in 2007, is disappointing compared with that of China or India, but investors are increasingly confident that the wider domestic demand and rising rates of capital formation will allow Brazil to survive a slowdown in the US economy relatively unscathed.

Yet even some who are investing in Brazil express concern about obstacles to growth.

Marcelo Mosci, head of GE for Latin America, says failure to improve business conditions through labour and other reforms will create trouble ahead. "There are two Brazils. Investment is growing, the private sector is doing a terrific job. But [because of lack of reform] Brazil is hitting a big road block," he says.

For the moment, none of this is denting enthusiasm. As Emy Shayo, an economist with Bear Stearns, puts it: "People are totally in love with Brazil. Investors come here and they think it is the best country in the world." *Additional reporting by Jonathan Wheatley*

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