

# The Northeast Region of Brazil: Its Investment Environment and Ways to Expand Korea's Participation

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## Background

The purpose of this study is to analyze the investment environment of Brazil's northeast region, which has recently received a great deal of attention for its development potential. Suggestions are made for Korean companies that seek to expand investments and for the Korean government.

## Economy of Northeast Brazil

The northeast region of Brazil has a population of 53.6 million people, which re-

presents 27.8% of Brazil's total population. Its regional GDP is about USD 219 billion, which is 13.5% of total GDP of the country. The region has been considered as one of the lowest income-generating regions in Brazil. However, since the 2000s, it has grown rapidly while its average growth rate outperforms that of Brazil as a whole. Consequently, it has emerged as a new investment destination for foreign investors.

Its economy is mainly based on agriculture, mining, tourism and service. Historically, large-scale farming is its key industry. It particularly specializes in the pro-

duction of sugar and cocoa along with cattle breeding. Oil is exploited in the coastal area, and the refineries and petrochemical complexes are located in the continental platform. Tourism has been growing noticeably in recent decades.

Among the nine states in this region, Bahia has the biggest economy, which represents about 35% of the northeast region's GDP. Pernambuco is the second largest economy, which represents 18% of the GDP. In both states, the driving forces of development are mining, oil, petrochemicals and tourism.

## Investment Environment

Underdeveloped infrastructure has long been a main obstacle for the economic progress of the northeast region. However, as the economy of the region recently grows faster, the need for the investment on infrastructure is being more emphasized. The federal government launched the infrastructure investment program, known as Growth Acceleration Programme (PAC), which has been making progress. About 20% of the shares of the total budget of PAC were invested in this region.

As Brazil develops faster, the demand for labor has risen, making it difficult for companies to secure an adequate workforce. As the unemployment rate plunges to the lowest level, the shortage of labor becomes prevalent. The northeast area, however, records a relatively high unemployment rate, which indicates that the shortage of workforce is not a severe problem in this region.

The state and the federal governments offer variety of tax and financial incentives for investment. Tax incentives are mainly the reduction of corporate tax. State and federal

governments raise funds, such as the Northeast Development Fund (FDNE) and the Constitutional Financing Fund of the Northeast (FNE) and grant them to investing companies.

The middle-income class in the northeast region has expanded significantly due to the fast -growing economy. The class C, households who have an average monthly income that ranges from BRL 1,115 to BRL 4,800, accounted for 20.7% of total households in 2001. However, it grew to 34.6% in 2009, which implies that the region is emerging as a promising consumer market. It is also an attractive investment destination for securing natural resources such as oil, iron ore, natural gas, bio-ethanol, and etc.

## Foreign Direct Investment

Traditionally, foreign direct investment in Brazil was centered mainly in the southern and southeast regions, which have developed good infrastructures and highly qualified labor forces. This trend has been changing and the northeast area has been receiving increasing foreign direct investment. The industries that attract most of the FDIs are manufacturing, metal and mining. Particularly, the Suape Port and Industrial Complex has emerged as an attractive FDI destination. Moreover, the state and federal governments have been heavily investing on infrastructures for its improvement.

## Regional Development Plan and Investment Opportunities

There are three major development plans for the northeast region; 1) Northeast Regional Development Plan (PRDN), 2) Growth Acceleration Programme (PAC) planned by federal government 3) investment plan for 2014 FIFA World Cup.

Sudene, the Northeast Development Superintendence, executed the Northeast Regional Development Plan (PRDN) to alleviate the development disparity within the region and to transform the region into the growth engine of Brazil.

**Table 1. Northeast Regional Development Plan (PRDN)**

Guideline 1	Strengthening the small and medium enterprises of the region
Guideline 2	Training and education of the locals
Guideline 3	Constructing urban physical infrastructures, transport systems and communication infrastructures that are necessary to its internal and external integration
Guideline 4	Improving the competitiveness of the productive regional sector
Guideline 5	Promoting environmental sustainability
Guideline 6	Fostering the northeastern culture for social inclusion and regional development
Guideline 7	Strengthening state and local governments as agents of development

Source: Sudene (2010)

The first phase of PAC, which was launched in 2007, ended in 2010. The federal government initiated the second phase under the name of PAC-2. PAC-2 allocates about 24.6% of its budget to the northeast region. Investment projects are planned in energy, housing, transportation, urban infrastructure, electricity, water, and public service.

**Table 2. PAC-2 investment plan in the northeast region**

Unit: billion Real, %				
State	2011 –2014	After 2014	Total	Share (%)
Alagoas	7.54	1.19	8.73	2.2
Bahia	44.62	34.81	79.43	20.3
Ceara	28.32	35.09	63.41	16.2
Maranhao	22.83	44.89	67.72	17.3
Paraiba	10.86	1.91	12.77	3.3
Pernambuco	58.01	17.67	75.68	19.4
Piaui	11.73	7.71	19.43	5.0
Rio Grande do Norte	22.94	18.68	41.62	10.7
Sergipe	9.27	12.64	21.91	5.6
Northeast(A)	216.12	174.59	390.7	100.0
Brazil (B)	958.9	631.6	1590.5	
Shares(A/B)	22.5	27.6	24.6	

Source: PAC-2 ([www.brasil.gov.br](http://www.brasil.gov.br))

The federal government plans to invest about USD 14 billion to prepare for the 2014 FIFA World Cup and 2016 Olympic games. In the northeast region, major investment projects are planned for Fortaleza, Salvador, Natal and Recife.

**Table 3. Investment and cooperation opportunities for Korea**

Sectors for investment opportunity and bilateral cooperation	Grounds for selection
Sharing Korea's knowledge of economic development	- PRDN aims for regional economic development - Cooperation field: modernization of industrial complex, capacity building for technological progress and innovation, fostering knowledge-intensive industry, building regional production cluster, strengthening small and medium companies
Knowledge intensive industry	- PRDN intends to improve competitiveness - Cooperation field: renewable energy, biotechnology, medicament, nanotechnology, ICT
Energy	- PRDN and PAC-2 prioritize renewable and clean energy development
Transportation	- PRDN and PAC-2 include the improvement of transportation infrastructure
Communication infrastructure	- PRDN plans the construction of high-speed communication network
Electricity and water	- PAC-2 prioritizes the improvement in the supply of electricity and water
World Cup-related projects	- Host city: Fortaleza, Salvador, Recife, Natal - Sectors: construction of urban transportation systems such as BRT and LVT, stadium renovation, construction of hotels and airports

## Assessment of Korea's Investment

Korea's investment in Brazil has been examined. The results propose that the investment amount has been increasing rapidly and Brazil ranks the eighth largest investment destination for Korean companies. Second, most of the investors are conglomerates and the investment flows mainly into manufacturing and mining sectors. Third, Korea's investment is concentrated in southeast region of Brazil. Fourth, investment motivations access Brazil's domestic consumer market and seek resources for production. Fifth, investment performances are mostly successful. Sixth, the greater part of the investing Korean companies is favorable to signing an FTA between Korea and Brazil. Lastly, Korean companies point out the necessity of improving Korea's image in Brazil.

## Suggestions for Expanding Investment

Suggestions to expand Korea's investment in Brazil at the corporate level include: 1) entry strategy based on classification of investment purposes 2) active participation in government projects 3) diversification of investment regions 4) expansion strategies tailored to regional characteristics 5) collaboration with local companies. As for suggestions at the government level, they include: 1) enhancement of institutional cooperation with local governments 2) expansion of Knowledge Sharing Programs (KSPs), consultation projects designed to share Korea's development experience with developing countries 3) establishment of the Korea-Brazil economic cooperation center 4) creation of exclusive industrial complex for Korean companies.

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