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BRAZIL–SA: (Not) Doing Business across the Atlantic

Disappointingly little business is being conducted between Brazil and South Africa, arguably the most important economic powers in their respective regions. The reasons for this are varied, but have mostly to do with a lack of informed awareness about each other's markets. The potential for significant co-operation is certainly there, it is just a matter of identifying it and acting on it.

	Brazil (US$ million)		South Africa (US$ million)	
Population	163.689	5th position	40.604	27th position
Area sq. km	8.512	5th position	1.221	24th position
GNP US$ million	784.044	8th position	130.151	31st position
GNP per capita US$	4.790	73rd position	3.210	89th position

(World Bank Atlas Method), *Source: World Bank, 1997*

Brazil is the fifth largest country in the world both in terms of population size (163.6 million) and landmass (8.5 million sq.kilometres). Brazil has the eighth largest economy (US$784 billion) after the United States, Japan, Germany, France, the United Kingdom, Italy and China.

In fact, Brazil is, after China, the largest industrial powerhouse in the developing world, with a larger steel industry than France or the United Kingdom and huge automobile, electronics, petrochemical, shoe, clothing, paper, agricultural, mining and shipbuilding industries.

Following the country's emergence from the hyperinflation and debt stranglehold of the 1980s, Brazil is certainly on the conceptual map of international investors. Foreign direct investment (FDI) in Brazil amounted to US$108.4 billion in 1996. The country now ranks ninth in the world among recipient nations according to the 1997 UNCTAD *World Investment Report*. Among developing countries, Brazil is the second largest recipient, being surpassed only by China.

Much of this investment has gone into industries based in and around the city of São Paulo, the largest megacity in the world after Mexico City and Tokyo. With more than 10 million people São Paulo accounts for 45-50% of Brazil's industrial activity. In fact, German business often refers to São Paulo as the 'largest German industrial city in the world' — given the prominence of various German multinationals.

In short, everything in Brazil is big.

However, despite Brazil's colossal status South Africa still gives the country little more than a cursory glance. The state visit of **Henrique Fernando Cardoso** to South Africa in November 1996, and the reciprocal visit by then-President **Nelson Mandela** in July 1998, have contributed to raising Brazil's political profile in South Africa and vice versa. But these visits in themselves have not yet sparked major South African business interest and entrepreneurial spirit in the Brazilian market.

In fact, after a surge in trade between Brazil and South Africa at the beginning of the 1990s, peaking in 1996 with US$706 billion, bilateral trade has actually steadily decreased over the past two years to US$497 billion.

Accounting for less than 0.6% of Brazil's international trade, South Africa is not even among the country's first 25 trade partners which include South Korea and Thailand.

The reasons for South Africa's poor showing in Brazil are numerous:

Firstly, historically Brazil — and South America — has been eclipsed from South Africa's *political and* business priorities by the European Union and North America, and more recently parts of Asia.

Secondly, despite the political rhetoric to the contrary, the South African Department of Trade and Industry (DTI) has only recently started to give Brazil and South America more dedicated attention. According to **Irene Vida Gala,** Head of the Southern Africa Division at the Brazilian Ministry of Foreign Affairs, this is largely based on the special relationship between Brazil's Foreign Minister **Felipe Lampreira** and South Africa's Trade and Industry

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Bilateral Trade Brazil and South Africa 1985-1997

	1985	1990	1994	1995	1996	1997	1998
Exports to SA	52.93	166.68	223.54	260.92	291.89	331.08	219.66
Imports from SA	18.55	74.15	224.03	333.11	414.46	365.29	278.17
Balance for Brazil	34.39	92.53	-0.49	-72.19	-122.58	-34.21	-58.51
Flow of Trade US$	71.48	240.84	447.57	594.04	706.35	696.36	497.83

Source: South African Embassy Commercial Section

Minister **Alec Erwin.** Yet, much more work remains for the DTI to do to raise the profile in South Africa of business opportunities in Brazil. It is essential in this regard that more structured co-ordination and information exchange between the South African representatives in Brazil, DTI in Pretoria and South African business is promoted.

Thirdly, both countries still perceive each other through stereotypes. Brazil's gigantic industrial strength is generally obscured in the minds of South African business by images of the Rio carnival, the Amazon, soccer and coffee. Similarly, Brazilians tend to see South Africa merely as the home of the Big Five, as opposed to the economic driver of the Southern African region. Both countries need to overcome a significant amount of scepticism about the quality of products the other produces.

"Economic activity has made Brazil the equivalent of China in South America"

Fourthly, Numerous South African business delegations have found themselves ill prepared for the magnitude and regional diversity of Brazil. South African business is often taken aback by the enormity and complexity of the Brazilian economy and market. While much is made of the many similarities between South Africa and Brazil — both are regional hegemons; both have to balance the exigencies of globalisation with the domestic imperative of levelling stark inequalities and uplifting the poor; both have to address complex race dynamics, albeit from different points of departure — this may lead South African business people into a so-called 'false sense of familiarity'. The two countries are certainly not comparable in scale. Thirty years of large-scale industrialisation and particularly the past decade's revitalisation of economic activity has made Brazil the equivalent of China in South America. São Paulo's sea of skyscrapers is far more comparable to Chicago and Tokyo than greater Johannesburg.

Fifthly, the English-Portuguese language barrier is an obstacle to closer linkages between South Africa and Brazil. Usually only the higher levels of management speak English. Proficiency in Portuguese is definitely required for daily interaction and broader access to information. Brazilian companies, associations and institutes are becoming more conscious of the Portuguese barrier. Basic information and statistics are usually available in English, and most websites offer an English version as well — although, ironically, on the albeit very informative website of the South African Consulate in São Paulo, information on business links with Brazil is only available in Portuguese, while information on South Africa is available in English.

Much has been made of co-operation between Brazil and South Africa in the automotive sector. Brazil has been targeted as a major global automotive assembly centre for the southern hemisphere. With few exceptions, all the major car assemblers and manufacturers have set up or are in the process of setting up operations in Brazil. South Africa too has a significant automotive industry, albeit smaller. Some co-operation between the two already exists. A particularly interesting venture is the joint production of the Opel Corsa. The car is manufactured in Brazil, and shipped to South Africa in knock-down version, to be assembled by Delta Motors South Africa. Various other parts such as tyres, windscreens and alloy wheels are sourced from South African producers. Moves are also under way among other automotive producers in both countries, such as DaimlerChrysler, to set up joint projects across the South Atlantic.

Yet, while this sector is obviously important, other sectors and fields of opportunity should not be ignored. In fact, **Isabella Oberholzer,** Vice-Consul in São Paulo, argues that South Africa should not only concentrate on the automotive sector given current realities within Mercosur. Following the effects of the Asian financial crisis and Brazil's currency devaluation in January 1999, the cohesion and consolidation of Mercosur has been severely strained. Key Argentine industries, such as the automotive sector, have been negatively affected by Brazil's recent tariff increases and fluctuations. Brasilia and Buenos Aires have clashed repeatedly over the automotive sector recently and passed various retaliatory measures, to the point that some even fear that the grouping could fall apart over this issue. If Brazil is willing to take the political risk of pushing its closest economic partner, Argentina, to the wall on this issue, what are the chances for the

South African automotive sector to make significant headway into Brazil?

Instead, **Jan Castelyn**, South African Consul-General in São Paulo, suggests a number of other areas where South African business, including small and medium-sized companies, can find a competitive edge.

Tourism: Brazil is a popular tourist destination that offers a number of possibilities for South African business. While the traditional tourist centres such as Rio are well developed, the newer tourist hotspots along the north-east coast, for example, offer enormous opportunities for international hotel chains. South African hotel groups could certainly be competitive participants in this development. Moreover, gambling has only recently been legalised in Brazil, but nothing equivalent to Sun City exists in Brazil as yet.

Moreover, more should be done to promote South Africa as a family holiday destination for Brazilians. Brazilian tourists are generally big spenders. In addition to promoting the regular holiday experiences, the South African Consulate in São Paulo found that a 'new' tourism market is developing among young Brazilians coming to South Africa, Cape Town in particular, for a couple of weeks to improve their English language ability. Why not tap into this particular market by offering specific tour packages combining intensive language courses with the natural splendour of South Africa? This would obviously be marketable not only in Brazil, but in various other countries as well. So-called 'language holidays' are by no means a new idea. A number of Latin American countries, particularly Spanish speaking Central American and Caribbean countries, have honed in on this type of tourism for Spanish language students.

Wines: The quality of South African wines is renowned internationally and certainly appreciated in Brazil too. But South African wines are very difficult if not impossible to buy in Brazil. Anecdotes abound of dedicated wine connoisseurs having to obtain South African wines via countries as diverse as Australia and the Czech Republic. While the southern region of Brazil produces some good wines, most good wines are imported from Europe, the United States or Chile and Argentina. The absence of good South African wines in Brazil is partly due to high tariffs — an issue the South African government could take up with Brazil. South African wines enter Brazil at a higher tariff level than wines from the Mercosur region, or those from Europe and the United States. Moreover, until recently KWV did not have an official presence in Brazil. Their new offices in São Paulo should go some way to rectify this situation. Currently, only *Amarula* is relatively readily available in Brazil, albeit at triple the South African prices.

Software and electronics: Another area where South African business could gain a competitive edge is in the computer software realm. South Africa has, for example, built up a significant capacity for administration systems for medical aids, pension schemes, insurance packages and the like. Denel has developed a highly sophisticated fingerprint-based access system to replace the card-swiping system. There is a large demand for these types of services. Given high crime rates and the constant fear of executives and their families being kidnapped, most office buildings in São Paulo have strict access control systems as do many cordoned off residential areas. The South African programmes and systems are as advanced as those marketed by the United States, France or Germany, but given the weak standing of the *Rand*, they are much cheaper than the North American or European equivalents.

Furthermore, South Africa's preoccupation with anti-theft mechanisms and crime prevention devices could ironically give local companies and entrepreneurs a competitive edge in Brazil. Car theft,

Where are the opportunities?

Main Exports to SA, (US$ million)	1997	1998
Automobiles	78.43	33.58
Agro-Industrial products	34.44	24.64
Machinery, motors, equip.	22.20	21.62
Chemical products	34.44	18.88
Autoparts	24.25	16.08
Electric-Electronic Motors and Apparels	16.76	9.86
Nickel cathodes	0	7.62
Iron and steel products	13.01	6.33
Plastics	6.75	5.88
Other	87.33	62.03

Brazilian Embassy in Pretoria

Main imports from SA, (US$ million)	1997	1998
Coal and Coal products	87.46	82.64
Chemical Products	55.37	54.67
Transport Materials	3.59	25.05
Precious Metals	20.97	20.01
Iron and Steel Products	20.46	18.13
Nickel cathodes	0	12.36
Automobiles	8.31	9.86
Mineral Products (excl. coal)	4.62	5.87
Machinery, motors and equip.	21.02	4.24
Other	127.82	38.07

Brazilian Embassy in Pretoria

Useful websites

Brazilian Ministry of Exterior Relations
http://www.mre.gov.br

National Confederation of Industries (CNI)
http://www.cni.org.br

Federation of Industries of the
State of São Paulo (FIESP)
http://www.fiesp.org.br

South African Consulate in São Paulo
http://africadosul-consp.org.br

Brazil-South African Chamber of Business
http://brazsafricachamber.com

for example, has grown more than any other type of crime in Brazil. São Paulo saw a 45% increase in car robberies in the first quarter of 1999 compared with last year. Various South African devices could be marketed in Brazil. Given the growing fear of kidnapping, many wealthy Brazilians are armour-plating their cars. Currently, most armour-plating is done by an Ohio-based company. South Africa, and Mechem in particular, has developed a range of technologies in this field that would find a large market in Brazil.

While these are essentially niche markets, **Milton Briguet Bastos** of the São Paulo Business School, says 'South African business has to recognise that a niche market in Brazil might well represent a major business venture in South African terms, given the size of Brazil'. Bastos should know. For the past couple of years he has been facilitating the import of South African nylon fibre into Brazil that is used for almost all the seatbelts manufactured in the country. Similarly, a Port Elizabeth-based company is exporting alloyed rims to Brazil, while another is supplying all the cooling systems for Land Rovers assembled in Brazil. Thus Brazil should not necessarily only be approached by large companies wanting to grab a lion's share of the market, but should also be considered by smaller companies that focus on a particular product. A niche market in Brazil is not equivalent to a niche market in South Africa.

The converse seems to apply for Brazilian companies coming to South Africa. For Brazilian firms to seriously become involved in South Africa, they have to identify a large market 'to warrant crossing the Atlantic'. The Brazilian bus manufacturer, Marco Polo, has made significant inroads into the South African market in this regard. The South African DTI representatives need to raise the profile of such opportunities with Brazilian companies.