

The Case for Investing In Brazil: Growth & Resources

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Investing in Brazil has been attractive for many global investors in recent years. Following decades of previous boom/bust cycles, political instability, currency crises and inflation, the past decade has been remarkable. Brazil has experienced real economic growth at a rate that is double that of the United States, as well as moderate inflation, declining interest rate, and huge flows of foreign investment. Millions of citizens have been lifted out of poverty and the economy is now approaching full employment after experiencing only a mild recession in 2009. Investors in the U.S. may ask themselves if it is still a good time to invest in Brazil.

To help put the Brazilian investment opportunity in context, let's examine some of the reasons for why there has been so much attention paid to Brazil for the past decade, and why there is reason to be optimistic about the future. Here are the top 10 facts about Brazil that might surprise you:

1. Brazil's annual economic output is greater than all other South American countries combined
2. Brazil is the 4th largest creditor of the United States, currently holding more than \$200b of U.S. Treasuries
3. Brazil's largest trading partner is China
4. Brazil has 14% of all the fresh water on the surface of the earth
5. Brazil has 11% of all the available arable land on the earth
6. Brazil is the world's leading producer of iron ore and is the world's largest exporter of beef, chicken, coffee, sugar, orange juice, and tobacco
7. 80% of all the electricity generated in Brazil is produced hydro-electric facilities, making Brazil the "greenest" of all major economies and providing very cheap electricity
8. In 2010, 50% of all the new oil discoveries around the world were made in Brazil
9. Brazilian became a net exporter of crude oil in 2009
10. Brazil is the world's largest exporter of ethanol

This all seems like pretty amazing stuff for a country that has less than 3% of the entire global population, and demonstrates part of the case to be made for investing in Brazil. Essentially, Brazil is a country with vast energy and agricultural resources, a stable political system, an expanding middle class, and a fast growing economy that is being driven both by domestic consumption as well as foreign trade. Brazil produces goods and services that are in heavy demand by the rest of the world and the country is positioned to do well for many years to come. The Brazilian middle class will continue to expand, leading to substantially higher levels of domestic consumption and growth of consumer-oriented

companies. Many multi-national companies are investing in Brazil by deploying growth capital into new facilities in the country.

In addition to extraordinary mining, materials, and agricultural resources, Brazil also has something that is lacking in so many other resource-rich nations: scientific and technological expertise. As just one example, Brazil is home to Embraer – the world’s 3rd largest manufacturer of aircraft behind Boeing and Airbus, and one of Brazil’s largest exporters. If you’ve ever flown on a regional passenger flight in the U.S., chances are you’ve flown on an Embraer aircraft. Having the technology to design, develop, and manufacture large scale commercial and military aircraft is a capability that only a small number of countries possess and it may be fair to say that Brazil is the most technologically sophisticated of all the emerging market economies. Incidentally, Brazil will also host the 2014 World Cup and the 2016 Summer Olympics.

It should be noted, of course, that Brazil is not without its problems. Its homicide rate is 4 times that of the United States and the country has considerable problems with gangs and corruption. In order to continue its growth trajectory, Brazil must continue to invest heavily in infrastructure so that goods can be readily moved to market, whether for internal consumption, or for export. Until 10 years ago, Brazil was perhaps most well-known for its history of high inflation, political instability, and currency crises, and many investors question if the current economic miracle is sustainable, or simply another intermission between crises. This is a valid question. Historical analysis is critically important for investors to understand the potential risks and rewards in a given investment opportunity. But as Warren Buffett once said, “If past history is all there was to the game, the richest people would be librarians.”

For those looking to invest in Brazil, I think it is important to study the past and learn from it, but it is more important to evaluate the present conditions, and to invest for the future. On balance, the future for Brazil is likely to be bright, and globally-oriented investors may be well-served to evaluate the present circumstances for themselves, and to invest for the future.