**II. Analysis of the international business situation**

1. **Economic, political and legal analysis of the trading country**
   1. **Describe the trading country’s economic system, economic information**

**important to your proposed business/ product/ service, the level of foreign investment in that country:**

Brazil has a mixed economy, combining free market principles and central government planning. Brazil has a few very large sectors in their economy including mining, agricultural, and manufacturing. Some industries, such as railroads and utilities, have been privatized and the central government plays no part in running them. Other industries, such as energy, have a large amount of government intervention. An example of this is with the company Petrobas, which is the country’s largest energy company. The central government owns over 50% of this large company. Brazil also has an ever expanding middle class. This growing section has helped Brazil reduce its national debts, steadily improved its macroeconomic ability and build up its foreign reserves. In addition, tax breaks and increases in the average wage paid to workers has led to more money circulating in the market. The current unemployment rate is 4.5%, which is a record low for the country. Brazil’s traditionally high level of income inequality has decreased for each of the last 15 years, continuing to contribute to the high number of citizens joining the middle class. Having a large amount of people in the middle class is great for our business. With more people having excess money to spend on luxury items, such as the cars that we will produce, our sales will always be increasing. Brazil seeks to strengthen its workforce and its economy over the long run by imposing local content and technology transfer requirements on foreign businesses, by investing in education through social programs such as Bolsa Familia and the Brazil Science Mobility Program, and by investing in research in the areas of space, nanotechnology, healthcare, and energy.

Two of the largest sectors in Brazil are service and industry. The service sector makes up 23.8% of the gross domestic product and includes the "soft" parts of the economy, which are activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability, which is termed as affective labor. This is great for the car industry because the actual selling of the cars is classified in the service section. The industry sector makes up 70.4% of the national gross domestic product. Industry is the production of goods and services. The fact that nearly three quarters of the whole gross national product is from producing goods, which includes the production of cars, is a very encouraging fact.

In our business idea, we are bringing a general motors factory to Brazil. We will produce the cars and sell them right in Brazil. This helps reduce the amount of imports on cars. Cars are the second most imported good in Brazil, accounting for 5.5% of all imports. Because a lot of the cars being sold in Brazil are imports, they have an increased price. If opening a company helps reduce the price of the cars we sell, then we can be more competitive in the market when selling goods.

**Brazil conducts business in a mixed economic system. This means the market operates on free market principles of supply and demand but includes government involvement. Examples of the mixed economy system can be found throughout the Brazil market. Some industries, such as railroads and utilities, have been privatized and the central government plays no part in running them. Other industries, such as energy, have a large amount of government intervention. An example of this is with the company Petrobas, which is the country’s largest energy company. The central government owns over 50% of this large company. Being in a mixed economy has several advantages and disadvantages. Some advantages include competition keeping prices low, consumers get to choose what products they want, and the private sector is encouraged to conduct business by being able to make a profit. Some disadvantages include heavy taxes from the government take away some profits, the government sector is less efficient than the private sector, and if the government gets too involved in business activity, enterprise can be discouraged by the additional costs of doing business with the government.**

**In 2013, Brazil had a GDP per Capita of 11,208.08 in US dollars. This number is important in comparing how productive Brazil is to other nations. This number is very healthy in comparison to other developing nations as Mexico has a GDP/capita of 10,307.28 and India has a GDP/capita of only 1,498.87 in US dollars. Brazil still has a very low GPD/ capita in comparison to the US however, who has a GDP/capita of 53,041.98 dollars. This is a number Brazil should be aiming for, and with time if Brazil continues to develop they can reach a comparable number. In addition to the GDP per capita, Brazil has a current unemployment rate is 4.5%, which is a record low for the country. This is a fantastic number for Brazil, indicating the economy is doing great. Unfortunately not everything is promising as the unemployment rate, as 21.4 percent of people currently live below the poverty line.**

**Being a foreign company, looking at the level of direct foreign investment is important. In 2014, foreign direct investment in Brazil reached 62 billion US dollar, coming primarily from the Netherlands, the USA and Luxembourg.**

* 1. **Describe the trading country’s governmental structure and stability, how the government controls trade and private business:**

Brazil has a federal republic for government. This system is very similar to that of the US, as the people elect members to the three branches of government. The federal government is lead by a president, who has a cabinet to help advise them. The current president is Dilma Rousseff who is a part of the workers party, and the current vice-president is Michel Temer who is a part of the democratic movement party. The workers party is a left wing group who after the 2010 elections became the largest political party in Brazil. The democratic movement party is a big tent party with no real ideology. Elections take place every four years, with the president serving 4 year terms and members of the senate serve 8 year terms. In 1964, Brazil began a revolution which ended in several military dictators being put in charge. This lasted for over 20 years until democratization movements started again. Ever since then, Brazil has been in a federal republic, but there is still a considerable amount of corruption in government.

According to the Heritage index, Brazil has a corruption score of 3.7 out of 10 points. The lower the score is for a country, the more corrupt they are, and the higher the score, the “cleaner” the country is. As a result, a score of 3.7 shows that a lot of corruption is indeed present in Brazil. However, when compared to other major countries worldwide, it's ranked 69th out of 178. This shows that although Brazil does have corruption present, it could be much worse such as the corruption level in middle-eastern countries. Over the past five years, Brazil has had a slow decline in its political risk score. From a score of 75 in 2010, to 73 in 2011 and 2012 to 71 in 2013 and 2014, it has undergone a four point reduction. Brazil has a Political Stability index of -2.8 (-2.5 weak; 2.5 strong). This means that there's a high likelihood that the Brazilian government could be overthrown by violent means or unconstitutional means.

Brazil is heavily involved in political globalization. With an index of 94.72, Brazil is one of the countries with the highest number. This number means that there are many embassies and high commissions in Brazil. In addition, it means that Brazil is a member of many international organizations and is currently part of a wide variety of international treaties as well. As for freedom of trade in Brazil, it has an index of 75.4 this year. A score of 75.4 puts a country under the “mostly free” category. This means that the government is not very strict regarding trading policies within the country. Although some regulations are set in place, the people themselves have many freedoms to start up their businesses and conduct business the way that they want to. Brazil recorded a trade surplus of USD 2.94 billion in September of 2015. This means that the country is currently having success with its businesses and economy.

In order to successfully start a business in Brazil, there are many bureaucratic factors that must be taken off. Opening a company in Brazil can take up to 4 months for everything to become processed. This is because there are many governmental bodies that the company must pass through in order for it be recognized as a business. The average cost for opening a business is 2038.00 BRL. This price will fluctuate a lot. Depending on the stage/province that the business is trying to built on, the price may be higher or lower, depending on the wealth of the location. In addition, the size of the business itself is important because it decides how much the fire brigade fee (makes sure emergency exits, fire fighters, and fire equipment is up to date) will be. Also, the sanitary fee varies according to the total square footage of the establishment. Lastly, the Treasure Office expenses will vary, depending on how much taxing is involved in the company.

* 1. **Describe laws and/or government agencies that affect your business /**

**product / service:**

Brazil is a country in which one must carefully pay attention to its laws and regulations. In previous years, Brazil has been closed to foreign trade, but as time has passed, Brazil has become more and more involved with international investments. However, foreign investors must take careful note if they are seeking to bring their company to Brazil.

Every foreign exporter must file an application for an important license. The Brazilian Trade Ministry performs an analysis for every import that wants to come into Brazil. The importer must provide specific information such as the financial background of both the exporting and important firm. A “certificate of origin” can often be regarded as the most important document when importing goods to Brazil. This document identifies the country and corporation of origin, containing international legal basis for identification.

Despite having a thorough process for identifying imported products and having many regulations to go through, a newly created computer program called the Siscomex system has been created in hope of making tracking all imports and exports. Overall, it's purpose is to facilitate trading. Each **licensed** importer has their own password in which they permit the firm to track the movement of its product within the country. In all, Siscomex is almost a necessity if you're interested in trading in Brazil.

Workers' vacation is Brazil is very important. Any worker receives 30 days of paid vacational leave per leave. The vacation may be annual- the employer sets up a period for each individual, or collective- when the whole company gets vacation at the same time. In order to receive all 30 days of vacation, a worker must now have missed more than five unjustified absences in that year. If more than five absences occurs, days are diminished accordingly. Certain exceptions take place for these absences such as the death of an immediate family member, if the worker has just been married, absences due to military service, etc. In addition, unless the job is essential for operation of the company, it is forbidden to make employees work on national and local holidays according to Brazilian law. If a worker does end up working on a holiday, companies must either award them with double the salary for that day or a compensatory day off.

Brazil also takes part in the LAFTA- Latin American Free Trade Association. Countries in this include Brazil, Argentina, Mexico, Peru etc. The purpose of this association is to establish common tariffs among the countries. It encourages trading within the countries so they have positive relations with one another. LAFTA applies to only goods, not services.

**B. Trade area and cultural analysis**

1. **Geographic and demographic information, important customs and traditions, other pertinent cultural information, competitive advantages and disadvantages of the proposed product and/or service.**

**2. Market segment analysis target market (age, income level, population estimate, other specific demographic and economic information) customer buying behavior related to the proposed product and or service.**

 Brazil has a relatively young overall age in their country, with a mean age of 27 years old. Brazil is evenly split between men and women, with women having a much larger life expectancy than men. The age group of 16-25 year olds is the largest age group in Brazil with 16.5% of the population falling in this group. This means that if we are to have a successful business in Brazil, it would be smart to cater to this group. Since we are opening a factory there, it could be smart to look towards this group for workers. It would also be smart to market to this group. Making our cars seem adventurous or fun would make them very appealing to this age group.

1. **Analysis of the potential location—importance and requirements of each trade document required by the U.S.A. and/or Canada and the country of choice**

We choose to go to Brazil for several reasons. Brazil has a very high ability to supply electricity to its buildings. This is a great thing for our business because we are bringing a factory to Brazil to build the cars, which will require a lot of electricity. Brazil also has a high rank when it comes to enforcing contracts and resolving insolvency. This is a positive for us because when we make business deals people won’t be able to go back on their deals, and if they try to we can resolve the issue quickly and efficiently. We have decided to take our factory to a very specific region of Brazil, which is Minas Gerais. This state is the second most populous and the third best when it comes to Gross Domestic Product. Having a very populated country is great for our business. Opening a factory will create a lot of jobs for the people of the region and they will have enough people to fill the jobs. Another positive of having a populated state is there will be plenty of people to purchase our cars once they have been produced. A positive of having a state with a high GDP is there will be wealthy people who can afford to purchase our cars. The states capital and largest city, Belo Horizonte, is a major urban and finance center for the whole of Latin America. Minas Gerais has a very strong economy which is dominated by the service sector, 47.1%, and the industrial sector, 44.1%. There is a few competing car companies already in Minas Gerais, including Fiat and Mercedes-Benz. Mercedes Benz won’t be competing with us directly as they produce more luxury cars for high end consumers. We plan on producing cars that tailor to the middle class, in both cost and features of the cars. We have an advantage over Fiat as the people of Brazil prefer American brands over other countries brands. That means when we go into the market, people will want to buy our cars over the cars produced by other factories in the area.

In order to export items from the United States to another country, a lot of paperwork has to be processed. One of the most important of those documents is the Export Packing List. Information that is included in this document is the seller, buyer, shipper, invoice number, date of shipment, description, etc. Another important document is the Airway Bill, which are shipper-specific (Fedex, UPS, etc). Almost every company will also have to provide an insurance certification. This is to ensure that any damage or loss of items during transportation will be covered. Many times however, the airway bill itself can serve as the insurance identification for air shipments. In addition, a Certificate of Origin is required which decides whether a CO is necessary with the prospective buyer.  
  
To export from the US and import into Brazil, registration with the Foreign Trade Secretariat (SECEX) must take place. In addition, depending on the product being imported, Brazilian authorities will sometimes require more documents to be complete. An example of this is that products which may affect the human body such as vitamins and cosmetics must go through the Ministry of Health to assure that it is deemed safe for human use. As a result, they must be registered with them (MoH) and the process sometimes might be slightly complex and/or sometimes time consuming, which all still depends on the product.