BRAZILIAN INVESTMENTS ABROAD: REMOVE OBSTACLES TO THE MARKET

- *Brazil's declining position as an investor abroad is a factor of concern for industry, since this is a strategic activity that yields benefits to companies and to the economy as a whole.*
- *Brazil is yet to adopt a consistent policy to support the investments of its companies abroad.*
- *The tax treatment granted by countries - especially with regard to profits from investments abroad - is the most important element of a successful policy designed to ensure the competitiveness of the operations of companies abroad.*

Brazil has been a latecomer among emerging countries in the process of internationalizing its companies. The country has been consistently losing share in the flows and stock of investments abroad, including to smaller economies such as Chile, Malaysia or Mexico, which have been supporting the investments of their companies abroad more intensely.

For companies competing globally, internationalization is not an alternative, but a necessity and part of the dynamics of international competition. Failure to make productive investments in other countries may result not only in a company losing share in the global market vis-à-vis competitors, but also in its weakening in the domestic market, with negative impacts on job creation and on the country's competitiveness.

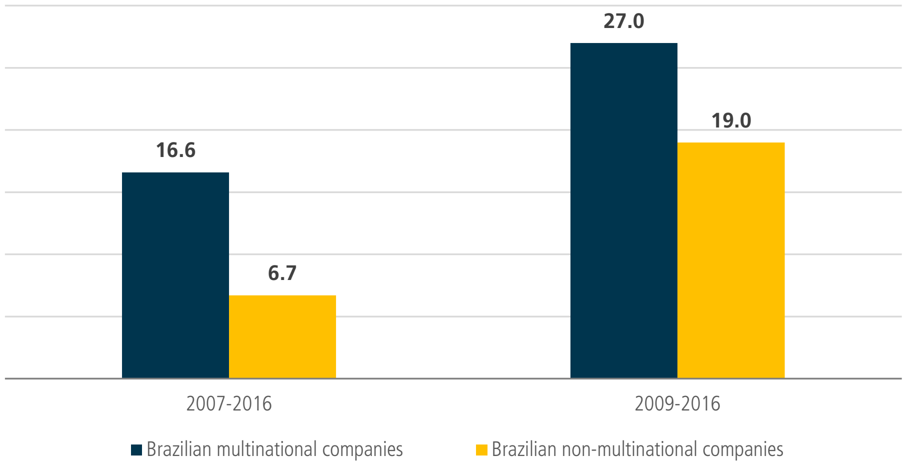
Internationalization is the path for facing technological and productive transformations. Investing in factories or in export-supporting activities, after-sales services and research and development in other countries is often not a choice, but a necessity for companies to preserve their product lines, to know what their competitors are doing in the technological realm and to have access to research centers and cutting-edge technologies.

Investments abroad yield benefits to the economy of a country as a whole and not only to investor companies. Case studies on internationalized companies conducted in Brazil and abroad confirm that investments abroad have a positive impact on productivity and boost innovation as new technologies and better management practices are incorporated into their domestic operations.

Brazil is yet to adopt a coherent set of policies contributing to an environment that enables companies to invest abroad on equal terms with their competitors.

The rules applied to taxation on the profits of Brazilian multinational companies (taxation on profits on a universal basis) burden their operations abroad and reduce their competitiveness. In addition, Brazil is yet to enter into double taxation agreements (DTAs) with strategic partners, improve its transfer pricing law, reduce labor expatriation costs and create instruments against political risks in its operations abroad.

ACCUMULATED EXPORT GROWTH: COMPARISON BETWEEN BRAZILIAN EXPORTING COMPANIES WITH AND WITHOUT INVESTMENTS ABROAD (BRAZILIAN MULTINATIONAL AND NON-MULTINATIONAL COMPANIES) (%)



Source: FUNCEX/CNI based on IBGE data.

Main recommendations

A consistent policy for supporting investments abroad needs to address at least four policy areas that affect the competitiveness of Brazilian transnational corporations. The main recommendations for each area will be listed below:

Taxation

1 The Brazilian tax regime for profits earned abroad should be improved.
2 The criteria for countries to be eligible to the facilitated tax regime (RTF, in the Brazilian acronym) should be reviewed.
3 The Brazilian DTA model should be better aligned with the OECD model convention and the Brazilian DTA network should be expanded.
4 The Brazilian transfer pricing law should be improved.
5 The Tax on Financial Operations (IOF, in the Brazilian acronym) on investment operations abroad should be reduced to zero.

Labor and social security law

6 The labor expatriation law should be updated.
7 The Brazilian network of social security agreements should be expanded and improved.

Finance and guarantees

8 A guarantee against political and extraordinary risks should be granted through the Guarantee Fund for Exports (FGE, in the Brazilian acronym).
9 An instrument for the FGE to grant a guarantee against risks involved in direct investments of Brazilian companies abroad should be created.
10 Guarantees should be provided for financing operations in the international financial market or in the local financial system of the country of destination of the investment.

Investment agreements

11 The Brazilian network of cooperation and investment facilitation agreements (CIFAs) should be expanded.
12 Close communication channels between government and Brazilian transnational corporations should be kept during the negotiation and implementation of CIFAs.
13 Investment agreements already entered into by Brazil should be internalized at a faster pace.
14 An Ombudsman should be appointed at the Brazilian Foreign Trade Chamber (Camex).

The full version of the document can be accessed through the QR code on the side or at: http://www.cni.com.br/eleicoes2018/downloads/ This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasília-DF, July 2018.

CNI
National Confederation of Industry
Brazil
CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY