



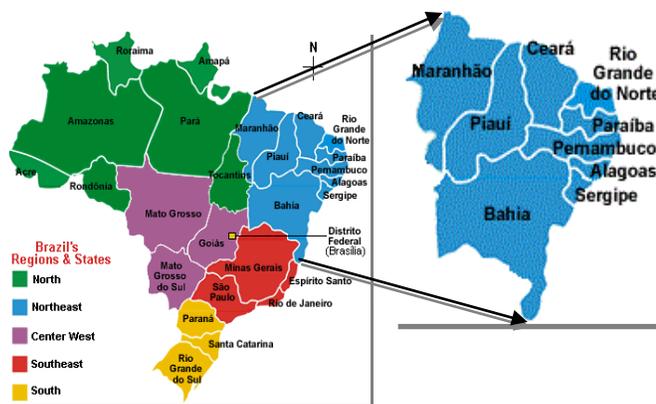
Brazil: Recife & the Northeast

CS Recife
Last update: May 2015

Summary

This is a brief introduction for U.S. firms about business opportunities in Brazil's rapidly-growing Northeast region. Please consult the [Country Commercial Guide: Doing Business in Brazil](#), which contains more detailed information on the country as a whole.

The consular district (Bahia not included) is geographically equivalent to the size of Venezuela with economic output similar to that of Peru. The state capitals of Recife, Salvador, and Fortaleza are the three largest population and economic centers. The region encompasses the historic center of Brazil, where the Portuguese first landed and built their colony in South America. For centuries an agricultural center, billions of dollars of investment and improvements in infrastructure recently have diversified the economy and led the region to grow at rates faster than the nation as a whole. With room for further economic growth and development, the Northeast offers the potential for impressive returns for U.S. firms wishing to tap into the commercial opportunities of this relatively undiscovered market within Brazil.



Geography & Demography

Brazil is generally divided in five main geographical regions: North, Northeast, Central-West, Southeast, & South. The Northeast encompasses nine states (**Alagoas, Bahia, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, & Sergipe**). It has an area of approximately 600,000 square miles, which represents about 20% of the national territory.

The Northeast has an estimated population of 55.8 million (IBGE 2013 estimate), or about 30% of the country. The region's population grew by approximately 50% over the past 30 years as migration patterns changed and the region attracted more people than it lost. The states of Bahia, Pernambuco, and Ceará, in this order, are the most populated states, home to almost 60% of Northeastern residents.

The majority of the region's inhabitants live in coastal areas, near the largest urban centers. The six largest metropolitan areas in the Northeast are home to 14.4 million people. Recife (Pernambuco) is the largest with 3.7 million, followed by Fortaleza (Ceará) with 3.6 million, and Salvador (Bahia) with 3.5 million (IBGE 2013 estimate).

Economy

The Northeast played a key role in the early economic development of Brazil. From the 16th to 18th centuries, most of the population and wealth of Brazil was concentrated in the Northeast, with the sugarcane industry as its main source of revenue. Only in the 18th century did economic activity shift to the South (e.g., São Paulo, Minas Gerais) with the growing importance of mining, coffee production, and general industrialization. The Northeast lost its prominent economic position and is just now increasing its competitive position with investments in infrastructure and human capital to better compete with more developed areas of the country. Although the Northeast still has the lowest GDP per capita in the countryⁱ, recent signs, including above average growth rates, indicate that this may be changing.

The Northeast's economy more than doubled over the past decade, showing GDP growth rates often exceeding those of the country as a whole. Between 1990 and 2010, the region's GDP grew at an average of 4%, while Brazil's grew 3.6%ⁱⁱ. Nationwide GDP was nearly stagnant in 2014, but the Northeast region's GDP increased by 3.7%. If the Northeast were a country, it would now be among the top economies in South America, even larger than Peru, Ecuador, Paraguay, and Uruguay, and not too far behind Chile.

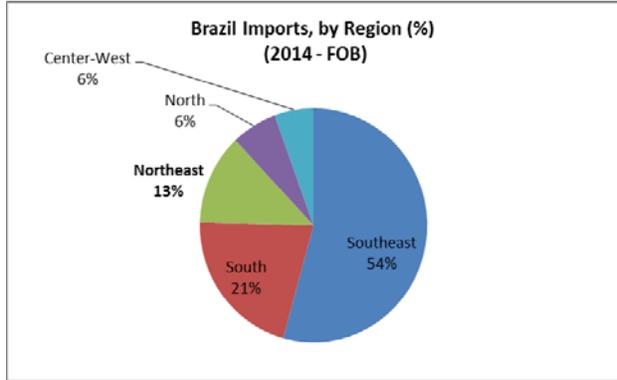
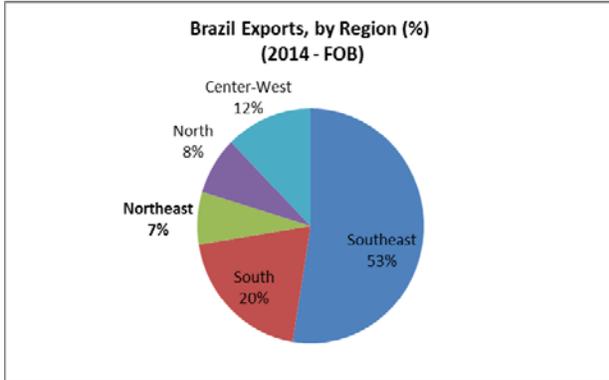
Following the hardship experienced in Brazil during the 1990s, the economic scenery started to change at the turn of the century, mostly because of the global commodities boom as well as measures taken to control inflation. With improved public accounts, the Brazilian government took advantage of better economic conditions to raise the minimum wage and increase allowances for poor families. Millions of Brazilian families joined the middle class in the past two decades, creating consumers hungry for new products and services and with the money and credit to afford them.

The impact of these developments was felt most keenly in the Northeast. The Brazilian Central Bank (BCB) remains confident that the Northeastern economy will continue to show dynamism in coming years. Partially, this is due to the region's lower exposure to overseas market volatility and a growing income level for the lower economic classes (from 2001 to 2009, per capita income in the Northeast grew 43.2%, while in Brazil as a whole it increased 24.4%). In 2004, the average wage in the Northeast was 53% lower than the national average, but by 2014, it was only 22% lower.

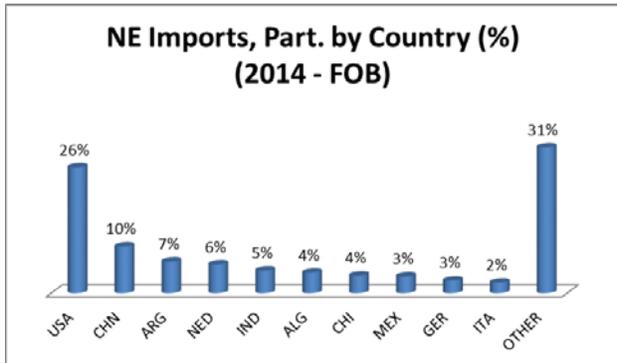
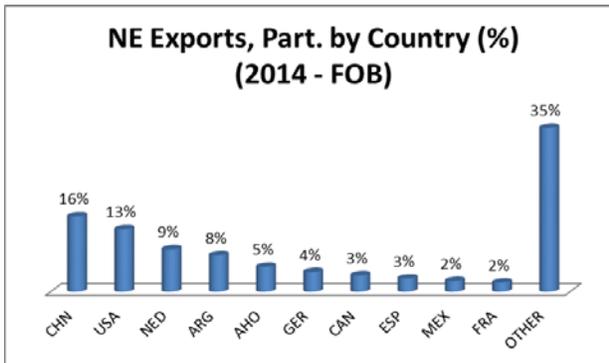
Trade

The Northeast has historically exported commodities, while imports have had a more balanced composition, including a significant share of consumer and capital goods.

In 2014, the Northeast's foreign trade added up to about USD 45 billion (FOB). Exports were in the range of USD 16 billion (about 35%), while imports accounted for approximately USD 29 billion (about 65%).



The U.S. is the most important trade partner for the Northeast, with China coming second. The U.S. was the destination for 13% of the region's exports in 2014, and the origin of 26% of its imports.



After many decades of sugar dominating the region's exports, other commodities like soy beans, chemical wood pulp, and fuel oils have now taken over the top spots. Fuels and chemicals are the most important categories in the region's imports.

5 Most Exported Products, Northeast (USD - FOB)			5 Most Imported Products, Northeast (USD - FOB)		
Category	2014	%	Category	2014	%
Soya beans	\$ 1,820,978,062.00	11.44%	Gas oils (diesel)	\$ 5,801,716,898.00	20.19%
Chemical wood pulp	\$ 1,595,239,198.00	10.02%	Naphta	\$ 1,866,503,419.00	6.50%
Fuel oils	\$ 1,576,625,908.00	9.91%	Gasoline	\$ 1,579,035,582.00	5.50%
Alumina	\$ 982,459,087.00	6.17%	Liquid propane	\$ 1,057,337,832.00	3.68%
Sugar (Cane)	\$ 636,685,477.00	4.00%	LNG	\$ 1,039,265,123.00	3.62%

Best Prospects

The U.S. Commercial Service in Recife monitors developments in the sectors listed below and has a team in place to assist U.S. exporters interested in doing business in the Northeast

Environmental Technologies

The development and growth of the region has created opportunities in the area of sewage and wastewater treatment. Upgrading existing infrastructure as well as installing new infrastructure

in growth areas have increased the demand for products, services, and technologies. Also, a number of new regulations for the sector will be entering into force in coming years aimed at shifting cities' management toward a more sustainable model. To comply, cities in the region will be looking for foreign suppliers. Technology and solutions to allow more efficient waste management and recycling will likewise be required.

Renewable Energy

Owing to the region's climactic conditions, the Northeast is a focal point in the country for renewable energy generation, accounting for more than 80% of the wind energy generated in Brazil. The region is drawing most investments in renewable power generation, with 132 wind farms in operation or testing, 58 under construction, and 263 already contracted, as of April 2014. The main producers are the states of Rio Grande do Norte, Ceará, and Bahia. The Northeast is not only home to wind farms, it is also a base for major manufacturers of inputs, with the industry focused in Rio Grande do Norte, Ceará, Pernambuco, and Bahia.

Solar is still in the early stages of development due to its higher costs. However, there are governmental efforts to develop this industry, with Pernambuco pioneering the only state-led auction for solar projects in 2014. A total of 122.82 MW were contracted. The average price negotiated was BRL 228.63, 8.55% less than the original price of BRL 250.00 (USD 1 = BRL 2.70).

Power Transmission & Distribution

The power transmission and distribution segments may present opportunities for U.S. firms with leading technology and cost-effective solutions for electricity grids. Smart grids are still somewhat far from reality in the region, but the market requires solutions that may be used in current transmission models and which may support faster trouble-shooting and a more reliable electricity supply.

Architecture, Construction, & Engineering (ACE)

Some of the highest economic growth rates in the country and an historically underdeveloped real estate market are factors contributing to a wave of new infrastructure and real estate development to the Northeast. There are opportunities in the ACE sector for foreign players willing to partner with local companies. The region is home to impressive growth in planned cities (incorporating aspects of "smart city" technologies), industrial and commercial buildings, and a booming real state environment.

Education

U.S. educational institutions looking to the Northeast will find receptive partners as U.S. colleges and universities enjoy tremendous popularity with students. Through the Scientific Mobility Program (formerly called "Science without Borders"), the Brazilian federal government has pledged to provide 101,000 scholarships to undergraduate and graduate students from Brazil for one year of study at colleges and universities in the U.S. and other countries. Northeastern students follow Brazil's national trend in choosing the U.S. as their top destination. The state of Pernambuco has an innovative program called "Win the World" to send high school students abroad.

Travel & Tourism

Brazil is the fourth-largest source of overseas visitors to the U.S. (excluding Canada and Mexico), and is the top arrivals market from South America, accounting for more than 30% of all

arrivals into the U.S. Florida, New York, and Las Vegas are the top destinations for Brazilians from the Northeast, but there are a growing number of tourists seeking adventure and off-the-beaten-track experiences as well as a growing number of business travelers.

Medical Devices & Healthcare

U.S. medical equipment companies looking to find new partnerships or expand in the Northeast will be warmly received as the U.S. enjoys a reputation of being the leader in terms of innovation in the sector. Recife has the largest and most advanced medical cluster in all of the North and Northeast, second only to the state of São Paulo in the Southeast. Comprised of 417 hospitals, clinics, laboratories, and diagnostic centers, the medical cluster offers a total of 8,200 beds and serves approximately 20,000 people per day, with revenues of \$150 million a year. This sector is expected to grow at a rate of 10% a year.

Franchising

The Brazilian franchise sector is one of the world's largest and most sophisticated in its business practices. The sector has consistently grown faster than the overall Brazilian economy and has become one of the main areas of expansion. The Northeast is a late-adapter in this regard, with many chains having branches in the Southeast, but not yet open in the Northeast. With the increase in disposable income, more Brazilians from the Northeast are traveling and recognizing U.S. food and services brands, creating opportunities for franchising companies looking to expand in this region.

Investment Highlights (Recent Developments)

The recent increase in purchasing power in the Northeast is an important factor to take into account when analyzing recent investments in the region. Many industries established in other parts of the country have initiated manufacturing operations or regional distribution centers in the Northeast to better serve the growing market and reduce logistics costs. The lower land and labor costs as compared to the big economic centers such as São Paulo and Rio de Janeiro are also major factors considered by large multinationals in the region.

Food & Beverages

A large share of the region's inbound investment is from food and beverages companies, such as Mondelez, AB InBev, Heineken, and Kirin. In the state of Pernambuco alone, 22 new food and beverages companies established manufacturing operations within the past six years.

Automotive

In Bahia, two large Chinese manufacturers are building plants: Foton Motors, the world's largest truck maker, and JAC Motors. FIAT Chrysler also inaugurated a new Jeep plant in Pernambuco in 2015, and they have brought with them a large supplier park of about 16 companies.

Pharmaceuticals & Chemicals

Pernambuco and Bahia are the leading states in these sectors. A pharmaceutical and chemical cluster is being built north of Recife. It is estimated that 11 companies will begin manufacturing in the region by 2016, most in the medical and biotech segments. Investments from these companies are in the range of USD 500 million. Novartis is also building a USD 300 million plant in Pernambuco to produce vaccines. There is also a similar cluster developing in Ceará, with investments in the range of USD 150 million.

Marine Technologies

The 2007 pre-salt oil finds in Brazil led the national oil company (Petrobras) to dramatically increase its demand for maritime and offshore products. Due to Petrobras' local content policy for procurement, the Northeast is now home to five shipyards, including the largest in the country, the Estaleiro Atlântico Sul (EAS), which began operations in 2008. The evolving scandal enveloping Petrobras is, however, having a deleterious effect on the local shipyards.

Major Trade Shows

[FORIND NORDESTE](#)

Industrial Equipment Suppliers

20-23 October 2015 (annual)

Products & Services: renewables, heavy machinery, security systems, electrical equipment

Organizer: Reed Exhibitions Alcantara Machado

Location: Centro de Convenções de Pernambuco – Recife, PE

[MOVIMAT NORDESTE](#)

Logistics Exhibition

20-23 October 2015 (annual)

Products & Services: lift & handling, automation, storage & packing, forklifts, transport & logistics services, infrastructure & real estate, technology & information systems

Organizer: Reed Exhibitions Alcantara Machado

Location: Centro de Convenções de Pernambuco – Recife, PE

[MOVEXPO](#)

Furniture

19-22 May 2015 (biennial)

Products & Services: furniture

Organizer: Reed Exhibitions Alcantara Machado

Location: Centro de Convenções de Pernambuco – Recife, PE

[ABAD 2015 FORTALEZA](#)

Distribution & Wholesale

3-6 August 2015

Products & Services: several sectors

Organizer: ABAD

Location: CEC Centro de Eventos do Ceará – Fortaleza, CE

[MAQUINTEX](#)

Machinery, Equipment, & Services for the Textile Industry

18-21 August 2015

Products & Services: product & service suppliers for the textile industry

Organizer: FCEM – Feiras, Congressos e Empreendimentos Ltda.

Location: Centro de Eventos do Ceará – Fortaleza, CE

[HOSPITALMED](#)

Products, Equipment, & Services for Hospitals, Clinics, & Labs
4-8 September 2015

Products & Services: equipment and products for hospitals, diagnostic centers, dental clinics, labs, emergency rooms, transport, surgery, and ICU

Organizer: BTS Informa

Location: Centro de Convenções de Pernambuco – Recife, PE

[FEICON BATIMAT NORDESTE](#)

Construction

21-23 October 2015

Products & Services: climate control; automation and electronic security; décor; electricity and lighting; locks, hardware, and padlocks; foundations; plumbing; machinery, tools and equipment; metals and porcelains; doors, windows, and accessories; kitchen and bath products; coverings; roofing and roof covers; paints, solvents, varnishes, and accessories

Organizer: Reed Exhibitions Alcantara Machado

Location: Centro de Convenções de Pernambuco – Recife, PE

[FIMMEPE MECÂNICA NORDESTE](#)

Mechanical, Metallurgical, & Electrical Sectors

20-23 October 2015

Products & Services: automation and processes control; applied computing and measuring; tools and devices; welding and surface treatment; tool-machines; machinery and equipment for plastic and rubber; engines, couplings, reducers, and gears; equipment for environmental treatment and cooling; valves, pumps, compressors, hydraulic equipment and pneumatics; equipment for transport and storage; ovens, temperature chambers, boilers, thermal treatment; organizations, associations, banks, and technical magazines

Organizer: Reed Exhibitions Alcantara Machado

Location: Centro de Convenções de Pernambuco – Recife, PE

[BRAZIL ONSHORE](#)

Oil & Gas

New dates to be defined

Products & Services: equipment and services for the onshore oil and gas sector

Organizer: IBP – Instituto Brasileiro de Petróleo

Location: TBC – Natal, RN

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Sources:

- <http://exame.abril.com.br/revista-voce-sa/edicoes/191/noticias/especial-nordeste>
- Data for all charts and graphs derive from Ministry of Economic Development and International Trade information

ⁱ IBGE - <http://saladeimprensa.ibge.gov.br/noticias?view=noticia&id=1&busca=1&idnoticia=2522>

ⁱⁱ Exame Nordeste - <http://www.slideshare.net/Macroplan/nordeste-evoluo-recente-e-perspectivas>

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