As the world becomes increasingly dependent on information technology (IT) products and services, the global IT outsourcing industry has expanded rapidly. Driven by global competitive pressures to reduce costs and focus on core competencies, corporations of all sizes have chosen to outsource and offshore many of their IT services. As a result, offshoring of IT services has been growing at a 40 percent to 50 percent compounded annual rate. Worldwide, India has established a strong leadership position in the IT outsourcing market, accounting for the largest share among countries. However, challenges have begun to emerge for India's IT sector, including increasing labor costs, inadequate physical infrastructure, and a daunting government bureaucracy, among other factors. Many nations, particularly emerging markets in Asia, Latin America, and eastern Europe, have been attempting to capture a share of the IT offshoring business because it is seen as a source of skilled jobs and a basis for improving overall economic development.

Although many people would associate the country with soccer or the samba, Brazil has emerged as a global competitor in a range of sophisticated technology sectors. Now, Brazil has launched an active campaign to build a strong international competitive position in the IT offshoring business, trying to attract business that might otherwise be going to these other nations or regions.

Brazil's IT outsourcing sector is small relative to India's, but strong growth is projected based on the country's strengths along several dimensions. As the fifth largest country and eleventh most powerful economy in the world, Brazil has a sophisticated telecommunications and network services infrastructure, one that has been rated higher than India or China on such key measures as network availability. Brazil has a tradition of strong engineering schools, capable of producing high-quality technical graduates. With nearly 300,000 people employed in IT services, the size of Brazil's domestic market for IT services is comparable to that of world-leading India, although a much smaller level of IT services are exported. The country has one of the world's most automated and sophisticated banking sectors and a dynamic domestic marketplace for IT software and support services. Brazil also offers a large base of affordable real estate for establishing corporate operations. Brazilian wage rates are about 40 percent of those for comparable hourly positions in the United States. Employee turnover is only about 20 percent, versus the 40 percent rate that has been plaguing Indian IT companies. Total operating costs, which include labor, infrastructure costs, and corporate taxes and incentives, are lower than competitors' from most competing low-wage and moderate to high-wage nations. Brazil also boasts only a single time zone difference versus the east coast of the United States and four time zones for the U.S. west coast and parts of Europe. This minimal time zone difference provides Brazil with an advantage compared to competitors in China or India in terms of ease of access and coordination with clients and the offshore project support teams. Brazilian business practices, culture, and values are more Westernized than is common for nations such as India and China, which can facilitate shared understanding and effectiveness of working relationships with companies in the U.S. and Western Europe. "The countries share many cultural references—music, movies, television shows, etc. You wouldn't have to explain who Mickey Mouse is to a Brazilian, but that may not necessarily be the case when it comes to somebody from India," explained Carlos Diaz, a vice president for Meta4. "Outsourcing is not just about completing a project; it is also about having a relationship with a vendor that you know and trust. This becomes much trickier when your outsourcing partner has different cultural sensibilities and is on the other side of the world," says Antonio Gil, chairman of the Brazilian Association of Software and Services Export Companies. As Peter Bendor-Samuel, CEO of Everest, says, " 'Yes' in Brazil typically means 'yes.' In India, it may mean 'no.' " Encouraged by strengths such as these, companies such as Accenture, Electronic Data Systems, Whirlpool, Gap Inc., and IBM have been expanding their offshoring activities in Brazil.

Despite the country's many strengths, Brazil also has some limitations. For example, underinvestment in electrical generation could make the country prone to the brownout and blackout problems that have plagued other emerging markets, including India. The Portuguese-speaking Brazilian population has also been characterized as being weak in terms of English-language skills, and there is a shortage of international experience among Brazilian technical and managerial ranks, which could be problematic for multinationals hoping to set up operations there. Only 7 percent of the population of nearly 190 million people has a university degree, and Brazil also suffers from a somewhat cumbersome regulatory climate, including inflexible labor laws, as well as a currency that has been prone to fluctuations over the past several decades. Even with wage inflation in India and China, Brazil's labor costs remain 30 percent to 40 percent higher. Brazil also has problems in terms of crime and social inequality, especially in big urban centers such as Rio de Janeiro and Sao Paulo.

Questions:

1. Use the theories of international trade and investment that have been presented in this chapter to help explain Brazil's intentions and actions regarding the international information technology sector.