

Industrial policies in Brazil: what haven't we learned from the Asian experience?

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The puzzle - 1

- The “industrialist” policy paradigm has dominated the political arena in Brazil from the 50s on, despite the long lasting economic crisis in the 80s and the economic liberalization in the 90s.
- Brazil has been the most active LA country as far as industrial policy is concerned.
- Brazil’s adherence to “neoliberalism” has been moderated and negotiated with the import-competing sectors (in sharp contrast with other LA countries) => “pragmatic liberalization”.

The puzzle – 2

- Despite the strong and long lasting dominance of the industrialist policy paradigm, in the last years the Brazilian industry is going through a deep trouble.
- Main symptom: the debate on Dutch disease and deindustrialization => what future, if any, for the Brazilian industry?
- The Government prescription: policies to promote additional IS and to increase the national content of goods produced in Brazil + trade protectionism across sectors + exchange rate devaluation.

The puzzle – 3

- What both the industry's crisis and the Government prescription tell us about industrial policy in Brazil?
 - Brazil was not able to foster and manage structural change in the industry beyond the import substitution strategy.
 - Brazil's industrial policy model remains "captured" by the IS logic, despite the fact that Asian experience is praised by Brazilian policy makers.
- In contrast, Asian countries (Korea) were successful in managing different cycles of structural change in the industry.

Structural change in Brazil - 1

- Until the 70s, structural change in Brazil equals industrialization driven by IS:
 - increase in the share of the industry in GDP, growing participation of manufacturing sectors in the industrial output and exports, convergence of industry productivity towards DCs levels.
- When the 80s crisis hits Brazil, a diversified and quite complete industrial structure had been built under IS.

Structural change in Brazil – 2

- The collapse of growth in the 80s heavily hurt the industrial sectors and the industrial policy-making process.
- The only industrial policy in the 80s: the national informatics policy => an IS-plus strategy: focused on the production of domestic hardware and the development of indigenous firms (prohibition of imports and FDI).

Structural change in Brazil - 3

- NIP: the first indication that Brazil was not able to interpret the challenges of post-IS and of an economy growingly based on “software” and knowledge.
- From the 80s on, IS and structural change stalled:
 - Share of industry and sophisticated industrial sectors in GDP and exports is gradually reduced, convergence with DCs productivity levels is reverted.

Structural change in Brazil - 4

- Some indicators:
 - Brazil / US labor productivity: in 1973: 56 %, in 1998 36% (Colistete, 2010)
 - Productivity's contribution to GDP growth: around 60% between 1950 and 1970, - 61% between 1980 and 1991 and 37,5% between 1991 and 2000 (Bonelli, 2006).
 - Share of machinery, electronics and autos in industrial VA: in 1996: 22,5%; in 2005: 19,1% (IEDI, 2010).
 - Share of extractive industries (oil included) in industrial VA: in 1996, 9,2%; in 2005: 20,6% (IEDI, 2010).

Structural change in Brazil - 5

- These trends accelerated in the most recent period, characterized by the rise of labor costs, the fall of productivity levels and the slow growth (as compared to other sectors) of the industrial value added.
- The alarm rings as imports grew strongly and investment weakened.
- But the Government prescription replicates the policy model of the 60s and 70s: protection to those settled in Brazil + stimulus for new IS projects.

Solving the puzzle ? 1

- Macroeconomic features help explain the weakness of industry and the reduction of its share in the economy: low rates of savings and investment.
- But they do not explain the relationship between the current situation of the industry and the dominant paradigm that policy makers use in Brazil to manage the industry.
- My hypothesis: beyond IS, industrial policies have never been able to integrate structural change objectives and instruments to their menu.

Solving the puzzle ? 2

- The industrialist coalition and the dominant policy paradigm act as an obstacle to the updating of Brazil's industrial strategy to deal with globalization-related issues.
- Under this paradigm, once the IS has been completed, structural change should be resisted.
- In periods of growth, the industry performance is above any questioning. In situations of crisis, short-term policies and measures prevent the debate on structural change in the industry. It is never time to debate on structural change, its drivers and instruments.

Solving the puzzle ? 3

- Updating Brazil's industrial strategy requires:
 - At least, to introduce selectivity among sectors as far as the supply of protection and incentives is concerned
 - Brazil's policies geared at keeping intact all the sectors and subsectors irrespective to their competitiveness. Brazil remains the closest economy in the world.
 - What does it mean to have high tariffs for intermediate and capital goods?
 - Why to protect across the board the services sectors and, so doing, hinder the industry's costs?

Country	Capital Goods			Intermediate Goods		
	2000	2005	2010	2000	2005	2010
Brazil	16,9	13,2	13,0	13,9	10,7	11,7
China	14,4	8,1	7,7	14,4	7,9	7,4
Coreia	7,2	5,9	6,0	8,0	11,2	11,1
Philippines	4,2	2,8	2,9	5,9	5,0	4,9
India	26,7	14,1	8,4	32,7	17,4	10,0
Indonesia	4,4	3,8	5,5	7,3	6,1	6,0
Malaysia	5,1	4,2	3,6	7,1	6,8	6,6
Mexico	13,1	9,5	3,2	14,8	11,8	6,1
Thailand	10,5	6,4	5,5	14,0	6,0	4,4

Solving the puzzle ? 4

- What can be learned from the Asian experience as far as policies to foster structural change are concerned?
- If one had to summarize the three main lessons that Brazil seems not to have learned from the Asia's industrialization experience, which should these lessons be?