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Brazilian industrial policy in the Lula administrations*

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In several countries in Latin America, the industrial policy – many times referred to as competitiveness policy – is back on the public development policy menu. In the Brazilian case, the announcement of the Industrial, Technological and Foreign Trade Policy (PITCE) in 2003 and of the Productive Development Policy (PDP) in 2008 brought back the debate about the need to adopt industrial policies to safeguard the countries sustained growth. The discussion about the logic of the recent industrial policy in Brazil allows us to identify important policy trends and raise a few issues regarding its course.

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1. The industrial policy and the specialization industry: consolidation or change?

- Paradox: traditional sectors and changes in specialization

Besides more general prescriptions, PDP selects some sectors in which the efforts of industrial policy should be concentrated. Amongst the prioritized sectors several 'traditional' sectors were included in which Brazil has already shown competitive advantage. There would apparently be a paradox in the recent Brazilian industrial policy: how can there be change in the specialization of the economy towards the more technology intensive sectors, if, at the same time, incentives are set for the expansion of 'traditional' sectors? Does it make sense to choose sectors in which Brazil is already competitive as an objective of its industrial policy. Regarding this issue, we can also question the relevance of continuing the effort of diversification of the industrial structure.

- Support to the building of 'national champions'

Related to the abovementioned paradox, it is possible to identify a deliberate strategy to stimulate the constitution of 'national champions' – via BNDES and state pension funds – in sectors in which Brazil has already shown comparative advantages. Some authors defend this type of strategy as a way to make the 'sovereign insertion' of Brazilian companies in the international trade feasible, considering that the benefits of exports do not depend only on exported products, but also on how companies are inserted in the market and in which links of the production chains they participate.

First, supposing that there are actual gains associated to the 'sovereign insertion', it is not clear whether these gains are not completely internalized by companies. If there is no difference between private and social gains, what is the need of public policies for the creation of 'national champions'? Second, the market concentration generated for the creation of 'national champions' tends to generate significant losses for the consumer if an environment of competition (internal or via imports) is not preserved. Does it make sense to transfer consumer revenue to national champion companies' stockholders? Also, if the government has a deliberate policy of stimulating concentration, the tendency is that the institutions responsible for competition policy – already lacking legitimacy – tend to be even weaker.

- a larger role for BNDES

In regards to investment in physical capital, the importance of BNDES in recent policy has increased. This has in part been made feasible through bank capitalizations by the Treasury, raising questions about the potential negative impact that the increasing BNDES presence in the financing of investments could have for the development of long term private credit in Brazil. Also, there is a discussion regarding whether it makes sense to benefit, through financing in favorable conditions established by BNDES, companies that are able to finance themselves in the domestic or even international markets.

2. Local content and government procurement: an increasing role in policy

The recent industrial policy opted for using government or state-owned companies' procurement to motivate the development of certain sectors. Initially, the shipbuilding industry was the only one that benefited on a large scale. However, there are several initiatives in other sectors. In the case of the oil and gas sector, in which there already is local content policy, the creation of Petrosal – and its participation in the operational exploration decisions – aims to deepen this policy amongst other objectives.

The economic justification for these kinds of policy normally falls upon variations of the “infant industry” argument. In this case, the protection must be temporary, enough for the establishment of the sector in competitive levels. However, from the political point of view, the removal of the protection proves to be difficult.

3. The innovation in recent industrial policy

Another trend in Brazil’s recent industrial policy is the increase of financing and grants – from FINEP and BNDES – to stimulate innovation. A large part of this increase is due to the creation of new non-reimbursable mechanisms for supporting company level innovation. This orientation change is in line with the view that the previous stimulus mechanisms generated excessive transaction costs, reducing company demands for these support instruments and that a large part of this innovation occurs at the company level.

Even though there is clear evidence of the effect of the innovation activity in exports, there is not much interaction, in the current industrial policy, between technology and foreign trade policies.

4. The institutionality of industrial policy

To what degree do the outputs and courses of the recent industrial policy are the result of the institutional framework in place? On the one hand, there is apparently some difficulty in making all the different institutions involved in industrial policy act in a systemic, coordinated and articulated manner. Not by chance, the initiatives that escape from the institutional entanglement associated to the industrial policy implementation are exactly the ones that obtained the best results, at least in terms of mobilized financial resources. Local content policies are put in practice by State companies and BNDES financing policies do not suffer from restrictions and contingencies in resources that impact innovation policies. Even inside the innovations support system, the transversal actions – which also manage to escape the institutional bureaucracy in place - are those most easily put to practice.

On the other hand, there is evidence that the initiatives implemented outside the scope of the consolidated industrial policy institutions lack transparency. There would be some form of disconnection between the general declared objectives and the actual practiced policies. In this respect, the big institutional challenge would be the creation of institutions that combine transparency and agility, a task far from trivial.

In sum, the recent industrial policy is right in – at least intentionally – emphasizing innovation. However, despite the advances, it is precisely the institutional framework for stimulating this activity the one that presents more difficulties to mobilize resources and put into practice public policies. On the other hand, industrial policies whose economic rationality is doubtful or which result in high economic and social costs are able to escape from the institutional trap and are easily put to practice.

Thus, it is understood that the policies to stimulate innovation, as well as the institutions associated to this policies, must be improved but that certain vertical policies turned to traditional sectors should be more explicit in terms of their costs for society. Also, it is necessary to develop institutions that allow the definition of objectives that move over the electoral cycle and evaluate public policies in terms of cause and effect.