The quest for global competitiveness

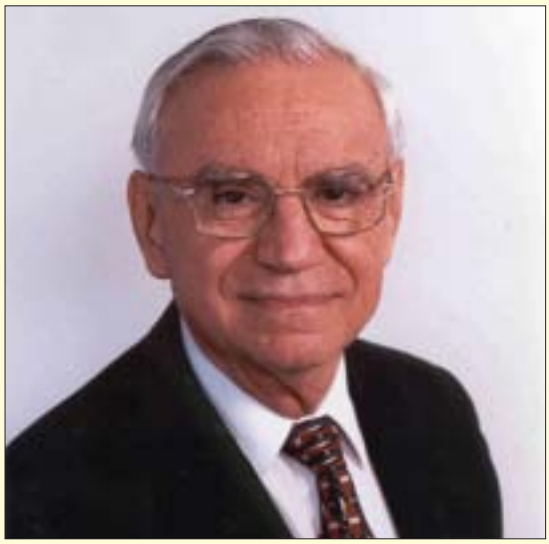


Photo: Divulgação.

Ozires Silva

Former Minister of Infrastructure and former president of Embraer and Petrobras

Claudio Accioli, São Paulo

Forty years ago Ozires Silva envisioned that Brazil would be a major player in international aviation. Twice president of the Brazilian Aeronautics Company (Embraer), the third largest manufacturer of commercial jets in the world, aeronautical engineer Silva, now dean of Monte Serrat University, explains how Brazil can prevail against the tough competition imposed by emerging Asia, especially China and South Korea. Having served as president of the state oil company, Petrobras, as Minister of Infrastructure, and as a reserve officer in the Brazilian Air Force, Silva has a uniquely broad perspective. He thinks the main obstacles to Brazil's competing successfully in world markets are the excessive presence of government in Brazilian life and the education deficit that undermines the quality of our workforce. But he also thinks that with the right effort such problems can be overcome.

***The Brazilian Economy*—Brazil made it through the international crisis more comfortably than most countries, but last year economic growth was below expectations. What do you think are the prospects for the Brazilian economy?**

Ozires Silva—I'm not as optimistic as the government. Without a doubt, the GDP of Brazil is lower than the country deserves. ... We have the false impression that the country is going well, but the numbers show that Brazil's external current account has only been balanced by capital inflows, which is problematic. . . . Covering the current account deficit that way generates a liability as the capital has to be paid back. We must have a vision for the future and propose strategies for development. We must give priority to education, which is absolutely fundamental for Brazil today. ... Brazil cannot reach the necessary revenue potential and profit more because of constraints than because of lack of incentives. We cannot do anything without requiring a government permit, which makes things difficult. The State is in every corner of Brazilians' activity . . . I often joke that in Brazil money is not at risk. What is at risk are the company,

employment, the entrepreneur, and the product. You must use money not just to generate more money but also to create value.

Of all the sectors, industry is performing worst. Is there a risk of deindustrialization?

Deindustrialization is already a reality in Brazil. Recently Renner, one of the oldest and most traditional textile companies in Brazil, began to sell Chinese products. What's worse is that these products are being paid for mainly by our export of commodities.

But more important than making a correct diagnosis of the situation is to know what to do. There are no magical measures, but something undoubtedly needs to be done about the [appreciated] exchange rate, which has been extremely harmful for the country . . . Brazil's competitiveness is far below that of our competitors . . . [but] the picture can change dramatically if [the exchange rate] is changed.

There is another aspect that has to be taken into account. I spent much time as a minister of state and realized clearly that the government is far removed from society. As a result the civil service distrusts the private entrepreneur. Meanwhile, if we look at two powerful examples of competing economies today, China and South Korea, we see that it is hard to distinguish what is the government and what is business; government and business interests are working together to create a competitive direction for those countries. Brazil would benefit greatly if we could replicate that close collaboration between the public and private sectors. That is all that we need to take action. The competition today is between countries. This is not company A in Brazil trying to compete with company B in China; it is company A, alone, having to compete with company B and its ally, the Chinese government.

In that context, what do you think of the Greater Brazil Plan, launched last year to support domestic industry and recently expanded?

The plan itself is comprehensive and well defined, but I think the media have not addressed the issue properly. They have emphasized the amount of tax relief and suggest that the federal government is not collecting taxes so it can help entrepreneurs. The correct view would be to show how much is being invested and what is the expected return, because if that money comes back, it is not a loss.

What is worrisome is how the measures will be carried out. We have complex laws to curb corruption, long, full of restrictions, but doing so is related

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much more to education than to penalties. But the laws end up not being respected. I fought four years for the Innovation Law and celebrated when it was approved. The law is good, really innovative—but then the decree regulating it ruined it, so much so that we see no results.

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Are measures to protect Brazilian industry and encourage local content regressive?

To some extent, imports of foreign components have helped to improve the production of goods in Brazil. I see nothing wrong with that. We live in a globalized economy, in which old concepts such as 100% national goods don't apply any more. Even products made in developed countries have a lot of imported components, systems, and equipment. The computer is a good example. Just open one, in any country, and you will find parts from all over the world. The outdated idea that all components of products manufactured in Brazil must be essentially national returns us to the policy that prevailed from the 1970s into the early 1980s. We must join the world community, manufacturing and exporting products in which we're competitive and buying when we're not.

On the other hand, it's easy to list the incentives that we're giving for foreign companies to enter Brazil. High taxation, interest rates, labor and welfare laws, among others, all directly subsidize our imports.

How do you assess the "Brazil cost"?

We are lagging behind. There is no use adopting measures just to offset this cost, because they will create problems for us in the international market. Reducing production costs certainly would help. Of course there is a problem that must be faced: the government spends money it does not have, which has increased the tax burden. Infrastructure is something that you do not feel, but without it you do not move. And Brazil is stuck in this regard because the government has chosen to be. Until the new airport concessions, for a long time there were no utility concessions granted to the private sector, which has resources and appetite to invest. The government lost its managerial capacity, and that's what motivated me to fight for Embraer to be privatized. It was impossible to manage Embraer because the government had become a poor shareholder.

The premiums paid for the airport concessions were very large, much higher than expected, which shows the private sector is interested in investing

in infrastructure . . . If we hand over to the private sector everything we can in terms of infrastructure, Brazil would change with extraordinary speed.

You have headed up two major Brazilian companies. From the standpoint of management and governance, are we competitive?

No. But what the government does is crucial in determining whether Brazilian businesspeople manage efficiently. Much of the efficiency is lost in the government's huge bureaucracy. Jorge Gerdau Johannpeter, [president of the Gerdau Group], who is now in the government, says that in the United States his company has 3 employees to deal with paying taxes; in Brazil it has 200.

How do you explain Embraer's success?

When I became CEO of Embraer on January 2, 1970, there was no structure, just one office at the Aerospace Technical Center for company headquarters. From the beginning, I was concerned to create a competitive environment in the company . . . We would not seek subsidies or privileges. We would win in the competitive strategy of placing planes in the world market. I believe this is the important role of a CEO—to change attitudes and behaviors . . . So I would say that management is perhaps the magic word for the future. That's what the president asked for from Jorge Gerdau — a management shock to eliminate the distrust between government bureaucrats and the national productive sector.

What would be the best strategy for Brazil to defend against the heavy competition from Asia?

Be a better competitor than they are. Is that difficult? Extremely. Last year Brazil graduated just under 40,000 engineers. China graduated 630,000. If we imagine that just 10% of Chinese engineers are exceptionally talented, last year China graduated a larger number of talented engineers than Brazil graduated engineers of all talents. It's a huge loss of competitiveness, but also a great challenge, which can only be overcome by education.

Several decades ago, General Park Chung Hee and Deng Xiaoping launched the biggest educational programs their countries had seen. The Financial Times defined the Korea program as 'Bigotry for Education'. A month ago, in Detroit, the cradle of the American auto industry, a Korean car was voted Car of the Year.

Back to the case of Embraer, I am convinced that we are only able now to sell Brazilian aircraft to 90 countries because the company was

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based on an educational process led by the Technological Institute of Aeronautics (ITA). In Brazil today, however, education seems not to be a priority . . . We should open the window of opportunity, correct this educational deficiency, and establish a program to beat the Asians. If they sell products worldwide, what can we do?

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Sell Brazilian products worldwide as well. That is the only way to stop them. We are a continental country with 200 million inhabitants and territorial, ethnic, and language unity. If China did it, we can do it even faster. Simply bring together government, the productive sector, and Brazilian society in the quest for global competitiveness. ■



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