The persistent apathy of industry



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The manufacturing sector has been complaining that it is losing competitiveness. With a fall in industrial production of 2.1% in January 2012 compared to December 2011, these complaints have gained strength. The reasons cited for the loss in competitiveness are appreciation of the Brazilian real, and the high "Brazil cost."

With regard to the exchange rate, the prospects are not favourable. As China continues to grow at about 8% per year, exports of Brazilian commodities are bound to rise. Meanwhile, the economic problems of Europe and America are likely to keep international liquidity high, which will lead to more inflows of foreign exchange. The increases in both commodities exports and inflows of foreign capital will continue to stimulate exchange rate appreciation. Since there is not much that can be done about that reason for lessened competitiveness, the focus of the analysis should be on the high "Brazil cost" and ways to reduce it. Is this indeed a reason for tangible concern about our manufactures?

The share of the manufacturing industry in GDP fell from 15.3% in 1996 to 14.0% in 2007 and then

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accelerated in the last four years, dropping to just 12.4% of GDP in 2011. However, while the drop in the participation of manufactures in the domestic economy cannot be disputed, international experience shows that as a country develops, manufacturing inevitably gives way to services.

What is striking in the case of Brazilian manufacturing is the persistent apathy that is reflected in the numbers. Industrial production in January 2012 was roughly the same as it was in December 2007. The country is growing, in other words, but manufacturing is not.

The leading indicators related to the Brazilian macroeconomy show no cause for major concern: average annual GDP growth is less vigorous than would be preferred—hardly more than 4%—but far from bleak. The trade balance has shown surpluses, and current account deficits are not high enough to be worrisome. Domestic interest rates, although high, are declining. Despite the size of the government, it has been able to maintain primary fiscal surpluses. Inflation, though above target, is still within the comfort zone.

When the economic situation is satisfactory but industry is not going so well, what should we do?

When we take into account the tremendous efforts Brazil had to make to industrialize, fears of rapid deindustrialization are understandable. For decades, governments of different political and ideological persuasions have taken action to encourage and promote domestic industry. Although the ways in which industrialization was conducted might be criticized, undeniably Brazil's manufacturers have been efficient and competitive in many areas. Our exports have become more diversified, so the country is less vulnerable to variation in the price of any single product. Growth in productivity was higher over time in manufacturing than in other sectors of the economy, and it has generated jobs for a skilled workforce.

Since industry is apathetic, the world economy is uncertain and bringing about devaluation is difficult, we should therefore move to address the "Brazil cost." Measures are needed to facilitate operation of domestic industry, but they should not hinder foreign competition. We must give priority to policies that reduce the production costs of Brazilian firms, as has been done with payroll tax relief for specific industries. Policies that raise barriers to entry for foreign competitors are not recommended because they promote inefficiency, which is then covered up by abusive pricing.