

# Fiesp focuses attention on national industry competitiveness

By Caroline Martin

**A**ware of the importance of becoming much more familiar with Chinese business culture, last March the Federation of Industries of the State of São Paulo (FIESP) announced the creation of a Study Center dedicated to China. “The intention is to debate and propose policies of interest to Brazil for the long-term, under the format practiced by China”, explained FIESP president Paulo Skaf, in an interview to the **O Papel** magazine.

Representatives of various industrial sectors and government spokespersons, as for example the Itamaraty (Ministry of Foreign Relations) and the Ministry of Development, Industry and Foreign Trade (MDIC), will form a discussion group addressing Brazil’s largest trade partner. However, debates will not be limited to analyzing competition. Skaf revealed that the Brazilian tax reform stands out as an issue to be explored by the Center. “The weight of taxes on Brazilian GDP (Gross Domestic Product) amounts to 35%. Together with tax complexity, it becomes one of the main inhibitors with regards to generation of income and jobs in the country”, he underlined.

Even before the implementation of the Study Center, however, Fiesp’s Strategic Advisory Board – whose members are former Governor of Ceará, Tasso Jereissati; former Minister of Foreign Relations, Celso Amorim; former Central Bank President, Henrique Meirelles; among other executives – sought to raise issues that could provide subsidies for Pres. Dilma Rousseff’s negotiations during her visit to the Asian continent in mid-April. “It’s necessary to reorganize the bilateral economic relationship under new terms. The way in which it finds itself today, trade exchanges and investment doesn’t cater for Brazil’s interests”, highlighted Skaf.

Ahead, the Fiesp president scrutinizes the strategic points for strengthening national industry, targeting competing on an equal basis not only with China, but with the remaining economies in the global market.



**Skaf: “today, despite trade expansion with China, the scenario is totally unfavorable for Brazil”**

**O Papel** – What issues need to be detailed in order to really understand trade relations between Brazil and China?

**Paulo Skaf** – China is a large country with a complex economy. In order for us to be successful within this relationship, the government and the private sector need to have dialogue addressing the main points of interest and seek a coordinated strategy. Today, despite trade expansion

with China, the scenario is totally unfavorable for Brazil. Of our total exports, 85% are basic products, while manufactured items dominate 97% of imports. In other words, we buy products that generate employment in China and export low added value goods. The bilateral deficit within the manufactured goods sector reached US\$ 24 billion in 2010 and should almost double, amounting to R\$ 40 billion this year.

**O Papel** – How should Brazil deal with this ambiguous feature, which is of a competitor-partner that still exists in the Asian country?

**Skaf** – Currently, China is more competitor than partner. For the Brazilian industrial sector, the country has established itself as a threat, inasmuch that imports advance and take the place of domestic production in many sectors of Brazilian economy. With strong state intervention,

products of Chinese origin bank on competitive advantages not available to our national industry. Nonetheless, there is space for future partnerships. Brazilian companies have already invested in China; some successfully and others not so much. Furthermore, the attraction of investments directed at important sectors to improve Brazilian competitiveness, such as logistics, can have an extremely positive effect on our economy.

**O Papel** – Why does China cause such discomfort in specific segments of national industry, such as in electronic material and communication?


**Skaf** – China has economic distortions that allow its companies to compete on an unequal level with other countries. Foreign exchange rate manipulation is one of these. It is estimated that the Chinese currency is undervalued by approximately

25%. For Brazil, the results of this competition have been the loss of exporter revenue and deviations within the internal market.

**O Papel** – What are the main challenges to be overcome by national industry in relation to China? What is missing for national industry to compete on an equal basis with China?

**Skaf** – Today, the world competitiveness standard is determined by China. It is up to Brazil to accelerate its reforms in order to be able to face this and other competition on the international market. The reduction of costs for companies is a priority measure, such as the unburdening of investment and the payroll, reduction of logistic expenses and a more competitive level for the foreign exchange rate. These are crucial points in order for Brazilian industry to survive in the global scenario.

**O Papel** – Does Fiesp support companies that decide to internationalize and expand their trade connections with the Chinese?

**Skaf** – The increase of our industry's competitiveness is a priority for Fiesp. Within this context, it is clear that we need to learn a lot from the Chinese. Over there, the government has established a long-term strategy directed at generating internal income and employment. Brazil's competitiveness also depends on the definition of our own objectives. Is it interesting for our country to maintain a highly expensive tax burden, which makes investment and the generation of jobs unfeasible? Is it interesting for us to maintain the highest interest rates in the world, with direct impact on the valorization of the Real (R\$)? These are concerns not only for industry, but for society as a whole, and it should be in the center of this discussion that Fiesp is proposing. 



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