

## The *Brasil Maior* Plan and the Territorial Approach<sup>1</sup>

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### Abstract:

*The present study will analyze the Brasil Maior Plan, in the conception of how the aspect of territoriality could implement the level of accomplishment of the objectives of the model. For the development of the theme, first will be brought up some theories as to how a suitable modern industrial policy must take into account the question of territoriality. Subsequently, the theoretical reference will be compared with the actual factual aspects of the plan in question.*

**Key words:** Brasil Maior Plan. Industrial policy. Territoriality.

### 1. INTRODUCTION

The Brasil Maior Plan, launched in the first Dilma Rousseff Government (2011-2014), proposed actions aimed at increasing the competitiveness of the national industry, proclaimed by the institutional motto "Innovate to Compete. Compete to Grow".

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Its repercussion at the national level did not reach the expectations and objectives proposed, lacking a sufficiently effective application capable of definitively affecting the economic situation of the country.

Based on the analysis of the implementation of the aforementioned project and its practical and theoretical aspects, the present study proposes to address how the observance of the territoriality issue in the design process of the *Brasil Maior* Plan could give it a higher level of success.

For this theme to be developed, first theories will be raised on modern industrial policy and how the question of territoriality should be taken into account. Once the theoretical reference of industrial policies, especially regarding the application of territoriality, has been analyzed, the relevant aspects will be confronted with what was actually addressed by the *Brasil Maior* Plan.

## **2. THEORETICAL APPROACHES TO INDUSTRIAL POLICIES**

In order to substantiate the proposed analysis, first it is necessary to briefly present the main theoretical approaches to industrial policy that may influence the basis of the application of territoriality in the *Brasil Maior* Plan. For this we selected, without exhausting the theme, authors whose approach corroborate the argument presented in the object of study or offer a valid counterpoint to it.

It is of salutary importance the propedeutic exposition of the conceptions of industrial policy, since the scope of the study exceeds the simple abstract analysis of a political project of application already exhausted. It proposes to construct, by the theoretical dialectic and practical analysis, an understanding of perennial utility for the elaboration of future public policies.

### **3. THE CONCEPTION OF AN IDEAL INDUSTRIAL POLICY ACCORDING TO DANI RODRICK**

Dani Rodrick (2004), without overlooking the power of private initiative to lead a nation to development, understands that the state can go beyond its already consolidated functions and also play a coordinating role in the productive sector. Such coordination would take place through an industrial policy, which would complement market forces, reinforcing or inhibiting the allocative effects that existing markets could produce. Thus, the analysis of this type of state policy should focus not on its results, but on the design of its processes.

The author also points out that to a foreign trade policy for higher value-added goods succeeds, it must be linked to an industrial policy. Exports are nothing more than a reflection of the greater competitiveness of domestic products, which from that point on become part of the external market.

For a country to become competitive, it needs innovations that are as much in new products and processes as in the discovery of existing products produced in other countries that could have production in a new region with greater competitive advantages.

In addition, it is necessary to question who would be the responsible for this investment in search of the discovery of competitive conditions for the production of a certain product. Taking an approach from the perspective of the entrepreneurial individual, it is understood that if your investment is successful, your profit will be divided with society and the government through the generation of employment and income and tax collections respectively.

However, in case of a failure, the entrepreneur in question will bear the loss alone. This is understood as a strong barrier to innovation in a country. Therefore, in order to reduce this barrier of entry, it would be incumbent on the state to

discover and encourage new sectors with competitive potential, as well as to direct its industrial policies towards them.

Studies by Imbs and Wacziarg (2003) show that poor countries, when starting their development process, tend to reduce their levels of industrial specialization, both in terms of production and employment. Already somewhat late in the development process, by reaching a high level of GDP per capita, this curve would be inflected and economies would again have their industrial concentration levels increased.

These results stand out because they contradict the common economic sense regarding the relation between specialization and obtaining comparative advantages, transforming the challenge of the poor countries, that stops focusing on the specialization and starts to focus on the diversification of its production in a well- successful way.

Rodrick suggests some points to be addressed at the moment of designing an industrial policy, noting that for this the support of political leaders, the participation of councils and the existence of mechanisms of both transparency and accountability are indispensable.

a) **Incentives should be given only for new activities.**

The purpose of a policy should be to diversify an economy, generating new sectors with comparative advantages;

b) **There should be clear benchmark criteria for success and failure.** Of course not all investments will be successful. Industrial policies are a trial process. The important thing is that success-case incomes are higher than those spent on failed enterprises. However, to measure this, there must be clear standards that determine the success of an investment, thus avoiding monitoring problems. A common mistake is to measure the good performance of an industry by its billing or employment, while the most indicated criteria would be the measurement of productivity or performance in its

- exports compared to other countries in a similar situation;
- c) **Incorporated lapse clause.** One way to ensure that resources are not long-engulfed in activities that do not generate returns is to determine time standards for incentive suspension;
  - d) **State support focused on activities, not sectors.** The targets of state support should be seen not in sectoral terms, but by activity. This facilitates the structuring of corrective policies for specific market failures, rather than generic packages targeted to abstract measures;
  - e) **Subsidized activities should have clear potential for overflowing.** There is no reason to support an activity that can not benefit others. Incentives must be structured in such a way as to maximize this end;
  - f) **Conduction of industrial policies made by entities that already have proven competence to do so.** It is preferable to focus industrial policy activities on existing and successful institutional arrangements in this field, rather than creating new agencies or using existing arrangements with bad histories. Thus, the place where good performance or competence is located should determine the instruments to be used in a policy. The policy should be chosen according to the successful implementation tools available;
  - g) **Implementation arrangements closely monitored by a manager with clear participation in results and with high level political authority.** Close monitoring by a top manager or politician who bears responsibility for the success of the current economic policy is essential because it inhibits the contamination of the implementation process by personal or private interests, guaranteeing autonomy with a certain level of control;

- h) **Direct channel of communication with the private sector.** In this way the public agents will have a good level of information about the reality of the businesses to be encouraged, having their decision making facilitated;
- i) **Reduction of the impacts of errors.** The choice of wrong activities is something that can occur, so the important thing is not to minimize the chances of errors that will result in self-knowledge, but to minimize the costs of the errors that will occur. If a government does not err, it means that it is not trying hard enough;
- j) **Ability to renew policies.** The needs and circumstances of productive discoveries change over time, so institutional arrangements must be able to reinvent themselves in order to continue to succeed.

Thus, it can be inferred that the structuring of an incentive program, for Rodrick, should be attentive to the following points:

- a) **Self-discovery subsidy.** The criteria for this type of financing or incentives would be new products, potential for overflow and availability of the private sector to provide information on the progress of the state monitoring surveys;
- b) **Development of mechanisms to make feasible investments of greater risk.** For this, one can count on development banks, publicly-held funds, public guarantees for financing by private banks, among others;
- c) **Internalization of externalities for policy coordination.** The government must be able to identify coordination failures and neutralize them. Committees and sectoral chambers can work jointly with the government in this regard. A relationship of transparency between state measures and the private sector should be established;

- d) **Government R & D funds.** Specific development funds for the identification, adaptation and transfer of foreign technology, ensuring that the incentive projects are well integrated with the private sector and consistent with their needs;
- e) **Subsidy for technical education.** Government support in providing skilled labor to the industry is vital to encourage the process of innovation and self-discovery in a region;
- f) **National citizens living abroad.** This type of population, exposed to new ideas and technologies applied in other countries, combined with their desire to return to their native land, can be a great advantage in the process of self-discovery of a country or region. Governments should encourage their return and use them as a tool for spreading new activities in the country.

### **Brazilian industrial policy from the perspective of Mário Schapiro**

Schapiro (2013) points out that after the 2008 crisis, the State resumed its role of coordinator of development strategies and economic recovery, being more "fitter" than "dominating". For this, it used new tools, such as distributive policies, opening of channels of democratic participation and inductive economic mechanisms, instead of the directives and authoritarian commands previously adopted.

Brazil is characterized by low state capacity, a result of its low political and technical-administrative capacity. For this reason, national policies tend to take a more Ricardian (corrective) bias than Schumpeterian (transformation of the state of the art state).

Based on a structuralist-evolutionist approach, industrial policy would be a tool to change the current economic allocation in search of another pattern of productive

specialization, with greater openness to innovation and technical progress. This condition would not be reached by the free market, which would only stimulate existing standards that already work, without making room for the discovery of new ones.

Therefore, a policy designed to break these old patterns would stimulate sectors with a greater level of innovative diffusion by intentionally creating an economic asymmetry between the different segments, inducing the behavior of the agents and finally creating comparative advantages that were not previously found in the most promising paradigms.

By remaining in a Ricardian industrial policy, only correcting problems in this sector, after more than twenty years of abandoning the model of import substitution, the country still sees as a challenge the development of a package of actions aimed at developing the industrial sector in a non-protectionist context.

### **The institutional arrangements for Abers & Keck**

Abers & Keck (2013) argue that the Brazilian political system is marked by a complex dynamic of relations, presenting overlapping powers and contradictory political traditions. This would be a difficult factor for successful idealization and implementation of policies that have national coverage.

They also point out that having good ideas is not enough if they are not translated into material resources and relationships that enable their execution. In addition, resistance to new ideas, however good they may be, is a strong barrier to institutional innovations (ABERS & KECK, 2013).

To deal with this, one way exposed by the authors is the simple promotion of dialogue. This exchange of information can have transformative effects, as well as promote new connections between people that make solving certain problems possible. What changes in these connections is not just the way people

think, but also the concrete ways of turning innovative ideas into reality.

The commitment, coupled with experimentation, is also something defended by the authors, which appears as a solution to old problems that have not yet been solved by the existing dynamics.

Like Rodrick, authors Abers & Keck also believe that focusing on processes rather than outcomes is more important. The comparability of the results in different committees is difficult because of the different dynamics presented in each of them.

### **The territorial approach in Public Policies**

Silva (2012), like Celso Furtado (1987), argues that the process of regional integration should be oriented towards a more rational use of resources and factors in the national economy as a whole.

Brandão (2007) raises the question of the need for appropriate regional scales for Public Policies. According to the author, the most successful development policies are those that do not discriminate any scale of action, reinforcing multiscale actions such as micro-regional, mesoregional, metropolitan and local. In this way, appropriate spatial scales and policies would be constructed for each object

Perico (2009) argues that public policies are different from each other by both the treatment object and its coverage. In the coverage aspect, the territorial approach in the planning phase is a strong tool for the understanding of social phenomena, institutional contexts and the environment that will be the stage of state action. In this way, the goals can be sought through instruments that consider these differences.

The territorial approach covers the scales of development processes and implies a method to favor it - recognizing that it is not the result of a vertical action of the public sector - from conditions created to mobilize local agents

to act in terms of future vision, elaborate a diagnosis of their potential and limitations (including their own means of achieving sustainable development). Thus, the territorial perspective allows formulating a proposal focused on the people who consider the interaction of socio-cultural and environmental systems and which contemplate the productive integration and the competitive use of their resources as a means for cooperation and co-responsibility of the social actors belonging to the territory (PERICO, 2009, p.48).

Mendes (2008) also points out the territorial approach of the policies as a possibility to aid in the solution of historical obstacles to the national development, being the territory an element of the global social and economic relations.

According to Sabourin (2002), there are three major challenges of state planning based on the territorial perspective: a) ensuring the demographic and diversified representation of society; b) to empower the local actors by disseminating the territorial vision of development, promoting the rupture of the sectoral perspective as the only instrument for this purpose; and c) innovations for coordinating public development policies in relation to resources, populations and territories

Correa (2009) suggests a process of decentralization of public policies, through the creation and institutionalization at a regional level of spaces for the definition of agenda and monitoring of state actions. These spaces, because they are formed by different social actors, would be instances of intermunicipal or territorial representation, which would promote the democratization of power relations in society, as well as a learning in negotiation of interests by these actors.

However, for Silva (2012), this evolution of the understanding about the importance of the territorial approach in the Brazilian public policies was not accompanied by an advance of the legal framework regarding the subject, in order to allow greater dynamicity and effectiveness to this type of

strategy. The federalist national structure still does not admit an administrative sphere that can propose federal projects beyond the states and municipalities, generating a dependence of the projects by these two spheres, marked by structural fragilities.

Still in Silva's view (2012), despite the consensus among scholars about the significant advances in the area of public policies brought by the territorial approach, this theme has not yet reached a sufficient level of priority in the field of Brazilian political decision, despite of always being a guideline for government programs.

As a result, there are still difficulties in establishing innovative intersectoral programs, there is no legal framework that endows territorial development programs with legitimacy, and no action is taken to empower marginalized social groups. In addition, there is a lack of specific financing mechanisms for strategic territorial projects and the fact that issues of importance to regional development generate conflicts of interest that are still placed in the background.

#### **4. ANALYSIS OF THE BRASIL MAIOR PLAN (PBM)**

##### **What the PBM should have been**

The Brasil Maior Plan (PBM) was launched in 2011 and constituted an industrial policy focused on increasing innovation and competitiveness in the country:

By integrating instruments of productive promotion and support to investments in innovation and fixed capital with instruments to stimulate foreign trade and the internationalization of companies, Brasil Maior contributes to the construction of competitive attributes capable of enabling a sustainable and inclusive growth trajectory technological innovation. Innovation and the productive and technological densification of value chains are the main force that can lead to

a positive change in the country's relative position in the world economy (BRAZIL, 2011, pp. 9-10).

Another point to be observed in this policy is the valorisation of cooperation instruments between the public and private sectors, through the so-called "sectoral competitiveness councils". Such spaces of interactive policy formulation aim to guarantee actions that best meet the real needs of each sector.

Seeking to broaden the convergence of efforts and promote the optimization of resources, these instances of public-private dialogue play a fundamental role in the elaboration of diagnoses aligned with the guidelines of *Brasil Maior*. Its main challenge is to define strategic agendas and medium- and long-term technological directions, which will guide the formulation of new measures to support competitiveness. The set of proposals of the Plan aims to subsidize the decisions of the management and deliberation bodies (Steering Committee and Executive Group), which also have the support of the National Industrial Development Council (CNDI), composed of representatives of the public power and society (BRAZIL, 2011, page 7)

According to Schapiro (2013), the plan was designed to attack two agendas: structuring with a sector focus (building a new industrial profile, innovative and competitive) and systemic (transversal problems that compromise the competitive capacity of the national industry ). To better manage their agendas, two action groups were created.

The aforementioned sectoral competitiveness councils would attack the first agenda, and for the second, systemic coordination emerged. It is worth mentioning that the systemic agenda was basically aimed at facing institutional limitations of the industrial segment and bottlenecks not neutralized by other public policies, thus being less associated with the idea of an industrial policy of inducing industrial transformation.

### **What in fact was the PBM**

In the analysis of Schapiro (2013), despite the innovative figure of the decision committees, the PBM had a more Ricardian than Schumpeterian bias. This is due to the lack of a decision-making routine and tools for more decisive public control. In the operational sphere, the policy instruments focused on three areas, fiscal (tax measures), financial (public resources contributions) and institutional (laws, rules, interministerial agreements and reorganization of public careers).

In this way, the plan focused on "sectoral relief", which was achieved through reforms focused on traditional segments, commodities and durable goods. Thus, the measures ended up focusing on the cost Brazil, turning to the reduction of costs and lowering of financial resources in order to improve the conditions of production of the existing industry, leaving in doubt the real transformation character of the productive specialization of the policy.

Mattos (2013) points out that a quarter of the measures of the plan were directed towards a sector with already recognized exportation success, agroindustrial, characteristic that already demonstrates the position more "follower" than "defining" of the relevant sectors competitively. It also points out that 13% of PBM's actions had a protectionist bias, with the Information Technology sector the greatest exponent of that characteristic (22% of measures aimed at it).

Werneck (2013) condemns the idea that the greater penetration of imports is evidence of deindustrialization of the country, recalling the issue of complementarity between imports in the short term and investment in the long. Canêdo-Pinheiro (2013) even recalls that one of the explanations for the failure of Brazilian industrial policies would be the excessive protection of their market for an indefinite period.

In the scope of both systemic and sectoral coordination, Schapiro (2013) highlights the eight-month delay between the announcement of the PBM and the beginning of its activities as

a favoring of the greater number of horizontal measures at the beginning of the plan, as well as the problem related to the irregular functioning of the councils (frequencies of meetings different from one another) and lack of institutionalization for their decisions, which do not have the necessary legitimacy even in the juridical context to fulfill the proposed objectives.

In a critique of the above-mentioned systemic dimension of the plan, Mattos (2013) understands that its horizontal and transverse nature means non-discrimination of sectors, making their benefits reach most or all sectors, a counterpoint to the direction of politics. Specifically analyzing the measures, the author also identified that a large number of them were already carried out by their respective responsible public agency, that is, in many cases, the current agenda guided the concrete definition of the measures and the directives that guided them.

Analyzing PBM's goals, Mattos (2013) states that they are all of an aggregate character, with no specific performance goal for the beneficiary companies that can generate a stimulus to the fulfillment of the objectives of the policy, which, when analyzed from Rodrick's perspective presented above, would allow an evaluation to encourage self-learning.

The lack of incentives for beneficiaries to become more efficient generates a lack of commitment on the part of these agents to the success of a policy, after all, "everyone wins and will continue to earn no matter what they do in return for benefits granted by society as a whole" (MATTOS, 2013, p.25).

## **5. CONCLUSION**

Analyzing the *Brasil Maior* Plan, it is understood that although it has been characterized in many aspects as an innovative plan, with emphasis on the creation of sectoral competitiveness councils, as well as for the consideration and use of already existing and successful structures and actions for the design of

politics, PBM was a plan that ended up being "lost" in its implementation.

The lack of institutionalization of the councils, the lack of a legal framework that gave them legitimacy, as well as the loss of focus of the policy ended up being barriers to the attainment of their objectives, causing the plan to end up concentrating on encouraging what already exists and often does not present good competitive results, insisting on old mistakes.

Understanding that Brazil is a country of continental dimensions, uniform support for activities throughout the national territory may end up encouraging failures, since sectors that have competitive potential in one region may not enjoy this condition in another part of the country, due to a serie of factors (geographic location, climate, infrastructure, among others). Differentiating economically and geographically distinct areas by nature when designing an industrial policy can minimize the cost of errors and encourage the learning process towards vocations in each area of the country.

Currently, although the territoriality component is recognized as important in the process of designing public policies, this approach is still considered new by a country that has barely managed to adapt to phenomena such as democracy and the abandonment of the industrial policy model based on the substitution of imports. If intersectoral participation committees still lack legitimacy at the national level, when we consider this instrument at the regional level we can have a clear notion of the difficulty of implementation that these instruments would face.

Another barrier to the breakdown of the current paradigms is the sectoral agenda. Sectors that have been receiving incentives for decades without a clear, measurable and time-bound counterpart, will of course resist changes, even if they are better in the medium and long term. Rodrick argues that to stop insisting on mistakes generates a large political

cost for the government that decides to do so and to this day has been a great impediment to advances in industrial policy.

While support for regional development is limited to adopting policies that only contemplate actions that do not "hamper" the interests of those traditionally benefited, very little can be done to bring about innovations and competitive advantages to be better applied throughout the national territory.

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