

**THE INDUSTRIAL FRONT AND THE PANDEMIC CRISIS IN BRAZIL: THE MISSING AGENDA**

**LUÍS PAULO BRESCIANI**

UNIVERSIDADE MUNICIPAL DE SÃO CAETANO DO SUL (USCS)

**ANAPATRÍCIA VILHA**

FUNDAÇÃO UNIVERSIDADE FEDERAL DO ABC (UFABC)

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## 1. INTRODUCTION

This paper addresses a little discussed topic regarding the profile of the Brazilian government's response to the spread of the COVID-19 virus. More than that, we emphasize that the use of industrial reconversion, or the mobilization of the installed industrial park, is characterized as a relevant absence at the public policy agenda facing the pandemic. This fact is also explained as a result of the weakening process of Brazilian industry as an object of public policy, particularly since 2016. This absence goes beyond the federal sphere of government, and also extends to state governments.

The initial months of 2020 are characterized on a global scale by the phenomenon of the pandemic COVID-19, with significant impacts on health and economy. Countries with large territorial dimensions and large populations present an amplified challenge, given the potential for large-scale contamination and the risk of saturation of hospital systems. Brazil is emerging as one of the most affected countries, quickly reaching the highest levels in the ranking of contamination and deaths.

Wilson (2020) retrieves five elements of learning about the North American industrial reconversion in World War II: the commitment to public purchase of the equipment demanded, the imperative of business cooperation, the state investment in industrial units, the mobilization of industrial capacity in the country, and raising corporate taxes to finance the conversion.

Abrucio (2020) summarizes the Brazilian condition as the antithesis of international learning in the pandemic: the Brazilian government does not combine science and humanism, it does not aggregate different actors against the pandemic, it does not treat the subject as an intersectoral problem, it does not present a consistent economic response, it has no plans for the exit of social isolation. The Brazilian government does not, therefore, exercise its primary role of federative coordination within public health policy<sup>i</sup>.

This exploratory article uses documentary surveys with the federal government and selected state governments, focusing on the identification of government programs aimed at mobilizing the industry for productive reconversion initiatives that can add material resources to the public health system, especially respiratory support and personal protection equipment. The survey was carried out at the official portals of the governments and related agencies, as well as at business entities representing the industrial sector<sup>ii</sup>.

Our purpose is to analyze “the government in action” (Souza, 2006), and to emphasize an element that is barely visible in the study of the governmental response in Brazil: the fragile mobilization of the Brazilian industry in facing the pandemic COVID-19. This characteristic adds to the shortcomings and omissions of the federal sphere, reducing the response of the Unified Health System to the flow of hospital admissions in the Brazilian territory, with serious implications for the preservation of lives; Brazil is among the largest industrial economies on the planet, with great productive diversification, indicating potential capacity for industrial reconversion.

In the next sections, we bring a conceptual rescue on industrial reconversion in severe emergency scenarios, including international experiences from the current context, presenting the documentary survey of industrial reconversion initiatives in Brazil, involving the federal government and selected state governments. We conclude with an analysis of the factors intrinsic to the context of the pandemic in Brazil, and the extrinsic factors beyond that context, showing that the explanation for the absence of coordinated mobilization of the industry is given by the combination of these factors.

## **2. CONCEPTUAL NOTES: INDUSTRIAL RECONVERSION, THE INDUSTRIAL HEALTH COMPLEX AND THE INTERNATIONAL PERSPECTIVE IN THE FACE OF COVID-19**

The industrial reconversion debate points to a transition path towards the redefinition of industrial structures. In this context, the efforts combining technical changes in companies and government industrial policies can be a cornerstone in the debate on industrial reconversion, involving themes such as protection and opening of markets, financing, technological change and new organizational formats (BERNAL et al, 2014).

In order to structure actions related to industrial reconversion, it is necessary to take into account the specificities of the countries where this strategy is formulated, taking into account the economic, technological and social differences of developing countries (RODRÍGUEZ, 2017). According to Bernal et al (2014), industrial reconversion projects must include initiatives in the public and private spheres, namely in public policies, technological innovation, industrial modernization and adaptation of legal measures.

For Rodríguez (2017), the process of industrial reconversion in European countries allowed the region to a better insertion in the global economic context. In these countries, the model follows the understanding of political supremacy in the public sector, where the role of government is significant and the free market concept takes on distinct features from the American outlines (WOODROWN, 1995). In fact, the European experience includes an interactive perspective for innovation, based on companies, governments and research institutions, also seeking to scale and decentralize production and sectorial reconversion initiatives (RODRÍGUEZ, 2017).

In China, industrial reconversion was guided by state goals and includes the restructuring of Chinese industrial districts, the emergence of technological clusters and the international insertion of companies in global production chains (RODRÍGUEZ, 2017). In the health sector, significant investments in research and development, import substitution and industrial consolidation are pillars of the Chinese governmental movement, in its current five-year plan; biopharmaceutical products and medical equipment of high technological intensity constitute priority sectors of the “Made in China 2025” program (IEDI, 2018).

In the USA, industry structuring programs were coordinated at the federal and state levels, with emphasis on the creation of support centers for industry in the 1970s. Linked to local universities, these centers aimed to stimulate new businesses and leverage technological research, with medium- and long-term effects (WOODROWN, 1995). In other way, Latin American countries concentrated on containing inflationary effects from their economies, giving less emphasis to economic policies anchored in the industrial sector (RODRÍGUEZ, 2017).

The reconversion experiences in different countries highlight the importance of expanding the industry's capacities through the mobilization of institutions and the formulation of industrial and technological development policies to increase the competitiveness of companies. This capacity for articulation is a current imperative for the challenges arising from the COVID-19 pandemic, especially in the health industrial complex (Skariyachan et al, 2019; Bonilla-Aldana et al, 2020).

In Brazil, the health sector accounts for about 9% of the Brazilian GDP<sup>iii</sup>, and is also recognized for its restrictions in scientific and technological research. For Massuda (2020), “the technological dependence in the production of health products, from PPE to respirators” is among the critical problems of the public system in Brazil, corroborating the perspective of Gadelha and Temporão (2018) about the centrality of the Industrial Health Complex in the structuring of SUS.

According to Ruiz and Martich (2020), the current crisis reflects one of the greatest deficiencies in meeting the global health needs, given that most of the solutions for diagnosis, treatment and vaccine for COVID-19 are in the early stages of development. In the same direction, Mazzucato and Torreale (2020) show that the protection of societies against COVID-19 necessarily involves the strengthening of public health systems and a different approach from national States to face economic and health challenges.

For Azoulay and Jones (2020), technological innovation seems to be the key in the equation that involves public health and economic well-being. This means that overt innovation policies must be combined with the mitigation of economic effects, which seems to concentrate a large part of government and business attention. Given this perspective, Mazzucato and Torreale (2020) recommend a coping approach focusing public and private investments on clear objectives, with firm rules on intellectual property, manufacturing and pricing solutions to combat the pandemic, using technological knowledge in a shared way. Stiglitz et al (2020) signal the importance of international cooperation and reinforce the necessary public intervention to face the power of large corporations that produce medicines and equipment.

Finally, we highlight the recent perspectives put forward by Furman (2020) and Krugman (2020), including the maximum mobilization of the productive sector and the permanent stimulus of public investment (with an emphasis on infrastructure and child development), respectively, among the public policy recommendations facing the pandemic.

In fact, Mazuccato and Quaggioto (2020) point out that successful countries in dealing with the crisis are those that establish productive dialogues with the private sector, investing in critical capacities and signing procurement contracts to serve the public demand. According to the same authors, the government of Vietnam assembled low-cost test kits very quickly, because it had the capacity to mobilize the academy, the private sector and civil society organizations around a common mission. To this end, it used public funds from R&D (research and development) to boost production and innovation.

The New Zealand government has become the first country in the world to focus its budget primarily on health, establishing COVID-19 contamination prevention initiatives since the beginning of the pandemic. The South Korean government has mobilized big data technology to monitor pharmacy stocks in real time, allowing companies to orient themselves to produce and distribute products more efficiently.

With regard to the more structural movement to strengthen industrial activities, as part of the confrontation or as a result of the crisis caused by the pandemic, Huang et al. (2020) highlight the Chinese emphasis on infrastructure projects (energy, transport and ICTs), with coordination between the central government and local governments to finance the initiatives. The argument also stands out in Cheong's (2020) approach to the importance of pro-industry policies oriented towards progressive industrial restructuring in South Korea<sup>iv</sup>.

### **3. INDUSTRIAL RECONVERSION IN BRAZIL: THE FRAGMENTED IDEA**

The Brazilian case has been marked by the lack of coordination by the federal government in tackling the pandemic, as we discussed from Abrucio (2020). Thus, what is seen in the industrial perspective, whether aiming at reconversion or business mobilization, constitutes a set of fragmented initiatives, largely taken by one or more companies, without the programmatic character of articulation between the federal government, States, municipalities and the productive sector.

We address this specific characteristic of the Brazilian government's response from the balance sheets and monitoring reports published by the federal government (Ministry of Economy, BNDES, BNB, EMBRAPPII, FINEP), by the state governments of São Paulo, Rio de Janeiro, Minas Gerais, Rio Grande do Sul, and by industrial business entities.

We started with the federal government, and governmental information makes evident the absence of an industrial perspective, from the command installed in the Ministry of Economy<sup>v</sup>. In fact, the official reports on combating the pandemic do not present initiatives aimed at industrial mobilization. The balance of expenses related to the federal government also does not indicate an endowment with this characteristic.

In reality, one of the measures reported by the Ministry of Economy as supporting the productive sector brings an effective counterpoint to the potential stimulus for industrial reconversion: the temporary extinction of the Import Tax for products such as alcohol gel, masks, thermometers, pharmaceuticals, protective clothing, safety glasses and breathing equipment. With that, it is stated that it intends to install "a brake, in case the national manufacturers of these goods try to increase prices abusively"<sup>vi</sup>. This measure was critically criticized by the Brazilian Association of Medical Equipment (ABIMO), pointing out the inconsistency in encouraging the entry of imported equipment at zero tariffs, while the Brazilian industry continued to operate under conventional tax regimes (ABIMO, 2020b).

Strictly speaking, a few initiatives can be identified as close to the productive reconversion, launched by BNDES, Finep, EMBRAPPII and the Northeast Bank. The first refers to a BNDES credit line for expanding the offer of health products. These are resources that will be paid by companies over the next few years, with non-incentive interest rates, which may reach 10% per year under current conditions.

The amount announced in the BNDES Program for Emergency Support to Combat the Coronavirus Pandemic was R\$ 2 billion, to expand the supply of emergency beds, materials and medical and hospital equipment. According to BNDES itself, "companies from other sectors that seek to convert their production into equipment and supplies for health can also be contemplated" (BNDES, 2020). However, only 6 projects have been approved since its launch, with a global value of R\$ 183 million, just over 9% of the expected resources, covering

companies already involved in the medical-hospital segment. The approved resources are intended for the delivery of 2,662 beds, as well as 500,000 rapid tests and 1,500 monitors.

The second initiative in the federal level was led by EMBRAPII (Brazilian Company for Industrial Research and Innovation), which allocated R\$ 26 million to 40 R&D projects, in addition to expanding the production scales of companies in the medical-hospital segment, and R\$ 6 million for startups involved in the topic. The public call "Missão COVID 19" was launched in partnership with the National Service for Industrial Learning and the Brazilian Industrial Development Agency (EMBRAPII, 2020a); its most immediate action refers to the production schedule of Constanta company, already involved in the local supply chain (EMBRAPII, 2020b).

In the case of Finep, resources of up to R \$ 5 million were announced in the public notice for innovation in individual or collective protection equipment, as a subsidy (FINEP, 2020a). This announcement attracted 81 companies, qualified 25 proposals, and approved only six projects for promotion. In mid-April, an offer of R \$ 150 million was released as a credit for industrial reconversion projects, conceived as the transformation of factories to produce essential items, combining their production structure and idle capacity<sup>vii</sup>. At the end of May, a new public notice for economic subsidy was launched, with R\$ 132 million for innovation projects in ventilators, tests and protective equipment. Of this amount, R\$ 80 million is foreseen for ventilators and accessories, but the final results will be announced only at the end of July.

The Northeast Bank had also offered an amount of R\$ 5 million as a subsidy for projects considered innovative in the face of the pandemic. The projects should be oriented towards solutions for the rapid diagnosis of the disease, as well as products intended for treatment, solutions for care protocols, remote care tools and disinfection technologies (BNB, 2020).

In its most recent report (May 22), the Brazilian government claimed to have committed R\$ 400 billion to fight the pandemic, without any structural action aimed at promoting industrial reconversion. Even if we add the 6 contracts approved by the BNDES, the amount mobilized by Finep, and the resources announced by EMBRAPII and BNB, we have about R\$ 500 million announced for the industrial mobilization to face the pandemic, just over 0.1% reported federal expenditures (BRASIL/Ministério da Economia, 2020b). In the legislative sphere, three bills were presented on the topic of productive conversion until the end of May, all of them submitted by deputies opposed to the government, and there does not seem to be any political articulation for them to be voted in plenary<sup>viii</sup>.

In relation to state governments, São Paulo, as the country's largest economy, would be the subnational entity in the most favorable conditions for initiatives in the field of industrial reconversion and mobilization. However, despite formal declarations by the first echelon of government indicating this scenario<sup>ix</sup>, what emerged is restricted to an announcement from its São Paulo Research Foundation (FAPESP), aimed especially at small companies (PIPE modality). The notice, with resources of R\$ 20 million, is already in its third extension, having approved only six companies, with only R\$ 6 million committed, for companies already involved in the medical-hospital segment (FAPESP, 2020).

The schedule implies the construction of projects that are not short-term, and do not meet the perspective of emergency action to face the pandemic. The state government's development agency, DesenvolveSP, did not initiate an initiative on industrial reconversion. At the municipal level, the largest Brazilian city earmarked only R \$ 1 million to support 10 technology projects

through Adesampa (São Paulo Local Development Agency), through the “COVID-19 - Cycle of Rapid Innovation” (PREFEITURA DE SÃO PAULO, 2020).

As the second largest industrial economy among Brazilian states, Minas Gerais is one of the few regional territories that has a specific development bank, the BDMG. The actions of the Minas Gerais state government are limited, in the initial months of facing the pandemic, to the offer of credit oriented to the medical-hospital sector, with three specific lines, aimed at the manufacture of high demand items (BDMG, 2020). In the cases of Rio de Janeiro and Rio Grande do Sul, government initiatives aimed at industrial mobilization were not identified.

Going beyond government initiatives and programs, there is a record of some corporate actions aimed at productive conversion, always marked by a voluntary character and without connection with public policies. Sometimes, such initiatives are sponsored by business entities, linked to the National Industry Confederation (CNI, 2020). In the same sense, specific initiatives taken by public universities or federal educational institutes are presented. In more structural terms, we highlight the technical note prepared by DIEESE (2020) focused on the workers' unions, and the recent IEDI document on Brazilian industrial strategy, including among its guidelines the “mobilization of industrial skills (... ) to face social challenges, many of them aggravated by the coronavirus crisis, such as health security, sanitation and environmental sustainability” (IEDI, 2020, p.9).

#### **4. CONCLUSIONS**

As Kingdon (1995) points out, the entry of a specific theme at the center of the governmental agenda is not a trivial process. In the Brazilian case, the (mis)understanding of the problem, the (dis)orientation of the government nucleus and the (in)visibility of the disputed arguments have clear implications for the perception of the “opportunities windows” in the formulation of public policies.

As we have seen, there is no declared public policy, of a federal or state character, oriented towards the conversion or industrial mobilization. What are identified are fragmented and late initiatives, with credit and subsidy resources detached from any coordination of demands. Likewise, there is a set of voluntary actions by some companies, sometimes articulated with efforts by state governments, without a programmatic character, or even combined with the donation of the goods produced. Paradoxically, there are three bills aimed at establishing a productive conversion program, all presented by parliamentarians opposed to the government

Federal-level initiatives with some degree of connection to the topic refer to lines of credit announced by the BNDES and a FINEP grant notice, with results not yet available. Such initiatives are not even mentioned in the balance sheets released by the Brazilian government. Initiatives by EMBRAPPII (federal level) and FAPESP (state of São Paulo) refer to the promotion of R&D, with low availability of resources and extended deadlines for the presentation of results.

In addition to this absence, a federal decree established maximum attention to enable the expansion of imports, considering the urgency of the acquisition of equipment and supplies, but penalizing national manufacturers, whose taxation remained unchanged. The direction

indicated was that of the greater fragility of the health industrial complex, disregarding the opportunity to resume its strengthening.

We argue that the absence of an industrial reconversion program in the Brazilian case is due to a combination of intrinsic and extrinsic factors to the federal government's general approach to the pandemic, marked by minimizing the impact on the country, denying the evidence and neglecting the potential contribution of science and technology.

From the perspective of intrinsic factors, federal measures were concentrated on the temporary suspension of payment of taxes, the emergency transfer of income to informal workers, the suspension of contracts or the reduction of working hours. From the point of view of attention to the business activities, the focus was directed to lines of credit aimed at paying the payroll of small companies. In the midst of this movement, federal public financing agencies designed a few credit solutions for industrial reconversion, with low adherence from the private sector.

With regard to extrinsic factors, there is a denial of any action related to the stimulus to local industrial content, especially marked by the former government in 2016, and even more exacerbated in the current government. Not only was industrial mobilization disregarded as a front in the fight against the pandemic, but the priority for imports was amplified due to the dominant perspective in the Ministry of Economy, which avoids any stimulus measures in this sector.

We conclude by pointing out that a possible reorientation of the governmental stance in Brazil should consider, as the international experience points out, some central elements: the definition of economic sectors directly connected to meet emergency demands arising from the pandemic; the detection of sufficiency (or not) of national production, aiming to reduce the dependence on imports at extraordinary costs); the expansion of credit amounts and economic subsidies for productive conversion; the adaptation of regulatory arrangements for the production and commercialization of products in the face of the pandemic; the commitment to public purchases and short, medium and long-term technological orders. None of this will happen, however, without the industrial issue moving to the center of the public policies agenda, either in facing the pandemic or as a strategic push for Brazil.

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<sup>i</sup> ABIMO's note points to the dispute for equipment in the national territory, according to article 3 of Law 13979/2020, on requisition of goods and services by public sector bodies, emphasizing the absence of federative coordination (ABIMO, 2020a).

<sup>ii</sup> In March 2020, ABIMO calculations indicated a deficit of 25,000 mechanical fans across the country (<https://globoplay.globo.com/v/8555100/>). Only in May would the Ministry of Health report delays in the delivery of imported equipment and shortage of supply in the short term by Brazilian manufacturers (<https://g1.globo.com/jornal-nacional/noticia/2020/05/07/ministro-da-saude-afirma-que-governo-nao-esta-conseguindo-comprar-mais-respiradores.ghtml>).

<sup>iii</sup> Cf. <https://agenciadenoticias.ibge.gov.br/agencia-noticias/2012-agencia-de-noticias/noticias/26444-despesas-com-saude- ficam-em-9-2-do-pib-e-somam-r-608-3-bilhoes-em-2017>.

<sup>iv</sup> According to Cheong (2020), “after overcoming COVID-19, the country should establish industrial policies aimed at promoting smooth industrial restructuring”.

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<sup>v</sup> According to the Budget and Financing Committee of the National Health Council (2020), the budget dedicated to actions related to the Covid-19 pandemic until May 2020 indicated a 0.1% participation by the Ministry of Science, Technology, Innovations and Communications (MSTIC), revealing an even more expressive absence compared to the allocation of resources budgets of the respective ministry, in the order of approximately 0.2% in the 2018 and 2019 financial years, each (CONSELHO NACIONAL DE SAÚDE, 2020).

<sup>vi</sup> Federal Decree 10.285/2020 (BRASIL, 2020a).

<sup>vii</sup> There was no record of the contracted operation until the conclusion of this paper.

<sup>viii</sup> See the Chamber of Deputies official website (2020) at <https://www.camara.leg.br/noticias/657610-setores-industriais-poderao-ser-obrigados-pelo-governo-a-fabricar-itens-de-combate-ao-coronavirus/>. The three bills in progress on the topic of productive conversion are PL 1759, PL 2201 and PL 2224.

<sup>ix</sup> The São Paulo government launched a channel to identify suppliers, but does not disclose the results of these contacts. There is no information on industrial mobilization as a government action, other than the involvement of prisoners in the manufacture of fabric masks (<https://www.saopaulo.sp.gov.br/spnoticias/presos-de-sp-va-confeccionar-320-mil-mascaras-para-protecao-contracoronavirus/>). A similar initiative was identified in Espírito Santo, Rio Grande do Sul and Paraná (GOVERNMENT OF THE STATE OF SÃO PAULO SÃO PAULO, 2020). Iniciativa similar foi identificada no Espírito Santo, Rio Grande do Sul e Paraná (GOVERNO DO ESTADO DE SÃO PAULO SÃO PAULO, 2020).