Brazil's computers and U.S. protectionism

by Mark Sonnenblick

On Jan. 20, the Brazilian government blew a big hole in its previous policy of protecting its nascent computer industry from the ravages of foreign competition. It permitted Microsoft of Redmond, Washington to sell its MS-DOS 3.3 program on the Brazilian market. This software will dominate that market, leaving the Brazilian imitation of the older MS-DOS 3.2 with too few sales to pay for its development costs.

Brazil was forced to retreat by President Reagan's threats to knock $105 million worth of Brazilian exports out of the U.S. market if it did open the micro end of the computer business to multinationals such as IBM which have always been allowed to build big computers in Brazil. The uproar by lobbyists for the Brazilian manufactures which would be, in effect, banned from the United States (men's shoes, Volkswagen cars, airplanes, etc.) and by the ideological enemies of sovereign development caused the Brazilian Senate to scurry to pass a law theoretically ending protection of the software market and stopping piracy of foreign software. The foreign ministry also fought for Brazil to retreat on the Microsoft case. It echoed the White House's anti-protectionist stance and used it at GATT to bash the United States for protecting its own domestic market.

President Reagan may now call his trade gunboats back to port, or he could keep up the trade war pressure in order to exact greater concessions. This time, the pretext could be Apple's allegation that it is deprived of $70 million in Brazilian sales by a look-alike copy of its Macintosh personal computer, made by a Brazilian company.

Tariff policy: the American System

In this morass, it is refreshing to find a little book by a Brazilian who reminds Americans that their country industrialized and became the world's leader by protecting its own nascent industries. The 63-page book by Paul F. Fleury (in Portuguese) is titled *Protectionism and Economic Development: a comparative study of the Brazilian computer industry,* and was published in 1987 by the Brazilian Computer Industry Association.

Fleury observes, "In relation to manufacturing, there is no doubt that the increase in tariff barriers in the United States, Germany and other countries contributed to their economic growth. . . . The basis for a protectionist policy in the U.S. came forth a few years after independence in Alexander Hamilton's 'Report on Manufactures' (1791). . . . Hamilton reaffirms the need for self-sufficiency in manufactures as well as the importance of a growing urban consumer class for a prosperous and stable agriculture. Manufacturing should be given growth incentives by a system of subsidies and protected by a tariff barrier, which would free domestic producers from unfair competition, permitting them to expand the scale of their operations, thereby achieving cost factors comparable to their foreign competitors."

What Brazil is trying to do with its computer industry today is thus what every developed country once did. Fleury illustrates the hypocrisy of the free-trader ideologues with a speech President Ulysses S. Grant made in Manchester, England, the home of the Reagan administration's economic liberalism:

"Gentlemen: For centuries England carried protectionism to its extremes to good result. There is no doubt that its present power is owed to that system. After two centuries, England found it convenient to adopt free trade, since it believed that protection would not longer work for it. Well then, Gentlemen, my country's growth makes me believe that within two hundred years, when North America will have obtained from the protective system all that it could give, it will adopt free-trade."

Fleury criticizes the economic model of the 1967-73 "Brazilian Miracle," based on multinational companies setting up export-oriented industries that relied on imported technology. He blames the multinational companies and "growth at any cost" for the miserable living conditions of Brazil's working class and other economic distortions. He is just as hard on the 1974-79 emphasis on state-built great projects, especially the West German-Brazilian nuclear energy "deal of the century," under which Brazil was to purchase the complete nuclear energy cycle. His preferred model is one of slower growth, but with "autochthonous development based on the development of our own technology, already dominated by our technicians and engineers. . . . Intangible investments in new knowledge and its dissemination are the critical elements, instead of tangible investments in bricks and machines."

Great Projects under fire

Fleury's weakness lies in his infection with the Club of Rome's genocidal "small-is-beautiful" ideology. He indicts the government's great steel, energy, and transport projects, which gave a dramatic jump to productivity and to applied knowledge of modern technologies. He even blames these projects for Brazil's debt crisis, without a word on the International Monetary Fund's austerity conditionalities and the world economic breakdown. He argues Brazil should give priority to cheap labor-intensive "small rural projects" using "appropriate technology."

Were such maoist standards applied to Brazil's computer industry, it would be argued that its only real achievement has been to replace tens of thousands of poorly paid clerks with a few thousand engineers paid 50 times more. And, Fleury's stated concern for Brazil's poor workers is contradicted by his prediction that Brazil's underpaid labor is what will soon give its computer products "competitive capacity."

Another disappointing feature is that Fleury hides the real motive forces behind Brazil's computer development. To pander to current Brazilian public opinion, he counterposes computer against nuclear development. He says that computers involve a model with "less state participation." He apparently fears to mention the group of army colonels who ordered the development of independent computer capabilities in 1979 as essential for national security. Nor does he mention how these military economic nationalists are what have, so far, sustained protection for the industry against vocal outpourings from Brazil's private business sector, to the effect that the early Brazilian copies are much more expensive and of lower quality than the foreign originals. Fleury's compromises with pragmatism and with academicism weaken an otherwise powerful polemic.

Ending technological dependence

Fleury is at his best when he reminds his audience that to maintain its monopolies, Britain forbade emigration of skilled craftsmen until 1825 and export of its machines until 1842. The United States broke Britain's stranglehold on advanced technology the way Brazil is trying to break IBM's today, "by a certain amount of industrial espionage, by buying British machines (normally illegally contrabanded), and by recruiting British citizens to work."

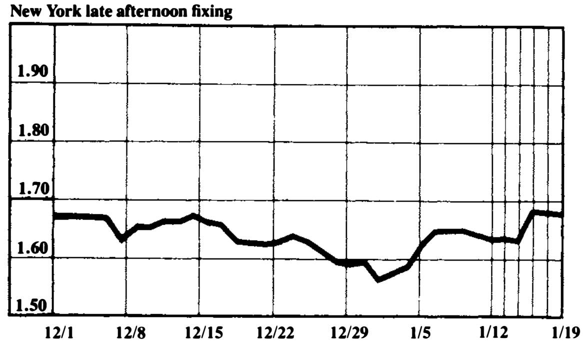
For a nation to fail to obtain the ability to generate technology, he concludes, "is to run the risk of culturally annihilating oneself and to remain in eternal dependence of the countries which create and produce technology."

The Brazilian Computer Industry Association highlighted that concept in ads it ran in the press Jan. 19, alerting against the retreat which the government made the next day: "The struggle for worldwide domination of an industrial sector brings some countries to threaten others. In the past, they sent fleets and troops. Now they impose trade sanctions. The authorities of the countries threatened sometimes give in—and their people lose the historic opportunity, remain dependent, poor and backward. Other countries resist. Remember when everbody made fun of the 'Made in Japan' labels. For a while, this [effort to develop] seems like obstinacy. But, in the medium term, it is the best thing a government can do for its people. Submit, and be despised by history. Or resist and see how your industries and your consumers will benefit. . . . Each of us has a big responsibility, because history does not remember cowards."

Currency Rates

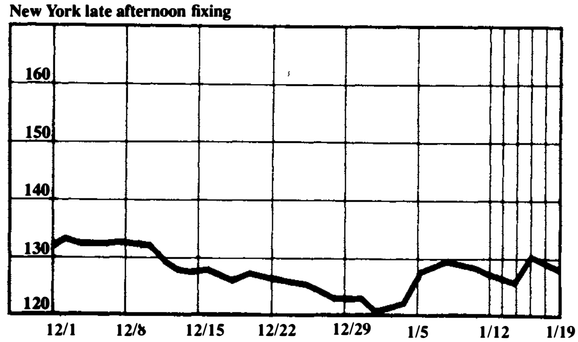
The dollar in deutschemarks

New York late afternoon fixing



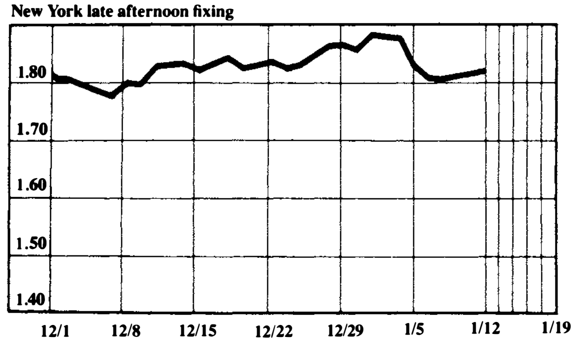
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing