

SEED WORKING PAPER
No. 11

*Series on Globalization, Area-based Enterprise
Development and Employment*

**Local Adjustment to Globalization:
A Comparative Study of Foreign Investment
in Two Regions of Brazil,
Greater ABC and Greater Porto Alegre**

by

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InFocus Programme on Boosting Employment
through Small Enterprise Development
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International Labour Office Geneva

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ISBN 92-2-112396-0

First published 2001

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Printed by the International Labour Office, Geneva, Switzerland

Foreword

This report is part of a series of case studies carried out by the International Labour Organization (ILO) in connection with the Action Programme on Globalization, Area-based Enterprise Development, and Employment, 1998-99, within the Employment and Training Department.

One of the objectives of the Action Programme is to demonstrate how the social partners can play an instrumental role in area-based initiatives to adjust to change caused by globalization. In Brazil, new industrial growth poles are being established in regions with relatively less developed institutions for social dialogue, while the traditional regions with established mechanisms for negotiated change are attracting relatively less foreign direct investment (FDI). The two regions reviewed in this context are the Greater ABC region of São Paulo, the traditional hub of the automotive industry, and the less-unionized Greater Porto Alegre region of Rio Grande do Sul.

Political and economic conditions in both regions have led to, or impeded, the development of local institutions. Similarly, region-based industrial policies and FDI recruitment have had advantages and disadvantages, impacting primarily on changes in area employment in general, in the automotive sector, and in workers' wages, working conditions and skills development. Differences in the response strategies to loss of job growth and security in the automotive sector are related directly to the regions' differing histories of highly developed or under-developed tripartite institutions.

The purpose of the study is to compare the effects of liberalization and FDI in these two regions, contrasting in particular the development of regional institutions to support social dialogue and their influence on employment and industrial relations. With this end in view, the report weighs trends in general in the regional distribution of incoming FDI in Brazil, and specifically in the automotive industry, using investment, output and employment indicators. An in-depth coverage of the development of the automotive Sectoral Chamber in the Greater ABC region underlines the roles of the labour unions and various levels of government in initiating, developing and participating in these innovative sectoral boards. The objectives of these institutions and examples of the measures taken in response to changing patterns of FDI in this region are contrasted with comparable institutions in Greater Porto Alegre.

The rationale for the relative shift of FDI to Porto Alegre is appraised, examining local industrial policies, in particular the role of local or regional official agencies and tax incentives policies in attracting foreign investment. The responses of region-based representatives of workers to the location of multinational affiliates and the impact of FDI growth on business opportunities for local, domestically owned providers of parts and components, business services, or raw materials are highlighted. The report explores the ways local institutions are promoting social dialogue and evaluates their effectiveness in facilitating regional adjustment to changes in foreign direct investment.

Insight into the current situation is provided by feedback from interviews the authors conducted with representatives of municipal and regional authorities, labour unions and other workers' organizations, employers' organizations and managers of foreign and locally owned businesses in the automotive sector.

This report was written by Glauco Arbix, Professor of Sociology, Universidade de São Paulo, and Mauro Zilbovicius, Professor of Production Engineering, Universidade de São Paulo. They can be contacted at garbix@usp.br and mzilbovi@usp.br respectively. Anne Posthuma of the ILO Multidisciplinary Team in Santiago, Chile prepared the research framework for this study and was instrumental in guiding it to completion. Work on area-based enterprise development and regional and local responses to globalization continues under the InFocus Programme on Boosting Employment through Small Enterprise Development.

Christine Evans-Klock
Director
InFocus Programme on Boosting Employment
through Small Enterprise Development

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Executive Summary

This technical paper assesses the effects of liberalization and the dynamics of industrial investment in the automotive production sector in the Greater ABC region of São Paulo and the Greater Porto Alegre region of Rio Grande do Sul. It charts the development of regional institutions to support social dialogue and dissects their influence on the location pattern of foreign direct investment within Brazil and their impact on area adjustment to globalization.

Special attention is paid to the institutional framework in the Greater ABC region, the historic centre of Brazil's automotive industry, which became a model of tripartite consultation in the early 1990s. By the mid-1990s, the Greater ABC region was a "brownfield" area in crisis and Greater Porto Alegre, offering substantial tax incentives, had become a "greenfield" of faster growth, where the comparative weakness of organized labour was considered an advantage in industrial recruitment.

Union participation in multi-institutional bodies is gauged to be intense and increasing in the ABC region, with fora for elaborating regional policy towards strengthening the economy and generating employment. In Greater Porto Alegre, union leaders are isolated from appropriate discussion channels, although directly affected by the impact of policies that are solely determined by municipal and state government administrations.

This systematic comparison of the public participation of labour interests in both regions indicates the ambivalence of organized labour on the role workers should now take to confront the issues of a changing labour scenario – especially the possibility of institutional spaces for direct intervention. Skill development has been insufficiently defined and remains a point of strong ideological dispute, dividing workers over its place in labour demands. In addition, recently introduced corporate strategies – administrative decentralization, the elimination of hierarchical ranks, pressure against collective contracts, workplace negotiations and individual agreements – are affecting, and sometimes undermining, worker-union relations. Both regions currently face unemployment rates higher than 20%, increasing the uncertainty surrounding the future of organized labour.

The research conducted to produce this report has raised several significant theoretical and practical issues, mainly the emergence of new – and still not completely developed – institutional arrangements of cooperation between state, local government, companies and unions. In this context, one of the most challenging questions is the process of policy decision-making, and the role of social agents.

The indications are that there are no easy answers. For the unions, the question is not whether to participate in wider discussion channels, but how. For industry, the main problem is to perform a more public role instead of repeating their old lobbying behaviour. For the government, the key issue is to convince itself that these quasi-public spaces are fundamental to re-establishing a healthy environment for economic and social development.

This paper posits that response strategies must identify and delimit regional interests, disseminate ties capable of horizontally binding regional public agents and civil society organizations and establish relations between national development agencies and national employers' and workers organizations. In both the ABC and Greater Porto Alegre regions,

those bodies charged with determining new regional development strategies need to make careful observation of how the recent changes in foreign direct investment affect employment and local business development in the FDI-receiving region, and the role of labour unions in implementing employment-friendly adjustment strategies in the FDI-losing area.

The main factors directing change in these two regions, the dilemmas they still face, and the constraints that need to be overcome are critically evaluated. Efforts to promote endogenous development face serious limitations, given the absence of financing mechanisms and the instability of Brazil's economy. It is suggested that unless they strengthen links with state and federal governments and between local capital, both the Greater ABC and Greater Porto Alegre regions may well jeopardize the necessary reorientation of their institutional structures.

Introduction

This report analyses a dual process currently under way in Brazil, linked to the arrival of new direct investment by automobile manufacturers. First, we focus on the ABC region of São Paulo, a traditional automobile and autoparts industrial pole, now attempting to redefine itself within the new profile of Brazil's automotive production chain, which is undergoing change as a result of growing investments in non-traditional regions. Along with changes in industrial organization both within and between firms, the ABC region has also promoted the development of new institutional spaces capable of directing regional development, in a bid to face the challenges posed by the restructuring of this district. Prominent among these institutions is the Greater ABC Chamber, drawing together municipal governments, the state government, business interests, unions, community groups and NGOs. Consolidated as an industrial park between the 1950s and the 1980s, the greater ABC region must now compete with other regions that are offering the attractions of tax incentives and logistical advantages.

The second focus is on the Greater Porto Alegre region of Rio Grande do Sul, where two large automobile producers, General Motors (GM) and Ford, have channeled investments in an effort to keep pace with the sector's prevailing global tendencies. These companies were attracted by the tax benefits the state government instituted in 1998, by the region's location in reference to the Mercosur as a halfway point between São Paulo and Buenos Aires, and by the prior existence of an autoparts productive base that traditionally supplied the ABC and Minas Gerais poles. In April 1999, Ford decided to transfer its investments to the state of Bahia, arguing that the conditions offered by Rio Grande do Sul's new government, which took office in January 1999, did not provide sufficient guarantees. Nevertheless, GM's continued presence may be a factor leading to a strong transformation in the region. Rio Grande do Sul, however, has yet to develop an effective articulation capable of directing the local modernization process by mitigating negative effects and multiplying positive effects set off by this process. During the negotiation process with the automobile companies, the state government and regional entrepreneurial interests forged a strong bond in order to guarantee that their state would be selected. Offering tax benefits, the government achieved successful results. However, in analyzing the current format of the automotive chain and the logic orienting new investments, it becomes clear that not everything originally imagined is about to come true, including growth in employment and increased state income. Negotiation involving other social actors directly involved in the modernization process must first be consolidated in order to define procedures that are more effectively conducive to the region's development.

This report adopts the following structure: the first chapter refers to the flow of foreign direct investment in Brazil; the second chapter deals with the general logic underlying the modernization process within the automotive sector and analyses the current situation of productive chains set up in the ABC and in Rio Grande do Sul. The third chapter discusses the historical process that introduced an institutional framework for promoting social dialogue in Brazil in the early 1990s, now bearing fruit in the negotiations articulating different agents within the automotive chain. The fourth chapter examines the changes affecting the ABC and Greater Porto Alegre regions, covering the reconfiguration of a traditional productive pole and describing the strategies adopted by the government and local agents to attract fresh capital.

Finally, we present conclusions on the main factors directing change in these two regions, on the dilemmas that they still face, on the constraints that need to be overcome, and on future outlooks for both regions.

Over a period of four months, research for this project included 22 interviews, two meetings discussing the situation involving Rio Grande do Sul and the automobile manufacturers, a spot visit to the GM complex and the 16 auto systems producers in Gravataí (RS), along with a study of the institutional documentation referring to the ABC region.

1. Foreign Direct Investment in the Automotive Industry

The Brazilian economic scenario underwent severe transformations beginning in the early 1990s. The economy faced strong deregulation in terms of foreign trade, which brought on a marked growth in both the volume of imports as well as in foreign direct investment (FDI).

General economic conditions, especially with regard to currency stability, the stabilization of inflation at low rates, and the strong political alliance emerging in the 1994 elections made the country more attractive to foreign capital seeking both productive (which we call FDI) as well as speculative, short-term profits.

Attracting foreign direct investment became one of the keys to Brazil's economic policy in the 1990s, allowing the country to enter into the highly competitive productive sphere with a growing export capacity. Gustavo Franco, former Central Bank president who was at the helm of the Real Plan, made it clear that Brazil's new insertion in the globalized context depended on increased foreign direct investment, which in turn constituted the *raison d'être* of the monetary stabilization policy, to propel "the restructuring of foreign branches operating in Brazil to meet international standards" (Franco, 1996). Through its policies involving commercial liberalization, deregulation, and, especially, privatization, Brazil managed to increase foreign direct investment substantially.

However, clearly identifying foreign direct investment and its impact, especially on employment, is no simple task. If we are interested in evaluating the total amount of investments involved in the creation of new productive assets, then the total foreign direct investment flow does not provide a good indicator, since it actually represents the total of resources introduced in a specific period, which could be applied towards the acquisition of already existing private investments, or, in the Brazilian case, in the acquisition of state enterprises undergoing privatization.

According to the Central Bank's Foreign Capital Census, taking 1995 as a base¹, Brazil received around US\$ 23 billion in direct investments during 1996 and 1997, which represents 54% of the December 1995 supply (Table 1).

¹ These are the most recent data available for FDI by economic sector.

**Table 1 - Foreign Direct Investment in Brazil, by Sector, 1995 – 1997
(US\$ millions)**

Sector	Dec. 1995 Stock		1996 ¹		1997 ¹	
	Value	%	Flow	%	Flow	%
Agriculture, cattle raising and mining	688.6	1.62	110.5	1.44	456.1	2.98
Industry	23,402.4	55.03	1,740.0	22.70	2,036.4	13.30
• <i>Motor vehicle manufacture</i>	2,851.3	6.70	286.1	3.73	222.7	1.45
• <i>Manufacture of other transport equip.</i>	223.0	0.52	0.0	0.00	0.0	0.00
Services	18,439.0	43.36	5,814.9	75.86	12,818.6	83.72
Total	42,530.0	100.00	7,665.4	100.00	15,311.1	100.00

Source: BACEN (Central Bank of Brazil) data. ¹The flow of investments over US\$10 million per receiving company/year. The data in this sample represent 73.6% and 81.6% of the total investments received in 1996 and 1997 respectively.

According to CEPAL's Annual Report for 1998, foreign direct investment in Brazil increased from US\$ 2.6 billion in 1994 to US\$ 15 billion in 1997. While the annual FDI growth rate on a world scale remained around 18%, the Brazilian rate reached 65.5%. During this same year, the FDI represented 14% of the country's gross fixed capital formation.

While in 1995 the FDI's share in industry was 26.9% greater than in the service sector, this tendency changed by 1997, when the service sector retained 36.4% more foreign capital than the industrial sector. This change primarily had to do with the internationalization of the banking sector, while slightly later it was connected to retail commerce. More recent data is not yet available, though it seems likely that they will reflect the internationalization of the telecommunications sector, which was privatized. In the industrial sector, investment remains concentrated in the automotive industry (CEPAL, 1998). It should be noted that a large portion of the total flow of FDI to Brazil in the second half of the 1990s was directed towards the acquisition of privatized state enterprises, especially steel, telecommunications, electric energy, and petrochemicals.

**Table 2 - Distribution of Foreign Direct Investment in Brazil, by sector, 1995 - 1997
(percentage)**

Sector	1995 Stock	Investment flows, 1996 – 1997
Services	45	56
Other services	--	48
Wholesale	--	8
Manufacture	51	42
Motor Vehicles	10	2
Chemicals	9	--
Electric Energy	--	26
Other Manuf.	32	14
Primary Sector	2	2
Other	2	--

Source: CEPAL (1998). FDI in automobile holding companies, with financial operations, is classified under "other services".

In the automobile sector, five assembly firms were among the eleven industrial enterprises with greatest sales in Brazil, as can be seen in Table 3.

Table 3 - Sales of Automobile Companies in Brazil – 1998

Company	Sales (US\$ thousands)	Ranking relating to all industrial companies
Volkswagen	6,625.9	2
GM	6,419.5	3
Fiat	5,424.1	4
Ford	3,536.3	7
Mercedes - Benz	2,717.2	11

Source: Exame (1999).

During the second half of the 1990s, this sector has been characterized by strategies seeking to restructure and upgrade existing assets, by investment in new plants, and by the arrival of new competitors. In the autoparts industry, mergers and acquisitions have provided the dominant scenario, the latter especially involving foreign capital. Data from Sindipeças (the National Association of the Autoparts Industry), presented in Table 4, reflect the process of capital concentration in this sector.

Table 4 - Ownership of Capital in the Autoparts Sector (%)

Year	Domestic	Foreign
1994	52,0	48,0
1997	40,8	59,2
1998	38,9	61,1

Source: Sindipeças Reports, various years.

According to CEPAL, most of the FDI flow to Brazil was concentrated in the acquisition of existing assets rather than in the creation of new ones. As we can see in Table 5, CEPAL presents estimated values for FDI distribution in 1997 (hence, before the

privatization of telecommunications), showing that only 30% of these resources were applied to the development of new investments.

Table 5 - FDI Distribution by Type of Investment

Type of investment	Value (US\$ billions)
Acquisition of existing private assets	10
Acquisition of existing state assets	5
New Assets	3

Source: CEPAL, 1999.

In terms of the more recent stage, Central Bank figures indicate a growth in FDI, in spite of the Brazilian economy's fluctuations over the last two years. From 1997 to 1998, FDI increased 37.5%, maintaining a high rate in 1999. For this year, annualizing the data, we would have a 14.3% increase relative to 1998.

According to the IMF, for 1999 as a whole, the FDI is projected to reach at least US\$ 18 billion, equivalent to 85% of the current account deficit, despite a possible delay to early 2000 of some privatization operations originally planned for the final quarter of 1999 (IMF data, 1999).

Table 6 - FDI Flow into Brazil, 1998 – 1999 (US\$ millions)

Period	Over month	Over year	Last 12 months
Jan 1998	920	920	17,049
Feb	1,235	2,155	17,982
Mar	461	2,616	16,781
Apr	1,600	4,215	16,807
May	1,314	5,529	16,264
Jun	2,831	8,360	17,998
Jul	2,535	10,895	19,116
Aug	4,566	15,461	22,269
Sep	2,319	17,780	23,149
Oct	3,800	21,580	24,521
Nov	1,869	23,449	25,103
Dec	2,683	26,133	26,133
Jan 1999	1,007	1,007	26,220
Feb	4,701	5,708	29,685
Mar	2,014	7,722	31,239
Apr	1,635	9,356	31,274
May	1,406	10,762	31,366
Jun	2,342	13,105	30,877
Jul	4,095	17,200	32,437
Aug	2,780	19,980	30,652
Sept	2,727	22,707	31,059
Oct	2,120	24,827	29,379
Nov	2,281	27,108	29,791

Source: Central Bank of Brazil. Foreign direct investments (net) in Brazil (includes operations in domestic currency, commodities, conversions and reinvestment).

Unfortunately, data on FDI distribution are not available for the years following 1997. However, investment in the acquisition of private assets can be identified, amounting to US\$ 6.121 billion in 1998 (23.4% of the total) and US\$ 8.232 billion (41.3% of the total) in 1999, according to the Central Bank.

Data on the regional distribution of new investments generated by FDI flows are also unavailable. In the automotive industry's case, we can reach approximate figures through SINDIPRCAS and ANFAVEA (National Association of Automobile Makers) data, covering new plants installed in Brazil.

According to estimates by analysts², FDI growth is occurring (i) in sectors where transnational firms predominate, such as the automotive and chemical industries; (ii) through purchases and mergers in sectors with a strong presence of domestic firms, such as autoparts and food producers; (iii) in sectors previously dominated by domestic capital, such as the financial sector, tourism, and retail commerce; (iv) in sectors previously dominated by state enterprises, such as petrochemicals, energy, and telecommunications. In other words, there is a clear correlation between FDI growth and the denationalization of certain productive

² Estimates from *Banco Bilbao Viscaya*, 1999.

segments, such as the autoparts industry, which has a direct bearing on the ABC and Greater Porto Alegre regions.

Table 7 - Planned FDI in New Automobile Assembly Plants, 1998-2001

Location	Company	Country of origin	Investment date	Minimum planned investment (US\$ millions)	Planned annual capacity
São Paulo metropolitan area					
São Bernardo do Campo	BMW/L.Rover	Ger./UK	1998	150	15,000
Rest of São Paulo state					
São Carlos	Volkswagen	Germany	in operation	250	300,000
Mogi das Cruzes	GM	USA	on hold	150	1,600,000
Indaiatuba	Toyota	Japan	1999	150	15,000
Sumaré	Honda	Japan	in operation	100	30,000
Itu	Kia	Korea	on hold	50	10,000
Paraná					
São José Pinhais	Renault	France	1999	750	100,000
São José Pinhais	VW/Audi	Germany	1999	600	120,000
Campo Largo	Chrysler/BMW	USA/Ger.	2000	600	400,000
Campo Largo	Chrysler	USA	1998	315	12,000
Minas Gerais					
Juiz de Fora	Mercedes	Germany	1999	820	70,000
Betim	Fiat	Italy	1998	500	500,000
Sete Lagoas	Iveco	Italy	1998	250	20,000
Belo Horizonte	Fiat	Italy	1999	200	100,000
Rio Grande do Sul					
Gravataí	GM	USA	1999	600	120,000
Guaíba	Ford	USA	2001	500	100,000
Caxias do Sul	Navistar	USA	1998	50	5,000
Rio de Janeiro					
Porto Real	PSA-Peugeot	France	2000	600	100,000
Resende	Volkswagen	Germany	in operation	250	50,000
Bahia					
Camaçari	Ford	USA	2001	1,300	250,000
Goiás					
Catalão	Mitsubishi	Japan	to be defined	35	80,000

- As of July 1999. Taking into account the volatility of planned investments and the nature of the data, the data on FDI is to be considered as an approximation and is likely to change.
- Source: Arbix and Rodríguez-Pose (1999), based on various sources.

Specifically in terms of the automotive sector, the data in Table 8 indicate a strong drop in output, especially between 1997 and 1998. Significantly, the relation between output and the number of jobs at the end of the year is falling, which suggests the strong possibility

that the volume of employment in the sector will be adjusted downward³, should this trend continue and should the sector reduce its idle capacity, since none of the plants have been demobilized to date. On the other hand, new investments are reaching maturity, as Table 7 shows.

**Table 8 - Data on Automobile Production and Sales
(per thousand units)**

Passenger Vehicles	1999	1998	1997
Output	1,343.6	1,585.6	2,069.7
Domestic Sales	1,073.7	1,187.0	1,640.2
Exports	268.6	399.9	416.9
Imports ⁽¹⁾	178.7	347.1	311.7
Jobs (end of the year)	94.1	108.2	114.6
Production / employment	14.34	14.65	18.06

Source: ANFAVEA, 1998 ; ANFAVEA, 2000.

⁽¹⁾ Includes light commercial vehicles, buses and trucks.

The distribution of these investments on a national scale indicates a strong growth in southern and southeastern states, excluding São Paulo. The new industrial poles of Minas Gerais, Rio Grande do Sul, and Paraná certainly revolve around the new perspectives offered by the Mercosur. The automotive industry currently has two consolidated regional poles – São Paulo and Minas Gerais – along with four new poles undergoing a formative process – Rio Grande do Sul, Paraná, Rio de Janeiro and Bahia – and is now experiencing a third wave of investments, since the first great migration of multinational assembly plants in the mid-1950s. Rio Grande do Sul, with over 200 autoparts manufactures and a few specialized assembly outfits – Marcopolo, Agrale, SLC and Randon – begins to complete its productive chain with GM's and Navistar's arrival on the scene. Between 1995 and 1997, investments in the state's automotive sector were on the order of US\$ 3.8 billion, while Brazil and Argentina together received a total of US\$ 10.3 billion over the same period (Zawislak, 1999: 19).

In a general sense, the Brazilian economy has produced poor results since 1997. During the first trimester of 1999, the Gross Domestic Product dipped -0.99% in relation to the same period in the previous year, as a consequence of decreases in Industry (-4.55%) and Services (-0.20%), in spite of the growth in the rural sector (+9.22%) [IBGE database, 1999].

Even if we predict that these indicators will bounce back, prospects for recovery of the internal market of the automotive sector are not good, in view of the strong correlation between demand and family income, along with price movements. After all, according to all of the main auto assembly executives in Brazil, the greatest attraction is the domestic market, both Brazilian and Argentine, whose growth potential is always stimulated by the extremely high ratio of one vehicle per ten inhabitants. However, this feature also indicates the sector's strong dependence in relation to the expansion of income and/or purchasing power of the

³ There are various potential causes for employment decline in the sector. For example, the automotive industry has demonstrated substantial productivity increases in traditional plants, by introducing new production organization inside the plant and also new inter-firm supply relations which include subcontracting; new plants have more sophisticated installed automation, in addition to organizational innovations (internal and external). These two previous causes are distinct from the decline in output mentioned above.

middle class. As we shall see in Chapter 2, one effect of the Sectoral Board agreements was the growth in demand in response to price reductions.

In addition, most of the new investments are beginning their operations in 1999, against the backdrop of growing idle capacity, which can only be mitigated in part by growth in exports. This is a difficult task, since the sector presents a forecast of idleness of the order of 50% in global terms (A. T. Kerney, 1999, personal communication).

Other factors contributing to the attraction of foreign direct investment, according to international agencies, should also be noted. Mallampaly and Sauvart (1999) and UNCTAD's Annual Report for 1998 present these factors, as summarized in Tables 9 and 10.

Table 9 - Host Country Determinants of FDI

<p>I. Policy framework for FDI</p> <ul style="list-style-type: none"> • economic, political and social stability • rules regarding entry and operations • standards of treatment of foreign affiliates • policies on functioning and structure of markets (especially competition and mergers & acquisitions policies) • international agreements on FDI • trade policy (tariffs and NTB) and consistency between FDI and trade policies • tax policy
<p>II. Economic determinants (see table 10)</p>
<p>III. Business facilitation</p> <ul style="list-style-type: none"> • investment promotion (including image-building and investment-generating activities and investment-facilitation services) • investment incentives • hassle costs (related to corruption, administrative efficiency, etc.) • social amenities (bilingual schools, quality of life, etc.) • after-investment services

Source: Mallampaly and Sauvart (1999) and UNCTAD's Annual Report for 1998.

Table 10 - Economic Determinants of FDI

Type of FDI classified by TNC motives	Principal economic determinants in host countries
<i>A. Market seeking</i>	<ul style="list-style-type: none"> • market size and per capita income • market growth • access to regional and global markets • country specific consumer preferences • structure of markets
<i>B. Resource / asset seeking</i>	<ul style="list-style-type: none"> • raw materials • low-cost unskilled labour • skilled labour • technological, innovational and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters • physical infrastructure (ports, roads, power, telecommunications)
<i>C. Efficiency seeking</i>	<ul style="list-style-type: none"> • cost of resources and assets listed under B, adjusted for productivity for labour resources • other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products • membership of a regional integration agreement conducive to the establishment of regional corporate networks.

Source: Mallampaly and Sauvant (1999); UNCTAD Annual Report for 1998.

To be sure, this provides a general outlook. Several of these factors operate as necessary yet insufficient conditions for attracting FDI. Depending on whose capital is involved, certain factors may have a greater weight than others. As we shall see in Chapters 3 and 4 below, one factor that has not received attention in the literature has wielded a great influence in decisions in the Brazilian case: fiscal benefits distributed at a sub-national level.

The Brazilian economy's general condition remains propitious in attracting FDI; the currency devaluation of early 1999, in devaluing the assets of enterprises based in Brazil, tends to make the flow of these investments even more attractive.

The automotive industry has proved to be one of the main motors in the flow of FDI and, along with capital that is being moved to sustain loan operations for purchasing vehicles,

a large portion of the new resources is directed towards the generation of new investments and the reformulation of old ones.

In the autoparts sector, the flow of FDI seems to be divided between the creation of new investments and especially the acquisition of existing assets, insofar as the sector shows a greater concentration of capital, which is accompanied by an increased internationalization.

Data on the regional distribution of FDI in Brazil are not available, unless we consider information reported in the Central Bank census, which tends to reflect the concentration of foreign companies in the southeastern region more than the actual spatial distribution of investments. In terms of the automotive industry, however, one notes the migration of new investments by automobile manufactures to new zones, including some within the southeast, such as Rio de Janeiro and the interior of São Paulo state.

It also remains impossible to evaluate the global impact of FDI in terms of new jobs created. This impact can be fully evaluated on a sector by sector basis and only once the new investments effectively reach maturity.

2. Changes in the Automotive Productive Chain

In the mid-1990s, certain features began to characterize the automotive industry's productive outlook on a world scale. Basically, the literature on this subject emphasizes the following:

- (a) The reordering of the value-added sequence, with assembly firms showing a strong reduction in vertical integration.
- (b) A strong reduction in the number of direct suppliers to assembly plants, with the emergence of suppliers offering integrated "systems" or "modules".⁴ In some cases, these suppliers are involved in designing parts of the vehicle, producing components that are supplied as complete packages to the assembly firms.
- (c) Even second or lower level suppliers seek to add value to the parts they produce, furnishing pre-assembled parts, often integrating distinct processes, such as metalwork and plastics.
- (d) A greater focus in designing activities by the assembly companies, sharply reducing the lapse between the design and serial production of new products. Part of this reduction has to do with the co-participation of suppliers during the design stage, through a practice known as co-design.
- (e) Greater focus on specific platforms, thus reducing the variety of products manufactured in the same plant.

⁴ Interview with Luc de Ferran, director of the Amazon Project, Aug. 23, 1999: "... 'systems' producers should be distinguished from 'module producers'. They first supply an integrated parts and components system, which performs a specific and complete function in the vehicle. The latter, on the other hand, supply sets of parts, which do not necessarily perform a complete function, as they can be added to other modules so as to form a system".

- (f) Reduction of the number of platforms produced by one firm, manufacturing different vehicles based on slight variations of a single platform.
- (g) Concentration of top-level suppliers near the assembly plant, seeking to reduce logistical costs, to facilitate support in case of problems in the production process, etc. Creation of manufacturing clusters, especially in regions where the automobile industry did not exist, constituting what the Brazilian industry has called “industrial condominiums” or, in an extreme case, a “modular consortium” (cf. Dias, 1998).
- (h) Global operations: Constant possibility of importing parts from foreign suppliers, taking prices into account. Since the main factors involved in contracts with suppliers include turnover, quality, price, product support, and technology, this alternative is not always available, though it does serve to put pressure on current suppliers.
- (i) Concentration and internationalization of the Brazilian parts industry, especially among companies that used to supply the assembly plants directly. The main reasons for this include the need to scale down operations and to have access to technology developed at the automobile company headquarters along with transnational systems producers. In many cases, systems producers with worldwide operations retain rights to furnish parts they co-design with the automobile company, which blocks local suppliers from supplying the same part without a license.

Greater details on these features can be found in Posthuma (1994), Humphrey et al. (1998), Arbix and Zilbovicius (1997). Within the scope of this report, we shall identify the impact of this new productive and value-generating configuration in São Paulo’s ABC region and in the Greater Porto Alegre (GPOA) area of Rio Grande do Sul.

Basically, in the ABC region, the question that has been developing since the early 1990s has to do with the restructuring of the industrial park created and consolidated between the 1950s and 1980s, given the new directions entrepreneurial decisions have taken in this field. On the other hand, in the GPOA region, this issue also involves restructuring, however in the sense of establishing ties between previously installed firms that supplied parts to other regions and a recently introduced local assembly plant.

2.1 The ABC Case

In the ABC, modernization has become the central issue facing the assembly and autoparts industrial park, involving the conversion of established enterprises to meet the demands that characterize the productive process in this sector today.

While this new logic has led to new installations that have become clusters of assembly plants and systems suppliers, it also has allowed for a broader geographical scope for the productive chain, limited basically by the relative attractiveness of the price, quality, turnover rate, product support, and technology set, depending on which part is being supplied. Therefore, certain clusters tend to concentrate assembly plants along with their first order suppliers, ordinarily systems or modular producers, as well as producers who manufacture parts involving high logistical costs relative to distance. Beyond the value added within the cluster, all other parts can be provided from other areas, depending on the relative weight of price, technology, product support and quality factors – though not necessarily in this order – for each case.

Given this new organizational scenario, what is the ABC's situation today? The firms involved in this sector already are integrated not only to the productive chains linked to the local assembly plants, but also to new plants in other regions. For example, parts for the Mercedes Benz Class A model are produced in São Bernardo do Campo and shipped to Juiz de Fora, in Minas Gerais. Parts for the VW Golf manufactured in Curitiba, Paraná, are produced in Diadema. Indeed, firms operating in the ABC supply parts to all the new automotive industrial poles: Resende (Rio de Janeiro), São José dos Pinhais (Paraná), Juiz de Fora (Minas Gerais), and, in the future, probably to Rio Grande do Sul and to Bahia as well.

As for the assembly firms with long-established plants in the region, once they have redefined their strategies, reinvestment will also occur.

Volkswagen has announced the large-scale restructuring of its plant, upgrading the models already produced and designing a subcompact vehicle (so far known as the PQ24), which aims to substitute the popular Golf. This product will most likely be derived from the Golf/Audi A3 platform, in a shortened version. A 10% reduction in the plant's work force, agreed to by the union, was scheduled over 1999/2000. In addition to producing this new vehicle, the plant also plans to provide services and parts for other VW plants and even for other companies.

The Daimler-Chrysler (Mercedes-Benz) plant also underwent a profound restructuralization, and is now organized according to the mini-factory concept, each unit controlling its costs and billing separately. In addition, this plant introduced work groups as a labour solution, which emerged after a prolonged negotiation process with the union.⁵ The plant produces axles and suspensions for the Class A model. The complete suspension system includes parts supplied by manufacturers also located in the ABC.

Ford thoroughly remodelled its plant between 1995 and 1996, transferring the Escort model to Argentina, discontinuing other models, and adopting the Ka and Fiesta models, based on platforms previously manufactured in Europe. Recently, the company announced the firing of 1,800 employees, most of whom are currently laid off, and will close their truck assembly plant in the Ipiranga district of São Paulo. These products will probably be manufactured in the ABC plant.

The General Motors plant in São Caetano do Sul also went through a restructuring process, both in terms of upgrading its product line and its administration. New methods involving production teams and Japanese management styles were introduced. The factory modelled itself after the *Nummi* plant in the USA, managed through a GM-Toyota joint venture. This example has proved so efficient within the context of the GM corporation that it has become a model for other plants owned by the company.

For the most part, beginning in the early 1990s, manufacturers located in the ABC were strongly affected by the modernizing wave, adopting Japanese techniques for organizing production, conforming to quality paradigms – especially through the quest for ISO-9000 and QS-9000 certificates – and profoundly redefining their relations with suppliers.

According to Julio Caspari⁶, Managing Director of Sindipeças and President of a multinational autoparts manufacturer, the first step was to outsource activities that were not

⁵ For a more complete description of this case, see Marx (1998) and Arbix (1996).

⁶ Interview with Julio Caspari, Aug. 16, 1999.

part of the company's core business, including security, food services, and cleaning services. Production support activities, such as maintenance and tooling, soon followed, also turned over to outside services. This interviewee stated that "today the assembly plants bring their first-order suppliers to the same site (...) while outsourcing the rest". He also pointed out that the process of focusing on fewer models has spread, resulting in the emergence of smaller and more agile manufacturers: "The tendency is to create 'single product plants', such as the Class A or Ford in Bahia (...) in a certain sense, the plant can go under with the product. However, at the secondary level, suppliers do not necessarily have to move to the same site."

Even large and traditional worldwide parts suppliers are not among first-order suppliers, since these parts are neither systems nor even modules. Manufacturers who wish to become first-order suppliers must incorporate new parts in order to configure the system. For example, traditional brake suppliers can qualify as direct suppliers only insofar as they include in their product all the elements that together form the suspension and axle. This tends to reshape the relations between manufacturers, which can vary from a prior supply contract – in this case, competition revolves around "who supplies whom" – to mergers and acquisitions, though also involving license contracts and the hiring of personnel specialized in new technologies.

For parts such as clutch components, which operate at the interface between the engine and the transmission, it all depends on who is supplying the transmission or the engine. Either supplier can acquire the clutch and turn it over to the assembly plant as part of one of these elements, though the assembly plant can also acquire the clutch directly from a supplier.

One great advantage enjoyed by first-order suppliers is the chance to participate in the co-design of the product. This allows the supplier to plan his investment more effectively ahead of time, while also affording the perspective of interfering in the project so as to adapt it to the company's manufacturing conditions. However, this tends to take place only within company headquarters, whose engineering departments come into contact to develop the product. On the other hand, secondary level suppliers – even large-scale manufacturers with global operations – receive detailed projects and have much less leeway to determine their production structures and strategies.

In the specific case of the company managed by Caspari, Volkswagen had invited them to begin to produce within their site, which was in the process of restructuring. This is highly advantageous from the assembly plant's point of view, since it reduces the risk of logistical problems and allows for the use of idle space and facilities, which also can reduce costs. Furthermore, installing the supplier within the assembly plant immobilizes capital exclusively tied to the company.

The prospective supplier, however, points out the risk of becoming "contaminated" by the traditional practices within the host company and especially by the wage levels, normally higher. The supplier also has physical space; just like the assembly company, he also has sunken costs that have been totally absorbed and would like to take advantage of them. In companies with older plants, the optimization of an already existing industrial structure becomes an important element in determining the location of certain operations.

This "dispute" is somewhat characteristic of traditional regions like the ABC, which face a restructuring process that tends to involve suppliers at every link of the productive chain. Third or fourth level suppliers also try to take advantage of their immobilized capital,

reducing fixed costs either by simply eliminating them altogether or transferring them to third parties.

In terms of future perspectives, the ABC is not perceived as a decadent region. Julio Caspari, for instance, believes that the region's future is not necessarily bleak, in spite of the decentralization process currently underway in the country. In his view, the ABC is where the automobile industry's "intelligence" should remain. Much can be done in terms of specific improvements, especially in the port of Santos and with the road system, but the development of services within the region make it all the more attractive for those who work in industrial management and engineering. While manufacturing activities in "greenfield" areas may hold a series of advantages, the qualified professionals who constitute the core of business operations also are attracted by the existence of quality schools, theatres, shopping centres, and other services. These professionals, with higher incomes, also tend to spend more, thus elevating the general level of economic activities.

2.2 The Greater Porto Alegre Case

When the installation of two large automobile assembly plants was announced, new perspectives seemed to open up for the automotive sector in Rio Grande do Sul. Up to that point, the state had over two hundred companies involved in some way or another with the supply of autoparts (Zawislak, 1999). For the most part, these companies operate on a small scale, though traditionally integrated into the productive chain located in São Paulo and Minas Gerais, and linked to the heavy vehicles sector (trucks, trailers, buses, farming equipment). Indeed, Rio Grande do Sul's production ranges from bolts to engines.

Recently, a pioneer research project took place to identify the productive chain's profile in that state (Zawislak, 1999). Some of the elements presented in that project are summarized below, affording a view of these firms' most relevant characteristics. The survey covered 41.3% of the companies identified as being connected in some way to autoparts manufacture, constituting an interesting proxy for that state's general situation. The companies are grouped into two classes, A and B, following an "ABC curve" classification scheme, with those companies with greatest participation in the product's value (55% of the total sample) included in Class A.

Table 11 - Summarized Profile of Rio Grande do Sul Autoparts Manufacturers

Number of Employees	17% of the companies have over 500 employees; 33% have between 100 and 499 employees; 50% have less than 100 employees.
Sales	46% of the companies exceed 5 million in sales per year; 54% fall below this.
Markets served	“A” level companies direct 37.8% of their output to assembly plants in Brazil and in the Mercosur, while 26.9% attend the replacement market.
ISO and QS 9000 Certification	48% have ISO 9000 Certificates (19% are in the process of certification); 14% have QS 9000, all “A” level (8% in process, also all “A”).
Educational level of employees	“A” Companies: 51% have only primary education, 37% with secondary education; 10% with college education (3% engineers); 1% with graduate education.
Origin of Capital	91% of the companies have strictly domestic capital; less than 4% have entirely foreign capital; 5% have domestic/foreign capital.
Major products	Chemical, metal and mechanical
Main clients	Most of the output goes to other autoparts manufacturers. The companies mention that their main assembly plant clients include farm equipment, bus, and truck manufacturers. They also supply automobile plants to some degree.
Current management strategies	Most “A” level companies use the most common production management tools, such as JIT/kamban, cells, and SPC. Companies also refer to certain design techniques such as simultaneous engineering with clients, FMEA, and PPAP.

Adapted from Zawislak (ed.), 1999.

Generally speaking, the sample shows a set of companies with potential for development, but which would have a great difficulty in operating at the first level of supply for assembly plants. However, both a reasonable formation of qualified labour, with experience in supplying assembly companies in other regions, as well as an industrial culture, exist. For the most part, these companies are capable of operating at the second or third supply level of the automotive chain. Nevertheless, most of them would have to do a lot in order to adapt themselves to the requirements that systems manufacture would impose, in terms of quality certification, product support after sales, possible participation in simple parts design and, given their small scale, even prices. Since most of these companies directed their activities towards heavy vehicle production, they may face difficulties in adapting, though this does not eliminate the possibility of supplying a new market. However, it seems unlikely that any of them will occupy the first level, unless they show competitive advantages in terms of their proximity to an assembly plant.

Zawislak’s data, cited above, indicate that only 20 of the existing 200 companies can be considered apt to meet these new standards and 50 could reach these standards without too

much effort. *Grosso modo*, 150 companies remain distant from meeting the expectations of assembly plants and systems producers, suggesting a role for proactive state policies.

When the state government announced the installation of new assembly plants in Rio Grande do Sul, it predicted a total investment of 3.5 billion reais. Once Ford decided to pull out and relocate to Bahia, 2.4 billion remained. According to the ex-president of Rio Grande do Sul's Industrial Federation (FIERGS)⁷, GM had already made contact with the state government in the early 1990s, around 1992-93. This same information is confirmed by the GM Brazil's Deputy Director for Institutional Affairs⁸, who attributed the suspension of this initiative to the commercial opening policy promoted by the then Treasury Minister, Ciro Gomes, who reduced import tariffs on assembled vehicles, which led GM to install a factory in Rosario, Argentina. This decision, it is important to say, was also taken within the context of supporting the regional market of Mercosur.

According to Lima Godoy, "the coming of the assembly plants would have a great impact (...) and not only did it mean something new, but it meant renewing our autoparts park (...) This pole, since it did not have any technological scale or capacity, needed an assembly plant (...) The second level will supply the first, and the fact that it is not on the same site is not a problem. There is a company located in Erechim [*a city 400 km north of Porto Alegre*] already linked to a systems manufacturer". Continuing: "the assembly company becomes a pole generating new concepts, managerial practices, and production control. Not to mention its economic impact (...)". Thus, expectations continue quite high in relation to the benefits introduced by an assembly plant in the state and may lead to frustration—should the relatively low value added locally start to impact on other regions outside of Greater Porto Alegre.

GM's project, labeled the "Blue Macaw" (*Arara Azul*), plans to produce a subcompact vehicle to be sold at a lower price than other cars currently available on the Brazilian market. The initial forecast envisions a plant with the capacity to produce 120,000 vehicles per year, which ultimately depends on the performance of Brazil's and Argentina's domestic market as well as on the possibility of exporting the vehicle. The company initially planned to begin production by the end of 1999. However, due to delays in plant construction and especially to the contraction of the Brazilian and Argentine markets, the company has rescheduled operations for mid-2000.

Basically, GM is installing a site that should involve several autoparts manufacturers who produce complete systems (panel, axles, interiors, electrical system, etc.). It should be noted, however, that the site's companies include not only systems producers, but also suppliers at different levels – such as a tool supplier – whose selection involves the set of elements mentioned above, that is, quality, price, product support and technology. It also should be pointed out that one of the most important systems, the motor transmission, is supplied by GM itself, through its São José dos Campos plant in São Paulo.

All the suppliers (except one, a local firm supplying cut sheets) should become installed within the site, though occupying separate plots, with each supplier delimiting their own physical space. This configures what has come to be called an "industrial condominium". Although its spatial organization was not set up as such, the traditional ABC region constitutes what might be called an "industrial district", where a cluster emerges in

⁷ Interview with Dagoberto Lima Godoy, September 3, 1999.

⁸ Interview with Luiz Moan Yabiku Jr., August 30, 1999.

response to the advantages involved in the physical proximity of different operations. Since third parties have become increasingly involved in the productive process, more recent formations have developed as planned “industrial condominiums”, as in GM’s case in Gravataí, GPOA. An extreme case would involve what is called a modular consortium, where suppliers are installed in the area of production itself. The best example of this is VW’s experience in Resende, Rio de Janeiro.⁹

What distinguishes a consortium from a condominium is the degree to which value is added by the assembly company itself. While in a district this value is relatively high, it is lower in a condominium and even more reduced in a consortium. The greater part of value is added outside of the installations grouped together in a cluster, which retains only that which is advantageous from a logistical point of view. However, there is no reason why a condominium or a consortium should not be installed within a district.

The logistics that GM plans to adopt are already used by the company in Brazil. In their relationship with suppliers, two forms of supply are important: sequenced delivery and “milk runs”. Sequenced delivery happens when suppliers deliver products rigorously obeying the assembly plant’s schedule. Physical proximity is fundamental in this case, insofar as any change in the original sequence can be dealt with immediately.

The milk run procedure involves contracting operators who pick up parts daily with their trucks. The term obviously comes from the milk industry, where large companies pick up their product directly from small producers on a daily basis.

This practice is based on the intensive electronic exchange of information on production schedules (monthly, weekly, daily and, whenever possible, hourly information). Hence, GM’s systems suppliers probably receive materials from trucks that make runs to the smaller suppliers or to a distribution centre, delivering parts all at once. Hence, there is a milk run between systems producers and their suppliers, as well as between the assembly plant and their systems suppliers, a practice which transfers responsibility and storage costs to the smaller suppliers, without involving the risk of parts shortages.

According to GM, this strategy takes into consideration the objective of maintaining the largest number possible of Rio Grande do Sul suppliers, even though they plan to use 95% of the suppliers who already work with the Corsa plant in São Paulo (of these, 20 are in Rio Grande do Sul). In the future, through their systems producers, there will be a greater number of Rio Grande do Sul companies considered apt to meet the quality, cost, product support and technology standards set by GM.

⁹ See Arbix and Zilbovicius (1997).

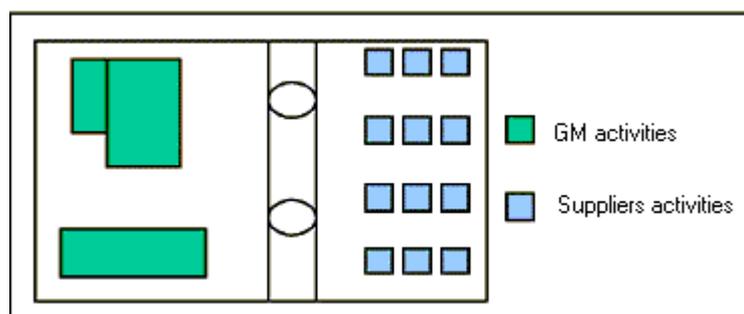
Table 12 - Auto Systems Suppliers linked to GM in Rio Grande do Sul

Company	System supplied	Company information
ARTEB	Lights	Domestic enterprise with international partners and already supplies several assembly plants, with a factor installed in Diadema, in the ABC. It should supply headlights and brake lights to GM.
VDO	Control panels	German company, belonging to the Mannesmann group. A traditional instrument panel supplier, it belongs to a VW modular consortium in Resende, Rio de Janeiro, where it handles the full assembly of the vehicle's interior.
ARVIN/ COFAP	Exhaust systems	American company, the world's largest producer of exhaust systems. It will come to Rio Grande do Sul as COFAP's partner, a Brazilian company recently acquired by the Italian Magneti Marelli.
BOSAL GEROBRÁS	Tool sets	Dutch firm with headquarters in Belgium, produces exhaust systems, roof beams, cables and jacks. It has 30 plants worldwide, with one in Guarulhos, São Paulo.
DELPHI	Suspension	World's largest autoparts producer, with sales of US\$31.4 billion in 1997. Originally a GM division, it is an American company. Recently, GM transformed this division into a company under their control, transferring its stocks to GM stockholders, in a spin-off operation. Besides GM, which remains its main customer, Delphi supplies other auto manufacturers and is probably the world's largest systems producer. It will supply front and rear suspensions.
SANTA MARINA	Plate glass	Was a domestic enterprise founded in 1896 as a bottle producer, acquired in 1960 by Saint-Gobain, a French group. Currently it produces various glass products, especially Sekurit brand windshields, which will be supplied to the projected vehicle.
IPA/SOPLAST	Fuel tanks	Brazilian company, leading the plastic tank market with 55% of total sales. It supplies fuel tanks to the GM plant in São Bernardo do Campo, São Paulo.
TI BUNDY	Brake fluid and fuel conduits	Belongs to the British TI group. Its Bundy division has plants in São José dos Campos, São Paulo, which supplies Volkswagen, General Motors, Fiat, Ford, Mercedes-Benz, Chrysler and Renault, as well as in Juatuba, Minas Gerais, which supplies Fiat. It will supply brake fluid and fuel ducts.
GOODYEAR	Wheels and tires	Owned by American capital, plans to build a US\$180 million factory in Glorinha, GPOA, aiming to supply both GM and Ford, with a capacity to produce 12.5 million tires per year. Information on the probable revision of these figures with Ford's move to Bahia is not yet available.
LEAR	Seats, lining, doors and roof	Large American corporation that supplies stuffing for car seats. It has operations in Brazil since 1995, when it acquired the Probel (Brazilian) company.
VALEO TÉRMICO	Cooling systems	French group. Beginning in 1987, the company adopted an expansion policy and now has 129 units in 20 countries. In Brazil, its site involves 1,800 employees. It is one of the world's largest autoparts producers. It will supply GM with a cooling system.

POLYPROM	Small molded parts	Founded in 1973, owned by domestic capital, supplies various industries other than the auto industry. It will produce small molded items for GM.
SOGEFI	Air filters	Italian corporation operating in Brazil since 1948. It leads the market in the manufacture and sales of air, oil and fuel filters for light and heavy motor vehicles. Sogefi International is associated with the American company Allied Signal, although the Brazilian subsidiary is linked to the Italian headquarters alone.
INYLBRA	Carpets and thermal/acoustical insulation	Brazilian company with its main plant in Diadema, ABC, installed a VW supply unit in Paraná.
ZAMPROGNA	Steel plates	The only Rio Grande do Sul firm that will serve as a primary GM supplier, while at the same time is the only company that will not be inside the site. Founded in 1937, this company is Brazil's second largest steel tube producer. It will be responsible for cutting and treating steel, which is the first stage of automobile production. In order to serve GM in Gravataí, the company invested US\$ 12 million.
FANAUPE	Binding elements	Brazilian firm, manufactures several metal products.
PELZER	Injected plastic parts	German company with subsidiaries in the United States.

Source: Interview at GM and Zawislak (1999).

Figure 1 - GM Site Layout in Rio Grande do Sul



Source: Zawislak (ed.), 1999. Simplified illustration based on GM information, confirmed during site visit by authors on 9/4/1999.

However, already existing companies will have a difficult time in becoming integrated into the assembly-systems production complex, considering the current situation faced by the productive chain in the state and the perspectives offered by GM's arrival.

Several of the systems manufacturers already have plants in Brazil, mostly in the ABC, and it seems likely that the current supply chain will continue to be used, unless transportation costs make the supply of certain parts unfeasible. These companies outside of Rio Grande do Sul will compete with local firms, compensating distance with lower prices, made possible by the scale of production. They might also install operations in Rio Grande do Sul as second or third level suppliers, a prospect that became dimmer with Ford's move, although Rio Grande do Sul's proximity to the Argentine industrial pole may still make this prospect attractive since, in spite of the strong crisis that has beset that country, the overvalued Argentine peso may boost exports from Rio Grande do Sul to Argentina.

On the other hand, Rio Grande do Sul companies, though showing good potential, must improve their technological skills in order to compete with firms located in other states, who already produce on a scale that absorbs fixed costs. Joint action by these companies, along with the state government and unions, may prove to be a decisive factor as this question unfolds.

2.3 The Employment Issue

The prospect of new jobs has been one of the main arguments used by state governments in their decision to offer tax benefits in order to attract automobile assembly plants to their states. This is a controversial issue, however. It is extremely difficult to assess beforehand the effect that a new industrial pole may have on jobs, given the industry's new productive and economic characteristics, as mentioned above.

But even in a more established pole undergoing restructuring, such as the ABC, this sort of evaluation is not easy, since the internal restructuring of companies, the rearticulation of the productive chain, the exodus of some industries to other regions, and the reinvestment process within automobile and autoparts manufacturers, all are aggravated by the deep recession that has struck the country, beginning in late 1997 and dragging on to early 1999. High interest rates and overvalued currency also strongly affected employment in a negative sense. Only after January 1999, when the Brazilian real was devalued, did the prospect for increased imports and, especially, for import substitution in the autoparts sector begin to brighten. In any case, the full impact of the currency devaluation will probably only be felt through the year 2000, since nationalization is subject to the logic of licensing, quality, and service, as mentioned above, and not only to prices.

According to SEADE (São Paulo State Statistical Agency) data, between 1980 and 1995 the transport segment – which refers primarily to automobile and autoparts manufacturers – increased its share in São Paulo state's manufacturing operations, from 40.75% to 42.6% of the total value added. However, the automotive sector in the ABC declined during the 1980s and early 1990s. Several corporations either left the region or made new investments in other regions, especially in the interior of São Paulo and in southern Minas Gerais, attracted by the advantages offered by Fiat to companies located near its assembly plant.

Beginning in the mid-1990s, following Brazil's commercial opening, all of the automobile companies with operations in the ABC made new investments in their plants, in order to face both new external competition as well as Fiat's growth. This did not mean new jobs in the region, however. In older plants, there is a paradoxical relation between investment and employment, basically, because modernization is leading to downsizing. On the other hand, in any greenfield site, new investments generate new jobs. As Maria Inês Soares, mayor of Ribeirão Pires and current president of the ABC's Regional Chamber, has correctly pointed out, "If Ford invests a billion dollars in Bahia, it may generate a thousand jobs; but if it invests a billion in São Bernardo, people will be losing jobs" (quoted in Nassif, 1999).

Indeed, Table 13 shows how the sector as a whole declined in terms of employment levels.

Table 13 - Employment Levels in the Autoparts and Assembly Sectors

	Autoparts		Assembly Plants		Total	
	Total (thousands)	Variation	Total (thousands)	Variation	Total (thousands)	Variation
Dec 1994	236.6	-	122.2	-	358.8	-
Dec 1997	186.4	-21.2%	115.3	-5.6%	301.7	-15.9%
Dec 1998	167.0	-10.4%	93.1	-19.3%	260.1	-13.8%
Dec 1999	n/a	-	94.1	1.2%	n/a	-

Sources: ANFAVEA, 1998; ANFAVEA, 2000.

A comparison between the year closing in 1998 and 1994 is even more alarming: employment in the autoparts sector fell 29.4%, while in the assembly sector it declined 23.8%, amounting to an aggregate decline of 27.5%.

SEADE data for the ABC show that total unemployment in the region increased from 12.8% in 1985 to 22.7% in July 1999. In 1985, 47% of the ABC's jobs were concentrated in the automobile industry. This figure plummeted to 29.4% by 1997. This not only indicates the strong recession that has affected the ABC, but it also shows that the industrial sector has contracted to a greater degree than other sectors. Nevertheless, SEADE points out that the deindustrialization process was greater in the city of São Paulo than in the ABC.

According to the mayor of Santo André¹⁰, the fact that the region is becoming less dependent upon the automotive industry is significant. Regional planning would then focus on converting the industrial sector into service activities. Through a cursory visit to the ABC, one can quickly identify the development of new commercial activities. Many old factory sites have become supermarkets and shopping malls in the region.

In Rio Grande do Sul, the introduction of two new assembly plants sparked an intense political struggle developed around the employment issue, involving incumbents and opposition in the state governor's election, which took place in October, 1998.

At the outset, the Industrial Federation of Rio Grande do Sul (FIERGS) announced that GM and Ford would generate 200,000 jobs, either directly or indirectly linked to their operations. Following a public debate at the State Legislature, this estimate slipped to 100,000. In effect, since the assumptions underlying different evaluations were never left very clear, the methodology employed to calculate these potential gains proved vulnerable. As we have seen, one cannot evaluate this industry's behaviour, as it becomes increasingly globalized and labour sparing, in the process of redefining the value added chain, based on hypothetical scenarios reproducing what had occurred in the ABC over the 1960s or 1970s.

Furthermore, BNDES data (Gazeta Mercantil, 1999) based on a 1996 survey – which, therefore, does not consider the full effect of the automobile industry's new configuration – show that this sector tends to generate only 2 direct jobs and 16 indirect jobs for every R\$ 1 million of marginal demand. If we assume an annual demand for 120,000 vehicles at R\$

¹⁰ Interview with Celso Daniel, August 30, 1999.

12,000 per unit, the total employment would include 2,900 jobs within the industry and 23,000 indirectly related jobs. Also assuming that this scenario involves a certain risk, that is, the automobile manufacturers probably would not produce this amount of vehicles (which represents their total planned capacity), that this production process does not include motors (brought in from a plant in the state of São Paulo), and that a large portion of the suppliers may be located out of state, given the objective obstacles to productive integration within Rio Grande do Sul, the actual effect on employment should be much smaller than predicted. Frustrated expectations on this account appear to be taking place in other automotive industrial poles as well, both within Brazil as well as abroad.

Considering its significance, the process of creating new jobs cannot be reduced to a mere “research topic”, to be analyzed from time to time. Its evolution should become the object of meticulous analysis and constant preoccupation on the part of public agencies and entities involved in stimulating development. Through this sort of permanent discussion, the pioneer efforts of sectoral boards (*câmaras setoriais*) such as the Automotive Board (*Câmara Automotiva*) gained consistency, an experience that lies at the root of the institutional gains that today are gaining ground in the ABC region. This trajectory constitutes the subject of the next chapter.

3. The Innovative Institutional Experience of the Sectoral Board

3.1 Tripartite Agreement

The Automobile Industry’s Sectoral Board became one of the most important institutional experiences to take place in Brazil during the 1990s. Created in the midst of a serious economic and political crisis in late 1991, the board proved to be an effective instrument for cooperation between different sectors of society and state agencies. Though born under the sign of conflictual labour relations, which had set the tone for the 1980s, the Sectoral Board made a point of including organized labour representatives as equal partners in the elaboration and implementation of industrial development policies.

Stimulated by the initiatives taken by the ABC’s metalworkers’ union, some workers began to place the issue of full citizenship in a different light. As they began to discuss, elaborate, and decide proposals aiming to recover an entire industrial sector, union leaders took an important step in the direction of fashioning a new style of union politics, participating in the formulation of public policy, which until then had remained distant from the traditional discussions within their own organizations.

This new posture, which characterized a large part of the organized labour movement spearheaded by the ABC’s metalworkers throughout the 1990s, reflected the steps taken in the same direction by the Workers’ Party (PT), the political matrix for the *Central Única dos Trabalhadores*, CUT (the Workers’ Central Union), the nation’s most significant central labour conglomerate. Luís Inácio Lula da Silva’s impressive electoral results as runner-up in the 1989 presidential dispute, garnering over 30 million votes, demonstrated the very real possibility of a PT presidential administration. This perspective was gradually assimilated by CUT – one of the PT’s most important political bases – as the organization sought to widen its horizon of demands, including the formulation of solid proposals to resolve the difficulties facing both the public and private sectors. As they interacted, the PT and CUT began to adopt a much clearer perspective on the democratic reform of capitalism. The enormous difficulties faced by the PT in their administration of several important municipal governments between

1988 and 1992, highlighted by their experience in the city of São Paulo, placed pressure on organized labour to transform their traditional posture of denouncing serious social ills into one which included a more propositional tone. This issue represents one of the main distinctions between union behaviour in the 1990s as opposed to the previous decade. The struggle for redemocratization, which had scored a significant victory with the promulgation of a new Federal Constitution in 1988, followed by the first popular presidential election in over 30 years, forced organized labour to reconsider its strategies based on pure confrontation.

Also from a political point of view, the crumbling of the former USSR and its impact on the socialist ideals espoused within the PT moved CUT to develop a trade union discourse more in tune with democratic values, which stood in contrast to its original 1983 programme, establishing the Central Union's commitment to socialism.

In terms of economic policy, the Brazilian economy's rapid internationalization and the advance of productive restructuring renewed organized labour's agenda, which now included the issues of productivity, unemployment, and cooperation. In the 1980s, worker mobilization and strikes had served as the unions' main instruments in redefining labour relations and in gaining political space. In Brazil, the transition from a military regime to democracy coincided with an intense strike movement, with the ABC's metalworkers standing out in the process. With the new Constitution, strikes no longer involved a conquest of "the public space as they did in the 1980s" (Noronha, 1994: 325), which also forced organized labour to seek new institutional channels for negotiation.

In addition to these changes in the political atmosphere, organized labour in general already was encountering difficulties all over the world, which was symptomatic of a progressive decline in trade union power. The Brazilian labour movement was to align itself with the crisis facing organized labour in the rest of the world in the 1990s. The conjugation of these features within a context of unemployment enhanced the "tendency to overcome the radicalization of conflict" (Noronha, 1994: 339). This movement paved the way for changes in the belligerent behaviour of organized labour in the ABC region, whose transformation into a more cooperative stance stood out as one of the main characteristics of the new political and institutional environment favouring the emergence of the Automobile Industry's Sectoral Board as a democratic, tripartite arrangement.

Within this context, the first measures adopted by the Sectoral Board flirted with the possibility of upsetting age-old patterns in the relations between state and society in Brazil, marked by clientelism and patrimonialism. The former state agency, along with its preferred clients selected among the entrepreneurial class – constituting what O'Donnell (1999) called bifacial corporatism – was substituted by a tripartite arrangement establishing common goals for state, capital and labour, which showed a high degree of economic and political effectiveness.

Although limited to a single economic sector, the Automotive Board clearly signalled the possibility of constructing a new industrial order, through the consolidation of a novel system for regulating production and the market. In this rare interlude in the normal march of disenchantment that characterizes Brazil's institutional history, democracy and economics managed to establish a dialogue through the configuration of new mechanisms of governance. Involving more democratic ties between the state and social agents, and developing a new relationship between capital and organized labour, these mechanisms managed to introduce a cooperative attitude where conflict had previously reigned.

In combining mediation and bargaining processes with decision and policy-making procedures, the new board drew together state agencies and a limited number of organized social groups, with the state delegating a monopoly over representation.

As a result of its experience with the Sectoral Board, a significant segment within the CUT (Workers' Central Union) – the largest national labour confederation of auto workers – began to place the citizenship issue in a new light. In participating in discussions, in elaborating and deciding over industrial policy, organized labour leaders started recognizing their right to decide over policies that until then had not been part of the union programme.

The trade unions involved in the process faced discussions that broadened their own horizons, leading them to change their negotiation strategies beyond the usual narrow slate of corporatist demands. They began to consolidate a series of random analyses and evaluations, strengthening their technical staff and counting on DIEESE's advisory support – a decisive step in upgrading their activities and adopting a more propositional attitude.

This attitude gained ground for the Workers' Party (PT) in the 1989 presidential elections: a significant amount of ballots were cast in favour of the PT candidate, Luís Inácio Lula da Silva – former São Bernardo and Diadema Metalworkers' Union president – but also exposed a series of limitations in his public policy proposals. Moreover, both the party and its main base in organized labour displayed a fragile political stance in the debate over labour relations as well as in their presentation of industrial policy.

Cooperation with a potential PT administration demonstrated that organized labour was to occupy an important place in the design of a new nation. It was precisely in this respect that organized labour's participation in the Sectoral Board served as a springboard for overcoming their lack of political experience vis-à-vis social issues and democratic disputes.

In making cooperation possible without sacrificing the political identity of individual members, the Sectoral Board achieved a turning-point with a profound impact on the ABC region as a whole. In its wake, unions, social movements, and the Workers' Party expanded their active intervention both within and beyond their own boundaries.

This movement gave new meaning to the democratic struggle of the 1980s and played a large part in changing CUT's outlook and in configuring a new style of trade union politics. Factory commissions gained impetus, broadening their demands and participating in discussions over the restructuring of the industrial sector. The Sectoral Boards also left their mark on the PT's new propositions, which came to include the boards as one of the most important points in its programme.

More importantly, re-examination of the constitution and performance of the Sectoral Board reveals how its experience was – and continues to be – a crucial factor in evolving the new and democratic institutions which have emerged in the ABC over the past few years, to seek democratic solutions to the region's main challenges.

3.2 The Collor Administration and its Crises

The policies set in motion by president Fernando Collor de Mello in the early 1990s were to leave their mark for the entire decade. The liberalization of the economy, considered the best incentive for industrial competitiveness, swept through sectors that had previously been protected by the Brazilian state. In March 1991, Provisional Measure 158 freed imports, eliminating non-tariff restrictions on products that had not been imported for years; in its

wake, Provisional Measure 161 suspended or eliminated altogether most tax incentives and subsidies. In June 1991, the government issued a document outlining the principal directives for industrial policy and foreign commerce, which sought to orient changes towards a new model.

Brazilian industry was rapidly exposed to foreign competition. According to the government's new directives, the state would cease to interfere in issues related to industrial development, whether through administrative devices, the distribution of tax benefits, or the regulation of production or trade. The government document specifically recommended the creation of "articulating or coordinating mechanisms aimed at a consensus between government and private enterprise with regard to planning", which were to constitute "the productive process's main agent".¹¹

Beginning in 1989, the federal government had classified the Brazilian industrial park as being composed of eighteen industrial complexes¹², which were to provide the basis for new Sectoral Boards. These boards were mandated to diagnose each industrial complex's competitiveness, detect distortions and identify solutions but they functioned episodically and acted mainly to control prices, with the participation of government and entrepreneurs. They were used by entrepreneurs to put pressure on the state, accommodating prices to the government's indexation policy and, as a result, they failed to serve as mechanisms for controlling inflation.

3.3 From Intentions to Reality

By mid-1991, the government had altered their previous focus on providing an instrument for managing prices that had been freed by the Second Collor Plan. Instead, they proposed that the sectoral boards function as tripartite negotiation fora aimed at developing viable strategies for restructuring industrial sectors.

The first board to be established under this new conception was the Toy Sector's Board, beginning its activities on June 5, 1991.¹³

Several boards were active during this period, though not all of them worked as tripartite bodies: the occasional participation of some workers' unions, even in the toy sector, showed no commitment to the newly emerging form of bargaining. However, when the automobile sector's board began its activities, it espoused objectives that were different from previous boards. A new legal framework, through Law 8178. Article 23, sponsored by Workers' Party congressman Aloízio Mercadante, redefined the boards as bodies to be composed of "representatives from the Ministry of the Economy, employers and workers in respective productive sectors or from national trade union entities".¹⁴

¹¹ "Diretrizes Gerais da Política Industrial e do Comércio Exterior", June 1990.

¹² The government document "Resolução do Ministério do Desenvolvimento da Indústria e Comércio" (July 12, 1989) delimited the following complexes: Aeronautical and Aerospace; Agro-industrial; Automotive; Civil Construction; Naval Construction; Hide Processing; Leather and Shoe Manufacture; Electrical; Electronic; Railway; Machines and Tools; Non-ferrous metals; Furniture; Paper and Cellulose; Petroleum; Basic Chemical; Refined Chemical; Steel; Textiles.

¹³ National Secretary for the Economy, report on sectoral boards, Brasília, October 1992, p. 24. The main entrepreneurial association participating in this process was Abrinq (the Toy Manufacturer's Association), whose directors Emerson Kapaz and Oded Grajew also belonged to the PNBE, an entrepreneurial think tank.

¹⁴ Law 8178, March 21, 1991.

This amendment complemented an increasingly aggressive posture adopted by organized labour. In May 1991, the president of the São Bernardo and Diadema Metalworkers Union, Vicente Paulo da Silva, issued a document titled “The Automobile Industry’s Sectoral Board: Purchasing power and employment levels must be recovered”¹⁵, arguing that the boards should not be limited to discussing price controls.

In establishing an agenda that no longer aimed to monitor prices, the boards began to develop as one of the few protective shields available to different economic sectors as they faced recession and an unregulated market.

3.4 The Automotive Sector’s Board

A series of economic measures adopted by the Collor administration directly affected the automobile industry: the removal of non-tariff barriers, along with the progressive reduction of import duties; the privatization of heavy industry, with changes in trade regulations; price increases in raw materials supplied by the government; the elimination of tax benefits and subsidies.¹⁶

From its inception, the automobile industry in Brazil had always received benefits from a protected market, the ready availability of credit and lack of foreign competition. Now the sector found itself abandoned as the state relinquished its role as guardian.

The entrepreneurial class, armed with few alternatives with which to face the crisis, were tempted to support the boards’ new tripartite format. Nonetheless, given the recent past and the multiple interests involved, this did not occur without problems.

The most difficult decision, however, was faced by organized labour, which for so long had opposed anything resembling a social pact or cooperation with capital. The bleak economic outlook and the progressive decline in living conditions helped shape new attitudes. From a political standpoint, the labour movement displayed signs of weariness, especially following the strike against Ford¹⁷, with explicit shows of violence and intolerance on both sides of the conflict. From a social standpoint, the ABC felt the impact of unemployment directly, as it remained the country’s largest automobile-producing area. The region’s social fabric became increasingly worn by the successive cutbacks in working hours, weekly dismissals, and folding enterprises.

The CEPAL/UN report on transnational corporations in Brazil stated: “1990 and 1991 were particularly bad years for the Brazilian manufacturing sector”, indicating that “adjustments should include large-scale dismissals, involving both administrative staff as well as factory workers”. According to the same report, “dismissals reached 20.1%” during this period (Bielschowsky, 1992: 19).

DIEESE figures show that 129,998 workers remained employed in the ABC’s metal working industries in February 1991, while 150,072 held jobs in this sector before the First Collor Plan. In other words, between February 1990 and February 1991, the employment

¹⁵ São Bernardo and Diadema Metalworkers’ Union, April 1991.

¹⁶ Shortly before taking office, while travelling in Germany, Collor threw his first barbs at the Brazilian automobile manufacturers, claiming that the vehicles produced in Brazil resembled “carriages”, and that he was inclined to put an end to what he considered to be a “cartel”.

¹⁷ Given their intensity, the strikes taking place at the Ford plant and at the Ishibrás shipyards were mentioned by several interviewees as crucial moments of conflict. Each movement led to the installation of sectoral boards in the automotive and naval industries respectively.

level dipped 14%, with the loss of 20,074 work posts, corresponding to a monthly average of 1,700 dismissals.¹⁸

In June 1991, the Metalworkers Union received word that Ford was to close its motor division in São Bernardo, an operation that was not controlled by the Autolatina holding company that had emerged in 1986. In February 1992, the motor plant ceased activity, dismissing 700 employees. The consequences left by this incident and the mobilization that it stirred were critical factors in the decision of this important union to participate on the Sectoral Board, in spite of its earlier decision to the contrary at the CUT's National Convention.

3.5 A Difficult Journey

As its first major activity, in March 1992 the Board organized a "Seminar on the Restructuring and Modernization of Brazil's Automobile Sector" in Brasília. The seminar's agenda was outlined by five working groups that had been meeting since December 1991,¹⁹ as well as by the specialized studies developed by consultants.²⁰

In addition to government agencies, headed by the National Economics Secretariat, the interests forming the dynamic core of the automotive board took charge of the event.²¹ Attended by 125 entities, this seminar approved an agreement initially proposed for a ninety-day period, which aimed to reverse the poor performance exhibited by the automobile sector over the 1980s and early 1990s.

However, the fact that the Brazilian automobile industry was out of step with world standards in the early 1990s was the real problem. On the one hand, the industry showed comparatively poor indicators with regard to productivity, quality, advances in automation, design, production mix, scale, manufacturing practices, and management systems. On the other, however, and most importantly, the industry proved deficient in its relations with labour, suppliers, clients, and society as a whole. Decades of protectionism, along with a protracted period of conflicts, had created an aura of distrust, so severely dialogue between the interests involved in the sector that bargaining was not possible. Because of this, the automotive board sought to develop a consensus from the outset. The board would only make decisions when there was a convergence of interests, at least among its most important members. Union and entrepreneurial representatives retained equal rights and wielded the same weight in discussions, which usually revolved around solid propositions.

The automotive board's characteristics – which also served to orient the activities of other sectoral boards – made it possible to establish a clear agenda and to contribute to a better relationship between interested parties.

¹⁸ DIEESE (1991).

¹⁹ In their meetings, these groups discussed issues considered to be fundamental for the sector's recovery: Working Group (WG) 1: development of the internal market; WG 2: exports-imports; WG 3: technology, quality and productivity; WG 4: tax burden; WG 5: investments. Following the March seminar, a sixth group was created, WG 6: collective work contract.

²⁰ The consultants who became especially involved in preparing the seminar, also responsible for presenting a diagnosis of the automobile sector, were Marco Aurélio Ferreira Viana (named by the government), José Roberto Ferro (by ANFAVEA), Francisco Sales Gonçalves (by DIEESE), and Ronaldo Marchezi (responsible for the event's logistical organization).

²¹ São Bernardo and Diadema Metalworkers Union, SINDIPEÇAS, FENABRAVE, ABEIVA, SINDIFORJA, ABIFA, and ANIP.

3.6 The Automotive Board's Main Agreements

The measures approved at the Brasília seminar achieved immediate economic and political results, easing some of the pressure that had built up in the automotive sector, at least in the short run. Principal decisions emanating from the first agreement signed by Board members were:

- i. A 22% reduction in automobile and light commercial vehicle prices;
- ii. Suspension of dismissals and monthly wage adjustments;
- iii. Reformulation of group purchase plans;
- iv. Redefinition of finance terms for trucks, buses, and farm equipment;
- v. Establishment of a task force to discuss the collective labour contract.

In addition to these decisions, the board remained committed to: i) elaborate an export incentives programme; ii) delineate a five-year investment programme for the automobile industry; iii) delimit a prospective agenda for restructuring the sector's productive dimension, establishing an annual goal of two million vehicles, to be achieved by the year 2000.

As an immediate result, the decline in jobs stopped. With the new price reductions, the market improved. Automobile manufacturers suspended their plans to dismiss employees, and workers had their wages automatically protected against inflation, which had a positive repercussion among metalworkers.

This economic recovery was accompanied by significant political innovations. The agreement did not eliminate the differences that existed between board members and, in certain cases, such as the conflicts between automobile producers and importers, actually increased them. Only now they were placed within a closed, institutionalized space, which replaced the former protective shield covering the sector as a whole and stimulated internal exchanges.

These positive results led to the signing of a second agreement on February 15, 1993, when Itamar Franco had already replaced the impeached Fernando Collor as president.

The new agreement was signed by five cabinet ministers, along with the representatives who had participated in the earlier process. In terms of organized labour, the new accord was signed not only by the CUT's National Confederation of Metalworkers (CNM), but also by the other two central union confederations, the Força Sindical and the CGT. The participation of national unions broadened the discussion. For CUT, decisions regarding the sectoral boards no longer were in Vicentinho's hands, or in the hands of São Bernardo's Metalworkers Union: now the proposal was also espoused by several other sectors, who realized that the boards provided interesting alternatives to CUT's traditional strategy of opposition. The Força Sindical, at the time led by Luiz Antonio de Medeiros, now sought to occupy this space, after having criticized the board. The same can be said of the CGT.

The new agreement, consolidated following a turbulent political intermission²², reaped benefits from the initial pact's positive results, both in terms of productivity as well as labour relations, as we can see from some of its main determinations:

- i. Automobile production goals: 1.2 million vehicles in 1993; 1.35 million in 1994; 1.5 million in 1995; 2 million in 2000;
- ii. Investments: US\$20 billion in the productive chain between 1993 and 2000;
- iii. Automobile purchase groups: payment extension from 50 to 80 months for automobiles, and from 60 to 100 months for trucks, buses, and tractors;
- iv. Taxes: 6% reduction in industrialized products tax (IPI) for automobiles and 2% for light commercial vehicles, as well as a reduction in sales tax on popular models;
- v. Reduction in profit margins to produce a decrease in final vehicle prices on the order of 5%;
- vi. Prices: 10% average price reduction on vehicles;
- vii. Employment: 91,000 new jobs to be created by 1995;
- viii. Labour relations: two year collective labour agreement, involving monthly wage adjustments to inflation, employment guarantees, and wage increases in real terms.

This second agreement, in addition to broadening the scope of clauses already introduced a year earlier, showed advances in the strategic elaboration of a policy for the automotive sector, laying out goals for production and investments, while also aiming to generate new jobs along the whole productive chain. As a result, the industry enjoyed a second growth wave, marked by increased sales and output, surpassing 1980 demand levels and removing the spectre of deindustrialization.

²² Between the first and second agreement, the nation went through a turbulent period, beginning with the Parliamentary Investigation Commission that led to the president's impeachment.

Table 14 - Motor Vehicle Production: Goals and Results

Year	Goal	Result
1990	•	914,466
1991	•	960,044
1992	•	1,073,761
1993	1,200,000	1,391,376
1994	1,350,000	1,583,000

1st Agreement: March 1992. Source: ANFAVEA.

With over 1,391,000 vehicles produced in 1993 (a 43.3% increase over 1992), the Brazilian automobile industry improved its position in the international ranking by two spots, reaching 10th place among world producers. The industry's performance was 9.8% greater than Italy's (8th place in the 1992 ranking) and 28.8% greater than Mexico's (11th place in 1992).

In 1994, the industry reached an output of 1,583,000 motor vehicles, surpassing its set goals.

The first agreement protected wages and guaranteed a monthly adjustment to inflation, along with the maintenance of existing employment levels. The second agreement led to more gains, guaranteeing automatic wage readjustments by the previous month's inflation, together with a 20% increase in real values, which was to be parceled out by February 1995. It also aimed to create around 90,000 new jobs in two years, along with an increase in the volume of investments on the order of US\$20 billion between 1993 and 2000, covering the entire productive chain.

In spite of improvements when compared to the 1991 situation, employment levels remained essentially the same among workers directly employed by automobile manufacturers. The sector lacked vigour in generating new jobs and initiatives did not receive due attention in the board's discussions.

Table 15 - Employment Levels – Auto Manufacturers (thousands)

Year	Employees
1992	105,664
1993	106,738
1994	107,134
1995	104,614

Source: Sectoral Board.

From a redistributive and employment-generating point of view, the agreements yielded uneven results, especially since workers demonstrated exceptional performance levels in the sector's recovery – which repeatedly surpassed productivity growth goals – without corresponding wage increases.

However, bearing in mind that restructuring was reducing work posts the world over, the results achieved by these agreements were significant. DIEESE data clearly show that the decline in employment levels has been slower and less intense than in other sectors, as shown in Table 16.

Table 16 - Annual Reduction of Work Posts (ABC Metalworkers)

Year	%
1991	- 14.1%
1992	- 8.0%
1993	-2.3%
1994	-1.5%

Source: DIEESE ABC.

The state demonstrated a more resolute position in the negotiations resulting in the second agreement, suggesting the emergence of a more long-lasting cooperation. In effect, when the Metalworkers Union decided to participate on the automotive board, it opened the way for a collective settlement which was seen as the joint elaboration of policies, with the main interest groups directly participating in decision-making. This was not to be a sporadic participation, though it could be interrupted at any time. Nor did it magically remove existing conflicts, or make them disappear by decree, as in other instances in the nation's history when pacts were proposed. In this shift of power each party – union, entrepreneurs or state – lost some autonomy, recognizing that the only way to achieve common benefits was through systematic, democratic bargaining. It was an institutionalized apprenticeship, bringing together different political initiatives and it served as a reference point for emerging institutional spaces within the ABC region, including the Regional Board, the Intermunicipal Consortium, the Citizens' Forum, and the Development Agency.

4. Local and Regional Development Projects

The Greater ABC region, which includes the cities of Santo André, São Bernardo do Campo, São Caetano do Sul, Diadema, Mauá, Ribeirão Pires and Rio Grande da Serra, is located to the southeast of Greater São Paulo and for decades has constituted the metropolitan region's most dynamic economic hub. Strategically located between the seaport of Santos and the capital city of São Paulo, the ABC region received the first wave of migration by multinational automobile manufacturers in the late 1950s and, over the following decade, developed the petrochemical pole of Capuava. With this gigantic industrial concentration, the region enjoyed exceedingly high industrial growth rates, which characterized the Brazilian economy through the mid-1970s.

By the early 1980s, decline began to set in, with an exodus of companies to other states or to other regions within São Paulo state, aggravated by the folding of plants, a reduction in investment, shrinking employment levels, a fall in the region's proportion of GDP, and a general drop in average income. In the seven municipal districts that comprise the region, employment dipped 35% between 1987 and 1996.

During the first trimester of 1999, the Employment and Unemployment Survey conducted by the SEADE Foundation, DIEESE, and the Tamanduateí Basin and Billings Intermunicipal Consortium showed that overall unemployment was increasing in the region, from 20.4% of the economically active population in January to 21.1% in March, higher than the unemployment levels registered in Greater São Paulo for the same period, which reached 19.9%. By March 1999, DIEESE projected a total of 250,000 unemployed workers in the Greater ABC.

4.1 What Remains of the ABC Region's Automobile Industry

The transformations undergone by the Brazilian productive structure since the early 1990s are clearly in evidence in the ABC region. At the heart of Brazil's hegemonic industrial state, this region has experienced São Paulo's setbacks in a more intense manner. In 1988, the ABC region generated 567,000 jobs (346,000 in industry); in 1997, this figure fell to 488,000 jobs (320,000 in industry). While the total employment dropped 14%, the industrial employment dropped 36% in ten years²³.

Although the region constitutes a dynamic pole for Brazilian industry, it is usually considered as a peripheral urban area, spread out in an administrative mosaic over several municipalities. Since its division into seven municipal units, the ABC became an industrial zone, subject to outside decisions taken by corporation boards and state agencies, which supplied innovations, research and development, technological and even political support. The local elite remained aloof, showing little concern for their region's future and passively accepting its destiny as an industrial park. Under these conditions, the ABC expanded in the shadow of private power, alongside the various kinds of distortions and social inequality to be found in mid-sized and large Brazilian cities.

During the 1980s, economic crisis and industrial stagnation raised doubts as to the effectiveness of the state-led tradition introduced by Getúlio Vargas and continued by the military regime through the First and Second National Development Plans. The uncertainty surrounding the prospects of economic and social development added to the pressure to decentralize production, which resulted in the decline of São Paulo and its industrial heartland, the ABC, whose nerve centre was the automotive sector (and, secondarily, petrochemicals).

Historically concentrated in this region, and accounting for nearly half of the nation's output, the Brazilian automobile industry's output stalled at the level of one million motor vehicles per year throughout the decade, after having produced 1,165,174 vehicles in 1980. Practically no new investments in the automotive sector were made over this period, resulting in increasingly obsolescent products and manufacturing processes. Under the pressure of the economy's generally poor performance, the domestic market for motor vehicles cut back strongly: between 1983 and 1993, around 700,000 vehicles were sold each year, becoming increasingly expensive and oriented towards higher-income consumers.

Indeed, the sector's performance reflected the broader economic recession affecting all of Latin America in the 1980s, which Fernando Collor de Mello's industrial policy in the early 1990s intensified.

With the abrupt announcement liberalizing foreign trade, carried out without any safeguards, Brazilian automobile producers found themselves immediately exposed to international competition, after having enjoyed decades of protection. Furthermore, at this time no new investments were to come from corporation headquarters, as they directed their energy and resources towards recovering the ground they had lost to Japanese industry.

In the 1980s, none of the large corporations included the Brazilian automobile industry in their expansion strategies, as they preferred to invest in new plants with higher productivity and where organized labour was absent (Morales, 1994: 83). Not only did

²³ There are a growing number of studies analysing the recent experience of ABC region, see Castro and Comin (1999), Leite (1999), Conceição (1998).

Brazilian subsidiaries become less important in the corporations' global strategies, but also the domestic and Latin American markets became increasingly secondary, as the most decisive commercial investments were being allocated towards the reconquest of American and European markets.

The Brazilian automobile industry's vulnerability was always apparent when any setback at international headquarters would cause an immediate impact. This is what happened in the 1980s, as plans for automation were postponed, with investment cutbacks, and with programmes for dismissing workers and reducing wages (Mortimore, 1994: 23). The Brazilian economy's poor performance was to worsen this already bleak outlook for the automobile manufacturers.

In the early 1990s, Brazilian industry's power symbol, the automotive complex, appeared to be a shadow of its former self, having generated 15.6% of the nation's industrial GDP in 1975, slipping to 8.1% in 1990 and 8.2% in 1991. The nearly two million inhabitants of the "Brazilian Detroit" saw their industry waste away like no other in the country.

Brazil entered the 1990s carrying some of its 1980s' inertia. The so-called "lost decade" was the setting for much structural disorder and many economic weaknesses became apparent. The productive restructuring that had begun to set in towards the end of the decade heightened the perverse effects of the projected structural adjustment, beginning with a reduction in the number of jobs. Though this policy had an immediate impact on the ABC region, the local elite passively treated these developments as a "natural" outcome, either reflecting momentary difficulties in the market or as necessary by-products of the restructuring process.

Regional social and political movements, however, reacted differently to this situation, especially the organized labour movement, leading to the emergence of a Sectoral Board.

Backed by neighborhood associations as well as by movements to improve housing, transportation, and health conditions, receiving political support from the Workers' Party – always strongly rooted in the region – organized labour presented a pessimistic diagnosis of the automobile industry, and demanded a response from the public sector and entrepreneurs, aiming to improve the current situation. Their diagnosis identified the following problems: (i) obsolescence of the infrastructure that had been developed to support earlier industrialization; (ii) increase in the lag between technological change in developed countries and their current state; (iii) lack of investment; (iv) outdated products; (v) outdated systems of production; and, especially, (vi) labour cutbacks.

Formerly a moving force behind the 1950s' national-developmental state, the automotive complex had stagnated. At the root of the problem, two long-range processes proved intimately linked: (i) the long-standing industrial policies of protectionism and import substitution were wearing out; (ii) the world economy was undergoing changes, both related to the emergence of new forms of production as well as to commercial liberalization, the opening of economies, and the deregulation of financial flows. An uncertain future lay ahead, encompassing a series of obstacles and impasses that made the road to development a difficult one, with important implications for the ABC region, beginning with the loss of its leading role in industry.

4.2 The Second Migration: Manufacturers Leave the ABC Region

Following the turbulent Collor presidency and the recovery resulting from Sectoral Board agreements, the economic policy instituted by President Fernando Henrique Cardoso in 1994 stressed the role of large multinational corporations. The automotive sector drew some of the greatest benefits from this new policy, especially through new protective structures as well as through some of the instruments created in December 1995 by the New Automotive Regime, which reoriented industrial policy.

Generally speaking, corporations were no longer to direct their new investments exclusively towards the modernization of existing plants and towards increasing their productive capacity, but rather towards an aggressive expansion of the industrial park, by installing new plants equipped with advanced productive and organizational processes.

The newest plants belonging to the already traditional automobile manufacturers²⁴ – such as VW (Paraná and Rio de Janeiro), GM (Rio Grande do Sul), Ford (Bahia), Daimler-Chrysler (Minas Gerais) – as well as recently installed companies – Renault (Paraná), Chrysler (Paraná) and Peugeot (Rio de Janeiro) – were set up outside São Paulo²⁵ and equipped with far more advanced production standards than the old ABC pole. Thus, for the most part, new investments are taking place in greenfield situations, conceived to operate as completely new productive processes, with a differential impact on productive chains, both in terms of forward as well as backward linkages. These factories are more flexible, as they are based on modular systems – mainly of the industrial condominium type – while they are also more economical from an employment perspective.

An analysis of the regional impact of these investments is yet to be done, since the new plants are either under construction or have only recently commenced operations. Nevertheless, for the two regions focused upon in this report, the ABC and Greater Porto Alegre, we predict that the new poles will tend to modify both the quality and the structure in productive chain relations, whether in the new relations that GM in Gravataí will establish with the traditional Rio Grande do Sul autoparts manufacturing core – causing a specific local impact – or with the new supply flows that the ABC's autoparts producers will establish to supply new plants, many of which are now geographically dispersed.

In both Rio Grande do Sul and the ABC, the bodies charged with determining new regional development strategies should observe this process carefully, for two reasons: (i) the current policy situation in the autoparts sector, characterized by the liberalization of commercial flows and facilitated imports, suggests the weakening of backward linkages, with a strong impact on the regional economy and on employment rates; and (ii) the new configuration of suppliers faces competition from other productive poles already installed in the country. At the same time, the tendency for production to become regionalized around the automobile manufacturer has proved to be a powerful force in drawing together a web of suppliers, as the Fiat case shows.

²⁴ According to the BNDES (Brazilian National Economic and Social Development Bank), the automobile manufacturers forecast investments of the order of US\$ 15 billion between 1996 and 2000, while the autoparts companies predicted US\$ 10 billion. Of this total, around 70% corresponds to investments in companies already operating in Brazil for several decades, with priorities including the production of compact (“popular”) models for the domestic market.

²⁵ Only Land Rover/BMW chose to install its small CKD plant in the ABC region. Honda and Toyota also built factories in the state of São Paulo, though in the cities of Sumaré and Indaiatuba, both around 100 km from the capital.

These new elements suggest that the dynamics of industrial investment have been undergoing profound changes since the mid-1990s, especially with regard to the linkages and the new investment chains that the automotive sector may generate. This constitutes one of the main challenges posed by the current process of spatial reorganization within industry, since it directly affects the intersection between corporate strategies and public policies concerned with reconstructing and completing productive chains, as well as stimulating the construction of new information circuits.

4.3 The ABC, an Institutional Laboratory

The new configuration of the ABC's installed productive capacity is challenging attitudes that have been established for decades within both the public sector and civil society. The actions of both public and private agents within the region have sought to address this transformation.

Over the last 20 years, the ABC region has constituted one of Brazil's most important laboratories for developing new institutional spaces through a series of cooperative efforts between the public and private sectors.

With a relatively well-educated and organized social base, the region has always shown a spirit of participation in national and regional politics. Since the 1970s, local authorities, union leaders, and entrepreneurs voiced their opinion on general issues, such as the country's return to democracy. The broad dissemination of new action strategies among labour leaders and politicians catalysed the innovative institutional experience of sectoral boards in the early 1990s. These earlier experiences of cooperation and conflict quite likely served as a source of inspiration for current entities and their leaders.

Developed throughout the 1990s to deal with the structural problems facing the region, these public arrangements have involved, to different degrees, local government, entrepreneurial associations, industrial segments, the local press, labour unions, and community organizations, all in search of solutions for industrial decline and the need for renewed economic growth, for preserving the quality of life and generating new jobs.

The region's experience led to the creation of the Greater ABC Intermunicipal Consortium, founded in December, 1990. Involving all seven of the region's municipal units, the Intermunicipal Consortium professed the goal of seeking joint solutions for the region's problems. Main objectives are: (i) rethinking the common interests of this set of municipal units, set against other public or private entities, whether domestic or international; (ii) planning, espousing, and executing projects, works and other actions aiming to promote the improvement of the region's infrastructure; (iii) promoting articulated forms of regional planning. At the root of each of these proposals lay the challenges of both transforming traditional forms of politics at the local level and of developing a responsible dialogue with other government spheres and with social agents.

In December 1991, the Forum on Economic Development was created in Santo André, which was to organize a regional seminar along with the Consortium in late 1992. The seminar, "ABC Year 2000 Forum", emphasized the need to bind together the most diverse interests in order to revitalize the regional economy.

In 1993, the region's two major unions of metalworkers combined to form a new entity, the ABC Metalworkers Union, drawing together workers from six of the region's seven municipal units.²⁶

The following year, the "Vote on the Greater ABC" campaign, which sought to strengthen the group of congressional representatives from the region, was consolidated as the Greater ABC Citizen's Forum, which today involves more than 100 civilian entities, currently under the coordination of the ABC Chemical Workers Union representative.

In 1995, the Science and Technology Secretary of São Paulo state proposed to create a Greater ABC board. In 1996, the election of seven new mayors committed to regional action was to contribute decisively to the new board's consolidation. Thus, the joint action of the Science and Technology Secretary, the Citizens' Forum, and the seven recently elected mayors resulted in the Greater ABC Regional Board, inaugurated in March 1997, with the state governor and the region's most important leaders at hand.

Presided over by the state governor, the board's regional coordination involves an annual rotation between local mayors. In addition to these public authorities, region-based state legislators and federal congress members also have a seat, along with the seven municipal council presidents, five entrepreneurial representatives, five union representatives, and five Citizens' Forum members.

Towards the end of 1998, the Agency for Economic Development was created to propose regional development strategies. This agency includes representatives from the petrochemical pole, SEBRAE, CIESP, seven commercial associations, and CUT trade union affiliates. Celso Daniel, mayor of Santo André, serves as the agency's managing director, coordinating and developing a regional plan of action. In addition to these entities, the River Basins Subcommittee also participates, continuing the action started by the Pinheiros River Basin Committee, directed by Ribeirão Pires' current mayor.

Among these associations, the Regional Board spearheads discussions, elaborates policies, and implements decisions. Without a doubt, this is the organization that draws together divergent interests and determines the most important strategic orientation for the region. Its point of departure:

"...takes under consideration that different agents, who without letting go of their interests or, rather, who speak from their specific perceptions of reality and who are sensitive to a situation that may affect them in a negative way, are capable of discussing, developing, and implementing collective action based on mutual cooperation" (Daniel and Somekh, unpubl.: 7-8).

The Regional Board then raises the issue of how to draw these different interests together. It functions, therefore, according to democratic standards of cooperation, enhanced by the inclusion of labour unions. According to the authors cited above:

"... the Greater ABC Board's model for co-governance is superior to the metropolitan planning that takes place in a centralized fashion in government offices because it involves local agents in a participatory democratic process, through a flexible

²⁶ São Caetano's Metalworkers Union failed to join this new association.

arrangement and strong horizontal-vertical ties, which works towards sustainable development with social inclusion” (Daniel and Somekh, unpubl: 10).

This structure of binding different interests takes on regulatory characteristics that stand in stark contrast to the policies pursued by both the state and municipal governments over the past 40 years. Ever since São Paulo became Brazil’s hegemonic industrial state, government efforts to attract investment or to promote development lacked vigour, focusing basically on transportation difficulties or on high labour costs. The elaboration of industrial and development policy always bore the mark of political disputes within the nation’s economically most powerful state. It is therefore not surprising that since the mid-1990s, São Paulo has not been able to react in a consistent manner to the depreciation of its productive park, to the flight of corporations to other regions, or to the dismantling of part of its industrial wealth as a result of the so-called “tax incentives war”. Institutionally speaking, São Paulo state has to depend on underdeveloped mechanisms that are incapable of sustaining discussions based on the mutual trust of different agents.

From this perspective, the ABC’s regional situation was no better than the state’s as a whole. The prevailing industrial and development policies had always been decided in a centralized manner, and their subsequent deterioration beginning in the 1980s, accompanied by the state’s financial crisis and general economic uncertainties, underline the need for new institutions that can integrate local and regional levels, and then regional to state and national levels. Without these linkages, overcoming the obstacles to development will prove a very difficult task indeed.

The ABC Board suggests a new way for thinking about and for establishing development policies, “which can serve as an institutional parameter from which to project policy for the whole metropolis, insofar as it flows from the local municipal level to a broader scope”.²⁷ In other words, metropolitan policies should not be established “at the cost of losing local and even regional identities”. Regional proposals will remain weak so long as each municipal unit, productive sector, or discussion forum continues isolated. The more the Regional Board succeeds in tying its performance to the successful integration of different development agents, the more municipal governments, legislatures, state government, large, mid-sized and small companies, labour organizations, NGOs and civilian entities get together to formulate their propositions collectively, the stronger they will be.

This prospect of combining different economic competitors and different perspectives governing the regional political sphere can lead to what Storper has called a “learning economy” (Storper, 1998: 14-15). In other words, the new conditions determining development policies – where macroeconomic adjustments must be complemented – require micro-, meso-, and macro-level coordination.

Processes facilitating the transmission of knowledge as well as a permanent flow between old and new productive systems can catalyse and reproduce learning. Most companies, oriented by their own internal logic, will accept this kind of interaction only if the cost-benefit relation proves unequivocally favourable. However, when uncertainty reigns, they might become involved in a teaching-learning process as long as they encounter the appropriate institutional conditions.

²⁷ Interview with Nadia Somekh, head of the ABC Economic Development Agency, September 11, 1999.

The “learning economy” begins to take shape precisely when this web of new relations takes shape, allowing simultaneously for the emergence of new attributes alongside the improvement of old ones.

In the absence of organized and constant interaction, changes in the quality of productive qualification will remain merely palliative. Or, in Storper’s words:

“Learning requires coordination among a complex array of economic actors (firms, governments, labour markets, innovators) over time. Therefore, learning is a long process that can be achieved only through a distinct form of intervention, one that creates new informal rules, routines, and conventions between economic agents” (Storper, 1998: 5).

This approach is based on three assumptions: (i) the regional learning process assumes a collective dimension; (ii) the main objective for public policy is to bring together agents for the exchange of knowledge; (iii) this process involves a time factor, allowing trusting relationships as well as the learning process itself to develop.

The ABC Board has taken a first step in bringing together the ingredients of a new process. If it succeeds in completing the mission, beyond its role as a regional governance mechanism, it will also have created new conditions for the exchange of knowledge – the impact of which will be far wider than regional.

4.4 Regionalization and the ABC’s New Profile

In the recent past, the ABC’s growth pace has slowed down, following a curve of change similar to that shaped by the dynamic centre of the manufacturing sector. At the same time, employment has slipped significantly since the 1980s, as a result of restructualization undertaken by companies adopting a more rational organization, administrative cutbacks, quality control devices, production flexibilization, and support services, especially outsourcing. SEADE data suggest that the shrinking contribution of the industrial sector was accompanied by a growth in commerce and services in the sub-regional production of value.

Table 17 - Greater ABC: Value Added by Sector of Production (%)

Activities	1980	1985	1990	1995
Commerce	10.81	6.43	11.70	13.52
Industry	84.49	83.77	78.13	71.51
Services	n/a	n/a	5.76	10.32
Other	4.67	4.48	2.22	1.60

Source: SEADE.

Industrial development in the Greater ABC over the 1990s seems to reflect both the changes resulting from new technological standards as well as the federal government's policies towards upgrading Brazil's productive base. For example, while the metals sector accounted for 15.26% of the region's total output in 1980, by 1995 it produced 10.10%. Further data from the São Paulo State Treasury Secretary indicate simultaneous growth in the non-durable consumer goods industry (especially textiles, clothing, and shoes), which increased its share in state production from 17% in 1990 to 20% in 1995.

In addition to these changes in profile and performance, industries began to migrate from the ABC region to the interior of São Paulo and to other states, partly in response to development strategies stimulated by the government in the 1990s, but also owing to the public incentives offered by several municipal governments throughout the state.

In an effort to improve the competitiveness of regional industries, the state government and local municipal administrations have been developing a number of programmes, especially once the regional and local administrations of other states had intensified their attempts to attract the region's industries through tax incentives.

This "incentives war", which has spread throughout the country since the beginning of the 1990s, has particularly affected São Paulo and the ABC region. Countless industries have moved primarily to the states of Rio de Janeiro, Minas Gerais, and other states bordering São Paulo to the south and southwest, while others have moved to municipal units in the interior of São Paulo state.

Furthermore, this dispute is being carried out in the absence of adequate institutional support, as sub-national administrations attempt to deal with their new responsibilities in establishing and implementing development policies, which for decades had been the exclusive task of the federal government.

Following the political erosion of the strong interventionist apparatus that had characterized the Brazilian state's action since the 1930s, the federal government's strategies for the 1990s – though poorly delineated and rarely discussed – have demonstrated the increasing distance between federal agencies and active industrial policy, which has been informally transferred to sub-national levels of government.

The basic problem is that the state governments have replaced the well-built institutional network initiated in the post-war years, which drew together regional group interests, economic sectors, and domestic or foreign economic actors – through ministries, public development funds, superintendencies, and state enterprises – with incipient structures, or with no structures at all.

The disintegration of the old institutional web, taken apart by successive administrations in the 1990s, added to the poor preparation of state and municipal governments. In tandem, this heightened the predatory nature of the interregional competition for new investments, which was carried out with neither limits nor parameters as the century drew to a close. In the absence of an institutional framework capable of irrigating relations with civil society and with different private interest groups, many state and municipal governments ended up developing a series of aggressive and competitive policies, seeking to draw benefits at the expense of other municipal units' losses.²⁸

Besides the political and economic friction between states, another consequence of this process suggests that the public sphere has lost its planning capacity as well as its effective control over development strategies. Replacing a centralized state that had been involved directly in investment and production through state enterprises – placing emphasis on the role of public policy makers – the current state and municipal governments tend to subordinate their development policies to private strategies, identified *a priori* as belonging to the public interest. As a corollary to this tendency, among the regional and local administrations that become most heavily involved in this bidding war, negotiations between the public sector and private interests take place behind closed doors and when – and if – announced publicly, the agreements in fact have already been sealed.

This bidding war not only has hampered the already depleted public coffers – with decreasing private investment and an exponential growth in public spending – but also has stood in the way of thoroughly unprepared local governments in their need to build new alternatives for development, through the control and execution of public policy.

In view of the federal government's long term plan for sub-national administrations to adopt this new role as precarious substitutes for the centralized state, strategies incorporating the democratic involvement of civil society through new institutional arrangements stand out, as the seven municipal units comprising the ABC have shown. In constructing a regional identity as one of the conditions for re-evaluating and redefining public policy making, the issue of prospective development takes on a new twist. From this perspective, the history, experience, and different orientations that took shape in Rio Grande do Sul, a state that sought to introduce qualitative transformations in its productive structure, offer an illuminating contrast.

4.5 Rio Grande do Sul: Tension and the Collision of Different Styles

Not unlike the ABC region, Greater Porto Alegre has been experiencing the development and consolidation of a democratization process in public life since the 1980s, involving the integration of executive power, the legislature, business associations, unions, NGOs, neighbourhood organizations, and ordinary citizens.

Olívio Dutra's election as mayor of Porto Alegre in 1989 turned an important page in the political life of the city and region. Finding support in the numerous neighborhood associations, popular councils for regional integration, and non-governmental environmental and race relations groups, as well as in cultural centres involved in the civil rights movement and the struggle for better health and education, the new municipal government was to stimulate the development of a series of "channels for the participation of citizens to discuss

²⁸ In Brazil, this process has involved the transfer of single industries or even complete productive segments from one state to another, following the offer of subsidies and benefits, whether in the form of tax breaks, credit, or infrastructure.

and become involved in the municipal government's policy making process" (Utzig, 1996: 214).

The boldest experiment of this sort²⁹ was the citizens' participation in Porto Alegre's budget, based on the concept of a public sphere that went beyond the state and introduced new decision-making centres outside of the restricted limits of the government and its secretariat structure.³⁰ The direct involvement of the community and of distinct interest groups within a new decision-making sphere meant that a part of the municipal budget was to be determined according to public priorities that were decided openly.³¹

The Dutra administration's development programme was strategically based on two foundations: (i) trying to establish an environment favourable to technological innovation in the city; and (ii) in stimulating actions to generate income and jobs.

Carried out with great difficulty, these efforts met with the resistance of the Brazilian political traditions, which had systematically assimilated the public space within the bounds of the state. Characterized by centralization and exclusion, this tradition set the pace in structuring Brazil's major cities, which were oriented by heavy industrialization and national-developmentalism.

The new style taking shape in Porto Alegre signalled new directions for thinking about the future, far from the great urban projects planned by a self-sufficient technocracy.

The contrast between this style and that adopted by the Rio Grande do Sul state government in the mid-1990s laid bare a crucial difference: the former drew inspiration from the new experiences of institutional expansion within the capital city, while the latter followed a declining developmentalist tradition, mixing a conservative approach with attempts at renewal.

These differences were to become evident in the political battle for the state government during the 1998 elections, a campaign that revolved around the discussion over the role the state and public funds should play in attracting new and gigantic industrial projects, especially in the automotive sector.

4.6 The Britto Administration and the Struggle for Investments

Antonio Britto took office as governor of Rio Grande do Sul on January 1, 1995, on a coalition ticket supported by the PMDB party. His proposal for development in the state was based on the idea that the state's economy had become less dynamic, threatened by "the opening of Mercosur borders and globalization, by the expansion of the agricultural frontier in central and western Brazil, by competition from other states, and by the delicate state of its own productive and industrial base".³² Concurrently, the Mercosur began to operate officially, opening new perspectives for overcoming Rio Grande do Sul's most traditional weakness: its geographical location, at a considerable distance from consumer markets. One

²⁹ Another important experiment which has yet to be studied was the "Community Credit" programme, lending support to small-business owners.

³⁰ This programme was selected by the UN's Programme for Urban Administration as one of the 22 best public administration efforts. In 1996, the UN's Technical Committee – Habitat II – ranked the programme as one of the 42 best experiments in urban administration in the world.

³¹ On this experience, see Genro and de Souza (1997).

³² Busatto, n/d, p. 2. At the time he wrote this document, in late 1998, the author served as Rio Grande do Sul's Treasury Secretary.

of the state's main secretaries stated that "the Mercosur may redeem geography".³³ Its distance notwithstanding, Rio Grande do Sul had a reputation for being a peripheral state, its industry was based on small and medium-sized enterprises that had been losing strength over the previous years. From this perspective, the new administration began to envisage greater investment as the only dynamic solution for an economy that appeared to be increasingly out of step with the pace of development: "The state of Santa Catarina, for example, had a very similar base to ours. But in the 1970s and 80s, its economy grew more than ours, precisely because it had industries on the scale of Sadia, Brasmotor, Hering, Fundação Tupy, Xapecoense and others".³⁴

Several members of the administration also pointed out the virtues of the stabilization achieved by the Real Plan. Investments began to flow into Brazil once more, "and we knew that these came in cycles. The first came in the 1950s, the second in the 1970s, and both times Rio Grande do Sul came up with practically nothing."³⁵

Strategically, the state government was to focus on four productive areas, each possessing comparative advantages: (i) the automotive sector, which could enhance the already existing autoparts park; (ii) the chemical and third-generation plastics industries; (iii) the agro-industrial sector, already traditional in the state, with an emphasis on soybean and tobacco; (iv) the high-tech segment, supported by the state's solid university system and comparatively high educational levels.³⁶

This strategy sought to enhance the state's productive base, by attracting industrial sectors that were more dynamic and that could lead to a higher added value. According to the state's Finance Secretary:

"Rio Grande do Sul had developed a significant autoparts pole, which supplied the country's main automobile production centres but which did not manufacture vehicles; Rio Grande do Sul was the nation's largest tobacco producer, but did not manufacture cigarettes; Rio Grande do Sul was one of the country's main steel consumers, but did not have a steel industry; Rio Grande do Sul prided itself in being the nation's third largest computer pole, but did not produce computers".³⁷

But how could the state attract large industrial interests if the state's infrastructure was deteriorating, facing serious problems with telecommunications, energy, roads, and the Rio Grande port?

The privatization programme was to provide financial resources for the state's policy of restoring its infrastructure and attracting new industries. The investment of these resources showed rapid results. Nevertheless, the government felt it was necessary to beef up their programme for attracting investment, especially since they had lost the first battles, as Renault went to Paraná and Mercedes-Benz to Minas Gerais.

³³ Interview with Nelson Proença, former cabinet head (1995), former General Secretary and former Secretary for Development in the Antonio Britto administration, and current Federal Deputy representing the PMDB party, August 27, 1999.

³⁴ Interview with Nelson Proença.

³⁵ Interview with Nelson Proença.

³⁶ Interview with Ricardo Hingel, technical director of Antonio Britto's Development Secretary, September 9, 1999.

³⁷ Busatto, n/d, p. 2.

Though the state began as a casualty in the “incentives war”,³⁸ it soon became an active agent in the interstate competition, introducing important changes in the volume of resources destined to incentive programmes, offering the same advantages that Paraná had announced to attract Renault, Chrysler and Volkswagen/Audi (“impressive and unbeatable”, according to some of the state government’s negotiators).

Thus the state government of Rio Grande do Sul began to adopt similar bids to those offered by other states involved in the dispute over automobile investments. Though downplaying the importance of the “incentives war” – “In order to attract corporations, we have instituted an aggressive incentives programme; but our development strategy was always more important than the benefits”³⁹ – one of the state’s official negotiators recognized that:

“We risked a great deal to attract GM, imagining that others would follow. We gave up a lot. That was the price we paid to have GM open the way. Later Dell, Pirelli, Goodyear, Souza Cruz were to come...”⁴⁰

Indeed, attracting GM cost the Rio Grande do Sul government a great deal. In terms of public funds, GM only was to choose the state after securing a R\$253 million loan, to be paid over ten years, with five years’ leniency, at 6% annual interest, with monetary correction waived. It was a way of staking a bid, since the unstable political situation favoured multinational corporations, who requested guarantees preferentially on a cash basis. From a political perspective, the operation dragged on through the election period and came to be considered by party bosses to be responsible for Britto’s defeat in seeking re-election in 1998.

Rio Grande do Sul’s participation in the interstate competition was to attract a second large corporation, Ford, which became the centre of an intense controversy at the beginning of the Olívio Dutra administration, when the company decided to transfer its investment to Camaçari, in the state of Bahia. The company held that there had been a breach in the trust that existed between Ford and the state government, as the new administration had decided to renegotiate the terms established with its predecessor, the Britto administration. The controversy sparked a bitter debate within Rio Grande do Sul, growing to national proportions because of the size of the incentives offered by the state of Bahia, including federal tax breaks in addition to the traditional state resources. The country’s major newspapers began to cover the story, raising questions regarding the balance of the Federal Pact, the states’ situation of insolvency, the distortion of competition, the tax issue, and the quality of what the public sector expected in return, especially after the federal government became involved in the bidding war, with the president himself coming into action.

The contracts that the state of Rio Grande do Sul established with GM and later with Ford included loans for both fixed assets and operating capital, financing of land for plants, funding for infrastructure (landscaping, pavement, drainage, roads, water, electricity, natural gas, telecommunications, and port facilities), along with municipal tax benefits and BNDES loans.

³⁸ Rio Grande do Sul had already lost part of the shoe industry from the Vale dos Sinos to northeastern states. In 1995, the state government was moved to develop a policy of tax incentives initially to keep beverage and cigarette industries within the state and later to keep agro-industrial and agricultural enterprises competitive.

³⁹ Interview with Nelson Proença.

⁴⁰ Interview with Nelson Proença.

Table 18 - Contract between Rio Grande do Sul and GM

Description	Cost in RS	Amount Paid	Amount Due
Infrastructure	131,899,039	87,557,455	45,130,583
Operating Capital	253,296,000	253,296,000	0.0
Systems Producers	19,760,997	8,011,287	11,749,710
Total	404,956,036	348,864,742	56,880,293

Source: Rio Grande do Sul Government / March 1999. Figures in R\$ 1.00.
The payment due schedule was later renegotiated.

Table 19 - Contract between Rio Grande do Sul and Ford

Description	Cost in RS	Amount Paid	Amount Due
Infrastructure	234,542,654	9,517,098	225,025,555
Operating Capital	226,567,012	42,000,000	184,567,012
Total	461,109,666	51,517,098	409,592,567

Source: Rio Grande do Sul Government/March 1999. Figures in R\$ 1.00.
Payments made and to be made at the time Ford was leaving Rio Grande do Sul.

In addition to these sums, the initial contracts between the Britto government and the automobile manufacturers also included the exemption of all state taxes (basically the sales tax) and fees, which amounted to around R\$ 3 billion in Ford's case, according to state government calculations. In return, the companies were to: (i) generate 1,300 direct jobs, in GM's case; (ii) create 1,500 jobs at the assembly plant and among suppliers, in Ford's case.⁴¹

4.7 New (and yet to be defined) Directions of the Dutra Administration

Olívio Dutra took office in January 1999, identifying the state's insolvency as one of the Britto administration's legacies. According to official sources, the state's public finances were structurally handcuffed to the R\$ 1.2 billion deficit, the extensive tax exemptions, the public debt renegotiation agreement sealed with the federal government, and the contracts signed at the end of the electoral campaign. In this situation, it seemed natural that the GM and Ford contracts should be subject to renegotiation. The problem was that the Ford affair had left many misgivings in Rio Grande do Sul. If anything was to be learned from this conflict, it was to serve to avoid similar disappointments.

As a rule, state governments that take part in the bidding wars – as the Britto administration did – may tend to overemphasize the benefits of new investments. In their propaganda, for example, the Britto administration adopted certain images from the 1950s, as if the automobile industry still constituted the prime mover behind economic and social growth. They project a profuse number of new jobs, even though, seemingly unaware that assembly plants are increasingly labour sparing. Making technology into a myth, they overlooking the fact that states and municipal units will only benefit from a trickle-down effect.

Any serious assessment of the current structure of the modern automotive productive chain will immediately recognize that a large part of the value adding process has been shifting from assembly plants to units producing sets of parts – the so-called “systems producers”. There is a decreasing amount of fixed investment in the final assembly. While in

⁴¹ This figure subsequently increased when Ford moved to Bahia.

the 1950s or 1970s great poles of industrial development emerged around the automobile assembly plants in the ABC or in Betim, Minas Gerais, there is no guarantee that this will occur nowadays. In fact there is no guarantee that the final positive job balance will be in Bahia or in Brazil at all. In effect, the outlook for the next few years probably includes the closing of plants already installed in Brazil: the automotive productive chain is globalized, centralized, and labour-sparing oriented throughout the world.

Hence, political rhetoric serves mainly as a smoke screen covering the predatory dispute between states and regions, which has been corroding the country in the absence of national parameters for development. Because of this lack of definition, all Brazilians will have to pay a steep price for Ford's move from Rio Grande do Sul to Bahia. This is the only reason Brazil has been paying the highest price in the world for each job the automobile industry says it will create. This is the true cost of the tax incentives war, where apparently private investment only really takes place with an exponential growth of public expenditures.

This is not to say that any and every incentive policy should be condemned, or that the impact of a plant such as Ford's should be dismissed – which is what Rio Grande do Sul's current government often does. But we must reject the old style of politics, which milked the national-developmental project and which continues to nurture clientelism and the interest groups of the corporatist Brazilian republic.

Conceding state benefits without the commitment of the private sector to reciprocate should no longer be part of Brazil's history. To treat as “development policy” the agreements that only bring responsibilities to the state, while bestowing rights and benefits on private corporations is merely a way of confusing the issue.

In countries where incentives proved effective, they have been characterized by their reciprocity. The protocols and agreements sealed between governments and enterprises necessarily included goals, purposes, and substantive actions. Beneficiaries receiving public funds have to prove that they are responsible and worthy of these incentives, since the lack of planning or of government control tends to benefit either inefficient companies or those who change directions depending on directives from head office. Both situations can generate the uncomfortable predicament of private smiles in contrast to public losses.

In both Ford's and GM's case, agreements failed to specify export goals, net gains in the country's balance of payments, technology transfers, the creation of a development centre, the training of suppliers, employee training, labour relations, or adequate wages.

Taking Rio Grande do Sul's industrial park into account, if limited to the original terms of the convention, the GM operation – as well as Ford's – run the risk of becoming a lost investment, a sort of “maquiladora” with a very low impact on industrialization in the state.

Porto Alegre's experience in the 1990s introduced a series of new institutional arrangements to Rio Grande do Sul, which continue to survive because of their effectiveness. To be sure, Ford's move to Bahia certainly diminished the impact of a last-generation automobile pole on the region's economy, both in terms of the new links it could create in the productive chain, as well as in the renovation of the state's old autoparts segment.

The uneasiness that set in at the outset of the new municipal administration can effectively be overcome as new ways of making politics come into being, which can

determine long-lasting directives capable of avoiding both waste and ill-treatment of the public sphere.

Discussion over the Participant (micro-region) Budget continues to suggest that long-term policy, which used to be established by the state's technical staff and decided within development agencies, is no longer an option – whether because of the erosion of the state's structuring capacity, or because of the fragmentation of knowledge and the accelerated pace of transformation within the economy and its productive processes.

In an initial effort at improvisation, the government has attempted to protect already existing sectors, especially the agro-industrial, while also seeking to reconnect small agriculture and cooperatives to large industry. These first steps – including credit to recover the leather and shoe productive chain, the “First Job” programme, and incentives for family agriculture – no doubt are important. But in order to become more meaningful, they need to be tied to broader strategic orientations. For this reason, Rio Grande do Sul's economic actors need to meet with each other: businesses and business people, associations, unions⁴² and other entities should get together to discuss the state's economic prospects. In terms of development policy, there is much to be done, especially since funds for industrial policy face enormous pressure from the state's condition of insolvency.

4.8 The (Delicate) Participation of Business

Local business people have participated in different regional institutions in an uneven and discontinuous fashion. Nonetheless, the ABC's experience has involved a pattern of relations between business interests, local government and regional institutions that is far more advanced than in most of the country's major centres, where the business strata continue to be divided, associations are not very representative, and interests are governed mainly by short-term issues. Hence, the ABC region continues to innovate in a relatively successful manner by involving enterprises and business people in extensive discussions, covering middle and long-range issues. Those business representatives who have become engaged in discussing the ABC's productive remodelling are linked to commercial associations, to industrial centres, to the local press⁴³, to local commerce, and to some branches of large industry.

Traditional motor vehicle manufacturers (Volkswagen, Ford, Mercedes-Benz, Scania, Toyota, GM), along with the large autoparts producers, have participated only sporadically in regional bodies, which has made it difficult to reflect not only upon the deep transformation the sector has been undergoing but especially on its future reorganization. Indeed, most of these companies have enjoyed preferential relations with the federal government and its agencies over the past 40 years. Because of their political and economic importance, they became accustomed to discussing the sector's fate in ministerial offices in Brasília or with the state governor. The Sectoral Board that met before the New Automotive Regime (1995) broke this trend by introducing a new space for discussing policy that proved to be both legitimate and representative. This experience has had a positive effect on the large companies' efforts to discuss regional economic planning. At the same time, the federal government's stress on vertical ties – though delicate and distant – in the post-Automotive Board years, has tended to update the old bilateral contacts between state and large enterprise. To be sure, the largest issues having to do with the sector continue to be discussed and

⁴² According to CUT leaders, Porto Alegre's Metalworkers Union was not invited to discuss the arrival of GM and Ford, or the latter's exit.

⁴³ The daily *Diário do Grande ABC* was intensely involved in the regional discussion.

decided in Brasília or at the Bandeirantes Palace, headquarters of São Paulo's state government. The sector's decentralization, with new plants sprouting up in other states outside of São Paulo, reinforces this tendency. However, over the past three years, the automobile manufacturers have reshaped their plans and are beginning to reinvest in their plants in the region, announcing the production of new models and the introduction of new production processes. This redefinition will certainly affect the way that these industries are to participate in regional fora.

On the other hand, the participation of chemical and petrochemical business interests has been quite significant.

In 1998, focusing on productive chains, the University of Campinas conducted a survey for SEBRAE to evaluate which sectors displayed the greatest growth potential. Of the segments analyzed,⁴⁴ the petrochemical sector, especially its third-generation companies linked to plastics, showed the greatest growth potential in the region. The survey highlighted two factors: the low level of individual plastics consumption in Brazil, and the intensive character of labour use, especially in the substitution of metal with plastics. In this diagnosis, two proposals for the sector stand out, both having an impact on the ABC's revitalization process as a whole: (i) the establishment of a molding pole, making the region a quality centre in plastics; (ii) the elaboration of a training and retraining programme for the plastics sector, which would lead to the Alquimia (Alchemy) Project.⁴⁵

The existence of a petrochemical pole in the region with first- and second-generation companies has been an important factor leading to investment in the productive chain, attracting third-generation companies. Traditionally, plastics manufacturers were specialized, supplying different clients and markets in a rather indiscriminate fashion. With the commercial opening, survival conditions in the chain came to be redefined. Today, a high capacity for production and training for product development are required. Companies in the plastics manufacturing sector have come under pressure from at least two sides: resin producers (large-scale firms, connected to large international oligopolies or to state enterprises) and, simultaneously, the big transnational corporations. This pressure has forced companies to seek to reduce their prices, to improve their quality, and to develop production and product innovations. These objectives will not be achieved very easily without the integration of efforts and the support of specific policies towards training and the development of new skills. Thus, the presence of representatives from this sector on the Regional Board and in other regional fora has reinforced new institutions and has enhanced discussions within the ABC.

In Rio Grande do Sul, business participation in defining public policy took place mostly through the most traditional forms of Brazilian politics, especially those delegating power and, to a certain degree, representation to municipal and state authorities. This relation began to change under a succession of PT mayors who have governed Porto Alegre over the past 11 years, with its initial signs appearing in the positive results obtained through the Participant Budget experience, though relations between business people and PT administrations continued to be governed by mutual distrust.

⁴⁴ Automotive, petrochemical, construction, and furniture.

⁴⁵ Directed by the ABC's Chemical Workers Union, the Alquimia Project involves a partnership with SENAI and is funded by FAT (Workers Assistance Fund).

In both the state and the Greater Porto Alegre region, this distrust was to increase during Antonio Britto's unsuccessful re-election bid in the 1998 elections, as well as when Ford subsequently decided to leave Rio Grande do Sul, which united the business strata against Olivio Dutra, held responsible for the automobile manufacturer's abrupt change in plans.

According to the ex-president of the Rio Grande do Sul Industrial Federation (FIERGS),⁴⁶ Ford's move constituted a "tragedy", which further alienated the business strata from Dutra's government, seen as "hostile to large enterprise". This same question was addressed by Brum Torres, ex-state Planning Secretary, attributing the Dutra government with idea that "the contribution of large corporations to development in the state is irrelevant, the search for these kinds of investment senseless, and the decision to attract such investments with public resources criminal" (Torres and Rosa, 1999: 17).

This controversy intensified as business representatives questioned the administration's posture in relation to the incentives war, which many entrepreneurial leaders understood to be the only way of carrying out industrial decentralization. Though magnified by internal disagreements within the PT, this controversy had much more to do with the state government's lack of a clearly defined industrial policy than with any sort of hostile attitude towards big business. The recently signed agreement with GM and other large corporations casts a shadow of doubt over the preference for small businesses espoused by members of the administration.

This discussion takes on an increasingly urgent character, since only the definition of clear perspectives will make it possible to get the entrepreneurs, organizations and even local public organs involved in more cooperative processes. While the mayor has shown that conditions exist for improving the quality of the talks with GM and the "systems producers", he has also shown his disapproval of the fact that his office has not been included in important discussions that are concentrated in the hands of the state government. This centralization, which predominated in the Britto period, still persists to a certain degree in the Dutra period.⁴⁷

There is some hope that the state government's consolidation of strategies and the delimitation of industrial policy will succeed in enhancing its relations with the municipal government of Porto Alegre and other units in the metropolitan area. By the same token, the continued experiences taking place in Porto Alegre's municipal government indicate that Greater Porto Alegre, a setting for significant institutional innovations, shows favourable conditions for developing regional channels capable of establishing new parameters for the collective elaboration of a new development framework.

⁴⁶ Interview with Dagoberto Lima Godoy, Porto Alegre, September 3, 1999.

⁴⁷ Interview with Daniel Bordignon and José Ricardo Neves, respectively mayor of Gravataí and Municipal Planning Secretary, September 3, 1999.

4.9 The (Uneven) Participation of Unions

Union participation in multi-institutional bodies, such as in fora for elaborating regional policy towards strengthening the economy and generating employment, has been intense and growing in the ABC region, though occurring on a much smaller scale in Greater Porto Alegre.

The large ABC unions, especially those affiliated with CUT,⁴⁸ draw their strength from the organized labour movement's growth in the 1980s as well as from the tripartite experiences that took place in the early 1990s. Their capacity for mobilization has been frequently held responsible by the press and by some business sources for the exodus of companies from the region, though data show that this impact was probably not as great as other factors.

Table 20 - Reasons for Installing New Plants in Brazil (%)

Proximity of markets	57.3
Tax benefits	57.3
Labour costs	41.5
Specific advantages of the site	39.0
Active labour movement	24.4
Saturation of space	14.6

Source: CNI/CEPAL survey, 1997.

The ABC Metalworkers Union president Luiz Marinho has sought to dispel this perspective "tainted by ideology and used for political purposes". One of the most prominent labour leaders in recent times, Marinho has criticized the incentives war, which has for the most part created inequality. Furthermore, "See how many millions the government is investing to move Ford from Rio Grande do Sul to Bahia. I am sure that if this money was used for training in Bahia, it would generate many more jobs than Ford will by moving there."⁴⁹

Under his leadership, the union's diversified activities are much broader than the traditional position adopted by the metalworkers: Marinho explains: "We want an income distribution programme that comes with development. We have to learn to appreciate the region's specific vocation and orient development to suit each region. Only then will we be able to think about a national product that can account for the demand for jobs."⁵⁰

In presenting these ideas, Marinho has stood out on the Regional Board, which he considers one of the most important foundations supporting the ABC's regional identity: "The Board is the region's most complete body. It provides a space for negotiation with the government and other social sectors that is fundamental for all workers."⁵¹

The unions have a solid participation in regional bodies, as demonstrated by the active role played by Carlos Augusto Cesar Cafu, director of the Chemical Workers Union, who is also coordinator of the Citizens' Forum and responsible for the Alquimia project. This project

⁴⁸ The most important trade unions are the ABC Metalworkers Union, covering six of the ABC's seven municipal units; the ABCD's Chemical Workers Union; Teachers' Union; Truck Drivers' Union; Bank Employees Union; and Construction Workers' Union.

⁴⁹ Interview with Luiz Marinho, September 10, 1999.

⁵⁰ Interview with Luiz Marinho.

⁵¹ Interview with Luiz Marinho.

aims to retrain 12,000 workers for the plastics sector by 2001. It grew directly from Regional Board discussions, which also encouraged CUT to set up a Labour and Income Centre for the region, offering support for the unemployed in their search for readmission to the job market.

While union participation continues to grow in the ABC, the situation in Rio Grande do Sul provides a strong contrast:

“Up until now, we have been left out of the whole discussion on GM’s arrival and Ford’s departure. Though we have requested audiences, neither the state government nor GM have met with us. We are being olympically ignored. In fact the current state Development Secretary only summoned a general meeting with labour people to tell us about the contracts, but only after Ford had left Rio Grande do Sul.”⁵²

The institutional disruption was to affect union politics although its consequences remained largely unfathomable. In Gravataí, the announcement of GM’s arrival caused splits in the labour movement. In August 1997, workers affiliated to the Força Sindical called an assembly to attempt to organize a metalworkers union in Gravataí that was to remain separate from Porto Alegre’s metalworkers union, a CUT affiliate. According to union leaders in Porto Alegre, the Labour Ministry had invalidated the assembly, though the process had not yet come to a close.⁵³

As it waited for GM to begin its operations at the Gravataí plant, the union voiced a need for appropriate channels for discussing the countless labour problems that have been created by the plant’s installation. For example, although they are responsible for a Training School that is recognized by FIERGS and by several companies in the region, union leaders have nowhere to discuss these training programmes except within the union itself.⁵⁴

The institutional disarrangement also added to the problems generated by Ford’s withdrawal from Rio Grande do Sul, which caused more splits and conflicts at the union base, especially in Guaíba, where the position defended by the state government was not well received by the local population. According to one union leader, “workers were inebriated by the misinformation and by the promise of an exaggerated number of new jobs to be created by Ford”. For the first time, he continued, “the workers became very divided. It was tough. For that reason, the CNM is trying for a national contract.”⁵⁵

Union leaders in Rio Grande do Sul remain isolated in reference to their peers, even though they feel the direct impact of policies determined by municipal and state government administrations. They are willing to participate in any and every discussion, since they feel that the problem is one of “democracy, above all”.⁵⁶

⁵² Interview with Jurandir Damin, president of Porto Alegre’s Metalworkers Union, and Claudir Nespolo, training director, September 3, 1999.

⁵³ According to CUT leaders, these workers had ties to the previous administration. In Guaíba, the Porto Alegre Metalworkers Union itself took on the task of building a local chapter, once Ford had announced its arrival. When the company moved to Bahia, this initiative was abandoned.

⁵⁴ This school operated in Porto Alegre with a capacity for training 1400 workers – around 500 machine/electronics/industrial automation technicians. The school receives the recognition of FIERGS and other regional enterprises, and has experience in the automotive sector (training Dana and DHB employees, among others).

⁵⁵ Interview with Jurandir Damin.

⁵⁶ Interview with Jurandir Damin.

In systematically comparing the public participation of labour interests in the ABC with the Greater Porto Alegre region, it appears that:

Though decreasing, an ambivalent posture still persists within organized labour on the role workers are to play in facing the challenges introduced by a changing labour scenario, especially the possibility of directly intervening in this process.

Discussions about professional training have not been clearly defined within the unions, since this continues to be the object of a strong ideological dispute, dividing workers over its place in labour demands.⁵⁷

Nevertheless, union attitudes in the ABC prove to be the most advanced in the country. One reason for this has to do with the kind of industrial concentration that exists in the region, involving large export ties (both direct and indirect) in the metal and machine, automotive, petrochemical, and steel branches of industry. Since the main union bases are rooted in these modern economic sectors, the vanguard of industrial modernization has been accompanied by the most advanced union actions.

New entrepreneurial strategies – which include administrative decentralization, the elimination of hierarchical ranks, pressure against collective contracts, negotiations at the workplace, individual agreements, among others – affect worker-union relations, often undermining their legitimacy.

High unemployment rates increase the uncertainty surrounding the future of organized labour. Many union leaders have responded by broadening their perspectives, their demands, and the institutional spaces for intervention, as we have seen in the effective actions taken by ABC unions and by the intentions espoused by Porto Alegre's Metalworkers Union.

While these kinds of pressure were already present during the first stages of the industrial sectoral boards, they are clearly evident today. The regional reorientation of the national experience that the Automotive Board provided has come to include regional issues and local development strategies on the agenda. This involves a constant effort to maintain a dialogue with public administration, business people, and community interests, redefining labour's political and cultural insertion in the region, while at the same time shaping an atmosphere that is more conducive to labour's acceptance as a legitimate actor in city development.

This set of changes emphasizes the central importance of the Greater ABC's Regional Board for the labour movement. At the same time, union participation on the Board remains far from merely formal, which can be appreciated by the changes in its behaviour in response to proposals coming from the union milieu.

This two-way relationship shows how inclusion policies can widen perspectives for improving labour and income conditions, along with the quality of life, social rights and, ultimately, democracy.

⁵⁷ Professional training programmes receive the support of union leaders who wish to see the union providing help to workers in their quest for training. But there are also leaders who not accept the role of unions in training workers for private enterprise, since this encourages competition between workers.

4.10 Greater ABC and Greater Porto Alegre: Some comparisons

Unequal development in countries like Brazil constitutes an old – but ongoing – problem. Several researchers (e.g. Venables, 1998) have endeavored to explain how industrial concentration simultaneously stimulated economic growth and backwardness within the same country. While many developed nations constructed appropriate relations between producers and consumers, backward countries experienced stagnation or alternating cycles of growth and decline, without succeeding in stabilizing their productive infrastructure and their domestic market.

Inequality has left its mark most clearly on countries with late industrialization, especially as a consequence of state-led growth models. In Brazil, the rapid industrialization that took place in the post-war years propelled the state of São Paulo and especially the ABC region, through protectionist policies, public investment, state enterprises, and government credit. In Rio Grande do Sul, wealth and high living standards became concentrated in some areas, while standards similar to the poor regions of the northeast remained in others. Over time, as the government-induced productive restructuring that has suited private interests has consumed work posts and shredded the social fabric, both regions currently face unemployment rates higher than 20%. The most recent changes in the productive base in both regions suggest that the industrial structure in the ABC tends to shrink, while in Porto Alegre it is expanding, a change that becomes all the more apparent if we focus on the automotive sector.

These changes pose new challenges for local government, for regional cooperation, and public policy. Undeniably, the economic stabilization and commercial liberalization of the 1990s also increased the power of sub-national administrations to deal with development policy. However, after years of developing policies that were subordinated to the federal government's directives, states, regions, and municipal units now find themselves unprepared to forge the new policies that these institutional changes require. For the most part, they adopt the same instruments they inherited directly from the national-developmental state. From this perspective, the "incentives war" constitutes merely a modern facet of the old authoritarian political style, involving decentralization without adequate cooperation.

How can sub-national government administrations develop new skills? How can development and regionalization be made compatible? What tools are needed? What are the necessary conditions?

There are no easy answers, as the discussions taking place in the ABC and in Porto Alegre since the beginning of this decade have demonstrated. Unlike Italy and the American or German federalist traditions, the dual crisis – economic and democratic-institutional – has proved to be traumatic in countries like Brazil since the mid-1970s, contributing to accelerated cycles of economic deregulation and re-regulation. And while it is clear that the developmentalist strategy has lost its hold, it is also clear that no other strategy is taking its place, which means that the environment for decentralization of development policies is being shaped by this vacuum.

The Asian experience lays bare the delicate conditions presented by the state in developing countries. The lessons derived from decentralization and the creation of industrial districts (as has occurred in Italy, in the Baden-Württemberg area of Germany, or in Silicon Valley in the United States) do not provide a model to be followed by countries like Brazil. The abundance of instruments for emulating economic restructuring and the emergence of

networks involving well-defined and well-placed actors stand in sharp contrast to the degree of institutional waste and the lack of democratic exchange.

Alternative strategies can only emerge from the region's own history, culture and political experience. This involves:

- (i) identifying and delimiting regional interests;
- (ii) constructing arrangements drawing together the region's economic agents;
- (iii) disseminating ties capable of horizontally binding regional public agents and civilian organizations;
- (iv) establishing relations between national development agencies and national entrepreneurial and labour associations.

Based on this analytical structure, Table 21 provides a comparative overview of both the current situation and the future potential of each region.

Table 21 - Regional Development: Situation and Potential

Relevant Factors	Greater ABC		Greater POA	
	Current Situation	Potential	Current Situation	Potential
Public infrastructure	Low	↑	Good	↑
Social infrastructure	Medium	↑	Good	↑
Internal logistics	Low	↑	Medium	↑
External logistics	Low	↑	Medium	↑
Proximity of domestic markets	High	↔	Low	↔
Proximity of Mercosur	Low	↔	High	↔
Educational level of labour	Good	↑	Good	↑
Automotive Industrial Culture	High	↔	Medium	↑
Up-to-date technology	High	↔	Low	↑
Industrial Structure	Concentrated	↓	Diversified	↑
Tax Incentives	Low	↔	High	↓
Business Participation	Low	↑	Very low	↑
Union Participation	High	↔	Very low	↑
Municipal Govt. Participation	High	↔	Very low	↑
Relations with state govt.	Medium	↑	Good	↑
Relations with Federal Govt.	Low	↔	Very low	↔
Regional institutions	High	↔	Very low	↑
Capacity for Mobilizing Investment Resources	Low	↑	Low	↑
Environment	Low	↔	Good	↔

5. Conclusions

The research conducted to produce this report has raised several significant theoretical and practical issues, mainly the emergence of new – and still not completely developed – institutional arrangements of cooperation between state, local government, companies and unions. In this context, one of the most challenging questions is the process of policy decision-making, and the role of social agents.

For the unions, the question is not whether to participate in such mechanisms, but how. For the companies, the main problem is to perform a more public role instead of insisting upon their old lobbying behaviour. For the government, the key issue is to convince itself that these quasi-public spaces are fundamental to re-establishing a healthy environment for economic and social development. This framework is in the making, and can only be fully understood as it matures, and further research is conducted.

Some insights gained at the time of this study are:

1. From a historical standpoint, relations between different agents have progressed considerably in the ABC during the 1990s. At the outset of the decade, companies,

unions, and the government were in constant conflict. Capital and labour blamed each other for the region's decline. Mayors and local politicians established lobbies to combat the state and federal government in order to bolster municipal budgets and to maximize their own electoral designs, maintaining the region's traditional power structure. Politics as a mediating space had ceased to exist.

2. In spite of this scenario, a new space for negotiation and agreements began to be constructed in the early 1990s. During this period, local economic and social outlooks remained extremely poor, but local politics began to undergo substantial changes with the election of Workers' Party (PT) candidates as mayors of two of the region's largest cities, São Bernardo and Santo André, as well as Diadema. There is no doubt that the presence of mayors (and ex-mayors) belonging to the PT, the strength of the organized labour movement linked to CUT, the presence of PT members on city councils and the activities of other political leaders with PT ties are at the root of a multifaceted and multi-institutional articulation process. However, possible changes in the composition of these forces may place the progress achieved at risk, as became apparent during the 1993-96 period.
3. The ABC's strength lies in: (i) an environment conducive to the development of a technological pole (which, in the automobile industry's case, may become the organizing core); (ii) the fact that a large part of the existing physical plant has already become depreciated, amortized and, for the most part, modernized; (iii) in the availability of engineering and tooling resources, along with skilled labour at all levels. For these reasons, in addition to the high quality of the existing social infrastructure, a positive productive restructuring of the entire region is entirely possible.
4. This potential wields a positive influence on decisions made by automobile manufacturers and other large corporations. Hence, one should not even consider that the automotive chain will leave the ABC. Indeed, not very many companies have left the region; expansion in other areas has taken place. Many investments targeted the refurbishing of the existing industrial park. The challenge is to attract new investment capable of generating added value to the region. This requires the determination of specific public policies and the existence of an inter-institutional decision-making space, where responsibility can be shared by different actors.
5. The ABC's Regional Board, along with other local bargaining fora, face enormous challenges, such as: (i) effectively defining policies that are viable, effective, and financially feasible; (ii) developing clear strategies aiming to facilitate the emergence of horizontal cooperation nets involving the different economic agents; (iii) improving technological training, through the development of learning centres; (iv) consolidating a regional sense of belonging, in order to guarantee the strength of existing institutions beyond current leadership.
6. Automobile manufacturers have decided to reinvest in the ABC region, but specific policies for the industrial sector and particularly for the automotive sector are still needed. Logistical problems, both within the region and in terms of access to the region, require urgent solutions. The maritime port of Santos, historically an essential element in the region's industrial development, should be re-evaluated. Doubtless this will necessitate extending the regional institutions' reach to the coast, while at the same time reinforcing state and federal ties, since the port's modernization will bring

benefits that go range further than the ABC. Concluding the road ring and developing the rail ring constitute crucial parts of the programmes to facilitate access to the region and to improve transport facilities integrating the ABC with other regions in the country.

7. The ABC's institutions are already developed. However, the entrepreneurial sector's participation in new regional bodies is still incipient, especially among automobile and autoparts manufacturers. Without their participation, hopes for defining an effective development axis remain much lower. More is needed, and the space for this development is there. The state government's participation also remains small, while the federal government's participation has not even been formalized. These bodies continue to depend on the initiatives set by PT-affiliated mayors and by trade union organizations. Organized labour in the ABC has always participated, adopting the perspective of regional development and the creation of quality jobs. The task remains of cooperating with other local governments in the Greater São Paulo region, since many of the necessary solutions also interfere in the affairs of other municipal areas, especially with the city of São Paulo itself.
8. In Rio Grande do Sul, on the other hand, the situation must first settle, if new arrangements and negotiated policies are to have any chance of succeeding. Institutional density in the Greater Porto Alegre region is low. Local unions have not yet found space for effectively interfering in changes, nor have they defined demands that go beyond the traditional wage demands. The possible emergence of a sort of "GPOA forum" needs to be evaluated as a potential space for shared negotiation and for defining policies of regional interest. Rio Grande do Sul's regional sentiments may serve as a powerful binding force.
9. In both the ABC and Greater Porto Alegre, horizontal ties between companies and other entities need to be built and consolidated, and local policies need to be coordinated with state and federal government spheres.
10. The ABC region continues to depend on strategies determined by a small group of multinational corporations. This power can be balanced through the strengthening of regional institutions, in an attempt to make the force of these corporations compatible with emerging small and medium-sized enterprises (SMEs) forging a complementary relation. The ABC Board's efforts to articulate SMEs in the plastics sector seems promising. A similar effort is needed in the autoparts segment. This is occurring in both the ABC and in Rio Grande do Sul. These horizontal ties gain strength when complemented by vertical ties involving organizations outside of the regions studied here.
11. The lack of institutional articulation in Rio Grande do Sul, essential support for a public development policy, may lead to the exclusion of several existing regional companies from the productive chain that is nearing completion. Competition on a global and especially on a national scale may keep part of the regional enterprises out of the new framework developing in the state. It is necessary to provide support to these companies so that they can compete – with São Paulo companies, or with Korean or Chinese ones. Some measures can be achieved through public policy support, including mechanisms for cooperation between companies, the establishment of export and supply consortiums, and support for local mergers and acquisitions.

12. Efforts to promote endogenous development face serious limitations given the absence of financing mechanisms as well as the Brazilian economy's instability. Both the ABC and Rio Grande do Sul regions will have a hard time introducing regional development policies without constructing links with state and federal governments and between local capital. In this sense, the difficulty involved in financing regional development projects (not analyzed in detail in this report) stands out and may jeopardize the future of the institutional structure that has been growing.
13. The Tax War remains a complicating factor for both regions. States and municipal units fight for investments that have already been earmarked for Brazil, effectively reducing the amount of private investments that must then be complemented by public funds. Nonetheless, new foreign direct investment is once again modifying the profile of the Brazilian economy. It is changing Greater Porto Alegre's industrial structure and may come to alter the ABC's structure. In a contradictory manner, the tax benefit war stimulates a defensive reaction on the part of public administrations and of civil entities in the ABC. Rather than face a "new tax war", the ABC region reacted by introducing new institutional arrangements that began to discuss reconditioning production. During the same period, Rio Grande do Sul reacted to the tax war with more tax war, offering new incentives. The state was moderately successful in attracting large corporations, though it failed to stimulate the organization of civil society and the articulation between economic agents, crucial strategies for the region. This failure may prove costly in the future, when tax war ammunition runs out and the region will have to depend upon its own forces to achieve development.

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1. Cezar Alvarez, Secretary of Administration, Porto Alegre City Government. Porto Alegre, 02.Aug.99.
2. Daniel Bordignon, Mayor of Gravataí (Workers Party). Gravataí, 03.Sept.99.
3. Cézár Busatto, former Secretary of Treasury, Government of the State of Rio Grande do Sul (Gov. Antonio Britto term, 1995-1998), State Deputy in Rio Grande do Sul (Party of the Brazilian Democratic Movement – PMDB). Porto Alegre, 03.Sept.99.
4. Tereza Campello, Coordinator of the Secretary of Government, Government of the State of Rio Grande do Sul. Porto Alegre, 02.Sept.99.
5. Julio Caspari, Vice-President of the National Association of Autoparts Companies (SINDIPEÇAS), CEO of Sachs Automotive Ltd. Diadema, 16.Aug.99.
6. Celso Daniel, Mayor, Santo André (Workers Party), 30.Aug.99.
7. Jurandir Damin, President of the Metalworkers Trade Union of Porto Alegre. Porto Alegre, 03.Sept.99.
8. Mauricio Faria, Coordinator of the Project for Reurbanization of the Tamanduatéi region, former Coordinator of Strategic Planning, City Government of Santo André. Santo André, 30.Aug.99.
9. Luc de Ferran, Amazon Project Coordinator, Manufacturing Operations Director (South America) of Ford Motor Company. São Bernardo do Campo, 23.Aug.99.
10. Dagoberto Lima Godoy, former President of the Federation of Rio Grande do Sul Industry – FIERGS, until 1998. Porto Alegre, 03.Sept.99.
11. Luiz Roberto Vieira Gonçalves, Assistant for Government Relations, GM do Brasil Ltda. São Caetano, 30.Aug.99.
12. Ricardo Hingel, Technical Coordinator, Secretary of Development (Gov. Antonio Britto term, 1995-1998). Porto Alegre, 03.Sept.99.
13. Emerson Kapaz, former Secretary of Science and Technology, Government of the State of São Paulo, now Federal Deputy. São Paulo, 20.July.99.
14. Marco Antonio Kraemer, Manager of Government Relations (Industrial Complex of Gravataí-RS), GM do Brasil Ltda. Gravataí, 04.Aug.99.
15. Daniel Maia, Technical Assistant, Secretary of Government, State of Rio Grande do Sul. Porto Alegre, 02.Aug.99.
16. Luiz Marinho, President of the Metalworkers Trade Union of ABC. São Bernardo do Campo, 10.Sept.99.

17. Carlos A. Marino, Director, Human Resources, South America, Ford Motor Company. São Bernardo do Campo, 23.Aug.99.
18. Claudir Nespolo, Director of Education, Metalworkers Trade Union of Porto Alegre. Porto Alegre, 03.Sept.99.
19. José Ricardo Neves, Secretary of Planning, Gravataí City Government, 03.Sept.99.
20. Nelson Proença, former Chief of Cabinet (1995), former General Secretary of Government and former Secretary of Development (Gov. Antonio Britto term, 1995-1998), now Federal Deputy (PMDB-RS). Porto Alegre, 27.Aug.99.
21. Nadia Somekh, Coordinator of the Agency for Economic Development. Santo André, 11.Sept.99.
22. Luiz Moan Yabiku Jr., Joint Director of Institutional Affairs, GM of Brasil Ltd. São Caetano, 30.Aug.99.

Working Meetings

1. With José Luiz Vianna Moraes, Secretary of Development and International Affairs (SEDAI), Government of the State of Rio Grande do Sul and members of his staff. Porto Alegre, 02.Aug.99.
2. With Miguel Rossetto, Vice-Governor of the State of Rio Grande do Sul and Secretary of Government and Jacques Wagner, Federal Deputy, Bahia (Workers Party). São Paulo, 23.Aug.99.

Visit

GM Industrial Complex. Gravataí (RS), 04.Aug.99.

Glossary

- ABC: The region which includes the cities of Santo André, São Bernardo do Campo, São Caetano do Sul, Diadema, Mauá, Ribeirão Pires and Rio Grande da Serra. “ABC” stands for André, Bernardo, Caetano, from the names of the three larger cities.
- ABEIVA: Associação Brasileira de Importadores de Veículos Automotores – Brazilian Association of Vehicle Importers.
- ABIFA: Associação Brasileira da Indústria de Fundição – Brazilian Association of Foundries.
- ABRINQ: Associação Brasileira da Indústria de Brinquedos – Brazilian Association of Toy Manufacturing.
- Amazon Project: The name of the new vehicle Ford was to produce in Rio Grande do Sul, now in Bahia.
- ANFAVEA: Associação Nacional dos Fabricantes de Veículos Automotores – National Association of Automobile Makers
- ANIP: Associação Nacional da Indústria Pesada – National Association of Heavy Industry.
- BACEN: Central Bank of Brazil.
- BNDES: Banco Nacional do Desenvolvimento Econômico e Social – National Bank for Economic and Social Development.
- CGT: Central Geral dos Trabalhadores – General Workers National Union (one of the national general unions, as is CUT and Força Sindical).
- CIESP: Centro das Indústrias do Estado de São Paulo – Center of Industries of São Paulo.
- CNI: Confederação Nacional da Indústria – National Confederation of Industry.
- CNM: Confederação Nacional dos Metalúrgicos – National Confederation of Metalworkers (affiliated to CUT).
- CUT: Central Única dos Trabalhadores – Workers Central Union (one of the national general unions, as is CGT and Força Sindical).
- DIEESE: Departamento Intersindical de Estatística e Estudos Sócio-Econômicos – Interunion Department of Statistics and Socio-Economic Studies.
- FAT: Fundo de Amparo aos Trabalhadores – Workers Assistance Fund.
- FDI: Foreign Direct Investment
- FENABRAVE: Federação Nacional das Associações de Revendedores de Veículos – National Federation of Vehicle Sellers’ Associations.
- FIERGS : Federação das Indústrias do Rio Grande do Sul – Federation of Industries of Rio Grande do Sul.
- FMEA: Failure Mode Effect Analysis
- Força Sindical: “Unionist Force”, one of the national general unions, as is CUT and CGT.
- GDP: Gross Domestic Product.

- GPOA: Greater Porto Alegre.
- Greater ABC: Same as ABC.
- IBGE: Instituto Brasileiro de Geografia e Estatística – Brazilian Institute of Geography and Statistics.
- JIT: Just in time.
- NTB: Non-tariff barriers.
- PMDB: Partido do Movimento Democrático Brasileiro – Party of the Brazilian Democratic Movement.
- PNBE: Pensamento Nacional das Bases Empresariais – National Association of Progressive Entrepreneurs (free translation).
- PPAP: Product Project Advanced Planning.
- PT: Partido dos Trabalhadores – Workers’ Party.
- RS: Rio Grande do Sul.
- SEADE: Agency for Statistics and Data Analysis of the State of Sao Paulo.
- SEBRAE: Serviço Brasileiro de Apoio à Pequena e Média Empresas – Brazilian Institute for Supporting Small and Medium Enterprises.
- SENAI: Serviço Nacional da Indústria – National Institute for the Industry .
- SINDIFORJA: Sindicato Nacional da Indústria de Forjaria - National Association of the Smelting Industry.
- SINDIPECAS: Sindicato Nacional da Indústria de Autopeças – National Association of the Autoparts Industry.
- SPC: Statistical Process Control.
- TNC: Transnational company.
- UNCTAD: United Nations Conference on Trade and Development.