Brazil's Machinery: The US$ 23 Bi Gorilla Faces Chinese Invasion

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The machinery and equipment industry is one of the greatest sectors in the Brazilian economy. Made up of 4,000 companies, the sector generates over 200,000 jobs, has revenues of US$ 23 billion a year and exports around US$ 9.3 billion - it is in the second place in the rank of main exporters and manufacturers in the country.

In total, there are 27 segments that include from producers of agricultural machinery to the textile industry. Of the total number of companies, 60% are small, 30% medium and 10% large. Most are concentrated in the Southeast and South of the country (78%). And 80% of the capital is Brazilian.

It is a giant, strong, an exporter and competitive. However, since last year, the sector has been suffering one of the greatest threats of its history due to the appreciation of the Brazilian real, which began in the second half of 2004.

With the depreciated dollar, businessmen have seen exports drop. If forecasts are confirmed, and the sector exports US$ 9.2 billion up to the end of the year, this should present growth of 7% when compared to the US$ 8.6 billion exported in 2005. This growth is much smaller than the 25% registered in 2005, when compared to 2004.

On the other hand, the Chinese invasion has grown. In some sectors, factories have abandoned production and dedicate themselves exclusively to imports.

"We have not seen large numbers of companies closing their doors, as happened between 1997 and 1998, when over 200 industries collapsed. But we have already seen this film before. If things continue as they are, the sector is going to have problems next year," stated Newton de Mello, president of the Brazilian Machinery Manufacturers Association (Abimaq).

The good news is the optimism that is present. To businessmen, the tendency is that, no matter what the new government is, the exchange policy must change. The forecast is that in 2007 this figures should change and the sector should return to growth.

The sector's best performance in the last ten years was registered in 2004. In that year the sector reached revenues of R$ 45.613 billion (US$ 21.09 billion), 30% more than the R$ 35.1 billion (US$ 16.2 billion) of 2003.

The ups and downs caused by exchange rates are overcome by investing in modernization, especially in technology. The businessmen in the sector know that to compete with great machinery producers, like the Germans and Americans, it is necessary to innovate.

Among the most technologically advanced sectors are tooling, agricultural, wood sawing and food machinery, among others. There are companies that invest heavily in technology, as is the case with Romi, a maker of tooling machinery, and the US multinational Massey Ferguson, belonging to AGCO group, a maker of agricultural machinery.

On the other hand, small companies may count on federal government incentive programs that subsidize innovation. The Abimaq itself has a department that takes care exclusively of matters related to technology.

It All Started in the 1930s

The machinery sector arose in the 1930s, with the fledgling textile industry. In the 1940s, due to the Second World War, the sector developed as the import of European machinery became impossible. During the mandates of Brazilian presidents Getúlio Vargas and Juscelino Kubitschek, the machinery industry expanded, powered by large investment in basic industry.

In the 1950s and 1960s, the auto industry caused a revolution. It caused great activity in the sectors of tooling machinery, plastics, leather and electric equipment, as well as others that required equipment for foundry, thermal treatment, painting and transport of material, among them the auto parts sector.

During the whole history of the machinery industry, those who survived and grew were the ones that reinvented themselves. Only those who sought local solutions survived the technological import barriers that arose in the 1970s.

The businessmen who looked at the future and bet on difference overcame - though at fits and starts - the process of economic opening promoted by former president Fernando Collor in the early 1990s.

One of the weapons used by the sector to continue growing, even when exchange rates are unfavorable, is technology. When everything seems lost, technological innovation helps recover the performance of national and multinational companies that are installed in the country. Nowadays the sector is trying to be competitive, as is the case with the former European and Japanese competitors, but at lower prices, not to lose to the Chinese competition.

Representative Organization

The organization of the capital goods sector in Brazil began in 1937, with the establishment of the Union of Makers of Textile Machinery and Accessories, from which the Brazilian Machinery Manufacturers Association (Abimaq) arose.

In 1959 the union organized the first National Mechanics Fair, between November 14 and 29, at Ibirapuera Park. In 1964, the organization took the lead of the movement for the creation of the Special Industrial Financing Agency (Finame), which is still active and finances and subsidizes the purchase of new equipment, as well as permitting payment over longer periods of time. The resources are collected at the Brazilian Development Bank (BNDES) and abroad.

During the 1960's the union stood out at the Industrial Development Council (CDI), when the Ministry of Industry and Trade started plans for gradual industrialization of machinery and equipment, which established rules for approval of individual projects developed by companies, with the objective of providing incentives to the production of new kinds of machinery in Brazil, reducing imports.

In that period, the organization's activities presented around 40 plans for nationalization of the production of tooling, road, textile, agricultural and automotive machinery.

Nowadays, nationally structured and with offices and regional headquarters throughout the country, Abimaq/Sindimaq counts on 1,400 associates and represents around 4,000 companies in different sectors that make mechanical capital goods, whose performance has a direct impact on the remaining national productive sectors.

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