The Rise of 'Local-Contentism': BRICs and Global Competitiveness

By Marcos Troyjo*

The idea of the BRICs (Brazil, Russia, India, and China) as a valid category for the analysis of present and future international relations is a concept-in-the-making.

To be successful in the twenty-first century, leaders of these rising nations will need to confront four vital questions. First, what is your vision for your country's future? Second, how do you pursue your goals in an interdependent but conflict-ridden world? Third, how are you
preparing for the digital economy of knowledge? Fourth, what sacrifices are you willing to make?

Indeed, for the BRICs to achieve greater internal and external policy cohesion and together exert greater influence upon global events, they must build well-articulated views in pursuit of their interests and establish structures that bring together government authorities and business and civic leaders. In the status quo, the BRICs are neither an international organization nor an economic bloc with free-trade agreements. Rather, the idea of BRICs emerged as a vision of the future.

These great nations have reached the status of economic powerhouses because for the past three decades they have been able to adapt successfully to the changing contours of the global economy. Namely, in a world where the generation of jobs is key to economic success, these countries have been able to pursue alternative strategies so that their economies were always busy in providing local content.

The future for the BRICs as growth engines, however, must not reside in efficiently adapting to the global economy, but rather in effectively shaping it. This will necessarily entail these countries evolving from being successful local content providers toward becoming dynamic hubs of knowledge and innovation.

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THE CLASH FOR COMPETITIVENESS

As global capitalism struggles to find a way out of the present existential crisis, a strong trend is showing its face in the world economy—a trend that goes beyond the BRICs.

Against a backdrop of great uncertainty, countries are increasingly adopting industrial and trade policies based on a notion we can call local-contentism. The practice is becoming the most recurrent tool in bulking up a nation's capacity to compete in world trade and attract investment, regardless of whether it is targeted at infant-industries, high-tech sectors, or more mature, old-world manufactures. On a global scale, we are experiencing far more than just currency wars. Exchange-rate tactics make for ancillary rather than decisive battles. The world has set the stage for the waging of clashes for competitiveness.

Many confuse local-contentism with defensive trade measures erected against artificial exchange-rate stratagems that boost the attractiveness of a country's exports. There are clear differences, however, between local-contentism and old-school protectionism.

While the latter is essentially about import quotas and tariff barriers set up to protect what is national, the former idolizes foreign direct investment and makes extensive use of government procurements as bait. After all, by its very definition, local-contentism is all about being local, not necessarily national. Successful local content initiatives enacted by the BRICs have parted ways with traditional forms of xenophobic protectionism that plagued economic policies during much of the twentieth century. One no longer speaks of the nationalization of industrial assets as if wealth resided in possessing physical facilities rather than human capital or knowledge-intensive processes.

But the recent move toward local-contentism is also visible on radar screens turned to the United States and Europe. This year's presidential campaigns in the United States and France are not centered on free markets or enhanced regional economic integration. They focus instead on the job creation side of local-contentism.

COMPARING CHINA AND BRAZIL

China's hyper-competitiveness, for example, is the supreme case of intricate, sophisticated local-contentism. Since 1978, policies such as public-private partnerships and vigorous business diplomacy and circumstances including low costs of domestic production and privileged access to the world's markets have driven its annual GDP in terms of purchasing power parity to more than $10 trillion.

Thirty years ago, virtually no strategists or forecasters would have predicted that, in 2011, China would far surpass Brazil in nearly all measures of economic performance. What happened during these past four decades to propel China to such a prominence?

Despite the attention they have received, Brazil, India, and Russia together are the economic equivalent to one China. For the last two decades, Brazil has pursued outdated and inconsistent policies modeled on past experience. China, by contrast, developed pragmatic policies which were adapted to meet changing conditions. China projected power from a solid economic base by devising a national project based on foreign trade and the attraction of foreign direct investment. It continues to promote generational sacrifices for the sake of savings and investment, both at around 50 percent of GDP.

The Brazilian macroeconomic disorder of the 1980s and part of the 1990s swept long-term planning from Brazil´s economic lexicon. Brazilians suffered as a consequence. The suffering people underwent cannot be seen as a sacrifice in the name of a national project—for the simple reason that there was no national project.

The way China has combined public-private partnerships, labor law, a cheap workforce, a favorable approach to foreign capital, and a light tax burden makes the country the largest manufacturing park in the world.

Brazil has not managed to implement a project of power or prosperity throughout these four past decades. The disrepair of physical infrastructure—ports, airports, and roads—demonstrates the delayed consequences of a past lack of investment.

As a matter of fact, contemporary Brazil is seeing the quiet renaissance of Import Substitution Industrialization 2.0, or ISI 2.0. From the early 1950s, Brazil used import substitution to change the economic composition of a country historically attached to agriculture and mining. Its most spectacular periods of growth in the twentieth century—President Juscelino Kubitschek's "50 Years in 5" (1956–61) and the "Brazilian Miracle" (1967–73)—were largely the result of ISI. It produced annual growth rates in excess of 10 percent and indeed converted Brazil into a large industrial economy targeted at a vibrant domestic market. However, inarticulate exchange-rate policies, a lack of vertical industrial integration, and unfavorable macroeconomic circumstances have made inflation and foreign debt the defining features of ISI.

ISI 2.0 can be easily identified in the way state-owned enterprises, official banks, municipalities, states, and the Federal Government interpret and implement Brazil's interests in the global economy.

Today, ISI 2.0 is the parameter of how government in Brazil protects domestic companies from foreign competition, fosters local content and goes about procurements. Present day ISI 2.0 has two faces. It continues to apply high import taxes and other barriers to protect national groups and foster Brazil's chosen industrial priorities (semiconductors, software, electronics, automobiles, and others). As the country's currency is clearly overvalued, its trade deficit in manufactured goods would be even larger if it were not for tariff shields, which contribute to the outrageous prices paid by Brazilian consumers for many foreign goods.

Much like its 1950s prototype, ISI 2.0 is clearly nationalistic. It nonetheless updates the concept of economic nationalism. Rather than merely sheltering Brazilian entrepreneurs, ISI 2.0 calls for the “Brazilianization” of companies wishing to harness the potential of Brazil’s domestic market. An entire set of incentives is put to the service of those who decide to create jobs in Brazil. Its most powerful tool is the robust policy of government procurement which has found expression in the Lula-Dilma administrations (of Luiz Inácio Lula da Silva, president from 2003-2010, and Dilma Rousseff, president since January 2011).

Brazil is operating under what we could call “the pre-salt hedge.” According to this notion, multiplier effects of new oil discoveries for those who decide to invest in Brazil will be so huge during the next thirty years that they anchor the decision to set up long-term operations in the country. That is why 2011, in spite of the global crisis, saw Brazil receiving $65 billion in foreign direct investment, 5 percent of the world’s total.

This is not all good news for Brazil. It may become an underperformer among the BRICs and other emerging market (EM) nations as as it continues to sweep urgently-needed labor, tax, and political reforms under the rug. And Brazil’s ISI 2.0 is inherently vulnerable. It relies on consistent inflows of FDI pouring in over many years. For all this to work smoothly, ISI 2.0 must generate shorter learning cycles to boost rapid and voluminous productivity gains, both of which are conspicuously absent in Brazil.

The future for Brazil lies in making its companies technology intensive in various industries. There is nothing more strategic for Brazil than transforming its creative people into a society of entrepreneurship and innovation. Brazil´s comparative advantages of today (bioenergy, mining, oil, and pre-salt) have to be put to the service of building the competitive advantages of tomorrow: expanded research and development, patents, new products, companies and universities—all of which are inextricably linked.

FROM LOCAL CONTENT PROVIDERS TO INNOVATION HUBS

Brazil, Russia, and India therefore have major concerns of their own over how the rise of China contributes to the deindustrialization of their economies. Nevertheless, these countries have been able to partially offset their China-led deindustrialization by reindustrializing through their own version of local-contentism.

One of the reasons Brazil accumulated sufficient capital to foster local content is that China has overtaken the United States and the European Union as Brazil’s top trading partner and one of the prime sources of FDI. China’s appetite for agricultural and mineral commodities, in which Brazil has competitive advantages, has automatically extended economic cooperation to other areas such as logistics, infrastructure, and aircraft. Brazilian, Russian, and Indian manufacturers, who worry deeply about a flood of Chinese goods into their markets, would undoubtedly benefit from government quotas and other import restrictions.

Rather than be critical of China’s exchange rate policies, manufacturers have denounced their own outdated and non-competitive labor laws and infrastructure, which hurt these countries’ domestic and international competitiveness more than China’ s cheap yuan.

Local-contentism, a pillar upon which China built the components for becoming a global growth engine, is now being adopted by other countries to counteract China’s hyper-competitiveness.

We may therefore see in the near future fewer "made in the world" goods coming from network-corporations that in the heyday of globalization combined worldwide logistics, supply chains, and talent pools to achieve productivity gains. Instead, these processes are increasingly taking place simultaneously in a single country.

Even China, which based its prosperity on an import-export strategy, will have to model its local-contentism not so much on the way it sells to the world but rather on how it buys from the world. Major contracts by China’s government, corporations, and consumers as buyers will have to support activities carried out locally, generating local jobs and taxes.

Although local-contentism can benefit one nation or another for a number of years, the global economy will pay a heavy price for the loss of efficiency it entails. If, instead of playing a part in a country’s catching-up strategy, local-contentism becomes an across-the-board philosophy for our times, we can only expect ever-growing global economic imbalances.

If instead local content remains an essential part of the BRICs’ industrial policies only up to the point where their corporations are able to compete on a level playing field, then the BRICs’ role as global growth engines will be confirmed. If the BRICs are indeed able to translate their local content policies into springboards for knowledge and innovation, they will become the world’s most dynamic, prosperous, and influential group of nations

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