The World Today

Competing with BRICs- A New Geography in International Trade

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Within recent years the phenomenal growth experienced by four of the largest Third World economies has generated considerable excitement amongst politicians and global corporations. What is remarkable is that these giant emerging economies - **B**razil, **R**ussia, **I**ndia and **C**hina - known collectively as the BRICs, that were once dismissed as under performers and relegated to the heap of low competitive, low growth developing economies, are now outpacing the conventional economic powerhouses - countries of the industrial North. And, according to the Goldman-Sachs 2003 Report "*Dreaming with BRICs: The Path to 2050"*, are poised to become larger than the G6 in US dollar terms in less than 40 years. The G6 consists of France, Germany, Italy, Japan, the UK and the US.

The economic performance of the BRICs, combined with their massive populations, and strategic geographic positioning, afford this group the weight and influence necessary to change existing economic and political realities. Indeed, analysists warn that the BRIC economies are re-arranging the world economic order to such an extent that by 2025 they could account for over half the size of the G6. By 2050, Japan and the US may be the only countries from the current G6 configuration to be included in the six largest economies grouping (in US dollar terms). Even more startling is the fact that within 40 years the world's largest economies (in GDP terms) may no longer be the richest (in terms of per capita income), which has serious implications for global investment patterns, currency alignments, as well as production strategies of global firms.

On the international relations front, a new geo-political order is emerging with the G20 at the forefront of this strategic realigning of power at the global institutional level. The formation in 2003 of the G20 was a deliberate tactic by some of the more powerful developing countries to counterbalance the interests and influence of the industrialised nations, while at the same time promoting their agendas and coordinating negotiating positions in the run-up to the WTO Ministerial in Cancún.

Led by Brazil, India and China, the G20 tackled fundamental issues relating to market access, demanding the abolition of all trade-distorting subsidies. The EU and US refused to yield on these issues and in the end the Cancún talks broke up. More importantly, Cancún signaled a shifting balance of power within the WTO. By mid-2004 the EU, Australia and US, with India and Brazil representing the G20, hammered out a broad WTO framework agreement to enable trade talks to continue. In 2005, representatives from Brazil, China, India and South Africa were invited to the summit of G7 ministers of finance (the G6 plus Canada), fuelling speculation that the G7 might be enlarged.

First published The Sunday Guardian, 21 January 2007
The World Today is a weekly column of The UWI Graduate Institute of International Relations

At the regional level, the BRICs now function as “anchor states” so that their economic and political policies have profound implications for neighboring economies. Although each of the BRIC countries has multiple and different attributes and so is distinct, they all rely on some key factors for their continued growth path. These include enhancing export competitiveness, expanding markets and increasing investment – both foreign direct investment (FDI) and outward foreign direct investment (OFDI).

According to Lloyd & Turkeltaub, China and India are at the forefront of this competitiveness drive - competing with the west for "intellectual capital" by building top-notch universities, investing in high, value-added and technologically intensive industries and utilising successful diasporas to generate entrepreneurial activity in the mother country. These strategies are all designed to facilitate their dominance in a cluster of strong creative industries, which will be the key drivers of competitiveness and growth in the future.

China is placing greater emphasis on development of technology because of the central role that innovation and knowledge will play in the country’s *future* economic development. Indeed, China is now ranked as the most R&D intensive of the BRICs and is seventh when ranked with the rest of the world. Within in a recent five-year period, China increased its annual R&D investment as a percentage of its GDP by **279**%. Already, it has established 53 national technology development zones that provide support, tax reduction and other benefits to technology-based new ventures. These initiatives, according to China’s National Bureau of Statistics, have resulted in the R&D facilities of some 300 global being established within China, with annual sales revenues from technology ventures increasing by $ 227 billion in the 1996-2003 period.

In the case of India, services have replaced manufacturing as the leading revenue generator, with the Information Technology sector and its software component gaining considerable ground. India’s recently established Investment Commission is mandated to identify ways of attracting $150bn of FDI over the next 10 years while liberalisation of its OFDI policy was a strategic move to facilitate a ‘go global’ strategy for its firms. The World Economic Forum’s Global Competitiveness Report 2006 places India at the head of the BRICs in the area of business competitiveness- i.e. measures adopted by a country to encourage companies to establish operations.

The BRICs recognise that the determinants of competitiveness and growth are intricately linked to innovation, skills and ideas that can transform individual companies into industry leaders or even transform entire industries. Competition now is not just for capital and markets but for the skilled and creative human capital that generates the knowledge driving global economic activity. Within a global, Web-enabled framework that redefines traditional geography based alliances and supply chains, it is clear that there is a new geography in international trade.

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