

**December 6, 2012, 14:00-16:00**

**Venue: CIGS Meeting Room 3**

**CIGS Seminar :**

**"The Rise of BRIC: Brazil's Stance in Contemporary and Future Global Affairs: with a special emphasis on the East Asia Region"**

**by Dr. Marcos Troyjo**

This is an informal transcription of the lecture given by Professor Marcos Troyjo at CIGS in Tokyo on December 6, 2012

**< Speech of Dr. Marcos Troyjo >**

Good afternoon, ladies and gentlemen. It is my great pleasure to address this distinguished group of people at the Canon Institute for Global Studies.

This afternoon, I will first talk about the rise of BRIC, and then I will discuss Brazil's position with regard to current and future global affairs.

Let me start with my conversation with the cab driver in the morning of the day of the inaugural conference of the BRICLab, the special forum I helped establish at Columbia University in 2012. The cab driver told me that such a thing, the BRIC, would not work because these countries have nothing in common with each other. He continued "it's like comparing a Brazilian jaguar to a Russian bear, and an Indian elephant to a Chinese panda." I agree with him if he is suggesting that BRIC will be conducive to a common voice in global affairs and will develop from a common voice to a common force and from a common force to a consensus of what the world should look like. In my opinion that is a very small possibility.

However, if you look at G7 nations, they also have very little in common. Even though we may say that G7 nations have a lot in common in the context of their international relations, they still have very big differences. If you look at BRIC nations, they have very important commonalities; big territories, big populations and big foreign exchange reserves. Please do not forget that these

four countries hold the approximate sum of \$4.7 trillion in foreign exchange reserves, which would allow them to buy 70% of the entire stock traded at NASDAQ.

Trade between each of BRIC countries and among BRIC countries is significantly growing. Ten years ago, China-Brazil trade was \$2 billion a year. In 2011, China-Brazil trade was \$90 billion. Can BRIC develop their economic ties to political and long-term strategic relations? I was pessimistic and skeptical. But things seem to be moving forward. In the last meeting of the International Monetary Fund that took place in Tokyo last October, these four countries have agreed to establish the BRICs Development Bank. Although it was born with modest resources of \$50 US billion, this is a very significant step for the institutional building among BRIC countries.

However, the institutionalization of BRIC is less important than the potential impact of BRIC in contemporary and future global relations. The most important commonality among BRIC is that these nations have been able to adapt creatively and successfully to the changes of the global economy in the past 20-30 years.

### **Why have the BRICs been rising?**

Let us go back to 30 years ago to take a look at what has happened in the world economy. There were four major characteristics in the international scenario in these years.

First characteristic comes from the end of the Cold War and the disappearance of the Soviet Union, which can be called the victory of the West. When I say the West here, it is a very broad term and it represents the sum of the elements of democratic societies by electing representatives in a direct fashion and supply and demand forces working as the criteria for the market economy. So, we have seen the rise of the West as a victor, meaning that democracy and market economy seemed to be the most advanced ways of orienting societies, and we believed that they would lead the world for the next 100 years.

The second pillar, which is to a certain extent a sort of a twin brother of the first, is that if there is one country in the world representing notions of

democracy and market economy, that is the United States. The United States comes up with victory in the Cold War, and with the expansion of its economy in the 1990s, it seemed as if it had been left alone on the boxing ring of global geopolitics. The US was expected to lead global politics as a hyperpower and lead the reform of the United Nations and other international institutions.

The third characteristic that we have witnessed in the past 20-30 years was the rise of Asia. The rebirth of Asia pushing it to become the world's most important economic region. But this was not lead by China then. No one referred to China as a power or a rising power 20 years ago. The process of the rise of Asia as a new, dynamic economic region was being led by Japan.

The fourth characteristic is the rise of regionalism; the optimism, enthusiasm and dynamism in regional reorganization of economic and political spaces. The best example is the European Union. It is interesting that similar arrangements to the European Union have been developed in different shapes and at different speeds in many other regions. In South America, for example, the so-called Mercosur Agreement was established with Brazil, Argentina, Paraguay and Uruguay as members. Also in 1992, we see the formation of the North American Free Trade Agreement involving Mexico, Canada and the United States. Experiences were being sought after in the African south when the so-called South African development community was also being developed. Everywhere in the world, we saw the formation of regional economic integration.

One further step would be political integration, legal integration and defense integration. For those who were more optimistic about these, you might say two things. One is that the nation-state was losing comparative importance in international relations. So, this process was moving away from having the nation-state in a position of main actor of the global spectrum. Second, the regional political actor itself was in a phase of a deeper transition process towards a more globalized economy. It is as if regionalism were a stepping stone to something that would be more global.

BRIC has been rising against the background of these four characteristics. Now, economists, social scientists and political scientists like to give names to things. If we could give a name to these four characteristics; victory of the West, leadership of the United States, economic rise of Asia, and regional

economic integration as a new paradigm of creating economies of scale and political coordination, what name could we give to that? I think one of the names that we could probably attach is a notion that the world was undergoing a deep globalization (or a profound globalization or an intense globalization). This is the world we have seen in the last 20-30 years. Why has BRIC been rising? Because they have been adapting creatively to the world of deep globalization.

### **Present situation in the world**

What is the current status of the world?

Whereas in these 20-30 years, we have found the West as a reference or a benchmark, today it is very clear that the West is in crisis. The crisis is caused not only by the criticism against the market economy but also by a very deep and worrisome loss of confidence of the West in the West, which is in my opinion very well exemplified by the so-called Occupy Wall Street movement. So, it seems the criticism by the West of the West. The West is definitely not satisfied with itself.

The Market economy, many say, may not be the best way to organize societies. There are many different examples of state capitalism that could be seen more successful according to the views of many developing nations. BRIC economies may be categorized into these examples which manage the situations better and may be considered as an alternative to the market economy at least at a transitional level. If one talks about democracy just concentrating in the United States as an example. There is so much of a tug-of-war of checks and balances of the democratic systems that seems to have produced not only an economic crisis for the US but also allowed for more crisis when the US sovereign standing was downgraded last year. The US failed to reach the political consensus to lift up the ceiling of its indebtedness. A problem that we are observing now is that America approaches the so-called fiscal cliff. Democratic states suffer internal difficulties to produce expeditious solutions to edge out the problems that they face. So, today I would say that the West is in crisis.

The second element that we have seen these 20-30 years is the notion of the United States as hyperpower. Today it is also in crisis. It was triggered by the

Lehman Brothers and has continued all the period to the elections this year. One could argue that the American dream is undergoing an eclipse. Many people in the United States are thinking that the past was better than the present and that the present will be better than the future. It is certainly not an American dream but it is the American loss, a loss of confidence. Although the United States is still the most important player in the global arena, it is a player that is undergoing a very thorough examination of what its interests are and what kind of role it is to play in the world.

The third element that we see in the world today is an extension of the trend that we have seen for many years, which is emergence of Asia as the leading geoeconomic region. But the locomotive bringing this process forward is no longer Japan; in the eyes of the world, it is China. A perception is only strengthened by the fact that sometime between 2022 and 2025, even if China grows at an average of a moderate 6.5%-7.2%, China will overtake the US as the world's largest economy. This will bring about two very interesting characteristics: One is the succession that happened for the last time in the global economy in 1871 when the United States overtook Britain as the world's largest economy. The second is the fact that maybe in 10 to 12 years' time the world's largest economy will be a poor country. China will be the largest economy in the world and will feature a GDP at \$10,000 level, which is 20% below Brazil's GDP per capita.

The fourth characteristic of the globe today is that the notion that the world has been organizing itself according to regional economic integration having the European Union as a leading example is certainly no longer dominant. This may only be a trend, but very clearly, the train is not on its tracks right now. There may be a few exceptions, such as the North American Free Trade Agreement that is working well involving Mexico, Canada and the United States. But all other regional economic processes in the world that were very ambitious 20 years ago, are either stalled or going through a change of nature. Mercosur, for example, which is a customs union aiming at a common market and a coordination of macroeconomic policies, today has become a club for ideological affinities among the left-wing leaders of Brazil, Uruguay, Argentina and Venezuela.

The European Union is definitely under crisis. If you analyze presidential elections in France this year, in very broad terms, whereas Nicolas Sarkozy

was a standard-bearer of a France that was more European in its vision, François Hollande was a standard-bearer of the France that is more French. When Prime Minister David Cameron arrived at the European Union meeting last year he said "I'm not here to do what's best for Europe, I'm here to do what's in the interests of the British." I believe that the fourth characteristic of the world that we are living today (although this may only be the trend) is a sort of rebirth of nation-states as the most important actors. It is as if we are moving away from global affairs and back to more traditional international relations.

Once again, my friends, social scientists and economists like to give names, and if we have to give a name to this set of characteristics of the global scenario today, what is the possible name that we would give? If the four elements allowed us to think of a deep globalization, don't the current elements allow us to think that we are living in a period of de-globalization?

### **Creative adaptation and creative destruction**

Have we moved from deep globalization to de-globalization, or to be more on the safe side, are we having a risk of de-globalization? Importance of this question is attached to BRIC's potential to grow and develop even in the scenario of de-globalization if it is really going on. BRICs have been rising in the deep globalization with their creative adaptation. Let me spend some time talking about my concept of creative adaptation as opposed to creative destruction, which has to be the new DNA of BRICs if they wish to continue to grow and develop in years to come.

Creative adaptation is essentially using the tools of copying, cloning and adapting to propel the rise. Creative destruction is using the elements of design, formulation or innovation in a way to bring about disruptive innovation. The future for Brazil, Russia, India and China resides in innovation and creative destruction. These four countries have to change their DNA to be more innovative. For that to take place, it is essential that these countries have a strategic vision for the future.

### **Three questions to BRICs**

I think that each nation has to ask itself the following three questions to create

the strategic vision: (1) BRIC authorities and leaders, what do you want for your population? (2) BRIC authorities and leaders, what do you want from the world? (3) BRIC authorities and leaders, what do you want for the world? In order to better shape the answer to these questions, it would be important for us to observe how the BRICs go about their policies of prestige, their policies of prosperity and their policies of power. Let us deal with these questions.

First, China. What does China want for its population? I would say that China want to see the extension of the world as it was all the way to the early 2000s when China became a member of the WTO. China enjoyed most-favored nation status and other benefits in its trade with the world.

China has huge trade surpluses because of the very beneficial position it invented for itself in world trade. China was able to stifle democratic oxygen within its society also as a result of economic prosperity. China had a good time and wants to continue to have a good time in coming years. But that is not happening because their traditional trading partners have gone into crisis. It is no longer feasible to think about the continuous projection of Chinese exports to the traditional markets of Europe and the United States. Also, because China unlike its past has been observing quite a significant rise of its production costs especially due to the rise of wages. So China has to change its policy. It has to move away from the trading nation strategy it adapted since Deng Xiaoping consolidated the model in 1978. China has probably to come up with new counter-cyclical initiatives to propel its own domestic market appetite.

When it comes to determine what China wants from the world, I think China will very much appreciate the world continue to transfer a significant part of its industrial assets to China. In the years of the trading nation strategy, the capital was flowing to China not only to take advantage of China as a giant export promotion zone but to reach overseas markets. China now wants industrial assets to move to China in order to expand business with the most important source of demand in the Chinese economy, which is Chinese industries and consumers.

What does China want for the world? I do not think that China wants de-globalization. I had a recent conversation with China's former Eximbank President asking this question. He answered that China is not going to reform

or reshape the future global landscape because China's domestic priorities are too much of a tall order, on which China wants to focus. He said, "You know what China is? China is a developing country." So, I think it would be very wrong to believe that China has a project for the world. It is definitely clear that it wants from the world, but it does not want to shape the world according to its own image.

What can one think of Russia? Does Russia know what it wants for itself? I am not quite sure. Russia has become a country in which the notion of state is more important than the notion of nation. So, Russian elites want to continue the increasing prosperity especially by concentrating in such areas that Russia has competitive advantage, such as the energy sector. I think that Russia knows what it wants for the world. Russia wants to have a special status in global affairs as the Soviet Union enjoyed during the years of the Cold War. It has an active interest in nearly all items of global affairs. But it does not have the strong muscle today as it had in the past. So, Russia represents this big enigma when it comes to the future of the world.

India. Does India know what it wants for itself? I think that a portion of the Indian elites, they certainly do. They are made up of the part of the population who are highly educated in the best universities of the world. They are leading the revolution in hubs like Bangalore and leading the revolution in IT, textiles and pharmaceuticals. India knows what it wants for the world, but Indian elites have misperceptions about what they want for the world. They want to strengthen their position as a nuclear power. I was working in the United Nations when India detonated its nuclear device in 1998, and it was a matter of great joy for Indians to be able to have that nuclear artifact to be finally welcomed into the nuclear club. They see the world as a very realist weapons-oriented place, and a nuclear device helps them to be independent. It will overtake China as the world's largest population. It is the most inglorious disparity. In India, there are more billionaires than in England and France together, and it has more poor people living under \$2 a day than the entire African continent. That is India that we will see in the next few years.

Brazil. Brazil has been adapting creatively to the modern economy by promoting a sort of reinterpretation of the policies of import substitution. Brazil has used a triple edge: (i) its competency in agriculture and mining; (ii) the most advanced biofuel products in the world (today 8 out of 10 cars in

Brazil run on biofuel); and (iii) the discovery of very important and large reserves of oil shale outside its shores and in very deep waters (technically called pre-salt oil). Even if the most pessimistic scenarios prevail, by 2022, Brazil should be turning out about more than 4.5 million barrels of oil a day which is quite remarkable.

It is true that the creative adaptation that allowed for the rise of Brazil in the past years was tagged along the rise of China. Some of the commodities in which we enjoy comparative advantages are those commodities that have a great appetite on the part of China. This will continue because some of the counter-cyclical measures to be adopted by China still have to do with expansion of infrastructures, which heats up the demand for Brazil's products. The increase of wages in China will push more consumption of agricultural goods in which Brazil has competitive advantages. That is one of the reasons why China has become the most important trading partner of Brazil.

The problem is Brazil's microeconomic atmosphere that is not conducive to business at all. Brazil has not reformed its corporate and fiscal legislation. The current tax burden is at 38% of GDP. It takes 90 days to open a company in Brazil undergoing very complicated procedures. If Brazil is not active in microeconomic reforms, it will not have the agility necessary to utilize the resources in the above-mentioned three areas. Today, Brazil only invests 1% of its GDP in science and technology. China invested only 0.6%, but today is investing already 1.4% and is on the way to become 2%. It is very important that Brazil will change its own DNA.

If BRIC nations are capable of performing these changes of nature, therefore updating their DNA, total GDP of BRIC nations will definitely go up to 20% of the world's total GDP. On the other hand, if they will simply continue to grow without the necessary changes, then I think BRIC's rise will stall. If I could guess, I think that the truth would be somewhere in the middle. I would also believe that the world in itself will be a much better, safer and prosperous place if BRIC nations peacefully expand their economies in the next coming years.

Thank you.