

Developing Countries Can Capitalize on Global Economic Trends: Brazil's Pro-Northeast Initiative

Developing countries around the world look to the global economy to improve their economic lot. Despite the opening of global markets through trade agreements such as GATT and NAFTA, however, trade and capital flows remain concentrated in the industrialized countries, with the addition of a few newcomers. Many developing countries wonder whether they will ever see benefits from opening their markets—especially if environmental and labor conditions on trade threaten to undercut the advantages of low-cost labor and materials.

ICF Consulting's economic strategy practice has been demonstrating that global economic trends truly hold promise for developing countries—but only if those countries understand how to capitalize on the trends. Too often, industry and governments in developing countries (and frequently in industrialized countries) overlook the real sources of long-term competitive advantage in today's global economy. They fear exposure to global concerns, such as environmental protection, that in reality need not impede their growth.

The nine-state northeastern region of Brazil is the latest illustration of how, with a bit of reorientation in its development strategy, an economy can begin to capitalize on global market trends. ICF Consulting has just completed a year-long engagement to support the first three phases of Brazil's Pro-Northeast Initiative. With financial support from the World Bank, nine states in northeastern Brazil launched the initiative in April 1998 to elevate their economies to the same level as the traditionally more prosperous states of the South, where Brazil's economic growth has continued to center. ICF Consulting was brought on board to devise a new economic development strategy for the Northeast and to help turn that strategy

into concrete action. Using the "industry cluster" approach that they have been developing for more than two decades, ICF Consulting's specialists focused on four industries in three states with hidden promise: fruits, grains, tourism, and informatics.

Although the Northeast has good growing conditions for fruits in increasing demand in North America and Europe, such as mango and melon, it had been exporting little of its fruit production. The potential for a major export industry was there, but untapped. The Northeast's fruit producers needed to understand which varieties of those fruits were in greatest demand, during what weeks they were in demand, and in what regions; producers needed to adjust production accordingly. With help from ICF Consulting and its subcontractor Agland, the Northeast's fruit producers are moving to organize themselves effectively, build the facilities they need, tap new sources of financing, and are beginning to expand sales to North American markets.



Soybeans are the product of the Northeast's grains industry with the greatest export potential, and in fact, northeastern states are already substantial soybean exporters. But analysis showed that productivity in this sector, while competitive in export markets, left room for improvement. The causes were inadequate roads to ports and overly high costs for inputs such as fertilizer and chemicals because of the lack of local suppliers.

Tourism is one of the fastest growing industries worldwide, and the Northeast has all the makings of a tourism destination: natural beauty, beaches, historical cities, and culture. The local tourism industry was growing at a good rate, but it was failing to attract international visitors and other high-end market segments. This industry needed to bring its hotels

up to world standards; develop a brand identity for marketing; improve local infrastructure; and gain access to the financing required to make these improvements. The actions now being taken in response to the study include training hotel staff, renovating historical districts, and improving local infrastructure in targeted areas.

That the Northeast already has a sizeable informatics industry might come as a bit of a surprise. It is a “cottage industry” of some 500 generally small, but highly entrepreneurial, firms with visions of becoming players in global IT markets. ICF Consulting found, however, that



these firms were providing mainly low-end services, were inadequately capitalized, and had insufficient knowledge about the evolution of both technology and markets.

To build competitive advantage for this highly fragmented industry, ICF

Consulting steered IT companies towards banding together to share knowledge and information, building linkages with inter-

national informatics centers (Austin, Texas, in particular), and redirecting their business development sights towards meeting existing demand in the Northeast for highly localized needs.

These four industry sectors in the Northeast are now better oriented and mobilized for action. Whether the Pro-Northeast Initiative will generate lasting economic improvements, however, depends on whether industry in the Northeast can sustain momentum and continue to maintain a competitive position in a global economy, to which it is now open. 