



THINK GLOBAL
With David Thomas
BRIC Expert

Building with new BRICs

By David Thomas, BRIC Expert
www.davidthomas.asia

Surf where the big waves are!

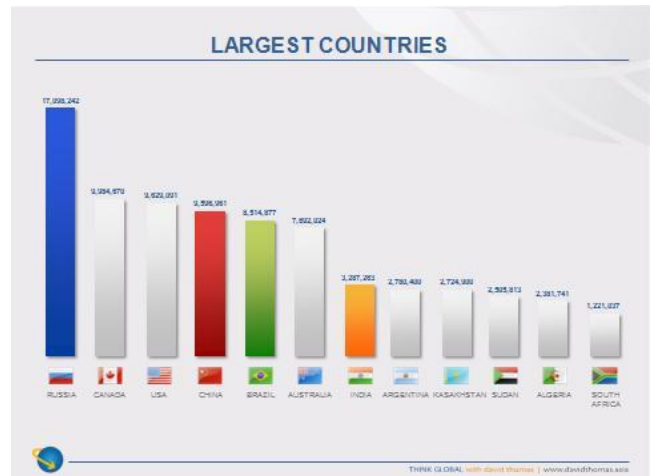
All over the world, and particularly in the debt-laden economies of the USA and Western Europe, we are now acknowledging the importance of China as the new economic engine of investment, trade and growth. This has happened very quickly, and probably before China was completely ready, but there is little doubt that we are now witnessing a major and historical event. The passing of the economic baton to a group of large, ambitious and rapidly industrialising countries who have become collectively known as the “BRIC countries” (Brazil, Russia, India and China), the four economies that will dominate the global scene in the 21st century.

The BRIC acronym, first invented in late 2001 by Jim O’Neill, then Head of Economic Research at Goldman Sachs, has proved to be prophetic and been acknowledged as the “call of the century” by leading investment commentators. However, many investors, entrepreneurs and business leaders are still grappling with it as a guide for future investment and business opportunities.

So, in order to understand why BRIC is so important as a guide to future economic growth let’s start by examining the three traditional drivers of economic growth, **land**, **people** and **capital**, and see how each BRIC country ranks against themselves and others under these three criteria:

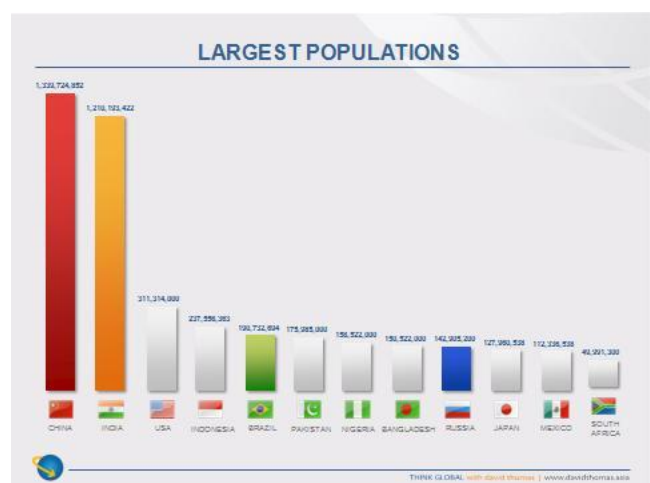


Firstly, let’s begin with the largest countries in terms of size:



Russia is the largest country in the world (17.1m km²), by a long way followed by China (9.6m km²), Brazil (8.5m km²) and India (3.3m km²) in 4th, 5th & 7th place respectively. If all you needed was **land**, Russia would be the world’s largest economy.

But it’s more than just **land**. You also need **people** to generate growth and productivity. Here follows the ten countries in the world today with the largest populations:



China and India’s combined population of over 2.5 billion dominates this picture.

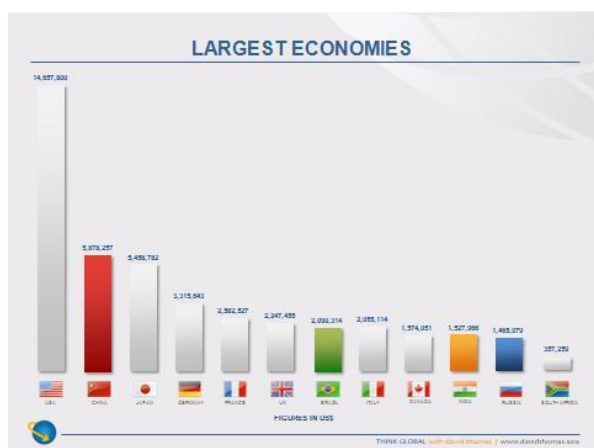


THINK GLOBAL
With David Thomas
BRIC Expert

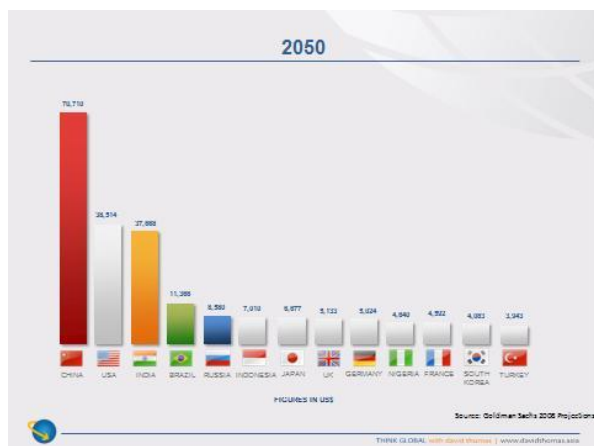
Building with new BRICs

By David Thomas, BRIC Expert
www.davidthomas.asia

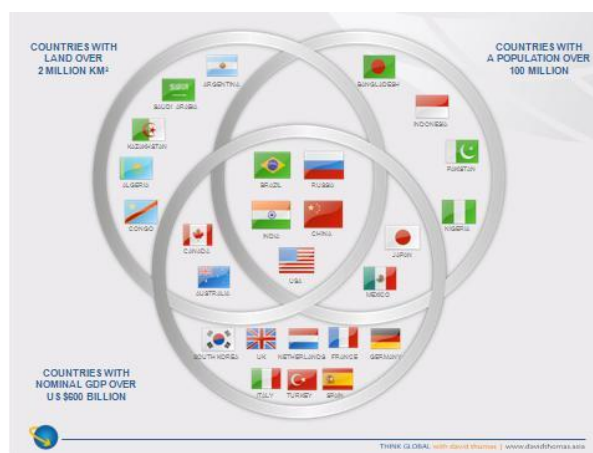
Whilst the availability of **land** and **people** was enough to dominate the global economy prior to the 19th Century, the Industrial Revolution changed everything by introducing machinery, technology and energy as the new drivers of productivity and growth. This all had to be paid for, and the availability of **capital** became a vital differentiator between booming and lagging economies. So which were the largest economies in 2010?



Whilst the US economy (GDP \$14.72 trillion) is still the largest in the world by some margin, the rapid growth in the emerging economies means that this position will be challenged and overtaken within the next decade. In fact, the Chinese economy (now \$5.89trillion and growing at an average of 8.5% p.a.) is predicted to overtake the US as the largest in the world by 2025, or sooner. The graph below forecasts the size of the world's largest economies in 2050. As can be seen, the picture is dominated by China (\$70.7tr) which is predicted to be almost double the size of the US (\$38.5tr)



When you combine the three economic drivers of **land**, **people** and **capital**, and plot some of the world's leading countries against each of these measures, an interesting picture emerges (see below). The defining characteristics that set the BRIC countries (and the US) apart from the rest of the world is just that – the abundance of **land**, **people** and **capital**.



The chart above has, to some extent, defined my own activities, focus and energies over a 30 year career in London, Hong Kong and Sydney. In the late 80s/90s, I managed my own financial services business in Hong Kong which provided unique insights and first hand experience of the changing landscape within the Asia Pacific region, particularly the opening up of China, the rise of Japan and the Asian tigers, and the emergence of India. More recently, my activities have extended to Latin America and Eastern Europe, driven by my interest and passion for the economic potential and growing influence of the BRIC countries.

My passion is to build sustainable, viable and profitable connections between developed and emerging markets.

I now engage with companies, investors and businesses in each of these rapidly growing BRIC countries, including advising many clients within the Asia Pacific region on the factors that lead to profitable engagement. And I regularly deliver keynote presentations to audiences of all sizes on investing and doing business with the BRICs.

So, where are the opportunities for you, your clients and your business networks? Let me show you....



BRAZIL

Natural Resources

Brazil is a vast country, richly endowed with rainforests, arable land, minerals, commodities, oil and gas, plus plentiful supplies of water. However, whilst Brazil is already the world's largest exporter of many things, including cattle, sugar, coffee, orange juice, and poultry, over 300m hectares of Brazil's arable land is yet to be cultivated! A similar story applies to its resources, with vast proven reserves of oil and gas off the East Coast waiting to be extracted. The potential is enormous!

Renewable Energy

Brazil has, for many decades been leading the world in the development of alternative energy sources, notably ethanol and other biofuels, and 45% of Brazil's energy is already drawn from renewable sources, according to the National Bank for Economic and Social Development, compared to only 6% from developed countries. In 2008, ethanol made from home-grown sugarcane outsold gasoline and 90% of new Brazilian cars and light trucks can run on biofuel, petroleum or both! Global cleantech companies, product providers, consultants and suppliers should go to Brazil to research the significant progress and commitment being made to the renewable energy sector, not just in ethanol and biofuels but also in hydroelectric power, solar and wind farms, and look for opportunities to compare notes, collaborate and export products, services and technology to the Brazilian market.



Political Stability

Brazil has, for the first time in recent memory, enjoyed a long 16 year period of political stability (two 8 years terms each for Presidents Cardoso and Lula de Silva) which has created new levels of confidence, consumption, market reforms and the opening up of their economy to foreign investment. Winning the bids to host the FIFA World Cup 2014 and the Rio Olympics 2016, with the resulting flood of interest, tourism and investment in infrastructure, will also prove to be a very good move in terms of placing Brazil on the map.

An Emerging Middle Class

Whilst Brazil's exports are strong and diversified, it is its domestic demand that has been driving Brazil's GDP Growth since at least 2006. This was a significant factor in enabling Brazil to recover quickly from the global downturn in 2008. Incomes have been rising rapidly, over 30 million people have joined the middle classes in only the last 5 years, and now retail sales are growing by over 10% per annum.

Brazil's young and aspirational population of over 180 million is the largest in Latin America with a strong appetite for western style consumer goods, brands, fashion labels, technology and gourmet foods. With 80% of consumers living in the ten principal metropolitan areas, (including Sao Paulo and Rio de Janeiro with populations of 19m & 12m respectively) it is relatively easy to access the retail markets due to their concentration in urban centres, their propensity to spend rather than save, and the growing numbers of new shopping malls, hypermarkets, supermarkets and convenience stores springing up everywhere. The Brazilian consumer presents opportunities across the board for all retailers, from food and beverage, cosmetics and clothing to more premium products, notably gourmet food and wine. This is a country on the move – everyone needs to get on board!



THINK GLOBAL
With David Thomas
BRIC Expert



RUSSIA

Consumerism

Russia has the largest consumer class amongst the BRIC countries, the highest GDP per capita, the lowest level of debt, and now leads the whole of Europe in the sale of key consumables e.g. pharmaceuticals, mobile phones, broadband and even beer (catching up with Vodka as the beverage of choice amongst Russians!). According to the 2011 Forbes survey of billionaires, Moscow has more billionaires (79) than any other city in the world (the closest is New York with 58) and Russia accounts for a third of Europe's 300 billionaires, and 15 of the world's 100 richest people. Not surprisingly, retail sales in Moscow now exceed Paris and London, and by 2025 the consumer market in Russia, which is now approx. 142m, is expected to be larger than Germany's, one of Europe's largest markets.

The average Russian has a higher disposable income than their Western counterparts. For a whole range of historical, cultural and economic reasons, plus a 13% flat tax rate, high home ownership with no debt (a legacy from the post Soviet period in which most Russians were given their homes at no cost) Russians tend to spend their money, rather than saving it, and this is fuelling a retail boom which is now spreading to their Eastern European neighbours and boosting the economy for the whole region.



Convergence

Eastern Europe is catching up Western Europe through political, economic and financial integration. From Slovenia to Poland, all of the Eastern European countries are experiencing rising incomes, increasing productivity and a substantial growth in consumer spending. Across the 27 countries that make up the "investible markets" of Eastern Europe, the GDP per capita has increased by 237% over the last decade, compared to only 93% in the Eurozone.

Let's not forget that only 20 years ago, following the collapse of the Soviet Union, the whole Eastern European bloc was desperately poor, destitute and downtrodden. Many people lived in severe poverty and the future was bleak and hopeless. Today, Eastern Europeans have high aspirations to catch up, and even overtake, their cousins in Western Europe, and crave what they perceive to be a western standard of living. They are willing to work hard to achieve this and, with the Eurozone faltering with sovereign risk, bank defaults and high levels of debt, the picture is changing very rapidly.

Food and Agri-Business

The sector of Russia's economy which always attracts the most interest and opportunity for foreign players is the food, beverage and agri sector which was the worst hit by the collapse of the Soviet Union and offers the greatest upside potential, at least in the short to medium term. Food and beverage represents 45% of Russia's total retail trade and is growing at over 19% per year (compared to approx 12% for non food sectors). As Russians become more affluent, they are demanding higher quality, trusted brands and greater variety which represents great opportunities for new entrants, particularly in Meat, Dairy, Fruit and Vegetables



THINK GLOBAL
With David Thomas
BRIC Expert



INDIA

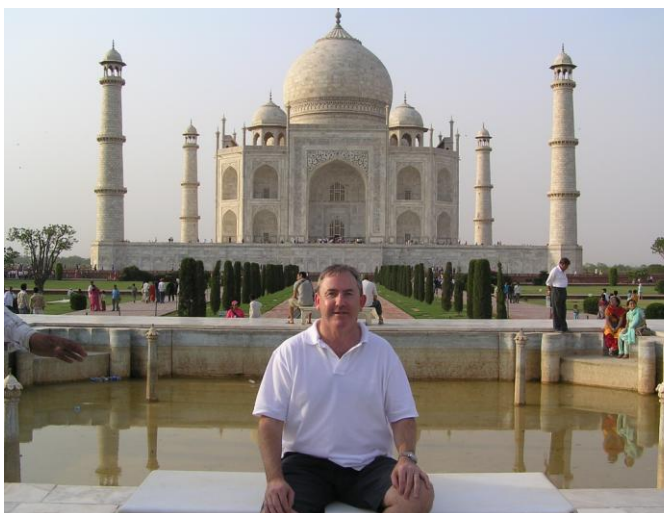
A domestic growth story

India's vibrant, entrepreneurial and largely family-owned business sector has allowed the economy to grow despite its rather lumbering, bureaucratic Government which has lagged behind. This "bottom up" approach has worked well in a large young, democratic country and has created a strong platform of growth for the future. How the Government catches up and leads the reform process is the big question for the next 30 years.

India's markets offer opportunities across the board for entrepreneurs, exporters and investors. Virtually every sector of the market is booming, and its emerging and aspirational middle class should be a target for everyone looking for growth opportunities.

IT and Telecommunications

India is the fastest growing telecom market in the world, with 894 million mobile connections and 6.5 million new mobile subscribers being added every month. PC sales have increased from 3 million units in 2004 to 8 million units in 2010 (an annual growth rate of 17%) and there are now 16 million internet users, including 9 million broadband subscribers, a figure which is projected to increase to 275 million in the next 5 years. India's 500 million middle class consumers are now amongst the most wired and interactive in the world, making them easily accessible.



BPO Sector

The BPO (Business Process Outsourcing) Sector is booming and predicted to become a mammoth industry. According to McKinsey, the addressable market for global sourcing will triple in size from US\$500 billion today to US\$1.5 trillion in 2020. However, whilst this alone is an astonishing prediction, even more amazing is the view that 80% of this incremental growth will be driven by opportunities which fall outside the current core markets, verticals and customer segments. In other words, the global trend for outsourcing automated processes has only just begun! It won't be long before most processing, origination, applications, documentation, technical support and back office systems will be carried out in India (and China)

Infrastructure

The plans and funds set aside to upgrade India's infrastructure, an area which has undoubtedly held India back in the past, are serious and substantial. Over US\$1 trillion is expected to be spent in this area in the next 5 years, sourced from a combination of public, private and foreign funds. Whilst there is still a long way to go, there are already signs of significant progress. Delhi Airport now rivals any international airport in the world (servicing 500 million passengers each year) and the new Bandra Worli Sea Link Bridge in Mumbai saves literally hours of travel time for local entrepreneurs who need to get around the city. It won't be long before India's major cities and transport hubs will match the requirements of a country striving to top an annual growth rate of 10% per annum.

India's best years are ahead of it. By the end of this decade, India will be one of the three largest economies in the world with opportunities for everyone.



THINK GLOBAL
With David Thomas
BRIC Expert



CHINA

China's 12th Five Year Plan

China has three imperatives, as comprehensively described in their 12th Five Year Plan (2011 – 2015):

Going Out - driving investment offshore, in real corporate assets to diversify their exposure to US Treasuries, to secure resources and commodities but also to upgrade their service sector (tourism, education, healthcare, technology, financial services etc.). This creates new opportunities for foreign companies to participate in China's industrial revolution and nation-building activities.

Going West - investing in the development of their 2nd and 3rd tier cities in their inner and western provinces, increasing productivity and consumption, creating jobs and continuing the process of rapid urbanisation, whilst focusing on the progressive industries of the 21st century (IT, biotech, high value manufacturing) and a cleaner, sustainable environment for their increasingly urban population.

Going Green - accelerating the development of clean technology with a commitment to spend US\$65 billion each year (investment in renewable energy spending has grown at 77% p.a. since 2008) in the development of new renewable energy sources (hydro, nuclear, solar, wind, biomass and more efficient use of coal and existing energy sources) and clean energy vehicles to reduce their dependence on fossil fuels and improve the environment by a 40% to 45% reduction in carbon intensity from 2005 levels by 2015



But the key to the future growth of their economy depends on an increase in **domestic consumption**. Leading companies, entrepreneurs and business leaders are competing for access to their rapidly growing market. Opportunities exist across the board, but one example of this is in the area of fresh and organic food.

Fresh and Organic Food

China's domestic food market is already very strong and vibrant and, with its rapidly growing middle class and urbanisation program, is in a state of transition.

For centuries, the Chinese have purchased their daily fruit, vegetables, meat and other perishables from local fresh produce markets. More recently, with increasing urbanisation, modern supermarkets are gaining popularity and the trend to purchase weekly is slowly becoming more convenient for busy commuters. In the past, little attention was paid to the origin or treatment of the food, as "fresh" was simply considered the best option.

Whilst fresh is still a major consideration, Chinese shoppers are now focused on food safety, health and diet. The spate of food quality incidents and a heightened awareness of the effects of pesticides have produced a more discerning consumer and fresh and organic options have gained popularity.

Soil depletion, over-cultivated land, pollution and public health issues have also forced the Government to look for solutions. They see organic farming as a potential remedy and for the past 30 years have been working on initiatives to develop a national standardisation body.

When it comes to fresh and organic food products, price sensitive Chinese consumers still pay close attention to whether produce is grown locally or internationally. With time, and as China continues to develop their local food industry, more local options and choice will become available to local consumers. In the meantime, foreign players are beating a path to China's door.



THINK GLOBAL
With David Thomas
BRIC Expert



THINK GLOBAL
With David Thomas
BRIC Expert

Building with new BRICs

By David Thomas, BRIC Expert
www.davidthomas.asia

Whilst each of the BRIC countries offer exciting opportunities for entrepreneurs, business leaders and investors, forward thinking companies will develop an overall BRIC strategy and focus on the following trends:

Intra-BRIC trade

The annual BRICS Leader's Meeting is laying the tracks for greater "intra-BRIC" trade and investment co-operation in the years ahead. This is vital to the global economy and a mega-trend for BRIC followers and observers.

With a combined GDP of \$8.7 trillion in 2010, the BRIC economies already account for 45% of global economic growth, and the combined BRIC share of world trade increased from 6.9% in 1999 to approx. 14.2% in 2008. Furthermore, BRIC collective trade with the world increased almost six times from \$790 billion in 1999 to \$4.4 trillion in 2008.

Intra-BRIC trade, or trade among the BRIC members, has accounted for the fastest growth rate in global trade in the last decade, and is expected to continue as the BRIC economies become more dominant. According to the IMF, intra-BRIC trade, which is valued at more than \$170 billion, has grown at the rate of 30% p.a. since 1999 and now accounts for 8% of global trade. During the 10-year period up to 2009, intra-BRIC trade increased nine-fold compared to global trade, which only doubled over the same period.

In recent years, Intra-BRIC trade has been mainly characterised by Russia and Brazil supplying natural resources to satisfy the industrial and infrastructural needs of India and China. However, this is likely to change. Watch out for more investment and trade deals between the BRICs as they create their own trading bloc and invest in each other's capabilities.

Strong Leadership

With hung parliaments around the world, short parliamentary terms, continuous electioneering, disengaged and disgruntled voters, and career politicians with vested interests, the will to engage in structural reform and long term planning has virtually disappeared in the western world.

In contrast, the political systems of China and Russia (now with the prospect of Putin serving as President until 2024, having first been elected President in 2000) look remarkably strong, stable and effective, despite the way they are portrayed in the western media. And Brazil's recent economic success can largely be credited to the successful 8 year terms of two reforming, pragmatic and popular Presidents, Fernando Henrique Cardoso and Luiz Inacio Lula da Silva.

The question now is whether India, the largest democracy in the world, will be able to remove the stifling influence of Government bureaucracy and consensus to allow their entrepreneurial culture to thrive. India's growth rate would be much higher with decent infrastructure, and the hope is that India's Government can finish the job of transforming India into a modern economy. With its young demographics, entrepreneurial flair, technological excellence and strong domestic demand, India will surely demonstrate that democracy is still alive and well!

Innovation

It's too early to know for sure, but the BRICs benefit from "latecomers advantage". The opportunity to leapfrog technological advances, capitalise on knowledge and past experiences, tap into existing networks and, above all, learn from the mistakes of those who have gone before. They also have the funds to spend on research and equipment which is rapidly running out in the west.

Here lies the big question for the BRICs to address....and for the US and the developed world to ponder. Will the next Steve Jobs be Chinese? Will Bangalore in India take over where Silicon Valley left off? Will Brazil become the world's primary source of clean energy, transportation and food? Will Russia put the first man on Mars?

BRIC expert, speaker, entrepreneur and thought leader, David Thomas is well known in the Asia Pacific region for his experience, credibility and passion for identifying, building and facilitating business and investment relationships between developed and emerging countries. He can be contacted at www.davidthomas.asia. ■