

Special Report: Diverging Demographic Prospects For BRIC Consumer Markets

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The BRIC countries (Brazil, Russia, India and China) were first designated as such by Goldman Sachs in 2001, representing a quartet of countries that offer high consumer potential and that could overtake the economies of the developed world by 2050.

Demographic shifts within each country will affect the development of consumer trends in each.

Key points

- The BRIC countries share certain characteristics, such as large populations, swiftly developing economies and, for some, high levels of natural resources on which to draw. Rapidly increasing incomes and huge consumer numbers offer consumer goods companies ample business opportunities. The BRIC countries are, however, set to diverge both in terms of economic development and demographic make-up;
 - The most marked shift in demographics will be in Russia owing to the fact that it is the only one of the BRIC countries experiencing population decline, reducing the labour market and signalling a higher proportion of pensioners;
 - Brazil in particular is falling behind in terms of GDP growth and consumer spending power. Annual population growth in Brazil is forecast to slow by 2020 but the high proportion of youth will ensure the growth of its labour and consumer market in the medium-term;
 - China will suffer from a combination of an ageing population and declining youth population, largely a result of its one-child policy since 1979. Population growth will be relatively slower in China than in Brazil or India but the sheer size of its population continues to promise a significant consumer base;
 - India will also experience ageing, although strong population growth will ensure it retains a large and growing youth population to swell the labour force. 26.7% of India's population is projected to be under the age of 15 in 2020.
- ## Economic growth differences
- China has experienced the highest economic growth of BRIC since 2003, with annual average growth of 10.7% between 2003-2008, followed by India at 8.4% average growth annually;
 - Russia and Brazil have experienced lower rates of economic growth, although still averaging 7.1% and 4.1% respectively per year in the same period;
 - The differences are partly related to the varying factors driving economic growth. India and China are primarily manufacturers, while Russia and Brazil are suppliers of raw materials (mainly oil). Russia and Brazil are therefore particularly vulnerable to downturns in global commodity prices. Oil prices, for example, were trading at around US\$70 per barrel in June 2009, from US\$147 in July 2008 amid the global recession;
 - In addition, oil production will necessarily decline in the long-term (albeit not by 2050), leading to downward pressure on economic prospects in the very long-term;
 - By contrast, as providers of secondary goods, India and China have no finite resources but will only benefit from improving industrial technology. Although China and India can be vulnerable to declines in external demand, accelerating incomes and strong population growth will increase domestic markets for these industrial goods, providing strong support for business sales.

Underlying economic fundamentals suggest that India and China will continue to post higher economic growth rates than Brazil and Russia over the long-term, with related benefits for job and wage growth.

Population growth factors

Different rates of population growth will also lead the BRIC countries to diverge:

- All four countries have extremely large populations, creating a large and varied labour force and consumer market. China and India have the greatest populations of 1.3 billion and 1.2 billion respectively in January 2009, while Brazil and Russia have populations of 196.6 million and 140.8 million respectively;
- India's population grew by 1.4% annually in 2009, followed by Brazil with 1.2% growth and China at 0.6%. In contrast, Russia's population contracted by 0.4%;

- China's population growth is relatively low due to its long-standing one-child urban policy. The Chinese government introduced this policy in 1979 in the belief that containing population growth would improve standards of living. Meanwhile, Russia suffers from emigration, low fertility rates and a high male mortality rate;

- Over the 2009-2020 period India's population will grow by 1.2%, Brazil by 1.0% and China by 0.5%, while Russia's will continue to contract by 0.3%.

Shifting demographics

Alongside these levels of population growth will be demographic shifts that will impact on economic growth and consumer spending patterns:

- China's one child policy means that the proportion of the population over 65 will rise sharply by 2020, from 9.1% in 2008 to 12.4% in 2020;

- China will experience a population bulge, with those born before the 1979 policy reaching their peak consumption level around 2020, as they hit the height of their careers and income levels. However, the ageing population will put pressure on social services, potentially increasing the tax burden on the working population;

- By contrast, while India will also experience an ageing population, its high population growth means that it will still have a large youth population, with those below 15 years of age totalling 26.7% of the population in 2020, the highest proportion of youth amongst the BRIC;

- Not only will this translate into an ongoing strong labour force but the youth population provides an important emerging consumer market, which can be targeted as they begin working life;

- Russia's population is declining, partly owing to emigration, but also to a low fertility rate and low male life expectancy;

- Russia will therefore suffer doubly, from an ageing population and a shrinking overall population, which will exacerbate the ageing society. By 2020 Russia will have the largest proportion of over 65s at 14.4% of the total population, followed by China (12.4%), Brazil (8.7%) and India (6.7%). Additionally, the proportion of females in the population will be notably larger in Russia than the other BRIC countries at 54.3% of the total population in 2020.

Demographic shifts to 2020 will favour Brazil and India, although the size of China's population will still provide it with the world's largest labour force and consumer market.

Russian consumers will suffer the most from an increased requirement to pay for pensions and social support.

Consumer benefits

Consumers in all BRIC countries will benefit from sustained strong economic growth:

- GDP per capita (purchasing price parity) in 2008 was US\$15,470 in Russia, I\$10,082 in Brazil, I\$5,962 in China and I\$2,829 in India. Purchasing power parity refers to a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services. By 2020 this is forecast to rise to I\$40,718 in Russia, I\$17,563 in Brazil, I\$7,129 in India, and I\$21,048 in China. As standards of living improve, so too will their demand for goods, particularly luxury or aspirational goods;

- Consumer spending will become an increasingly important economic driver. In 2008 private final consumption expenditure totalled 36.9% of GDP in China, 55.7% in India, 48.5% in Russia and 60.7% in Brazil, suggesting potential room for growth;

- There is considerable room for expansion of consumer spending in China in particular, with increased domestic consumption helping promote further job creation and reducing its dependency on exports;

- China's most wealthy age group in 2008 was the 35-39 year old bracket, which had a total gross income of US\$338.7 billion in 2008, indicating that this group will have the most disposable income to spend on luxury consumer goods.

Prospects

The BRIC countries will continue to grow strongly beyond the global recession since 2008, although China and India will continue to outpace Brazil and Russia in economic growth:

- Over the Euromonitor forecast period to 2020, China's economy will grow at an average annual rate of over 9% from 2010. India will grow by an average annual rate of over 7% between 2010 and 2020, while Russia will post average annual growth of just over 4% and Brazil just below 4%;

- Brazil and Russia are seeking to improve their economic performance to match that of their BRIC peers. Brazil is increasing investment in tertiary education, particularly for engineering and technical subjects, in order to develop an increasingly technically-skilled population. This will allow the economy to diversify from dependence on exports of primary goods;
- Brazilian contracts or joint ventures with foreign firms often increasingly include 'transfer of technology' clauses, ensuring that Brazilian firms develop their technical expertise;
- Russia is seeking to reverse its high levels of emigration by encouraging skilled diaspora workers to return for higher wages. Ongoing investment in human capital may help to offset the impact of the declining population;
- Russia is also seeking to encourage immigration in order to boost population growth, through making it easier for foreign workers, particularly from the CIS, to work in Russia. The government hopes to boost fertility rates too: according to the Conception of Demographic Policy to 2015/2025, the government is expecting to raise the fertility rate – the average number of children born to a woman over her lifetime – from 1.3 in 2006 to 1.6-1.7 by 2015.

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