

Special Report: BRIICS Economies Facing Different Challenges Amid A Global Economic Recovery

Contributed by Euromonitor International
Friday, 07 May 2010
Last Updated Friday, 07 May 2010

The BRIICS countries – Brazil, Russia, India, Indonesia, China and South Africa – are considered to be the highest-potential set of emerging markets in the world.

The countries share certain characteristics, such as relatively large populations and sizable natural resources, but they also differ in many and often significant ways.

Each offer substantial but varying opportunities for companies and face different challenges as the global economy recovers in 2010.

- BRIICS is an informal name for a group of six countries derived from the original BRIC group, with Indonesia and South Africa added to the original list of Brazil, Russia, India and China as they are also thought to be the major economic forces within their respective regions and high-potential emerging markets;
- The group is not especially homogenous, as each has different economic drivers, challenges and opportunities. However, they share common traits such as relatively large populations, abundant natural resources (such as crude oil or minerals), robust GDP growth for most of the 2000s, and rising political and economic importance in global terms;
- Despite this, the BRIICS economies have performed quite differently during the 2008-09 global financial crisis, highlighting the fundamental differences between them. While Russia's real GDP shrank by 9.0% year-on-year in 2009 largely due to a slump in energy exports and financial problems, China achieved an 8.7% annual growth thanks to strong domestic demand boosted by government spending;
- Each country offers significant opportunity for consumer goods companies as well as manufacturers. Per capita disposable incomes have risen quickly in the BRIICS countries since 2004, despite being dented in some cases by the 2008-09 global downturn. Strong population growth will also drive total incomes and consumer spending in the future;
- Future prospects vary between the different countries. While all are expected to achieve higher GDP growth in 2010 than 2009, factors such as political stability, energy prices and legislation will continue to bear on these countries' overall attractiveness for investors and for the overall business environment.

Economic performance

-All the BRIICS economies experienced rapid economic growth during 2004-2008, with China leading the way and growing at over 10% per annum over this period. This was a key factor that linked the countries together and prompted the naming of the group;

-However, the financial crisis and global recession has severely affected some countries and highlighted their differences. This was particularly true for Russia, where real GDP slumped by 9.0% year-on-year in 2009, as oil prices fell sharply and caused exports value to fall by 35.5% year-on-year in 2009 in real terms. There were also milder recessions in Brazil and South Africa, where real GDP dropped by 0.4% and 1.8% respectively in 2009 over a year earlier;

-Some economies are more reliant on certain sectors. Russia's economy is heavily dependent on energy, with petroleum products accounting for 48.7% of Russia's exports and natural gas another 12.6% in 2009. China, on the other hand, is reliant on manufacturing, as this sector made up 34.4% of the Chinese economy in 2009;

-The other BRIICS economies are generally more diversified. In Indonesia, for instance, manufacturing comprised 28.2% of GDP by origin in 2009 while agriculture also plays a key role in the economy. In Brazil, the two single biggest contributors to GDP in 2009 were manufacturing (16.9%) and financial intermediation, real estate, renting and business activities (16.3%);

-Four of the BRIICS countries had a positive trade balance in 2009, reflecting their relatively strong position in global trade terms. The two exceptions were India and South Africa, with respective trade deficits of US\$86.1 billion and US\$1.8 billion, and which are more heavily reliant upon imports, especially in the energy sector.

Consumer markets

The BRIICS countries enjoy their status as the pre-eminent consumer market within their respective region or sub-region:

- All have very large populations: China and India are the two most populous countries in the world, with 1.3 billion and 1.2 billion people respectively as of January 2010. The exception is South Africa, which had a relatively small population of 50.1 million as of January 2010, compared to the next smallest country, Russia, which had a population of 141.9 million in January 2010;

- Incomes vary widely, however. In 2009, per capita annual disposable incomes were highest in Brazil and Russia (US\$5,141 and US\$5,324, respectively), although per capita disposable income in Russia fell 6.1% year-on-year in real terms in 2009 due to the financial crisis. Disposable incomes have been more stable in the other BRIICS countries, although in India and Indonesia they remain much lower than the others (US\$839 and US\$1,557 per capita respectively in 2009);

- Consumer spending is relatively important to most BRIICS economies. In 2009 private consumption accounted for 62.0% of GDP in Brazil and 63.1% in South Africa, for example. The exception is China, where private consumption accounted for only 34.7% of GDP, due to the excessive reliance of the Chinese economy on manufacturing for exports and the Chinese consumers' tendency to save. It does however suggest that there is major potential for consumer spending to rise in China;

- Despite the variations, all countries offer an emerging middle class of consumers who are able to afford goods such as household durables, consumer electronics and cars. For example, the number of passenger vehicles in India more than doubled from 8.6 million in 2004 to 17.5 million in 2009, while the proportion of Indonesian households owning a colour TV set rose from 52.0% in 2000 to 86.5% in 2009.

Business environment and opportunities

There are also significant variations in the investment and business environment in each of these countries:

- In terms of foreign direct investment (FDI), China received US\$108.3 billion of FDI inflows in 2008, the most of all BRIICS countries and a reflection of its size and availability of cheap natural resources and labour. Indonesia received the lowest levels of FDI, at US\$7.9 billion in the same year;

- There are various gauges for measuring the business environment. South Africa was by far the top-rated country, at 34th out of 183 countries, in the World Bank's Doing Business report 2010 which referred to the year 2009. All the other BRIICS countries were ranked much lower, with China in second place at the 89th position, whilst India was the lowest at 133rd. Most BRIICS countries have actually seen their rankings worsen over 2008-09, possibly because other countries have undertaken more reforms;

- BRIICS countries are also an increasing source of outward investment as companies and governments seek to invest and expand overseas. For instance, FDI outflows from India rose from Rs98,745 in 2004 to Rs769,389 in 2008, as the countries aggressively reinvested. The exceptions were South Africa, where FDI outflows shrunk, and Brazil, where they rose much more slowly;

- There are significant opportunities in most sectors across the BRIICS countries, but companies need to take different approaches and adopt different targets in each place, as each country has its own particular challenges and attractions.

Challenges ahead

Many companies, especially in the developed world, are seeking opportunities in the BRIICS countries to offset slower growth in more developed markets. However both they and the BRIICS countries themselves will face a number of challenges:

- Stability in terms of legislation and government policy is still a concern. For example, there is uncertainty about state energy policy in Russia and the treatment of foreign companies. The financial crisis may also make it more difficult to invest in the BRIICS countries as protectionist measures may be taken to shield local companies;

- Infrastructure remains undeveloped in all of the BRIICS countries, especially Indonesia and India. Aspects such as power generation, water supply and transport still require investment and improvement, and many areas in all the BRIICS countries are remote and underdeveloped;

- Population growth is highest in India and Indonesia (1.4% and 1.2% respectively in 2009 over a year earlier) compared with actually negative growth in Russia (-0.1% in 2009). This will put great strain on infrastructure, education and health,

as well as the labour force: unemployment in India was 8.8% in 2009 and 8.0% in Indonesia, but is significantly higher in South Africa, at 23.7%. Creating jobs will be a key challenge for any future government there.

Prospects

Â Â Â

-All of the BRIICS countries expect quicker annual real GDP growth in 2010, with the highest expected in China at 10.0%. In contrast, the slowest growth is forecast to be in South Africa, at 2.7% over a year earlier;

Â Â Â

-Per capita annual incomes are all expected to rise in 2010, again with China leading the way at an expected 8.8% real growth;

Â Â Â

-The overall share of the BRIICS countries in world trade is expected to keep rising sharply in the medium-term, as the BRIICS economies become the key drivers in the global economy and as developed countries grow at a much slower pace. However, the governments of each country face a variety of challenges and other factor such as political stability will also play a role in defining the business environment and opportunities available for private-sector companies and investors.

For further related articles, please visit [Euromonitor International](#) .

14th Apr 2010