

Press release

The BRIC countries on their way to the top of the world

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BRIC has become a popular abbreviation for the four large emerging economies Brazil, Russia, India, and China. In the next decades their economic growth will change the global economy substantially with important consequences not only for them but also for western advanced economies.

It was in 2001 that Jim O'Neill, chief economist of the US investment bank Goldman Sachs, created the acronym BRIC. It consists of the initial letters of the emerging economies Brazil, Russia, India, and China. Currently around 40% of the world population live in these countries. Their economic growth will shift weights in the world economy in the next decades substantially.

According to O'Neill's latest forecast of December 2009 the BRIC countries will belong to the five largest economies in the world in the year 2050 and thereby crowd Japan, Germany and France out of the top five. Compared to the situation nowadays only the USA will remain in this group.

Furthermore, an emerging middle class – employees with more than 15,000 US \$ income per year – will increase by about 200 million people until 2025.

This is approximately as much as the joined population of Germany and Japan. This points out to what extent additional demand for goods of higher standards of living will become effective in the global market in the near future.

The consequences for producers in high wage countries like Germany are ambivalent:
On the one hand production in the BRIC countries will shift towards higher value goods as incomes rise in these

countries. This will lead to new competition for the current top players.

On the other hand, if they stay competitive, they can make profit of an increase in demand which will render the decline in demand due to demographic developments in some western countries almost irrelevant.

The BRIC countries are aware of their growing importance and become increasingly self confident on the world stage. In June 2009 and in April 2010 the four countries' leaders met for their first summits in Yekaterinburg, Russia, and São Paulo, Brazil. The fact that further important emerging and developing countries were invited to these summits underlines that the G 8 get a competitor on the world stage they should take serious. At the occasion of these meetings not only economical, but also security and energy issues were put on the agenda. India has become a nuclear power – even accepted by the US, and also Brazil, at least unofficially. Furthermore trade between the BRIC countries will more and more bypass western advanced economies. When Brazil and Russia satisfy China's and India's hunger for raw materials in exchange for comparatively cheap manufactured goods, North America, Japan, and Europe are often out of the deal.

By doing so the BRIC countries make a profit from their diverse country profiles which makes them interacting more in cooperation than in competition.

Brazil is an important provider of raw materials and agricultural products. Also in technology intensive production the country gains ground. So the Brazilian aeronautic industry is besides Boeing and Airbus a successful supplier of short and medium distance civil aeroplanes. From Russia and China it imports not only military goods but increasingly technology and equipment for exploiting raw material deposits. The country managed to get smoothly through the latest world financial and economic crises. Thanks to strict stability-orientated economic and monetary policies in the last years Brazil did not get into a currency crises like other emerging countries.

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Russia is one of the largest oil and gas producers worldwide and an important service provider in space flight. In manufacturing industries however, the country produces on a weak technological level. How successful publicly financed subsidies for high technology production really are, remains to be seen. Continuing difficulties with respect to property rights for foreign investors exacerbate vital technology import.

India is growing rapidly in technology-intensive sectors like automotive and IT. The country's growing middle class has increasing demand for commodities related to higher standards of living. The subcontinent's further economic development will considerably depend on urgently needed quantitative and qualitative improvements in infrastructure. India is the largest well-functioning democracy in the world, but faces certain security risks from terrorism and the unsolved conflict with its western neighbor Pakistan on the Kashmir region.

According to latest forecasts in summer 2010 **China** will replace Japan as the second largest economy in the world already this year. Due to the country's enormous pool of working people China's economy has a clear comparative advantage in work intensive production in manufacturing segments. The political system is very stable. Yet foreign investors still face risks concerning property rights and patent protection. The Chinese financial market is highly regulated. Capital controls and heavy restrictions on the convertibility of the national currency are common means used by the monetary authorities to protect the country from external shocks. On the one hand this results in a high stability of the exchange rate. On the other hand, especially capital controls are an additional risk for foreign investors. Introducing effective social security could lower the extremely high saving rate of private households, stimulate private consumption, and thus reduce the country's dependence on external trade. The importance of Chinese demand for German products is exemplified by the fact that German premium automobile producers owe a large part of their recovery from the 2008/09 crises to China.

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