Follow the BRIC road

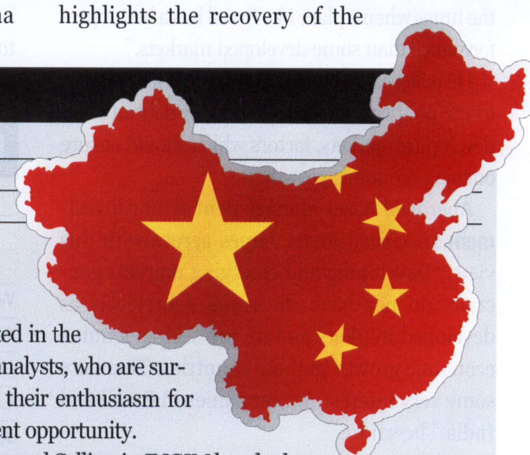
In recent years, many investors who have gone offshore looking for growth have decided to take the 'BRIC route' to benefit from the dramatic growth in the economies of Brazil, Russia, India and China.

Over the past 10 years, these nations contributed over a third of world GDP growth and grew from one-sixth of the world economy to now representing almost a quarter (in purchasing power parity terms).

The biggest cheerleaders for the BRIC economies have been US-based Goldman Sachs researchers, Jim O'Neill and Anna Stupnytska, who first coined the BRIC acronym in 2001.

They recently updated their ongoing research into the BRIC countries in a new paper, *The Long-Term Outlook for the BRICs and N-11 Post Crisis*. This research highlights the recovery of the

CHINA



Population:	1,329.1m (2007)
GDP:	US$7,926.5b
GDP per capita:	US$5,970 (2008)

Source: OECD Factbook 2010

CHINA'S vigorous economic expansion has continued in early 2010, according to the OECD Economic Outlook. "GDP growth is projected to exceed 11 per cent this year before slowing to just under 10 per cent in 2011, as the impact of the stimulus package diminishes," it noted.

"With the terms of trade deteriorating and domestic demand remaining strong, the current account surplus may continue to fall sharply in 2010, to around 2 per cent of GDP, and rebound only slightly in 2011. With food prices easing, inflationary pressures are likely to remain subdued."

The OECD is concerned about the growing risk of overheating in the Chinese economy and while measures have been taken to cool the local property market, it recommends the Chinese Government continues moving towards a more neutral monetary policy stance.

These cautionary comments are reflected in the views of investment analysts, who are surprisingly reserved in their enthusiasm for China as an investment opportunity.

According to Emmanuel Calligeris, INGIM has doubts about China as an investment destination relative to countries such as India, "unless you buy China domestic rather than China global and stay away from China property," he said.

Aberdeen's Stuart James also believes the best opportunities may reside elsewhere. "You need to look beyond the obvious China story and look to other countries," he said.

INDIA

Population:	1,128.5m (2007)
GDP:	US$7,926.5b
GDP per capita:	US$2,780 (2008)

Source: OECD Factbook 2010

ECONOMIC growth during the recovery from the financial crisis has been strong in India, according to the OECD Economic Outlook. "Following an uptick in growth in the first half of 2009, a sharp contraction in agricultural output caused by deficient monsoonal rainfall held back the momentum of the Indian economy. Nevertheless, the non-agricultural sector has continued to perform well and recent high frequency indicators of activity and business sentiment suggest that this segment of the economy is growing robustly," the report said.

"With agricultural output expected to rebound sharply, economic growth should be strong in the near term before moderating to around trend rates."

Real GDP growth in India remained positive throughout 2009 at 6.6 per cent. The OECD is predicting real GDP growth of 8.3 per cent for 2010 and 8.5 per cent for 2011.

Several analysts prefer India to China, seeing it as a better long-term story. "We are extremely positive on India, less so on China," Calligeris said.

James agrees: "India has only 23 per cent of its GDP from exports, most of its GDP is based on its domestic market." This is attractive in an environment where global export markets are likely to grow slowly for some time.

India also has other attractions. "In India 55 per cent of the population is under 24 and there are rising incomes which are based on services rather than manufacturing," James said.

He is particularly positive about some of the Indian banks, which have simpler business models than their developed market counterparts and which operate in a country with high natural savings rates. "They have low debt levels and simply lend out money to borrowers on a margin over deposits."

BRIC economies from the financial crisis and the differing outlook for developed and developing economies.

"What does seem clear is that the global credit crisis and its aftermath have caused more damage to the major developed economies than to the BRICs," the paper noted.

"Consequently, our projection from 2008 that China could become as big as the US by 2027 – and therefore the BRICs collectively as large as the G7 by 2032 – now looks more rather than less likely as a result of the crisis."

Although the long-term growth story remains intact, the crisis has had an impact.

"While overall the BRICs... saw much sharper contractions than the developed countries, they also saw much stronger rebounds," O'Neill said.

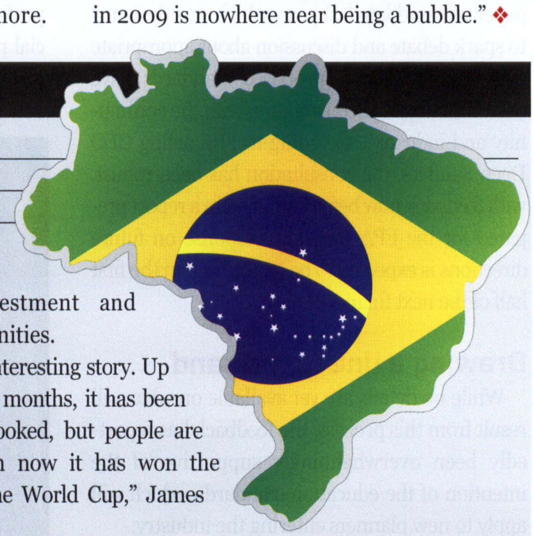
However, there are differences in the magnitude and speed of the rises and falls in various countries. The "winners" (which displayed remarkable resilience during the crisis) included Brazil, China and India, while Russia and Mexico suffered more.

"They stand out given the depth of their recessions and sluggishness of recoveries," O'Neill said.

The report is very upbeat about the future of BRIC equity markets. Since 2003, BRIC markets have risen from around 2 per cent of global market capitalisation to 9 per cent. Long-term projections suggest the BRICs could account for almost 50 per cent of global equity markets by 2050.

"In this context, this would suggest the rally in 2009 is nowhere near being a bubble." ❖

BRAZIL



Population:	190.1m (2007)
GDP:	US$1,984.5b
GDP per capita:	US$10,466 (2008)

Source: OECD Factbook 2010

THE outlook for Brazil is quite positive, according to the OECD Economic Outlook. "The Brazilian economy has been expanding at a brisk pace since mid- 2009 on the back of booming domestic demand boosted by massive policy stimulus. As a result imports have surged," the report said.

"Domestic demand could slow somewhat in coming quarters given a tighter monetary stance. Subsequently, infrastructure investment will help lift growth anew."

While real GDP growth in Brazil in 2009 was -0.2 per cent, the OECD is predicting growth of 6.5 per cent for 2010 and 5.0 per cent for 2011.

The Brazilian economy is seen by analysts as holding some very interested investment and growth opportunities.

"Brazil is an interesting story. Up until the last six months, it has been somewhat overlooked, but people are paying attention now it has won the Olympics and the World Cup," James said.

"It has an improving domestic economy and 50 billion barrels of oil off the coast. We are quite excited about the prospects in Brazil."

RUSSIAN FEDERATION

Population:	141.9m (2007)
GDP:	US$2,262.7b
GDP per capita:	US$ -- (2008)

Source: OECD Factbook 2010

ACCORDING to the OECD Economic Outlook, the economic recovery in the Russian Federation is gaining momentum, aided by rises in oil prices since early 2009. "Although some components of domestic demand have yet to rebound, they are projected to do so in the course of 2010 and into 2011," it noted.

"Inflation has declined strongly in the last year, but is likely to move back up slightly before stabilising. The current account surplus will widen in 2010 on account of strong export prices, but will narrow again in 2011 as the recovery in private domestic demand gathers strength and as the real appreciation of the rouble over the past year boosts import growth."

After real GDP growth of -7.9 per cent in 2009, the OECD is predicting growth of 5.5 per cent for 2010 and 5.1 per cent for 2011.

Investment analysts are cautious in their views on the Russia economy. As Jim O'Neill from Goldman Sachs said: "Russia has experienced a very difficult crisis, which raises concerns about its long-term growth trend." However, he remains positive in the longer-term. "We still believe that Russia could become bigger than Japan."

Calligeris believes Russia holds good prospects. "If you drill below Gazprom, there is a lot of opportunity, but you need to move away from the cap weighting to get away from the big companies."

James has concerns about the highly cyclical nature of the Russian economy and its business environment. "We are not so keen on Russia due to some of the corporate governance issues. There are long-term opportunities, but we are very cautious about investing there," he said.