THE BRIC COUNTRIES

By Tomas Hult

Executive Briefing: Brazil, Russia, India, and China form the so-called BRIC countries. This article summarizes the basics of the BRIC countries, including: the impact on the BRIC's by the world economy, organizing by the BRIC countries, economic and population changes in the BRIC countries, key strengths and weakness of the BRIC countries, and key issues for countries and firms to consider when doing business with the BRIC countries.

Jim O'Neill, global economist at Goldman Sachs, coined the term BRIC countries in 2001 and argued that the economic potentials of the emerging markets of Brazil, Russia, India, and China are immense in the decades to come. These countries cover 25 percent of the world's land mass, 40 percent of the world's population, and are increasingly run as global market economies.

Between 2002 and 2007, annual GDP growth averaged 3.7 percent in Brazil, 6.9 percent in Russia, 7.9 percent in India, and 10.4 percent in China. Popular predictions have the combined economies of the four BRIC countries outstripping that of the G7 countries (Canada, France, Germany, Italy, Japan, UK, and the U.S.) within the next couple of decades.

Less Impacted by an Economic Downturn

The four BRIC countries will also be less impacted by a global economic downturn. It is true that demand for products from Brazil and China will be weaker, that India's service sector could suffer, and that Russia's heavy reliance on the hydrocarbon sector will potentially bit hit by falling energy prices. But the positives in these economies far outweigh the negatives.

For example, the BRIC countries have large surpluses in international trade as well as reserves in foreign currency that create a buffer in economic downturns. The BRIC countries' governments are likely to use the reserves to increase spending which should result in increased consumer confidence and demand. In fact, an economic crisis globally is likely to remove potential inflation problems in the BRIC countries. The result is easing of interest rates and even more economic growth.

The BRIC Countries Are Organizing

The BRIC countries are also realizing their unique potential and collective standing in the global marketplace. The May 16, 2008, meeting of the foreign ministers of the BRIC countries in Yekaterinburg, Russia, was their first formal independent meeting (outside of meetings in conjunction with activities of the United Nations) and signals the four countries' potential trade and political association.

In a joint statement, the BRIC countries urged the creation of "a more democratic international system founded on the rule of law and multilateral diplomacy." "We are changing the way the world order is organized," said Brazil's Foreign Minister Celso Amorim. Our meeting signals "new quality cooperation" in the quadripartite format, said Russia's Foreign Minister Sergei Lavrov. India's External Affairs Minister Pranab Mukherjee hailed BRIC as a "unique combination of mutually complementary economies" which was also stressed by China's Foreign Minister Yang Jiechi who said that "our cooperation will not be aimed against other nations."

However, for international business and trade purposes, the four countries are vastly different. For example, Goldman Sachs predicts that Brazil (e.g., soil, iron ore) and Russia (e.g., oil, natural gas) will become dominant in the world economy as suppliers of raw materials while India and China will be prosperous global suppliers of manufactured products and services. Key strengths and weaknesses along with key trade issues are presented in the tables below (summarized from information and data obtained from http://globalEDGE.msu.edu).

Economic and Population Changes

Brazil. Since the Real plan in 1994 led Brazil out of recession, growth has been sluggish at around 3% annually compared with the other BRIC countries. Internal and external constraints have challenged more rapid income growth. Current population growth rates are similar to that in the U.S. Infant mortality rates have also been improving in the last decade.

Russia. After experiencing stagnation both before and after the economic collapse of 1998, Russia has experienced strong growth of late. A devalued ruble and relatively high oil prices have helped the Russian economy grow. On the other hand, Russia is experiencing declining fertility rates, resulting in declining population of about 0.5% annually. The decline in population has implications for both the labor force and productive capacity of the country.

India. Increasing service exports and foreign investment have been India's main vehicles of growth in the economy. This strengthening of the economy is a function of a stronger focus on education and literacy. These factors help to explain the rising GDP growth. But, the population growth may be an issue in the future. The country is growing its population at about 1.6% annually (now having a population around 1.1 billion).

China. Comprehensive reforms in the financial and corporate sectors have facilitated China's superb economic growth rates. In addition, an increasing focus on industrial exports and monetary transparency have led to increased foreign investment and also serve as drivers of China's economic expansion. China's population exceeds 1.3 billion, making it the most populous country in the world but growth rates are decreasing due to China's one child policy. ♦

Source

globalEDGE: Your Source for Global Business Knowledge (http://globaledge.msu.edu, Accessed November 17, 2008).

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Country	Key Strength	Key Weakness
Brazil	Brazil boasts abundant and varied natural resources and a relatively diversified economy with favorable labor costs.	Social infrastructure is lacking (e.g., investment in energy, rail, road, and ports) and public debt has remained high and exposed to domestic interest rate trends.
Russia	Russia has a wealth of natural resources, a skilled labor force, and relative political stability which has strengthened its regional and energy position.	The investment rate is among the lowest for major emerging countries; this has also resulted in the industrial sector lacking competitiveness because of pressures associated with the obsolescence of capital equipment.
India	Private Indian companies are a key asset to the country, benefiting from advantages in several economic sectors (e.g., IT, outsourcing, pharmaceuticals, textiles).	Despite some real progress, the financial situation in the public sector continues to be India's primary weakness, with debt service draining fiscal revenues to the detriment of development spending.
China	Industrial competitiveness and diversification has benefited China's trade with other countries, with strong foreign financial investment facilitating the country's strength.	A number of key weaknesses exist in China across vastly different areas (e.g., environmental issues are obstacles to sustainable growth; increasing inequality has resulted in growing social tensions; overcapacity threatens several industrial and commercial sectors).

Country	Key Trade Issues				
	Politics & Freedom Index (1-30=Free, 31-60=Partly Free, 61-100=Not Free)	Corruption Index (10=least corrupt, 0=most corrupt)	Tax Misery & Reform Index (lower score is better)	Economic Freedom Index (higher score is better)	Ease of Doing Business Ranking (higher score is better)
Brazil	40	4.0	13	70	122
Russia	66	2.8	52	120	106
India	45	2.9	44	104	120
China	82	3.5	3	119	83