



Don't Give Up on the World's BRICs

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With the BRIC and other global emerging markets experiencing some of the worst share market declines in 2008, many people are asking whether the BRIC story remains valid. Some have already written-off BRIC as yet another marketing gimmick (similar to the dotcom bubble), while others have suggested that the acronym should be changed to BIC (removing Russia) or even BRAC (to include Australia and Canada in place of India and China).

Oh ye of little faith! The BRIC story remains one of the key investment megatrends of the 21st Century.

The BRICs were some of the best performing investment markets of the past five and 10 years

While the last 12 months have indeed been severe as investors have re-assessed the BRICs in the face of a global economic downturn and realigned their portfolios accordingly, the five- and 10-year non-annualized returns from each BRIC share market index (in US\$) compare favorably to more developed markets.

Figure 1 – Share market index returns to 14 January 2009

	Non-annualized total return 5 years (%)	Non-annualized total return 10 years (%)
Brazil	+14.64	+15.28
Russia	- 3.37	+21.14
India	+4.62	+9.35
China	+7.62	+3.67
USA	- 4.74	-3.68
Australia	- 0.31	+3.32

Source: MSCI/Barra



Don't be deceived by the returns over the past 12 months – long-term investments in the BRIC story are still outperforming those in more developed markets.

The BRICs are maintaining economic growth by trading amongst themselves

One of the casualties of the global financial crisis, and the reason why the BRIC and other global emerging markets have been so badly savaged in recent months, is the failure of "decoupling" theory which was the subject of much debate, speculation and optimism in 2007/8.

While economic growth in emerging countries has dropped only slightly, their securities and currency markets have fallen drastically. Presumably, many investors think that the US economic downturn will lead to a dramatic drop in US orders of emerging market products, which will in turn cause those economies to experience an economic downturn themselves.

But this ignores the fact that BRIC exports to the US at their peak in 2007 were a relatively small part of total BRIC exports.

Figure 2: Exports by the BRIC countries to the US (2007)

	Exports to the US as % of total exports	Total Exports as a percentage of GDP
Brazil	20	13
Russia	3	25
India	15	33
China	19	70

Source: *BRIC+ Digest Winter 2008*

There is no doubt that China, in particular, has experienced a severe contraction in US and European orders and, being an export-led economy, it will suffer the most of all the BRICs from the global economic downturn. Some of this can and will be counterbalanced by domestic fiscal and monetary stimulus and, with their \$580 billion stimulus package, the Chinese Government has virtually underwritten GDP growth in 2009.

But a new lifeline for developing countries is "intra-emerging market trade" which is becoming increasingly important, particularly among the BRIC countries which have emerged as a new "trading bloc".



A good example of this is the growth in exports of iron ore from Brazil (and coal and oil from other emerging markets) to China to fuel the latter's massive infrastructure development and growing consumer demand. Trade between Latin America and China has increased by 13 times since 1995, from \$8.4 billion to \$100 billion. Similar trends are emerging throughout the developing world.

The global economy no longer grows and declines predominantly due to the US and Europe. According to Dun & Bradstreet, while world economic growth is expected to hold up at 1% in 2009, the economies of five of the G7 member nations - US, UK, Germany, Italy and Japan - are each expected to contract. When investment markets again focus on fundamentals and accept that much of 2009's economic growth will come from the four BRIC countries, the BRICs will lead the global share market recovery.

The BRIC economies have strong financial reserves and will continue to invest in infrastructure and domestic consumption

The four BRIC nations hold 41% of total global foreign exchange reserves: \$1,528 billion in China; \$464 billion in Russia; \$266 billion in India; and, \$179 billion in Brazil. These reserves have allowed each government to respond to the global financial crisis by announcing fiscal stimulus packages, bringing forward infrastructure spending on housing, education, public health, transportation and energy projects, and handing out social benefits to encourage consumers to spend more. The combined BRIC investment in infrastructure of over \$22 trillion by 2020 was planned well before the 2008 global economic downturn and, far from looking to cancel or defer these commitments to building much-needed roads, rail, ports and power generation, the BRIC countries have actually brought forward spending plans to stimulate economic growth.

The BRICs are hungry, and determined to grow

It is easy to forget that only 30 years ago all four BRIC countries were virtually bankrupt. Their vast, hungry and diverse populations were experiencing the pain of poverty and hardship, inept and/or weak governments, stagnating economies and the humility of being subject to regular lectures from the West about how to run their countries.

How times have changed. To quote Brazilian President Luiz Inacio Lula da Silva during the G20 talks at the end of 2008: "Important banks - very important banks - that spent their lives giving advice about Brazil and what we should or shouldn't do, are now broke. Brazil is more prepared than any country in the world to deal with the new global economic landscape, and has been preparing for some time to become a solid economy."



Each of the BRIC countries needs to grow – and will continue to – in order to satisfy the increasing ambition of its huge population to improve standards of living, increase personal wealth and live a better life. This century will see the four BRIC countries become four of the six largest economies in the world.

Don't give up on them yet!

*With global emerging markets now widely recognized as a key element of quality investment portfolios, it's imperative that those who design investor portfolios become as familiar with the global emerging markets as they are the developed markets. The **BRIC+ Program** is a continuing professional development service providing exclusive insights into global emerging markets. It delivers independent educational activities designed for researchers and investment committee members from dealer groups, platforms, super funds and research houses, and financial planners with a role in investment portfolio design, to enhance their understanding, knowledge and experience of global emerging markets.*

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