

Where Next for the BRICS

Corporate Value *Associates*

Wolfgang Lehmacher

Singapore, 24 Sep. 2013

# Characteristics of the BRICS

**The BRICS are Emerging Markets. Emerging Markets are nations experiencing rapid growth and economic liberalisation on the path to turn into more developed economies**

- The term Emerging Markets is often used interchangeably with ‘Developing Countries’ and represents countries that are in a transitional phase towards western-style economies
- Emerging markets should not be thought of as necessarily poor countries – some have high GDP per capita but are experiencing rapid transition and liberalisation
- Emerging markets are countries that are restructuring their economies along market-oriented lines – these tend to offer a wealth of opportunities in trade, technology transfers, and foreign direct investment
- Common features of most key emerging markets:
  - Regional economic powerhouses with large populations, large resource bases, and large demand
  - Transitional societies that are undertaking domestic economic and political reforms
  - Experiencing rapid economic growth
- In addition to the BRICS large parts of Asia, the Middle East and Latin America are declared Emerging Markets

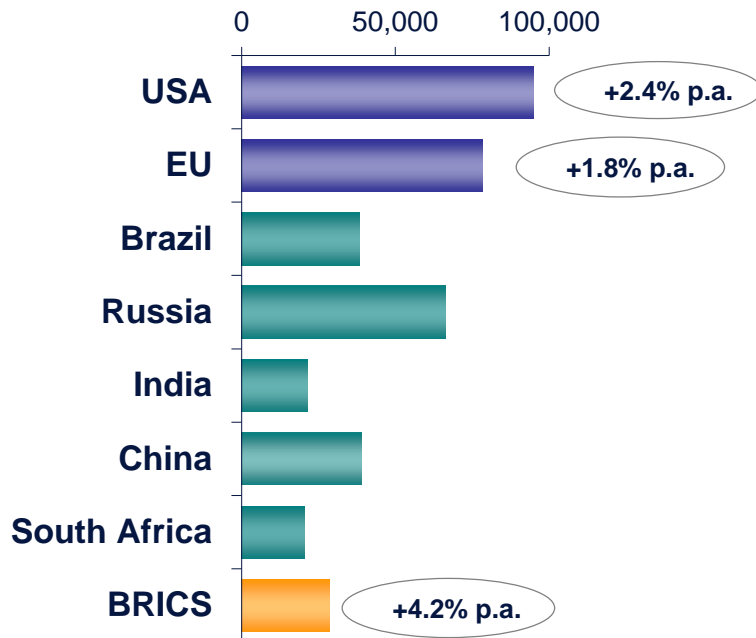
**The acronym BRIC was coined by Jim O’Neill in a 2001 paper entitled "Building Better Global Economic BRICs". The term BRIC, which stands for Brazil, Russia, India, China, has been replaced by BRICS since the 2010 inclusion of South Africa**

# BRICS – drivers of growth

The BRICS are poised to be drivers of growth, especially when developing an ‘economic punch’ which is commensurate with their demographic and geopolitical weight

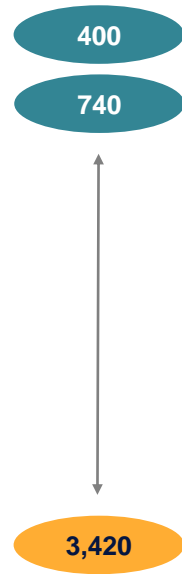
## GDP per Capita in 2050

Constant 2011 dollars; CAGR (2011 – 2050)



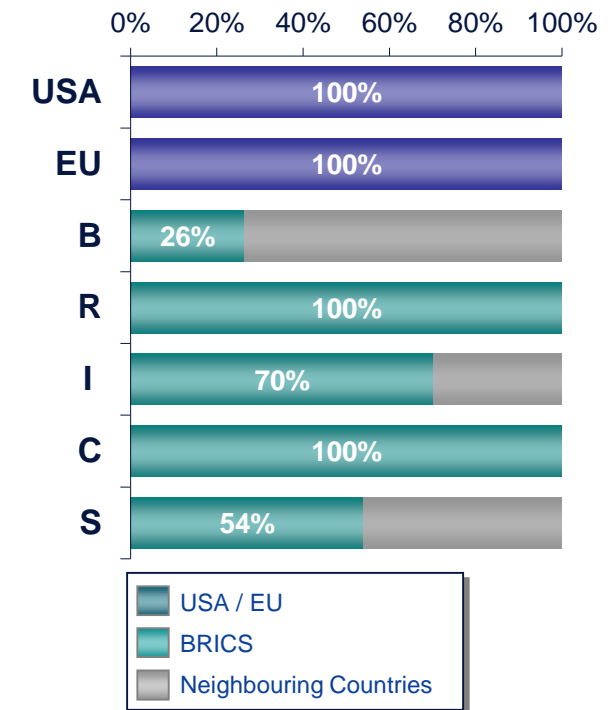
## Population

2050 (millions)



## Geopolitical Weight<sup>1</sup>

Country GDP as a proportion of regional GDP 2050



Sources: UN, PwC, Goldman Sachs, IFRI

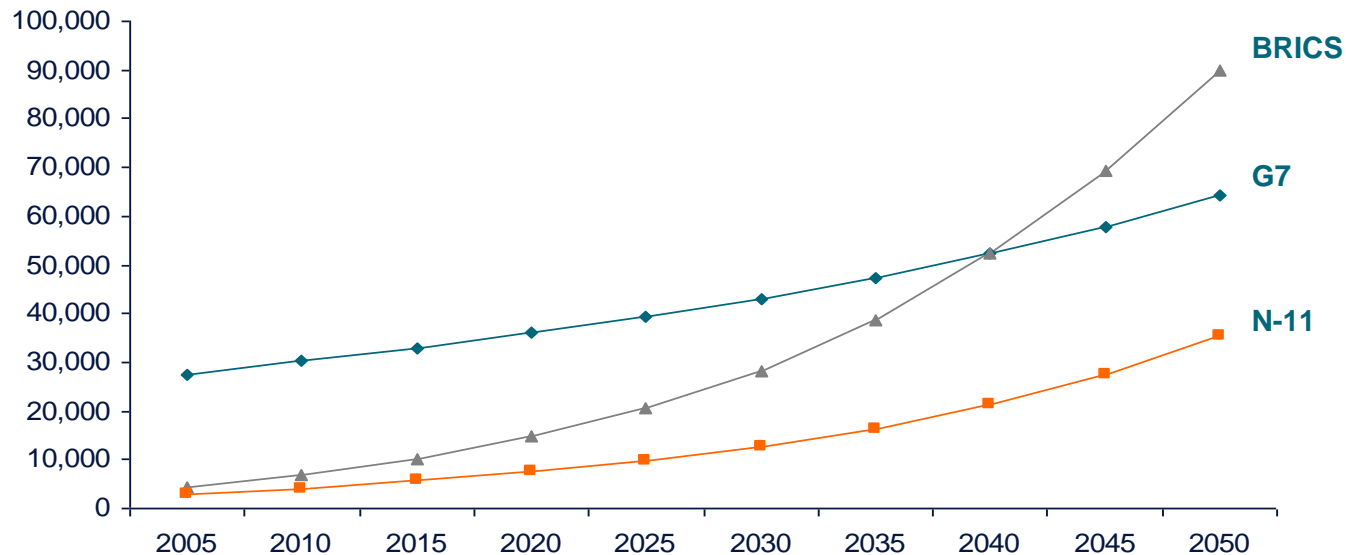
(1) Using the BRICS dominance of regional GDP as a proxy for geopolitical weight (of Latin America for Brazil, of South Asia for India, and of Subequatorial Africa for South Africa). For Russia and China, their geopolitical weight is based on historical precedent and current global power structures. USA and the EU are also clear global powers.

# Significance of the BRICS

Projections on the future power of the BRICS economies vary. Sources suggest that their combined economies could overtake the G7 by 2027 to 2050

## GDP of Selected Groups of Nations

USD bn



**Illustrative**

The “Next 11” (N-11) are key emerging markets not included in the BRIC group, including Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam

**Other key Emerging Markets are also expected to grow more strongly than the combined economies of the current richest countries in the world**

Source: Goldman Sachs, Rana Foroohar

# BRICS – competitiveness stagnating

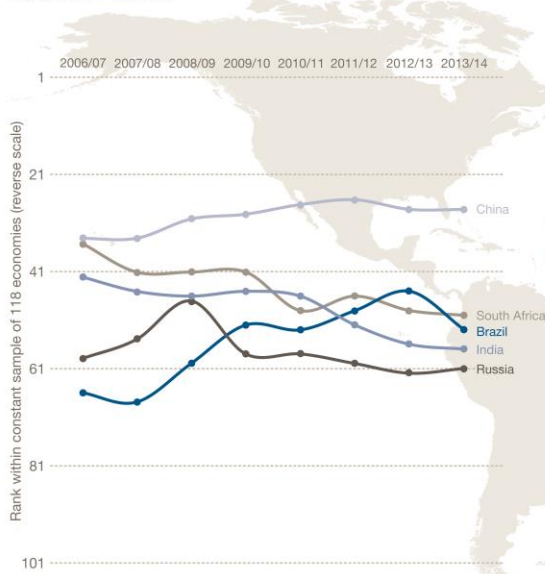
Despite brisk growth over the last decade, the competitiveness of the BRICS has been stagnating – Global Competitiveness Report, World Economic Forum

## The Global Competitiveness Report 2013–2014 BRICS



Despite brisk growth in the past decade, the competitiveness of the BRICS (Brazil, Russia, India, China and South Africa) has been stagnating since 2006 when the current Global Competitiveness Index was introduced. The Index casts doubt on the sustainability of their long-term growth, and the 2012 growth rates in the four major emerging economies (BRIC) were about half that of 2007.

Changes in the Global Competitiveness Report ranking 2006-2013 – BRICS

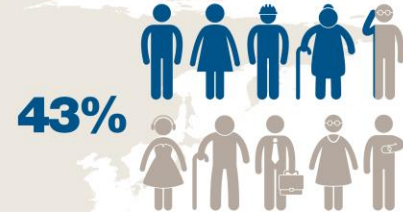


Note: The ranks are among the 118 countries covered in every edition since 2006

% World GDP (PPP)



% World Population (2011)



The Global Competitiveness Report ranking 2013-2014



Sources: World Economic Forum, Global Competitiveness Report 2013-2014; International Monetary Fund, World Economic Outlook April 2013; World Bank, World Development Indicators; authors' calculations.

# BRICS developments

## Focus China: yesterday, today, tomorrow

The BRICS have experienced far-reaching developments and progress across many areas and more is to be expected

<b>Growth</b>	<b>Government</b>	<b>Consumers</b>
<b>Factors for Production</b>	<b>Competition</b>	<b>Capital Market</b>
<b>Regulatory/ Policy</b>	<b>Suppliers</b>	<b>Infrastructure</b>
<b>Standards/ IPR</b>	<b>Buyers</b>	<b>Technology</b>
<b>Accessible Regions</b>	<b>Employees</b>	<b>Social Factors</b>

# Case study 1

## BRICS Strategy: Hindustan Unilever Limited (India)

**Taking products to a wide range of urban and rural population of different socio-economic levels in the BRICS might require to develop multiple complementary distribution channels**

- Present in India since 1888
  - Began serving bottom tiers of the pyramid in 1995
- 52% owned by Unilever, a Fortune 500 company present in over 100 countries

### Multi-channel Distribution Strategy



### Success Factors

- Multiple distribution strategies designed to reach different socio-economic groups
- Low cost distribution capabilities
- Combination of social and business objectives: Project Shakti helps to provide income and empowerment to rural women
- Ongoing investment in local partners – Hindustan Unilever Limited provides business training to stockists and distributors as well as rural health initiatives

Source: Press articles, company statements and reports

# Case study 2

## BRICS Strategy: Carrefour (China)

**Working with local partners helps companies to adapted operations for the BRICS. Carrefour has avoided some outlet types, redesigned store formats and is stocking local product**

- Carrefour has been present in China since 1995

### **Chinese Retail Strategy** (*Opportunistic adaptation to local market*)

- Carrefour has joint ventures with local retail businesses that provide local customer insight and assist in dealing with local governments

Outlet Format	Product Mix	Distribution	Staffing
<ul style="list-style-type: none"> <li>- Hypermarkets and convenience stores</li> <li>- Does not operate supermarkets in China due to lack of support for format from Chinese consumers</li> </ul>	<ul style="list-style-type: none"> <li>- 95% of products sourced domestically</li> <li>- Preference for local brands, especially in Tier 2 cities (e.g. beer)</li> <li>- Caters to local culinary habits</li> </ul>	<ul style="list-style-type: none"> <li>- Local logistics partners provide decentralized logistics, rather than developing own distribution network</li> <li>- Direct sourcing from Chinese farmers</li> </ul>	<ul style="list-style-type: none"> <li>- Local management teams of Chinese nationals</li> <li>- Established the Carrefour China Institute in 2000 to deliver training to Chinese staff</li> </ul>

### **Success Factors**

- Focus on adaptability which made Carrefour more responsive to consumer needs than other foreign retailers
- Differences or gaps in Chinese market are viewed as opportunities:
  - Lack of national distribution network allowed development of local suppliers and partners
  - Need to invest in staff training leads to better capability sharing and staff retention

Source: Press articles, company statements and reports



# Summary

**The BRICS will remain an opportunity to support strong growth, diversify business portfolios and overtake even larger competitors for companies which have the necessary insights. For those who do not, it will be a harsh proving ground**

- The BRICS are Emerging Markets. Emerging Markets are nations experiencing rapid growth and economic liberalisation on the path to turn into more developed economies
- The BRICS markets are poised to be drivers of growth, especially when starting to develop an 'economic punch' which is commensurate with their demographic and geopolitical weight
- Projections on the future power of the BRICS economies vary. Sources suggest that their combined economies could overtake the G7 by 2027 to 2050
- Despite brisk growth over the last decade, the competitiveness of the BRICS has been stagnating since 2006 - Global Competitive Report, World Economic Forum
- The BRICS have experienced far-reaching developments and progress across many areas and more is to be expected
- Significant scale diversification outside of a firm's home territory will lead to higher returns for shareholders, compared to subscale expansions
- Operating successfully in the BRICS requires to adapt business models to the local situation, including products and services, pricing, channels and production