TGFT12: Multispeed Everything: The End of BRICs

"Opportunities exist in emerging markets, as always, but given the wide range in valuations, an indiscriminate approach is unlikely to find them."

Dan Morris --- Global Market Strategist, JP Morgan

Introduction

For well over a decade, BRIC (Brazil, Russia, India and China) has been a widely used and widely useful term for describing a group of four emerging economies, which are all viewed as being at a similarly advanced stage of economic development and who symbolised the shift in economic power away from advanced economies. The acronym, coined by Goldman Sachs' Jim O'Neill in 2001 referred to four emerging economies that were distinctive not just because of the size of their economies, but because of their speed of growth.[1] More recently, focus in some places has turned to the next group of emerging economies – the CIVETs (an acronym that does not lend itself so easily to metaphors of building and industry); Colombia, Indonesia, Vietnam, Egypt and Turkey.[2] We could also mention other nebulous groupings of emerging nations, such as the Next 11, the 3G countries or the MIST nations.[3]

There are two major problems with thinking about countries in this way. Firstly, grouping nations based largely on their GDP growth obscures the massive cultural,

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[1] http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf

[2] Often included in either the BRICs or CIVETs acronym is the S – South Africa, but for the purposes of this analysis we will primarily focus on the four BRIC nations originally identified by Goldman Sachs' Jim O'Neill.

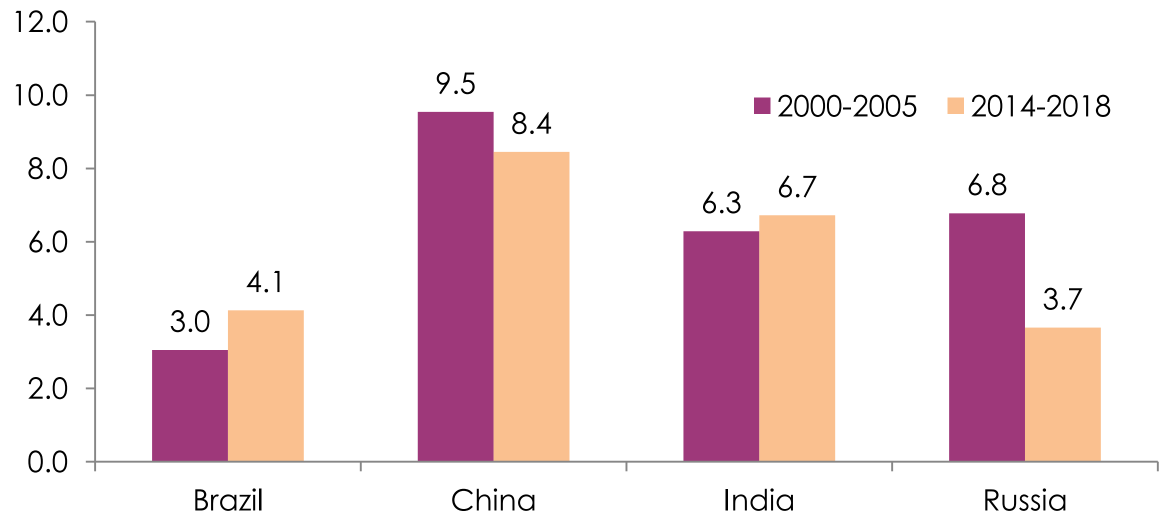
[3] Next 11 (Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, Vietnam); 3G nations (Bangladesh, China, Egypt, India, Indonesia, Iraq, Mongolia, Nigeria, Philippines, Sri Lanka, Vietnam); MIST (Mexico, Indonesia, South Africa, Turkey)

demographic, technological, political and environmental differences that exist between them. Secondly – and particularly over the last five years – it has imposed an overly restrictive framework on global economics: that emerging economies are growing and of value to businesses and brands, and that for advanced economies, the very opposite is true. This Trajection examines both how the current grouping of emerging economies may no longer be fit for purpose, and how advanced markets are still of enormous value to brands. In doing so, we hope to underline the importance of recognising economies as being fundamentally different from one another and complex – moving in different directions at different speeds – something that simpler narratives inevitably gloss over. Furthermore, we hope to move away from the overarching – and simplistic – dominance of economics as the governing narrative of global developments and growth. This focus is driven by the demand for high growth and high return markets – but this is short term thinking, perhaps best illustrated by China's rapid growth making it now a more expensive market (in terms of wages) than Mexico.[4] For sustained business success, there needs to be an understanding of businesses being fundamentally embedded in societies – and therefore a need to understand wider demographic, technological, cultural and social drivers, as well as economic ones.

The end of BRICs

Even based purely on economic trends, the BRICs have increasingly less in common with each other; due largely to Russia's steadily weakening growth. Indeed, given one of the distinctive characteristics of this group of countries was their rate of growth, the data below would suggest that Brazil never merited inclusion.

Average yearly GDP growth, %



Source: IMF WEO April 2013

As the chart shows, the economic fortunes of the BRIC nations, between the first few years of this century (when Jim O'Neill coined the term) and the next five years vary

[4] http://blogs.ft.com/beyond-brics/2013/04/05/made-in-mexico-now-cheaper-than-china/#axzz2Q9Jxc6Z0

sharply. Brazil's growth rate is set to notably increase after this year; India's to increase as well, but by less; China is predicted to decline slightly and Russia's has almost halved. The disparity not just in the rate of growth but in the direction of travel does not unify these countries, but separates them. Rather than moving at similar speeds in the same direction, the BRICs are moving in different directions at varying speeds. Not one speed, but multiple speeds in terms of growth.

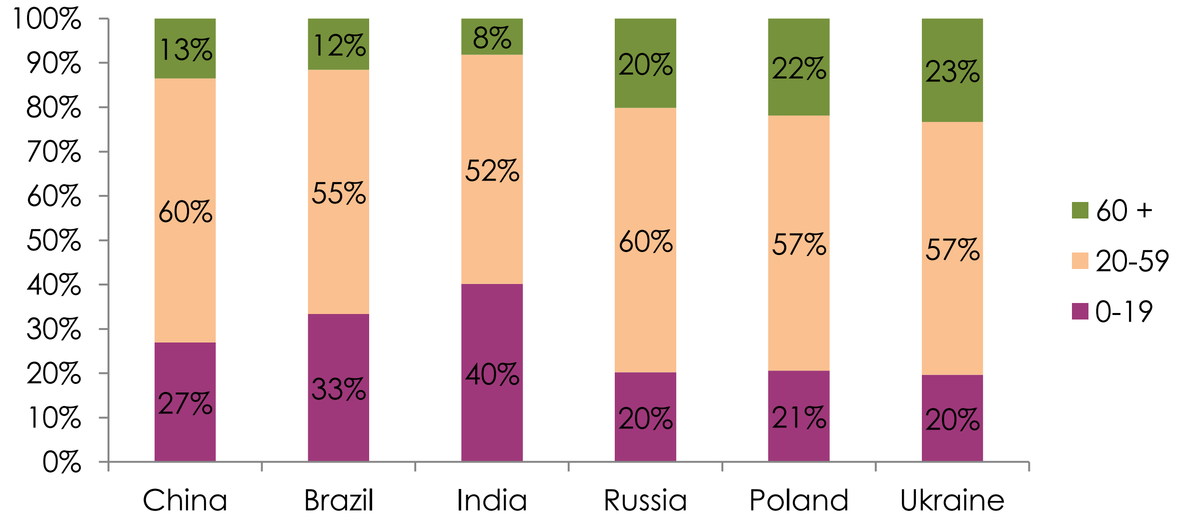
The narrow focus on economic data can also serve to unhelpfully obscure areas in which emerging nations are all moving together – that of rapid technology development and take up. Recent forecasts from eMarketer suggest that the number of social network users in Asia-Pacific, Latin America and the Middle East and Africa will all at least double between 2011 and 2017 as the platform reaches nearly a quarter of the world's total population.[5] The forecasts also suggest that as a proportion of the regional population, the percentage of users in Latin America will rise above 50% by 2017 – on a par with Europe and North America.

The varying patterns of technology take up are crucial, however, and another potential casualty of the restrictive framework placed on interpreting global development. Related to the notion of creative destruction, emerging markets have the opportunity to leapfrog stages of development and land at the cutting edge, either because of necessity or advances in efficiency or technology. For example, many emerging nations – particularly India – lack the basic infrastructure to support fixed line telephony. Rather than follow the pattern of advanced markets, the country has jumped straight to mobile phones. Sub-Saharan Africa is another region where infrastructure problems will affect patterns of technology uptake.

While the economic trends and forecasts are beginning to hint that the BRICs are diverging, the cultural and demographic indicators have been pointing in this direction for a while longer – and, crucially, single out Russia as having the least in common. In terms of age structure, Brazil, China and India have a higher proportion of younger people and a smaller older population. Russia, on the other hand, has fewer younger people but a greater number of older people – marking it not only as distinct from the other BRIC nations, but as almost identical in age structure to other Eastern European nations Poland and Ukraine.

[5] http://www.emarketer.com/Article/Social-Networking-Reaches-Nearly-One-Four-Around-World/1009976

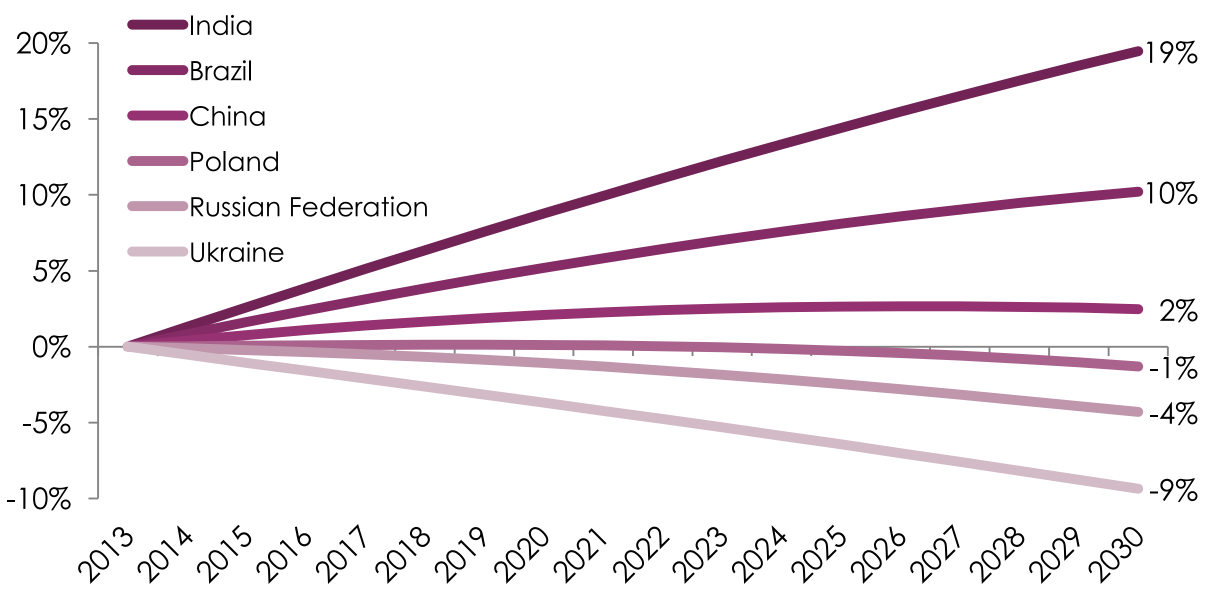
% of population in each age band



Source: UN World Population Prospects 2010

Across all six emerging economies in the chart above the working age population varies only moderately, from 52% in India to 60% in China and Russia. But the proportion of people at either end of life varies considerably – having huge implications not just in terms of the basic structure of the consumer population, but in terms of national prosperity both now and over the next few decades. High numbers of younger or older people also has a profound and detrimental impact on dependency ratios. As well as having high numbers of older people, and lower numbers of younger people, Russia, Poland and Ukraine also have shrinking populations - again, in stark contrast to Brazil, India and China.

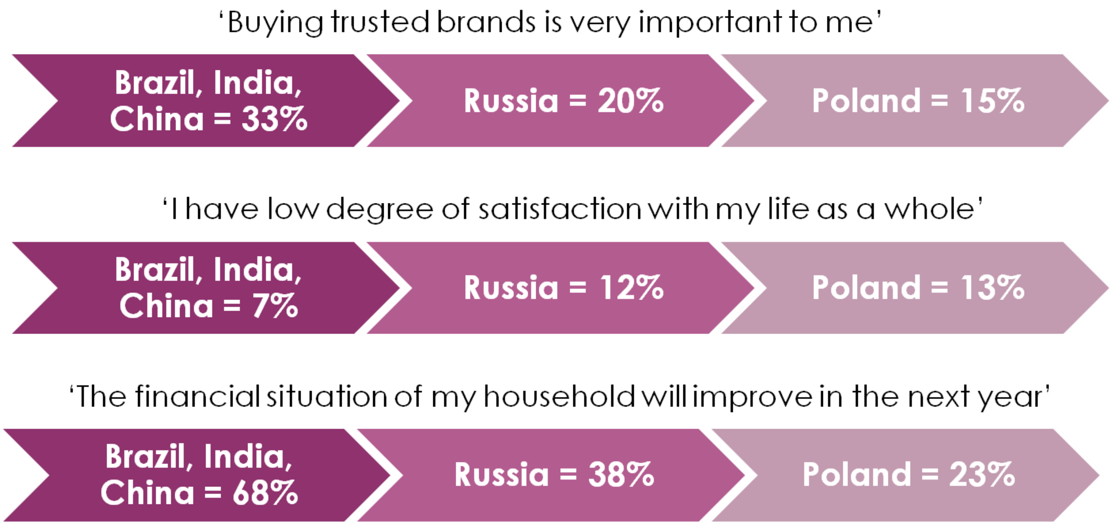
Population growth (%) 2013-2030



Source: UN World Population Prospects 2010

The implications of an ageing, declining population are of crucial significance to global brands and businesses – and demographic trends that set Russia as very separate to the other BRIC nations. If uniting or clustering groups of countries is useful – and it can certainly serve a function on a practical level – Russia would be better grouped with its geographic neighbours in Eastern Europe. With these nations, not only does it coalesce on major demographic and economic trends, but the geographical proximity and shared history translates into shared cultural and consumer values. This seems to be supported by the UN, who note "countries of Central Europe and of the Commonwealth of Independent States (Russian Federation, Ukraine, Belarus, and Central Asia; code 172) in Europe are not included under either developed or developing regions."[6] Russia and Eastern Europe's shared history sees them classified in limbo, as 'transition countries'. The easy dichotomy between advanced and emerging economies does not, according to the UN, apply to Russia.

Agreement with each statement, by country



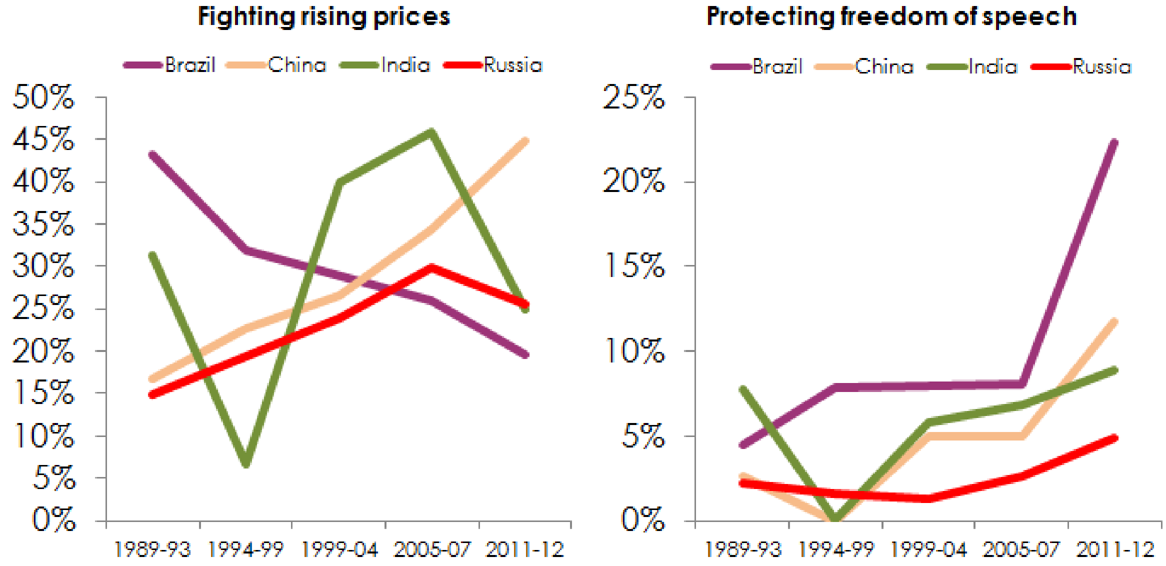
Source: Trajectory Global Foresight 2012

Across the broad spectrum of brand affinity, subjective wellbeing and consumer confidence, Russian consumers have far more in common with their neighbours in Eastern Europe than with Brazil, India and China.

It seems to us that Russia is clearly very distinct from the traditional BRIC group, and should not be included in analysis of these economies. This leaves Brazil, India and China (BICs, perhaps? CIBs?). Combining our own Trajectory Global Foresight data with data collected by the World Values Survey since the 1980s, we can trace the development of key cultural and social attitudes over the course of a generation.

[6] http://unstats.un.org/unsd/methods/m49/m49regin.htm#developed

Top priority for country (% agreeing)



Source: World Values Survey 1989-2007, Trajectory Global Foresight 2011-12

As the data clearly demonstrates, on a range of cultural and social indicators, the various BRIC countries differ widely, with Brazil standing out especially strongly. The implications of the growth in the priority attached to free speech is reinforced by wider findings that indicate that Brazilian consumers are increasingly keen to see people being given 'more say in important decisions' and far less likely to think 'maintaining order' is a national priority. These kinds of values have been developing for over twenty years and recently came to global attention during the protests staged while the country hosted the Confederations Cup. In some areas – and painting with very broad brush strokes – it is possible to see all the BRIC nations moving in the same direction on free speech, even if the speed clearly varies enormously. On the issue of rising prices, however, our multispeed hypothesis is demonstrated most clearly. For Brazilian consumers, price inflation has been steadily decreasing as an issue for over twenty years; for China the very opposite is evident. Russia appeared to be following a very similar trajectory to China until these economic trends diverged. India's data reveals a wildly chaotic and inconsistent response – indicating no overarching trend at all, let alone one that allies it to another economy.

For brands, these types of values are crucial in terms of tone and approach when thinking about marketing, positioning and communications. Beyond the simple narrative of rapidly industrialising economies, both the softer data and diverging economic and demographic trends reveal profound differences in attitudes and outlook amongst the consumer population – as critical to the development of business or to understanding consumer behaviour as the national balance sheet.

Remember us? The continued importance of Advanced Economies

The second aspect to this analysis is the continued importance of affluent consumers in advanced markets. The remarkable growth in emerging economies has seen the BRIC nations break into the top ten largest economies in the world. But the narrative of 'emerging economies good, advanced economies bad' has been fuelled not only by this growth, but by the economic stagnation pervading advanced nations during the prolonged economic downturn.

As the table below illustrates, however, the continued importance – and sheer affluence – of consumers in advanced markets cannot be overstated.

Total GDP and GDP per capita, 2013[7]

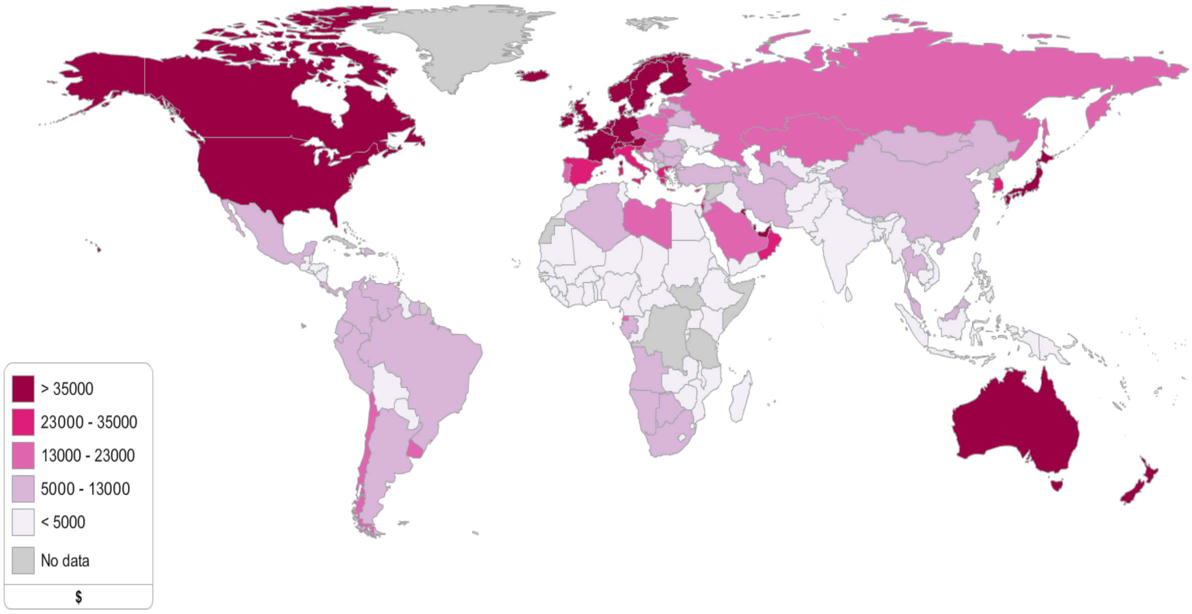
Country	Rank – total GDP	Rank – GDP per Cap	Ranking gap	Total GDP (Billion US$)	GDP per Cap (US$)
United States	1	11	**-10**	16,238	51,248
China	2	86	**-84**	9,020	6,628
Japan	3	23	**-20**	5,150	40,441
Germany	4	19	**-15**	3,598	44,010
France	5	20	**-15**	2,739	42,999
Brazil	6	58	**-52**	2,457	12,290
United Kingdom	7	25	**-18**	2,423	38,001
Russia	8	46	**-38**	2,214	15,650
Italy	9	26	**-17**	2,076	34,034
India	10	142	**-132**	1,973	1,591

Source: IMF WEO April 2013

Although having experienced several years of stagnant growth and recession, the major economies in Europe dominate the top 30 countries for GDP per capita – and are (largely) surrounded at this end of the rankings by other advanced economies. Re-ranking economies based on per capita GDP also provides an indication as to the distribution of wealth in markets. As recent events in Brazil have illustrated, strong national growth is no barrier to civil unrest and protest if income inequality pervades. This distribution is perhaps best illustrated by a map, where the darker the shade, the higher the GDP per capita – evidently concentrated on established markets in Oceania, West and Northern Europe, and North America.

[7] All countries drop down the rankings to some extent, because the GDP per capita rankings are dominated by wealthy – but very small – nations such as Norway, Luxembourg, Qatar and Switzerland

GDP per capita, 2013 (US$)



Source: IMF WEO October 2012

Equally, the recent Global Innovation Index – which ranks nations based on both businesses' ability to innovate and government programmes to stimulate it – is dominated by advanced markets in Europe and North America, with the highest ranked BRIC nation, China, in 35th place.

The narrow focus on GDP growth – either yearly or quarterly – obscures the greater (and more slowly moving) picture: of continued, relative, affluence in advanced economies. A particularly relevant example is Japan – still the world's 3rd largest economy, despite a 'lost decade' and years of stagnant growth. Rather than being stuck in terminal decline, the market remains huge and its consumers affluent and relevant to brands and businesses - and still innovative and leading edge. Contrasted with India – a powerhouse of growth, but with lesser national wealth distributed unevenly across a population nearly 10 times the size – the critical importance of neglected advanced economies stands in even sharper light.

Conclusion – Multispeed Everything

The crux of the analysis presented in this Trajection is aimed at challenging the simple narratives that dictate perceptions of emerging and advanced economies – often through over-emphasising the importance of the minutiae of economic indicators, such as quarterly GDP growth. Looking at a broader range of factors – including the often overlooked demographic trends – we can see that the much heralded BRIC nations have increasingly less in common with one another. Crucially, even though they are important and fascinating on an individual basis, these rapidly developing economies remain dwarfed by advanced nations.

The crucial understanding is *multispeed*: economies moving at different speeds in different directions – something underlined not only by macro economic and demographic data, but by analysis of the values and attitudes of its consumer population as well.

This Trajection is driven by data and thinking from Trajectory's Global Foresight service (TGF) which covers 20 countries. The service provides analysis on the trends driving consumer and citizen behaviour - what they are, why they are important and where they are heading. All of the content is supported by research amongst over 40,000 people per annum.

For more information about TGF or any associated research projects please get in touch:

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