



A Dramatically Different World

[Without the benefit of the global
economic crisis]

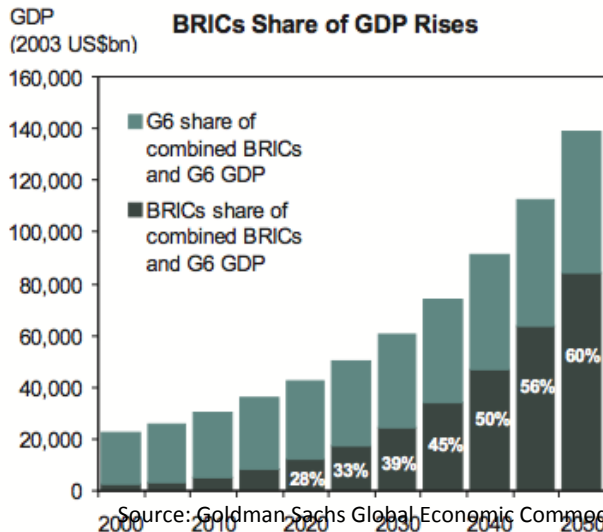
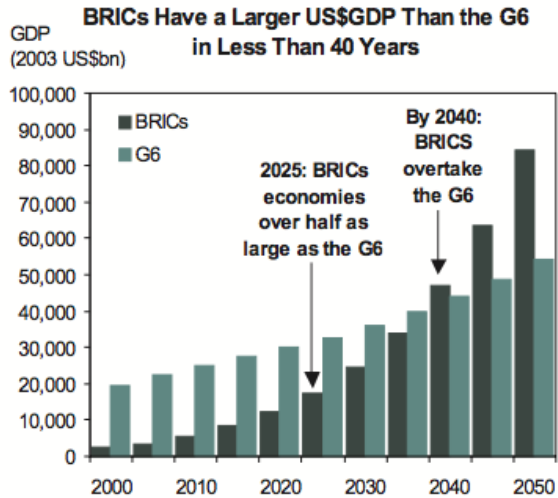
Circa 2003

The birth of BRIC



- A term coined by Goldman Sachs in late 2001, today the term rolls off the tongue of many, globally. At a time when South Africa has just joined the group, for it to be rechristened as BRICS, these findings from papers published by the Goldman Sachs Global Research Centre in 2003 and an update in 2007 presents a historic outlook of the promise that the developing economies of Brazil, Russia, China and India held, a decade back. [Without the dubious benefit of the global recession that only served to accentuate the potential value of the BRIC nations vis-à-vis the developed economies]
- Almost presciently, the researchers had some observations on South Africa as well, in 2003 and that's captured in the excerpts presented here.
- In its entirety, the outlook for the BRICS nations, seen in the numbers projected and playing out as we speak certainly paint a dramatically different world

BRIC, as seen in 2003



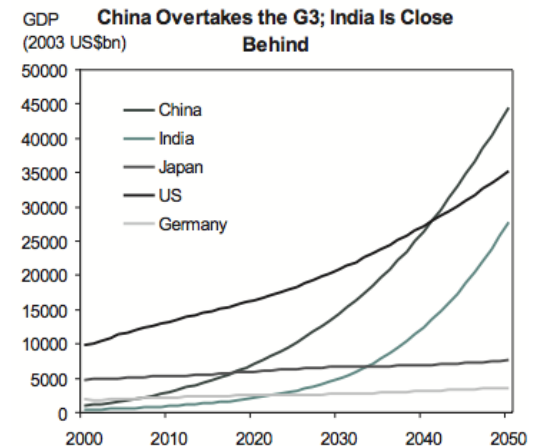
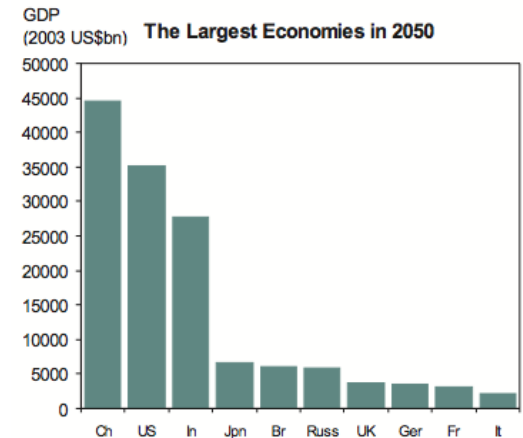
Source: Goldman Sachs Global Economic Commodities and Strategy Research

- Over the next 50 years, Brazil, Russia, India and China—the BRICs economies—could become a much larger force in the world economy. Using the latest demographic projections and a model of capital accumulation and productivity growth, we map out GDP growth, income per capita and currency movements in the BRICs economies until 2050.
- The results are startling. If things go right, in less than 40 years, the BRICs economies together could be larger than the G6 in US dollar terms. By 2025 they could account for over half the size of the G6. Currently they are worth less than 15%. Of the current G6, only the US and Japan may be among the six largest economies in US dollar terms in 2050.
- About two thirds of the increase in US dollar GDP from the BRICs should come from higher real growth, with the balance through currency appreciation. The BRICs' real exchange rates could appreciate by up to 300% over the next 50 years (an average of 2.5% a year).
- The shift in GDP relative to the G6 takes place steadily over the period, but is most dramatic in the first 30 years. Growth for the BRICs is likely to slow significantly toward the end of the period, with only India seeing growth rates significantly above 3% by 2050. And individuals in the BRICs are still likely to be poorer on average than individuals in the G6 economies, with the exception of Russia. China's per capita income could be roughly what the developed economies are now (about US\$30,000 per capita).
- As early as 2009, the annual increase in US dollar spending from the BRICs could be greater than that from the G6 and more than twice as much in dollar terms as it is now. By 2025 the annual increase in US dollar spending from the BRICs could be twice that of the G6, and four times higher by 2050.

BRIC, as seen in 2003



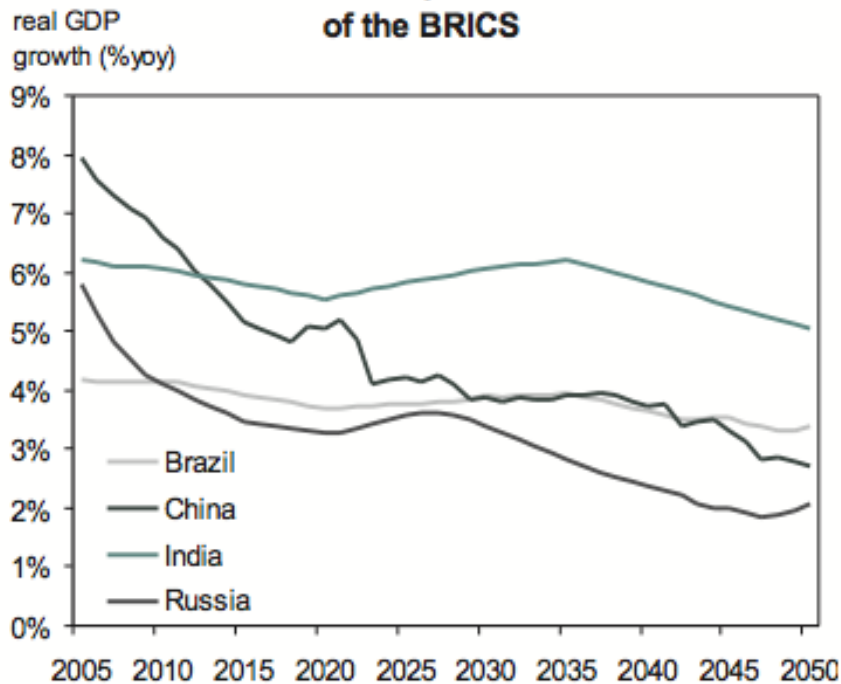
- The key assumption underlying these projections is that the BRICs maintain policies and develop institutions that are supportive of growth. Each of the BRICs faces significant challenges in keeping development on track. This means that there is a good chance that the projections are not met, either through bad policy or bad luck. But if the BRICs come anywhere close to meeting the projections set out here, the implications for the pattern of growth and economic activity could be large.
- The relative importance of the BRICs as an engine of new demand growth and spending power may shift more dramatically and quickly than expected. Higher growth in these economies could offset the impact of greying populations and slower growth in the advanced economies.
- Higher growth may lead to higher returns and increased demand for capital. The weight of the BRICs in investment portfolios could rise sharply. Capital flows might move further in their favour, prompting major currency realignments.
- Rising incomes may also see these economies move through the 'sweetspot' of growth for different kinds of products, as local spending patterns change. This could be an important determinant of demand and pricing patterns for a range of commodities.
- As today's advanced economies become a shrinking part of the world economy, the accompanying shifts in spending could provide significant opportunities for global companies. Being invested in and involved in the right markets—particularly the right emerging markets—may become an increasingly important strategic choice.
- The list of the world's ten largest economies may look quite different in 2050. The largest economies in the world (by GDP) may no longer be the richest (by income per capita), making strategic choices for firms more complex.



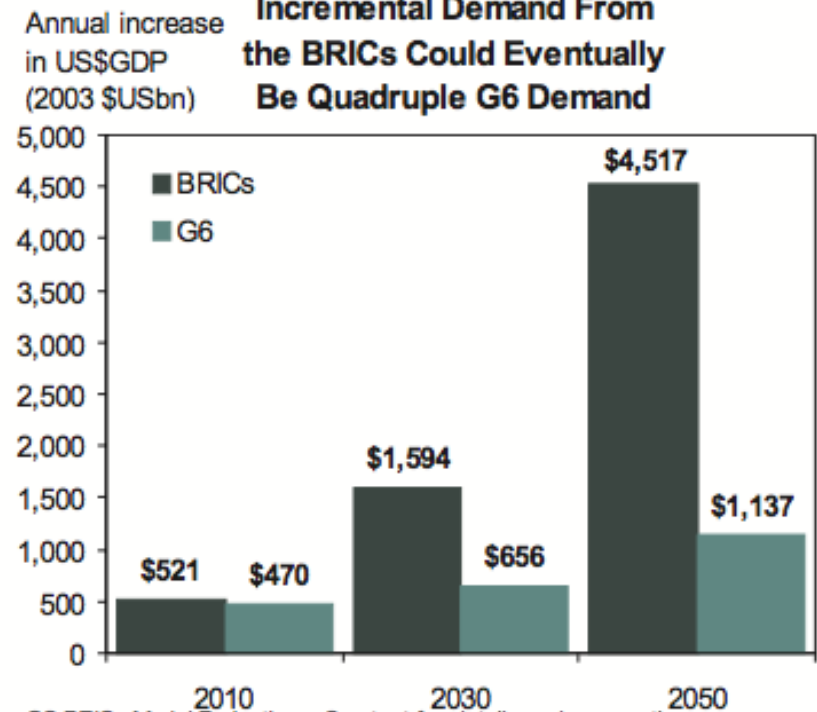
BRIC, as seen in 2003



India Shows Most Rapid Growth Potential of the BRICS



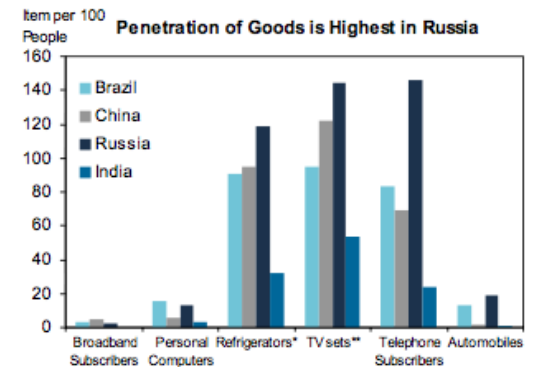
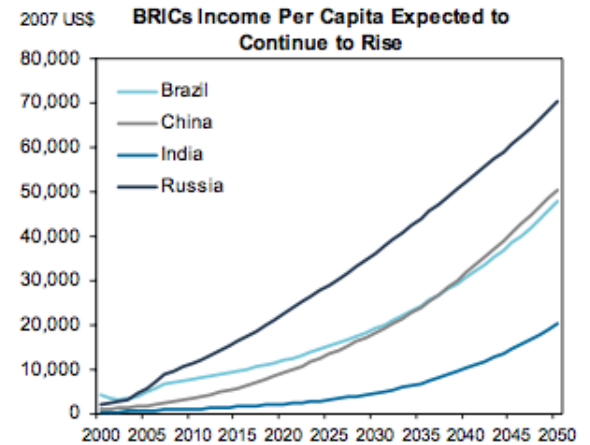
Incremental Demand From the BRICs Could Eventually Be Quadruple G6 Demand





BRIC 2007- Some early indicators

- In the long run, income per capita in the BRICs will continue to rise. Also, spending power is likely to shift away from the richest countries towards a growing middle-income bloc, comprising emerging countries in general, and the BRICs in particular. This will lead to higher consumption as BRICs middle-class consumers catch up with their counterparts in richer countries.
- The rise is more apparent as the penetration of different goods (number of goods per 100 people) in the BRICs economies, with the exception of Russia, is currently low, suggesting there is more room for growth. Russia is generally the most mature consumer market, followed by Brazil; given that income per capita is much higher there than in India and China, Russia and Brazil are ahead in the development stage.
- Although China's income per capita is lower than Brazil's, the penetration of some goods (broadband subscribers, refrigerators, TVs) is higher than in Brazil. However, the number of cars per 100 people in China is significantly below that in Brazil and Russia, which implies that car sales will continue to grow rapidly as the country tries to catch up with the living standards in these other emerging markets.
- Of the BRICs, India is the clear laggard in penetration of goods. However, as the middle class continues to grow and consumer expenditure rises, there is plenty of room for increased consumption. In particular, consumption is likely to rise when the rapid economic growth in China and India feeds through to the rural population.
- The change in the structure of consumption in the BRICs is also likely to gradually transform the type of products that the BRICs import, with the import share of low-valued- added goods falling. The import share of agricultural products has already fallen across the board from 1995 to 2007, as BRICs consumers slowly increased their imports of higher-value-added goods, such as cars and office & telecom equipment.
- Russia's composition of imports has changed the most, with the import share of cars rising sharply from 5% in 1990 to 15% in 2007, and the share of agricultural products falling from 12% to 6% over the same period.
- In China, the import share of office & telecom equipment has increased dramatically since the late 1990s. China's import share of automotive products remains low at 2.5%, compared with 6.8% in Brazil and 14.7% in Russia.



Most recently available data.
 *As a % of urban households **As a % of households
 Source: National Sources, World Bank.

South Africa? Circa 2003



- With Asia, Europe and Latin America represented in the BRICs profile, Africa is noticeable by its absence. The BRIC countries were chosen because they were the four largest developing economies. Still, it is interesting and important to look beyond, at the potential for Africa, and particularly South Africa, the largest economy in the region, to play a part in the same kind of process.
- To provide comparison, the same projection methods used for the BRICs were applied to South Africa. Projected growth over the next decade is around 4% here, but the main thrust of the outlook is similar. Both in South Africa, and in the region more generally, the challenge of AIDS and the impact it will have on labour force and population dynamics is an important risk and challenge that has no direct counterpart elsewhere.
- The longer-term projections show South Africa growing at an average rate of around 3.5% over the next 50 years, comparable to the predictions for Russia and Brazil. With declining population growth rates, per capita incomes under these projections would rise significantly more rapidly. Under these projections South Africa's economy would be significantly smaller than the BRICs in 2050 (around US\$1.2bn compared to US\$5.9bn for Russia, the smallest of the BRICs economies), though its projected GDP *per capita* would actually be higher.

Projected US\$GDP Levels					
2003 US\$bn	South Africa	Brazil	China	India	Russia
2000	83	762	1078	469	391
2010	147	668	2998	929	847
2020	267	1333	7070	2104	1741
2030	447	2189	14312	4935	2980
2040	739	3740	26439	12367	4467
2050	1174	6074	44453	27803	5870

