



Grant Thornton

An instinct for growth™

GRANT THORNTON INTERNATIONAL BUSINESS REPORT 2012

# The BRICs: propping up the global economy

This short report looks at the rise of the BRIC economies, their growing importance to the global economy and the trends that will shape their performance. It draws upon the International Business Report (IBR) – a quarterly survey of business leaders, covering 11,500 businesses in 40 economies on an annual basis – as well as forecast data from leading global economists.



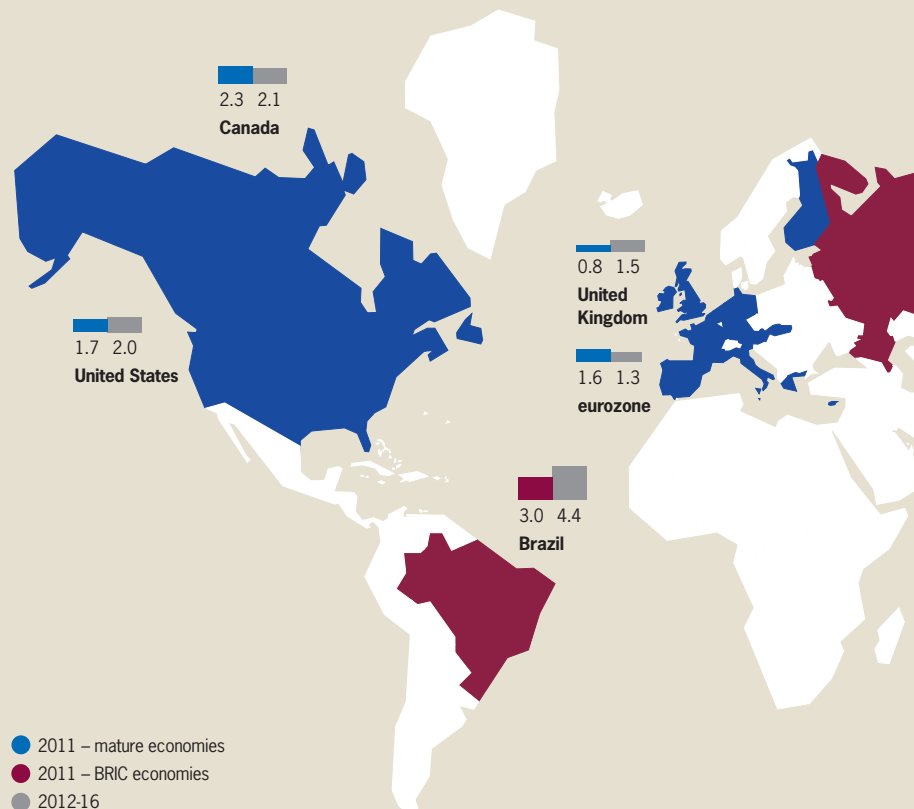
# No longer emerging?

The collective strength of the BRIC economies (Brazil, Russia, India and China) is of ever increasing importance to the strength of the global economy. Whilst mature economies across the globe grapple with towering budget deficits, anaemic growth and rising unemployment, the BRICs are expanding rapidly, lifting people out of poverty and driving the global economy. The manner in which leaders in the troubled eurozone recently pleaded with these markets for funds to help alleviate the sovereign debt crisis marks yet another definitive step in the transition of economic power from 'west' to 'east'.

Indeed, at a recent high-growth markets conference run by the The Economist, the man who first coined the BRICs acronym around a decade ago, Jim O'Neill, now chairman of Goldman Sachs Asset Management, described as "idiotic and insulting" the use of emerging markets in relation to the BRICs. He argues that these economies are "increasingly the driver of everything positive in the world economy" and that they should be grouped alongside Indonesia, Mexico, South Korea and Turkey as "growth markets".<sup>1</sup>

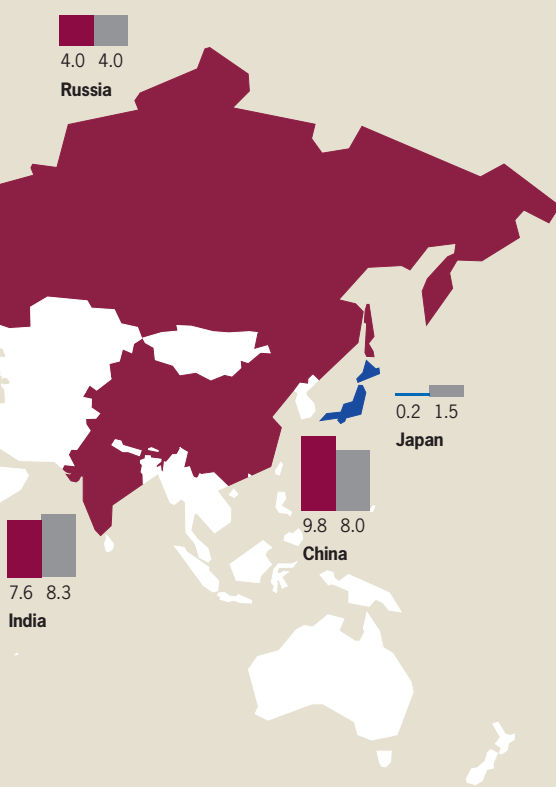
Of course, when measured on a per capita basis, the GDP of these economies still lags behind that of the G7. However, on an absolute basis, they are catching up fast. The BRICs are forecast to account for 37% of global growth in the period 2011-16, with China alone contributing 22%. This will increase the BRIC share of global output from 19% to 23%. Meanwhile, the proportion of global output produced by the traditional powerhouses in the G7 economies will fall from 48% to 44% over the same period.<sup>2</sup>

**FIGURE 1: BRICS BUILDING MOMENTUM**  
GDP PERCENTAGE GROWTH RATES

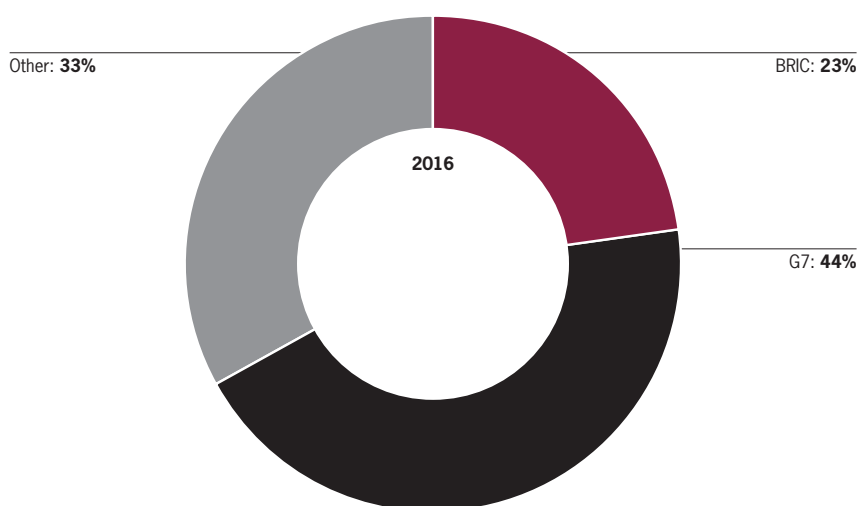
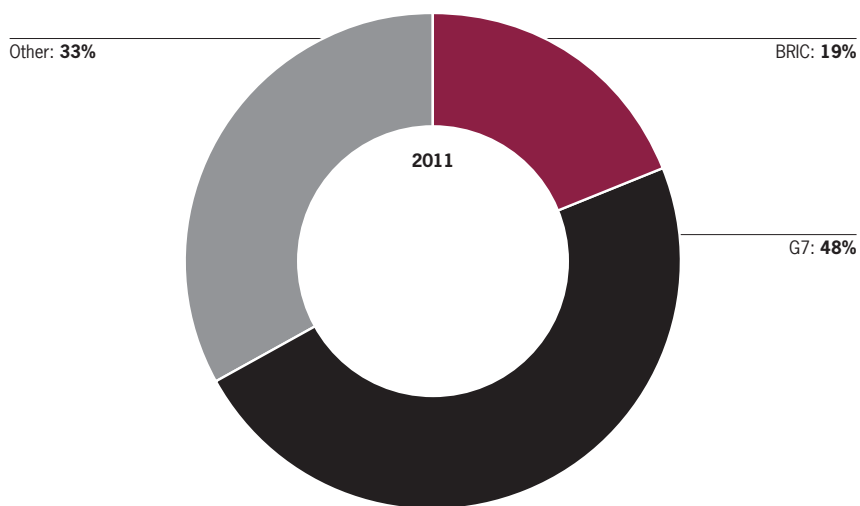


<sup>1</sup> Source: GTUK International Markets  
<http://www.grant-thornton.co.uk/thinking/emergingmarkets/>  
<sup>2</sup> Source: IMF 2011

SOURCE: ECONOMIST INTELLIGENCE UNIT 2011



**FIGURE 2: BRICS TAKING A LARGER SLICE OF THE GLOBAL ECONOMY**  
PERCENTAGE OF GLOBAL OUTPUT



SOURCE: IMF 2011

## Business confidence

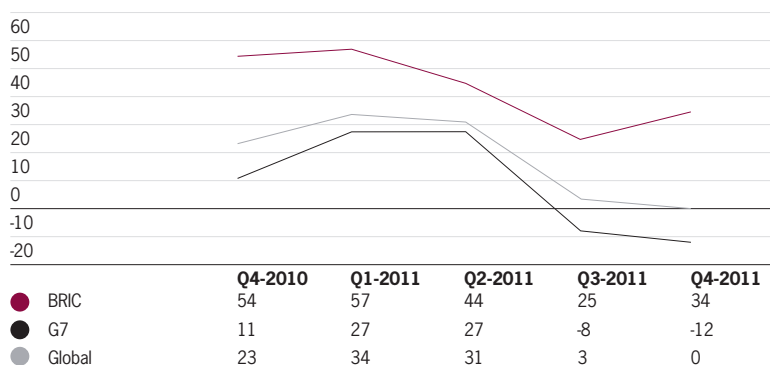
Against this backdrop of rapid economic growth, business leaders in the BRIC economies remain more optimistic about the outlook for their respective economies compared with peers in mature markets. The latest IBR quarterly results show net 34% of business leaders indicating optimism over pessimism for the next 12 months, compared with -12% in the G7.

Business leaders in mature markets remained cautiously optimistic about their economies up until Q2 of this year. However, by Q3 the slowdown in the United States economy, the fallout from the tsunami in Japan and the sovereign debt crisis in the eurozone saw optimism slide. Whilst BRIC business confidence ticked downwards in both Q2 and Q3, it recovered again in Q4 to stand fully 46 percentage points higher than in the G7.

Clearly there are a number of issues facing the BRIC economies. In Russia, oil and gas make up two-thirds of exports and the price of oil will need to be US\$120 a barrel if the budget is to balance. In Brazil, the strong real has hurt exporters and growth was flat in the third quarter of 2011. In China housing sales, construction and exports have all slowed significantly in recent months. Whilst in India corruption, inflation and an unwillingness to let foreign investment in are all threats to growth prospects.

Further, these markets are now ever more dependent on the global economy with India recently warning that growth was beginning to falter, and top Chinese policymakers describing the outlook as “extremely grim and complicated.”<sup>3</sup> As a result, three-quarters of BRIC business leaders are concerned that the global economy will go back into recession over the next 12 months. Business leaders in India are the most concerned (96%), followed by Russia (87%) and Brazil (76%) with China the least concerned (66%).

**FIGURE 3: BRICS BUOYANT**  
NET PERCENTAGE OF BUSINESSES INDICATING OPTIMISM LESS THOSE INDICATING PESSIMISM



SOURCE: GRANT THORNTON IBR 2012

**FIGURE 4: WORRIED ABOUT ANOTHER RECESSION?**  
PERCENTAGE OF BUSINESSES WORRIED THAT THE GLOBAL ECONOMY WILL GO BACK INTO RECESSION



SOURCE: GRANT THORNTON IBR 2012

<sup>3</sup>Source: Financial Times “India and China voice growth fears” 16/12/2011

“Economies such as China are catching up fast. With growth rates in mature markets not expected to reach pre-recession levels anytime soon, a rebalancing of global economic power is well underway.”

XU HUA  
GRANT THORNTON CHINA

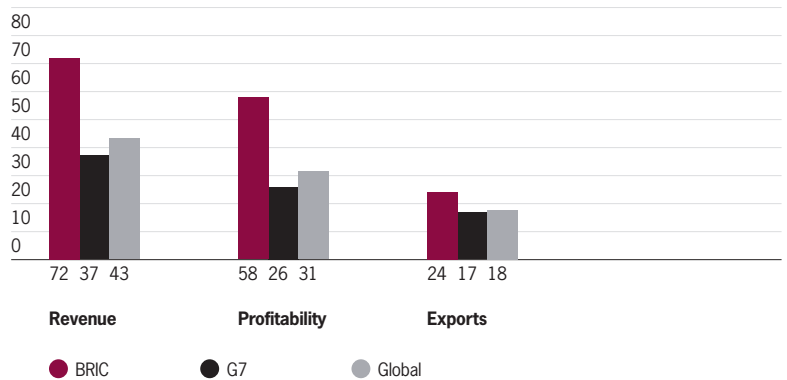
### Operations

Business confidence in the BRIC economies extends to their expectations for boosting business performance over the next 12 months. Net 72% of BRIC businesses leaders expect revenues to rise in 2012, compared with 37% in the G7 and 43% globally. Similarly, 58% of those in the BRICs expect to see their profits rise, well above the G7 (26%) and global average (31%). Meanwhile, expectations for exports in the BRICs stand at 24%, slightly above the G7 (17%).

Businesses in India are the most bullish in terms of increasing revenues in 2012; net 82% expect to see an increase, ahead of Brazil (78%), China (74%) and Russia (43%). In terms of profitability, China leads the way with net 61% expecting to see a rise in 2012, slightly ahead of Brazil (60%), India (57%) and Russia (42%). Meanwhile export prospects are far higher in India (36%) and China (28%) than in Brazil (16%) and Russia (6%).

FIGURE 5: BRIC BUSINESS BOOMING

NET PERCENTAGE OF BUSINESSES EXPECTING AN INCREASE LESS THOSE EXPECTING A DECREASE



SOURCE: GRANT THORNTON IBR 2012



“Finding the right workers is a serious issue for businesses amid near record low unemployment. Businesses urgently require more skilled workers to fuel growth.”

MADELEINE BLANKENSTEIN  
GRANT THORNTON BRAZIL

### Employment

Employment prospects in the BRIC economies as a whole remain robust; net 45% of businesses increased staff levels in 2011 and a further 41% expect to do so again in 2012. By contrast, even as jobs were shed in the public sectors just 22% of business leaders in the G7 boosted staff levels over the past 12 months, whilst 26% expect to do so in 2012.

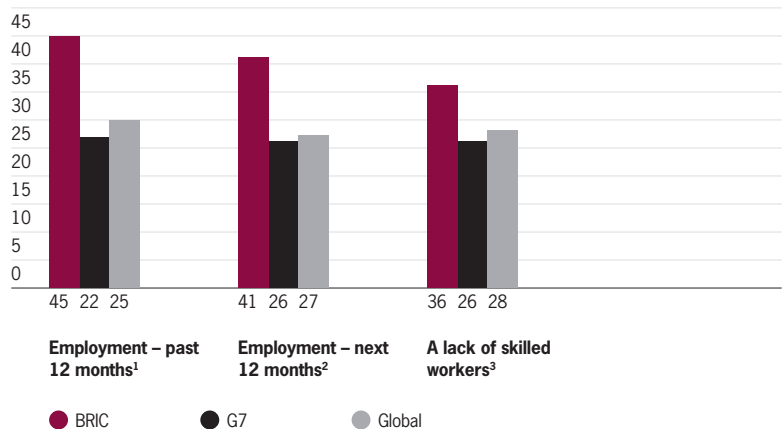
Rather than the challenge of unemployment which many mature governments are grappling with, businesses in the BRIC economies are faced with a shortage of skilled workers; 36% of these businesses believe an inability to find the right workers will act as a constraint on expansion plans over the next 12 months, well above the level observed in the G7 (26%).

FIGURE 6: HIRING PLANS STRONG, BUT WHERE ARE THE SKILLED WORKERS?

<sup>1</sup> NET PERCENTAGE OF BUSINESSES EXPECTING AN INCREASE

<sup>2</sup> NET PERCENTAGE OF BUSINESSES REPORTING AN INCREASE

<sup>3</sup> PERCENTAGE OF BUSINESSES CITING A LACK OF SKILLED WORKERS AS A CONSTRAINT ON GROWTH



SOURCE: GRANT THORNTON IBR 2012



## Inflation

Inflation remains a key challenge for the BRIC economies. In India the central bank has raised interest rates 13 times in 19 months to try and curb double-digit rises in consumer prices. In Brazil, despite recent easing, the rate inflation remains at 6.6% well above the target of 4.5%. In China, inflation peaked at 6.4% in June but has since dropped to 4.2%, although the expected loosening of monetary policy may see this climb again. In Russia, heavy fiscal spending ahead of the elections next year is likely to keep the rate well above 6%.<sup>4</sup>

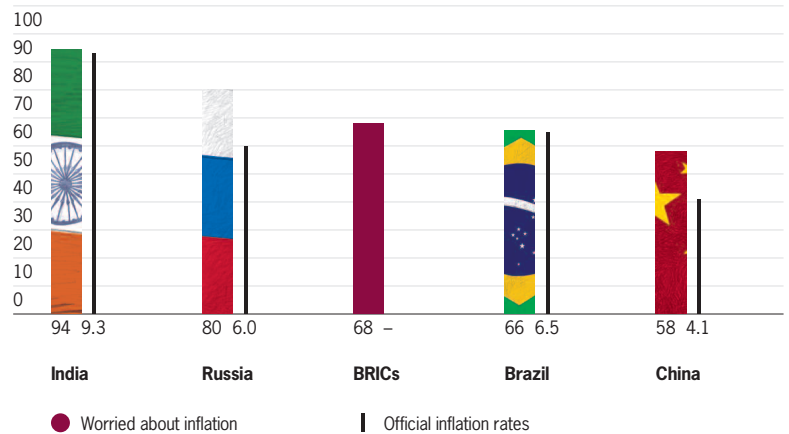
The majority of business leaders in the BRIC economies are concerned about the impact of inflation on their respective economies. 68% cite it as a concern across all four countries, but this ranges from 94% in India to 58% in China.

These figures are supported by the IBR which suggests that net 38% of businesses expect to increase selling prices over the next 12 months, compared with just 18% globally. In India (60%) and Brazil (44%) especially prices are expected to climb.

A further 21% of businesses expect to increase salaries above the rate of inflation, compared to 14% globally. However, there are big variations between Brazil (40%) and India (35%), compared with China (15%) and Russia (4%) on this measure.

**FIGURE 7: INFLATION REMAINS A CONCERN**

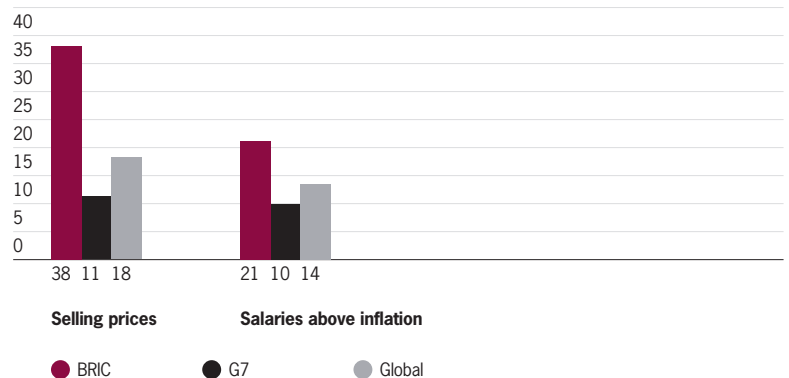
HOW WORRIED ARE BUSINESSES ABOUT EFFECT OF INFLATION ON GROWTH; LAST REPORTED OFFICIAL INFLATION RATE



SOURCE: GRANT THORNTON IBR 2012/EIU 2011

**FIGURE 8: WAGE-PRICE SPIRAL DANGERS**

NET PERCENTAGE OF BUSINESSES EXPECTING TO INCREASE SELLING PRICES/RAISE SALARIES OVER NEXT 12 MONTHS



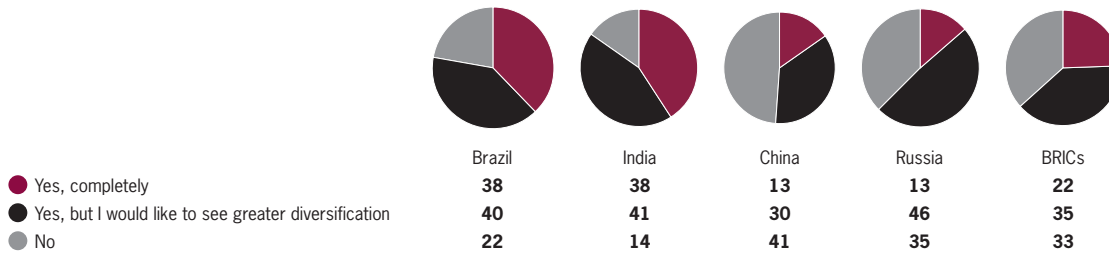
SOURCE: GRANT THORNTON IBR 2012

“Inflation is perhaps the key issue the Central Bank of India is dealing with right now. With salaries expected to rise over the next 12 months, businesses will be forced to raise prices to maintain real profits.”

VISHESH CHANDIOK  
GRANT THORNTON INDIA

<sup>4</sup> Source: Economist Intelligence Unit

**FIGURE 9: RISE OF THE REDBACK?**  
PERCENTAGE OF BUSINESSES THAT SUPPORT THE US\$ AS THE GLOBAL RESERVE CURRENCY



SOURCE: GRANT THORNTON IBR 2012

### Finance

Access to finance is an area in which businesses in the BRIC economies struggle more than their peers in the G7. Globally, around a quarter of business leaders cite each of the cost of finance, access to long-term finance and a shortage of working capital as constraints on their ability to grow their business.

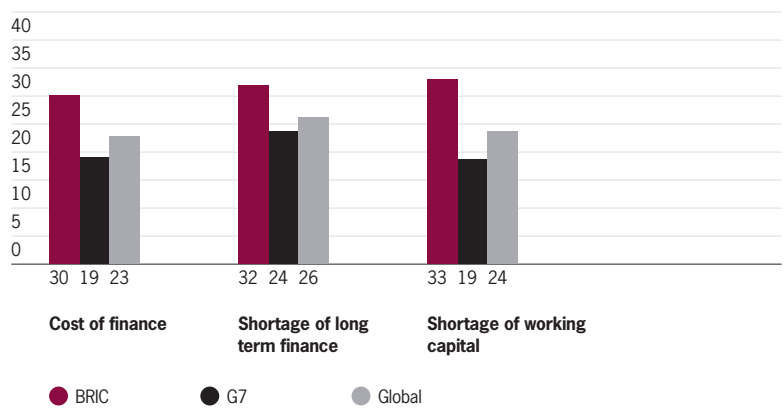
However, in the BRIC economies, 33% of business leaders cite a shortage of working capital compared with 19% in the G7. Similarly 32% cite a shortage of long-term finance and 30% the cost of finance in the BRICs, well above levels observed in the G7.

Further, businesses in mature markets feel much better supported by their lenders. Whilst 78% of G7 businesses feel that their lender is supportive of their business, this drops to 66% in the BRIC economies. The global average is 74%.

Interestingly, at a time of such economic volatility, 35% of BRIC businesses say they support the US dollar as the global reserve currency but would like to see further diversification. A further 33% say they do not support the US\$ as the global reserve currency, with 22% supporting it completely.

Full support is strongest in Brazil and India (both 38%) and weakest in China and Russia (both 13%). At least two in five businesses in Brazil, India and Russia support the US dollar but would like to see further diversification. In China, more than two in five businesses do not support the US dollar as the global reserve currency (35%).

**FIGURE 10: STRUGGLING FOR FUNDS**  
PERCENTAGE OF BUSINESSES CITING FINANCE AS A CONSTRAINT ON GROWTH



SOURCE: GRANT THORNTON IBR 2012



## Investment

Investment activity in the BRIC economies looks robust for the next 12 months; net 47% expect to increase investment in plant and machinery in 2012, and a further net 46% plan to expand their R&D activity. Across the G7, investment activity looks slower with net 31% and net 17% planning to increase investment in plant and machinery and R&D respectively.

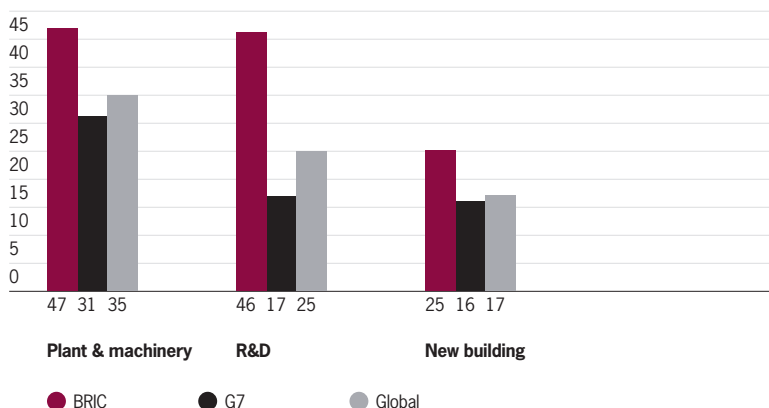
However, there is evidence that businesses in the BRIC economies would like to see their respective governments do more to alleviate the challenges they face in terms of key infrastructure. 18% of business leaders cite the poor quality of transport infrastructure as a major constraint on their ability to grow their operations, compared to just 8% in the G7, and 11% globally. A further 17% of BRIC businesses leaders cite information communications technology as a constraint, compared with 11% in the G7 and 14% globally.

An area in which BRIC governments have been investing recently is the bidding for and hosting of major sporting events such as the Olympic Games and the FIFA World Cup. Overall 51% of BRIC businesses believe these events are important in terms of attracting investment.

In Brazil, which is to host both the FIFA World Cup in 2014 and the Olympic Games in 2016, 84% of businesses believe such events are an important draw for investment. In Russia, which will host the FIFA World Cup in 2018, 52% of businesses believe these events are important, but in China, which hosted the Olympic Games in 2008 support falls to just 39%.

**FIGURE 11: INVESTING FOR FUTURE GROWTH**

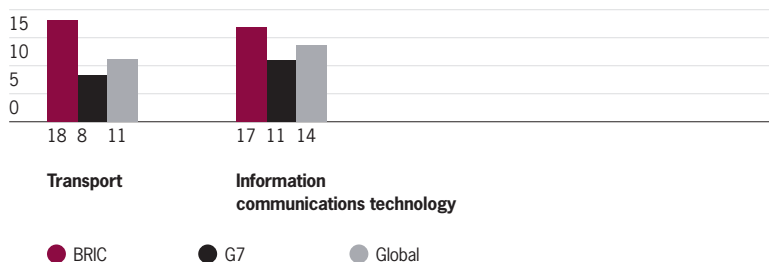
NET PERCENTAGE OF BUSINESSES EXPECTING AN INCREASE LESS THOSE EXPECTING A DECREASE



SOURCE: GRANT THORNTON IBR 2012

**FIGURE 12: BUSINESS EXPANSION CHOKED**

PERCENTAGE OF BUSINESSES CITING INFRASTRUCTURE AS A CONSTRAINT ON GROWTH



SOURCE: GRANT THORNTON IBR 2012

**FIGURE 13: TURNING THE EYES OF THE WORLD TOWARDS YOU\***

PERCENTAGE OF BUSINESSES CITING MAJOR SPORTING EVENTS AS IMPORTANT TOOL TO ATTRACT INVESTMENT



\*this question was not asked in India

SOURCE: GRANT THORNTON IBR 2012

“While energy prices will stay consistently high for a long period of time, we hope that in the meantime Russia will be able to lessen the economy’s dependence on raw materials by boosting the export of deeper conversion products instead. Although such reorientation would demand considerable infrastructure investments, it would make the Russian economy more competitive in the long run.”

IVAN SAPAROV  
GRANT THORNTON RUSSIA

