

I've been thinking about...the potential of the BRIC economies and their impact on our local economy and market

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The emergence of the BRIC economies as economic power houses is a dominant feature of the past decade – and it will continue to be a key influence on the world economy and investment markets for many years to come.

The BRIC economies, China especially, are bringing about profound change in each of:

- the global cycles in business conditions and investment markets;
- the underlying trends in global growth and investor returns; and,
- and the investment opportunities facing investors.

What is the outlook for the BRICs?

Long-term, the BRICs are likely to achieve strong growth and huge increases in jobs and wealth – but note how different are the individual economic models:

- Brazil: emphasis on resources and relatively slow emergence of a middle class
- Russia: emphasis on energy; a falling population
- India: emphasis on technology; a rising population
- China: emphasis on manufacturing; a falling population

But, by the nature of their strong growth and rapid change, the BRICs will also be subject to occasional economic crises:

- profound political changes are to be expected in all the BRICs – largely driven by the emerging middle classes
- and, from time to time, the economic cycle in the individual BRICs will be very much out of sync with the investment cycle in the same country

BRIC-induced changes include:

- For world growth – the effects are mainly positive;
- For world inflation – on average, the BRICs, and especially China, are a force for low inflation;
- For the demand for energy and selected other commodities – effects are upside;
- For the global business cycles – global cycles will be mostly milder because of the BRICs and other aspects of globalisation, but some cycles (e.g. commodities) wider at times;
- For global savings – in early years of the BRICs, greater imbalances in global saving will have to be accepted. Later on, as the BRICs experience confidence (and debt) on the part of their consumers, global saving will fall;
- For individual companies – the processes of globalisation and the emergence of the BRICs will increase the pressures on individual companies to spread globally rather than to diversify domestically; and,

- For investors – the BRICs will provide an ever widening choice and the opportunity to improve average returns. But, stock selection will be a challenge, and there will be periods of shakeout in individual BRICs.

And what does it mean for Australia?

- Australia is better placed to benefit from growth of the BRICs – especially China and India – than other western countries. Demand for our commodity exports is boosted and we have a smaller manufacturing sector;
- In particular, the demand for many of our commodities, especially energy, takes on a stronger trend;
- Indeed, longer-term, Australia faces a rising not declining terms of trade;
- Recurring pressures on low value-add manufacturing in Australia must be expected;
- The pressure on Australia to accept structural change will intensify. Again, Australia is generally coping better at coping with change than most other western countries;
- Australia can count on an abundance of global saving for a few years – but needs to be adding to domestic saving as the BRICs come to absorb higher proportions of their own saving (in the case of China) and of global saving (in the case of India and Russia); and,
- Australia is the world leader in per capita saving through managed funds. Fund managers need to come to terms with the powerful forces created by the BRICs. At the very least, there is need for an asset allocation to and a following of emerging markets.