BRICs: No Longer So Solid

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As 2008 comes to a close, the much-hyped BRIC (Brazil, Russia, India, China) economies are looking increasingly troubled. The only question is: which will fare best? (In the 2009-10 timeframe, not by 2050.)

Perhaps ‘best’ is the wrong term. Chances are, for example, that China and India will grow faster than Brazil, but not without experiencing severe difficulties. As such, the word ‘best’ could be interpreted to mean growth with the least amount of disruption. Thus, 3.0-4.0% growth for Brazil amid general stability would be better than 6.0-7.0% growth for China amid widespread unrest.

I for one happen to believe that 2009 could be particularly painful for BRICs. Already in 2008, their stock markets are among the worst-performing in the world. Russia is down 70%, China 63%, India 55%, and Brazil 42%. The downside is not necessarily over. Consider the following:

China’s growth will slow to 6.0-7.0% in 2009 by Business Monitor International’s reckoning, which would be the slowest in many years, and less than the 7.0-8.0% growth considered necessary to maintain social stability. Indeed, it is quite possible that the years of 10+ percent growth are over forever, and that political unrest could rise, as factory jobs are shed. In the near term, the nation’s great expectations may have to be revised down somewhat. One thing that lingers in the back of my mind is that China is one of the few major economies not to have experienced a collapse at some stage, and the only one not to have experienced democratisation. I doubt if either could happen without global consequences.

India is also looking vulnerable on all fronts, even before last week’s terror attacks. Growth is slowing, inflation is still high, and general elections are to be held by May 2009, risking further disruption. Although India’s financial markets have remained stable, the Mumbai terror attacks add a new dimension of risk. The terrorists have succeeded in making India seem like a dangerous country (in fact, there have been many bombings across India in recent months, and years for that matter). While I believe most investors will remain attracted by India’s massive potential, any repeat of last week’s terror siege (or even more bomb attacks) could certainly prompt a re-assessment.

Russia will suffer economically as a result of lower oil prices. In any case, I have long been skeptical about Russia’s revival, owing to its bleak demographic outlook, and its failure to develop serious value-added (non-commodity) industries. Indeed, even if you believe that oil prices will rise again, this will only slow the momentum for diversification.

This leaves Brazil. Cynics have long said that ‘Brazil is the country of the future, and always will be’. Indeed, the rise of Brazil has not caught the world’s attention as China and to a lesser extent India have. A scan of the shelves of any serious bookstore and the Amazon.com website reveals that there are no real works about the emergence of Brazil in the 21st century. By contrast, books on the emergence of China and India (and collectively ‘Chindia’) are a dime a dozen. Yet, Brazil has a much smaller population than China or India, is already much more urbanised, and richer on a per capita basis. Thus, the ‘catch-up with the West’ factor is less salient. Nonetheless, Brazil has many things in its favour, such as a multitude of commodity groups, well-diversified export markets, and robust consumer spending levels fuelled by state efforts to keep private sector credit affordable. I should, of course, mention that Latin America is still risky – and potential defaults could hit overall investment into the region.

So in summary, BRICs are heading for a poor 2009, just like the rest of us. However, we should not be surprised. Since BRICs have increased their integration with a globalised world, of course they will be vulnerable. Moreover, while their rise is significant in the grand scheme of things, this does not mean that they will be free from unpleasant jolts on the way up.