"The 'BRICs': A last hope? Maybe not"

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The undeniable economic momentum of the BRICs—Brazil, Russia, India and China—has seized the imagination of the world business community. But if we look a little deeper we might want to curb our enthusiasm.

As the world economy emerges from the 2008-2010 financial crisis, the search is on for new sources of economic growth. The G-7 countries are stumbling under the combinted weight of deficits, anemic growth and political incapacity. Some forecasters see a new hope: the world economy will led by an informal constellation of rapidly developing "emerging markets", the so-called "BRICs": Brazil, Russia, India and China. Indeed, China's GDP, now the world's second largest, is set to surpass that of the U.S. sometime within the next decade.

The "BRIC" term was coined in 2001 by Goldman Sachs chief economist Jim O'Neill in an influential report, "Building Better Economic BRICs".[1] The paper noted that collectively the BRICs already accounted for almost one-quarter of world GDP (on a purchasing power parity basis) and forecast that their continuing GDP growth would outpace the rest of the world. The paper grabbed attention for its forecast that growth in Brazil, Russia, India and China would, in aggregate, surpass growth in the G7 advanced economies. It pointed out that China's GDP was, in fact, greater than that of Italy. Its far-reaching policy proposals—that the rising importance of the BRICs would require a reorganization of "world policy making forums" and the inclusion of BRIC representatives in the G8—did not, perhaps, receive the attention they deserved. Still, the report garnered headlines throughout the financial press.[2]

At the time, the international political-economic news was encouraging: Brazil was consolidating its democracy and economic reforms; Russia was emerging from its post-Soviet hangover; India, despite communal violence and tensions with Pakistan, was beginning to capitalize on its IT talents and erode the hampering "license raj"; and China was continuing its run of 8-10% annual GDP growth since Deng Xiaoping broke open the Chinese economy in 1992.[3] The BRICs quickly became the darlings of the investment class, with major players like Goldman Sachs, Allianz and Templeton launching "BRIC funds". To be sure, these "emerging markets" were not seen as risk free, but, as one investment manager put it enthusiastically in 2006, "If you talk to global equity investors in 10 or 15 years' time, they will be making asset-allocation decisions not just between the US, Japan and Europe, but also the Bric countries."[4]

The BRICs speak out

The leaders of the BRICs have hardly been reticent. In the run-up to the April 2009 G-20 meeting in London, officials from the BRIC countries took advantage of the coming event to push their own agendas.[5]

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[1] Jim O'Neill, "Building Better Global Economic BRICs", Goldman Sachs Global Economic Paper No. 66, November 2001

[2] And 9 years later, the story lives on. See Gillian Tett, "The Story of the Brics", Financial Times, 15 January 2010, for an account of how O'Neill came up with this still influential concept. http://www.ft.com/cms/s/2/112ca932-00ab-11df-ae8d-00144feabdc0.html

[3] Indeed, the Chinese economy has kept up a torrid pace of annual GDP growth. But if the once dominant Anglo-American model of loosely regulated finance capitalism is now seen as a god that failed, it is by no means clear that the "Washington consensus"—liberal economics directed at the accumulation of private welfare-- has been replaced by the "Beijing consensus"—neo-mercantilist policies directed at the accumulation of national strength, "a Confucian-Communist-capitalist hybrid under the umbrella of a one-party state", as Karin Bennold put it (Katrin Bennhold, "As China Rises, Conflict with West Rises Too", New York Times 26 January 2010 http://www.nytimes.com/2010/01/27/business/global/27yuan.html?emc=eta1). See also Alain Gresh, "Understanding the Beijing Consensus", *Le Monde diplomatique*, 3 November 2008 http://mondediplo.com/2008/11/03beijingconsensus and Joshua Cooper Ramo, *The Beijing Consensus*, The Foreign Policy Center (London) 2004 http://fpc.org.uk/publications/TheBeijingConsensus.

[4] Tim Sharp, "Heat and hype: will Brics hit the wall or keep smashing through it", *The Independent*, 10 Dec 2006 http://www.independent.co.uk/money/invest-save/heat-and-hype-will-brics-hit-the-wall-or-keep-smashing-through-it-427758.html

[5] Some commentary was less helpful in clearing the air than others. One hopes Brazilian President Luiz Inacio Lula da Silva's pre-conference statement about international financiers were made in a fit of ill-considered frustration: "This crisis was fostered and boosted by

They caucused before the meeting and issued a broad-ranging communiqué calling for new regulations governing international finance, reform of the IMF and the World Bank, resistance to protectionism, and resurrection of the Doha round of trade talks.[6]

Individually, BRIC officials went further. Moscow's economic chief, Arkady Dvorkevich, advocated, along with Chinese officials, the desirability of a new international reserve currency backed by IMF SDRs and a basket of currencies which would include gold bullion.[7] Indian Prime Minister Manmohan Singh said that the eyes of the world were on India in the "hope that India would be an engine of growth for the world economy."[8] Senior Chinese officials took a line some commentators interpreted as a challenge to the United States: they asserted that China's quick response to the crisis, which included a massive $586 trillion "stimulus package", demonstrated the superiority of the China model. In a speech reprinted on the Bank of China website, bank chief Zhou Xiaochuan wrote "Facts speak volumes, and demonstrate that compared with other major economies, the Chinese government has taken prompt, decisive and effective policy measures, demonstrating its superior system advantage when it comes to making vital policy decisions."[9] Indeed. China's profile dominated the London meeting. Pundits began to talk about the "G-2"—the United States and China. *Forbes* headlined the London meeting "The G-20 meeting may signal a new world order led by China and the U.S." [10]

The September 2009 G-20 meeting in Pittsburgh in September 2009 consolidated BRIC importance with the declaration that the G-20 membership would become the new international economic council, replacing the G-8 caucus of industrialized states. The communiqué issued after April 2010 "BRIC Summit" held in Brasilia stressed the importance of the G-20 process and, echoing the policy ideas made in O'Neill's 2001 paper, reemphasized the importance of the BRICs attach to reform of the Bretton Woods institutions: "Reforming these institutions' governance structures requires first and foremost a substantial shift in voting power in favor of emerging market economies and developing countries to bring their participation in decision making in line with their relative weight in the world economy." The Communiqué also somewhat obliquely supported the desires of Brazil and India to gain enhanced membership in the UN Security Council "We reiterate the importance we attach to the status of India and Brazil in international affairs, and understand and support their aspirations to play a greater role in the United Nations." [11] (The BRIC leaders did not meet at the June 2010 G-20 Summit in Toronto because Lula stayed home to deal with major floods in Brazil.)

BRIC basics

Given the impressive potential economic scale of the BRICs, all continental powers with large populations (altogether, roughly 40% of world population) the BRICs could see their influence continuing to grow as the relative power of the G-8 countries appeared to fade, even though the US and EU economies still were—and have remained—larger than China's.

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irrational behavior of some people that are white, blue-eyed. Before the crisis they looked like they knew everything about economics, and they have demonstrated they know nothing about economics." Of course, his point is that the origin of the crisis lay in North America, but one also wonders whether President "Lula" needs an introduction to Citicorp CEO Vikram Pandit or former Merrill Lynch chief Stan O'Neal. For reporting on Lula's comment, see, for example, Nicholas Watt, "'Blue-eyed bankers' to blame for crash, Lula tells Brown", *Guardian*, 26 March 2009 http://www.guardian.co.uk/world/2009/mar/26/lula-attacks-white-bankers-crash. At that, many of the culpable are still collecting their bonuses.

[6] For the full text of the communiqué see Reuters, "TEXT-Full text of BRIC countries joint communiqué", 14 March 2009, http://www.reuters.com/article/usDollarRpt/idUSLE47000820090314

[7] Ambrose Evans-Pritchard, "Russia backs return to Gold Standard to solve financial crisis", *Telegraph*, 31 March 2009 http://www.telegraph.co.uk/finance/financetopics/g20-summit/5072484/Russia-backs-return-to-Gold-Standard-to-solve-financial-crisis.html. Note that Russia is a major producer of gold.

[8] AFP, "World looks to India to spur global economy: PM" 28 March 2009 http://news.yahoo.com/s/afp/20090328/wl_sthasia_afp/indiaeconomyfinanceg20

[9] Zhou Xiaochuan, "Changing Pro-cyclicality for Financial and Economic Stability" 26 March 2009 http://www.pbc.gov.cn/english//detail.asp?col=6500&ID=182. For an example of commentary, see Elaine Kurtenbach, "China challenges US global financial leadership", Washington Post 27 March 2009 http://www.washingtonpost.com/wp-dyn/content/article/2009/03/27/AR2009032701363.html. Whether the Chinese "stimulus" is actually new spending or simply the acceleration of spending already planned is open to question.

[10] See, for instance, Robyn Meredith, "The Meeting of the G-2", *Forbes*, 31 March 2009 http://www.forbes.com/2009/03/31/g20-china-united-states-opinions-columnists-world-order.html See also Martin Wolf's more sober column "What the G2 must discuss now the G20 is over", *Financial Times*, 7 April 2009 http://www.ft.com/cms/s/0/5c81651a-23a4-11de-996a-00144feabdc0,dwp_uuid=60a3db68-b177-11dd-b97a-0000779fd18c.html

[11] Reuters,TEXT-Communique from BRIC summit in Brasilia, April 15, 2010. http://www.reuters.com/article/idUSN1513243520100416

Still, that two of the BRICs--China and Brazil—had snagged the Olympic Games, the gold medal of international legitimacy, could only boost their confidence. But we would suggest that we have to go beyond the ebb-and-flow of journalism and punditry to take another look at the BRICs and their potential contribution to the solution of the current economic dilemma: the need to establish solid recovery and growth. To be sure, the world press reflects and influences the immediate concerns and enthusiasms of the business world. But we should take the time to reexamine the BRIC concept. Perhaps we will discover that we need to curb our enthusiasm.

BRIC Basics

At first blush the BRIC concept actually looks like a repackaging of earlier (and sometimes disappointed) enthusiasms about "emerging markets"—see, for instance, the World Bank's 1993 report *The East Asian Miracle: Economic Growth and Public Policy* (World Bank 1993) or the U.S. Department of Commerce's 1996 study *The Big Emerging Markets* (BEMs). (US Department of Commerce, 1996) [12] Some observers thought the BRIC label a marketing ploy for Goldman's investment business[13] Certainly "BRICs" comes off the tongue more elegantly that "BEMs" and the Goldman imprimatur doesn't hurt.

Still, one cannot deny that in the period up to the current economic bust, the BRICs seem to have lived up to their promise. In 2007, on the cusp of the current crisis, Goldman reprinted a collection of additional BRIC studies, *BRICs and Beyond*, and noted that the BRIC equity markets have seen a remarkable increase in their value: Brazil has risen by 369%, India by 499%, Russia by 630%, and China by 201%, using the A-share market, or by a stunning 817% based on the HSCEI. [Hang Seng China Enterprises Index].

> The equity market performance is just one manifestation of the staggering rise in BRIC's importance to the global economy. In our 2001 paper, we argued that the BRIC economies would make up more than 10% of world GDP by the end of this decade. In fact, as we near the end of 2007, their combined weight is already 15% of the global economy. China is poised to overtake Germany this year to become the third-largest economy in the world. Our "BRICs Dream" that these countries together could overtake the combined GDP of the G7 by 2035, first articulated in our 2003 *Global Economics Paper* "Dreaming with BRICs: The Path to 2050" remains a worthy "dream".[14]

Beyond the markets

But there is more to the BRICs than equity markets which, after all, what Goldman is about. They share some important characteristics, yet differ greatly on others. As noted above, their greatest commonalities lie in the scale of their geographic and human resources. But with the possible exception of Russia, they remain dual economies and dual societies, with proportionally small wealthy urban elites presiding over large rural populations, much of which hardly gets by just a few dollars above the World Bank's poverty income level of $1-2 per day. Their greatest differences lie in their politics: India and Brazil are democracies, Russia a semi-democracy overlaid by a crypto-autocracy, and China remains a one-party authoritarian state. We would not argue that the BRICs are not important. But we would suggest that at a time of continuing economic stress, they might not deliver the kick needed to make the economic world spin faster. They are, we propose, limited by social and business environment issues that could impede their orderly development. Indeed, it is the social pathologies indicated in the problems of the BRIC business environments that should raise cautionary flags.

What about BRIC business environments?

Equity markets reflect, in a sense, the dual economy nature of the BRICs—only elite firms are on their bourses. For instance, there are 386 companies listed on the Brazilian exchange, and 333 issuers on Russia's RTS exchange.

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[12] World Bank, *The East Asian Miracle: Economic Growth and Public Policy,* World Bank, 1993 and USDOC/International Trade Administration, *The Big Emerging Markets*, Berman Press, 1996. See also Jeffrey Garten, *The Big Ten: The Big Emerging Markets and How They Will Change Our Lives*, Basic Books, 1997. Garten and the ITA singled out China, Mexico, Argentina, Brazil, Indonesia, Poland, South Africa, South Korea and Turkey as game changers (note the absence of Russia); interestingly enough, in 2005 an editorial comment in *BusinessWeek*, "Emerging Markets: Beyond The Big Four" (26 December 2005 http://www.businessweek.com/magazine/content/05_52/b3965450.htm), also urged investors to consider the same economies (less Indonesia, plus Egypt) as investment targets—the BRICs were not the only game in town.

[13] For a summary of reaction, see Sonja Ryst, "How Sturdy are BRICs?" *BusinessWeek*, 31 May 2006. http://www.businessweek.com/investor/content/may2006/pi20060531_214570.htm?chan=globalbiz_europe_more+of+today's+top+stories

[14] Goldman Sachs Global Economic Group, *BRICs and Beyond,* 2007, p 5. Obtainable at http://www2.goldmansachs.com/ideas/brics/BRICs-and-Beyond.html

The total number of firms on Chinese exchanges number 1700 out of China's vast number of firms (and many are state-owned enterprises, subject to Beijing politics). A much larger number of firms list in Mumbai—4955—a reflection India's entrepreneurial tendencies. [15] But we would argue that while investors are important in supplying capital—and of course have expectations of good returns-- it's in the nitty-gritty of the business environment that economic development occurs. The publicly available studies of BRIC business environments published by The World Bank, the World Economic Forum, Transparency International and other objective observers suggest that the going will be tough.

BRIC Business Environment studies

What do these studies show? We will discuss them in detail below, but they all underline that the BRICs certainly are, after all, *pays en voie de développement*, as the polite French phrase puts it. On the world economic, business and social league tables they are hardly in the top 10. They are difficult to do business in, have problematic legal systems, are plagued by bureaucracy and corruption, have infrastructure issues, and need to upgrade mass education and improve labor markets. Another interesting characteristic outcome of these studies is that the countries tend to be assigned similar rankings—another sign of their overall level of development. The bottom line is that the BRICs alone will not rebuild the world economy—but, to be perfectly fair, we shouldn't expect them to.

World Bank Ease of Business

The World Bank's "Doing Business" studies look at a variety of business environment regulatory issues in detail that have to be dealt by business person, including the ease of starting and closing a business, labor management, access to credit, protection for investors and contract enforcement.[16] The series covers 183 countries, with Singapore being found the easiest country in which to do business, and the Central African Republic being the most difficult:

"World Bank Ease of Doing Business Rankings 2010: How the BRICs rank out of 183 countries

	Aggregate rank	*"Easiest Issue"/Rank*	*"Hardest issue"/Rank*
BRAZIL	129	Protecting investors 73	Paying taxes 150
RUSSIA	120	Enforcing contracts 19	Dealing with construction permits 182
INDIA	133	Getting credit 30	Enforcing contracts 182
CHINA	89	Enforcing contracts 18	Dealing with construction permits 180

Legal issues seem to dominate—enforcing contracts may not be the most difficult issue faced in Russia or China, but in the Chinese case, protection of intellectual property, lack of regulatory transparency, and collecting on judgments are long-standing issues[17] And construction permits involve business with local authorities, and here getting approvals may not be smooth sailing…without, perhaps, a "helping hand" (under the table).

The Corruption Perception Index

In other words, some of these issues may be symptomatic of corruption, an indicator of social malfunction. Transparency International publishes extensive studies of corruption and a "Corruption Perception Index", based on surveys of international business people.[18] The index covers 180 countries, with Denmark being considered the "cleanest" and, at the other end, Somalia. As with the World Bank's "Ease" survey, the BRICs ranked by Transparency International cluster:

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[15] 2009 year-end data from http://www.world-exchanges.org/statistics/time-series/number-listed-companies, and the Russian Trading System website http://www.rts.ru/s569

[16] Rankings and details at http://www.doingbusiness.org/economyrankings/

[17] In early 2010 foreign business frustrations about increasing regulation, creeping protectionism and what were seen as unfair practices burst into the open. For a sample, see James McGregor, "The China Fix", Time, February 1 2010 http://www.time.com/time/magazine/article/0,9171,1955426,00.html and A. Browne, "Business Sours on China, Wall Street Journal, p 1.

[18] http://www.transparency.org/policy_research/surveys_indices/cpi/2009

	TI Rank (2009) Out of 180	*Comparables*
BRAZIL	75	Romania, Columbia
RUSSIA	146	Kenya, Sierra Leone
INDIA	84	Guatemala, Panama
CHINA	79	Burkina Faso, Swaziland

Here Russia stands out—bribery and theft of public assets by officials appear to be the main issues. According to a 2008 report in *The Moscow News*, corrupt officials drained off US$120 billion, or about one-third, of the country's 2008 national budget; Russian business people spent an additional US$33 billion in payoffs. [19] In China, despite vain anti-corruption calls from Party leaders and increased legislation against malfeasance, enforcement is weak and the costs substantial: according to a 2007 study by Minxin Pei of the Carnegie Endowment, kickbacks, bribes, and outright theft of public assets approached $86 billion annually, perhaps as much as three percent of GDP.[20] The old tradition of *zuo guan, fa cai* 做官发官 (be an official, get rich) has not disappeared. Lax enforcement, incomplete economic transition and, importantly, the lack of a free press all contribute.

World Economic Forum: Global Competitiveness Report

The World Economic Forum's *Global Competitiveness Report 2009-2010*[21] ranks 133 countries in a detailed meta-analysis of data from the IMF, World Bank, UN and other public sources and surveys of business executives. "Competitiveness", in the WEF's view, is defined broadly as that "set of institutions, policies, and factors that determine the level of productivity of a country"—and productivity in turn provides prosperity and well-being. More specifically, the Report examines twelve factors or "pillars" determinative of competitiveness (briefly defined below):

- Institutions: the political, legal, governmental and private sector framework
- Infrastructure: transport, power, telecoms
- Macroeconomic Stability: inflationary controls
- Health and Primary Education: health levels, basic educational levels
- Higher Education and Training: vocational education and beyond; increasing the talent pool
- Goods Market Efficiency: a competitive and healthy microeconomy
- Labor Market Efficiency: labor flexibility
- Financial Market Sophistication: efficient and flexible capital markets and banking system
- Technological Readiness: penetration of communications technology
- Market Size: potential for scale efficiencies
- Business Sophistication: quality of management
- Innovation: support for and quality of R&D

In addition, the GCR provides handy labels for understanding a country's level of development on a continuum from being "factor driven"-- that is, driven by basic economic factors--to "efficiency driven"--where efficiency of production is the key--to "innovation driven"--where innovation is the main element in economic growth. The report also includes a reading of what executives see as the main impediments to business in that country. We present the results of this sophisticated analysis in two tables below. The first gives the rank order standing of the BRICs countries, their level of development, the major business problems identified by the survey of executives, and, finally, countries with similar GCR rankings. The second gives the world-wide ranking of the twelve pillars in the BRICs

[19] "Corruption Costs Russia $120 Billion Annually", Moscow News, 6 October 2008 http://www.mnweekly.ru/business/20080610/55332947.html

[20] See Minxin Pei, "Corruption Threats China's Future", Carnegie Endowment Policy Brief No. 55, October 2007.

[21] The complete report is available at http://www.weforum.org/pdf/GCR09/GCR20092010fullreport.pdf

Global Competitiveness Report – Table I: Global rankings ,issues 133 countries

	GCR RANK	*Stage of development*	*Major business issues*	*GCR Comparables (close in rank order)*
BRAZIL	56	Efficiency driven	Taxes;; labor; bureaucracy; inadequate infrastructure	Indonesia, Costa Rica, Hungary
RUSSIA	63	Transition to innovation driven	Corruption; taxes; access to financing, crime	Turkey, Romania
INDIA	49	Factor driven	Infrastructure; bureaucracy; corruption; labor regulations	Italy, Jordan
CHINA	29	Efficiency driven	Access to financing; policy instability; bureaucracy,taxes	Saudi Arabia, Chile

Global Competitiveness Report – Table II: "12 Pillars" rankings

	Brazil	Russia	India	China
Institutions	93	114	54	48
Infrastructure	74	71	76	46
Macro-economic stability	109	36	969	8
Health, Primary education	79	51	101	45
Higher Education, training	58	51	66	61
Goods Market Efficiency	99	108	48	42
Labor Market Efficiency	80	43	83	32
Financial Sophistication	51	119	16	81
Technological Readiness	46	47	83	79
Market Size	10	7	4	2
Business Sophistication	32	95	27	38
Innovation	43	51	30	26

The GCR, not surprisingly, is consonant with the findings of the World Bank and Transparency International. Bureaucracy: corruption and bureaucracy lead the list of problems. Russia's issues—low efficiency of the market for goods, lack of financial and business sophistication and a low rank of the quality of institutions—are in part a reflection of Russia's command economy past, the difficulties of transition to a more open society and economy and the authoritarian streak in Russian political culture. "Policy instability" has long been an issue in China, given the country's lack of legal transparency: regulations and law are sometimes deemed "state secrets" and thus remain hidden and, indeed, unknowable outside of official circles. And while Brazil and India clearly have their problems, their relative sophistication about business and finance come, no doubt, from the lack of a Marxist legacy. The bottom line is clear: with the exception of market size (a function of their continental scale) none of the BRICs are close to the top in terms of competitiveness.

Market Potential Index for Emerging Markets

So far, it might be argued, we have looked at the BRICs in a worldwide context. Perhaps this is unfair. Clearly, compared to the advanced G8 countries, their metrics may not look so promising. They are, when all is said and done, still "emerging markets". How do they rate in the "emerging market" universe? The "Market Potential Index for Emerging Markets" (MPI) is an attempt, not dissimilar to some of the surveys we've looked at, to do a meta-analysis of existing metrics. It looks at the cluster countries tagged as "emerging markets" by *The Economist*.

It draws on sources as varied as the World Bank, the International Telecommunications Union, the Heritage Foundation's Index of Economic Freedom, and Euromoney's Country Risk Survey. Developed at Michigan State University's Center for International Business Education and Research (MSU-CIBER) the MPI it looks at eight market dimensions, including market size, commercial infrastructure, economic freedom and country risk. [22] The table below looks at the MPI in 2001, when the Goldman BRIC report was issued, the current MPI (2009), emerging markets deemed comparable, and the highest and lowest ranked component of the MPI for 2009:

	MPI 2001	MPI (2009)	"Comparables"	Highest rank 2009	Lowest rank 2009
BRAZIL	18	16	Saudi Arabia, Egypt	Market size (4)	Market receptivity (25)
RUSSIA	19	9	Hungary, Malaysia	Market size (3)	Economic freedom (24)
INDIA	11	11	Malaysia, Turkey	Market size, market growth rate (2,3)	Commercial infrastructure (25)
CHINA	5	2	Singapore, Hong Kong	Market size, market growth rate (1)	Economic freedom (26)

All of the BRICs have improved their positions, at least somewhat But Brazil's market position and high income inequality (indicated by a 56.7 Gini index) are problematic. India's problems with commercial infrastructure were noted in other studies, and Russia's low degree of economic freedom holds it back. While China's market size and growth rate dominates these ratings, its "intensity"—measured by a combination of GDP/capita and private consumption rates—is low. Indeed, broad private consumption has never been particularly high in China and despite China's continuing growth, is still weak.[23]

Can the BRICs catch up? A demographic trap?

If indeed the BRICs have a long way to go to reach developed status, can they catch up? According to the macro-economic projections from Wall Street investment firms, by mid-century China and India will be leaders (barring any political or further economic catastrophes), at least in terms of GDP. PriceWaterhouseCoopers' report *The World in 2050*[24] forecasts that by 2050 China's GDP, at market exchange rate terms, will be 29% larger than that of the US; India will be closing in at 88% (Brazilian and Russian GDP, however, will lag significantly, amounting to 28% and 17% of US GDP). 2025 is the "magic year" in which China's GDP growth curve intersects the US curve.

But the PWC report, without comment, also notes that China's growth will inevitably slow down. In fact, 2025 is seen to be about the time that China's GDP growth rate will begin to flatten out at around 3-4% annual growth, down from a peak of over 9% in 2007. India's GDP rate is forecast to remain much steadier between 6.5% and 4.5% over the same period. And perhaps more significantly, at least for the long term, the report cites UN population statistics indicating that India's working age population will continue to grow up to 2050 at just under 1% per year, while China's working age population will decline at about 0.3-0.4% over the same period. (According to these projections, Russia and Japan are the big losers here, both with well over a negative 1% growth in working age populations; the US and Brazil are seen to grow between 0.3-0.4%). Perhaps demographics are destiny. These numbers suggest that any future consideration of the BRICs has to lie in the characteristics of their populations. Here the CIA Fact Book and the UN Development Program's Human Development Index series are useful.

[22] http//globalEDGE.msu.edu/resourceDesk/mpi

[23] See Janis Foo, "Signs of Recovery but Consumption 'Shaky'", *Far Eastern Economic Review*, February 2009 http://www.feer.com/special-content/china-economic-outlook-2009/signs-of-recovery-but-consumption-shaky

[24] John Hawksworth & Gordon Cookson, *The World in 2050: Beyond the BRICs: a broader look at emerging market growth prospects*, PriceWaterHouseCoopers, March 2008.

The 2009 Fact Book provides the following demographic information on the BRICs:

	% of population 1-14	% of population > 65	Youth:Old ratio	Life expectancy	Birth rate/1000	Death rate/1000	Population growth rate%
Brazil	26.7	6.4	4.2	72	18.7	6.4	1.2
Russia	14.8	13.7	1.1	66	11	16.1	-0.47
India	31.1	5.3	5.9	70	22.2	6.4	1.5
China	19.8	8.1	2.4	73	13.7	7	0.66

From these numbers it should be clear that Russia's population faces a perfect storm: Relatively low life expectancy, declining birth rate, and a death rate higher than birth rate. China's population may stabilize but over time will age, raising the question of whether China will get old before it gets rich.[25] And while Brazil's population will continue to grow, India's population characteristics are such that the working age population is destined to grow over the greatest period of time.[26]

Still, it could be that by 2050 the BRICs will have reached a comfortable level for individuals. PWC's projections of GDP/capita in PPP terms (constant 2006 dollars) for 2050 are encouraging, but should be treated with caution—population growth (or decline) obviously affects them:

Brazil	US$39,000
Russia	US$60,500
India	US$19,000
China	US$34,500

But GDP/capita projections are just that, and today we should be concerned about current levels. We can get an insight into the base line for quality of life for people in the BRICs today from the United Nations Development Program's Human Development Index.[27] This provides an index number based on life expectancy, literacy rates and enrollments in education, and standard of living (inferred from GDP/cap PPP). The Index ranks 179 countries, with Iceland and Norway at the top in terms of human development, and the Central African Republic and Sierra Leone at the bottom (the US ranks 15; Japan 8). The table below also includes the Gini Index figure—a measure of the equality or inequality of income distribution in a country—from the CIA Fact Book, figures which show relatively high inequality and which underline the poverty estimates given above.

	HDI rank	Comparable rank	% of population below US$2/day[28]	Gini Index[29]
Brazil	75	Grenada, Bosnia	12.7	55.0
Russia	71	Albania, Macedonia	<2	37.5
India	134	Laos, Solomon Islands	76.5	36.8
China	92	Dominican Republic, Belize	36.5	41.5

Conclusion

The studies cited above indicate to us that while the BRICs certainly should not be ignored, the problems of their business environments show that their fundamentals are perhaps less promising than BRIC enthusiasts make out. To be sure, it may seem absurd to compare the BRICs—especially China—to much smaller developing countries.

[25] This is hardly a new perspective and has been the subject of attention for years. For instance, the question was raised in precisely those word by John Hamre of the Center for Strategic and International Studies at a population conference in Beijing in 2004. For a recent example, see Dune Lawrence, "China Begins to Address a Coming Wave of Elderly", *New York Times*, 21 April 2009. The lack of pension plans and other features of a social safety net are worrisome. The PWC study notes that as China ages, China's saving rate—one of the sources of its growth—will decline as "assets are 'cashed in'" to cover the needs of the elderly. See also Tony Saitch's trenchant analysis in chapter five of W.J. Hoffmann & M.J. Enright's *China into the Future*, Wiley, 2008.

[26] While these numbers look dire for Russia, PWCs projections for 2050 GDP/capita (at constant 2006 US$) are not entirely discouraging, and clearly show the effects of population size vs. GDP: Brazil US$39,000; Russia US$60,500; India US$19,900; China US$34,500.

[27] Updated rankings at http://hdr.undp.org/en/statistics/

[28] http://hdrstats.undp.org/en/indicators/103.html

[29] From the latest CIA Fact Book. India's Gini, from 2004, is only 36.8, but other indicators make inequalities clear: 71% of population is non-urban; 60% of the labor force toils in an agricultural sector that provides only 17.2% of GDP.

But that, in a sense is the point—they share the same weaknesses. The attractiveness of the BRICs lies in the potential of their scale. Should they fulfill their potential, implement substantial reforms and, taking advantage of their backwardness to make technological leapfrogs to the latest technology, and continue to progress, they might, over time, become the countries of the future.[30]. Still despite the current global recession and their poor business environments , the BRICs—at least China and India—are likely grow faster than advanced nations. Indeed, their motivation to grow, driven as much by dreams of influence and power as by welfare concerns, cannot be ignored. China and India, in particular, were once political, economic and cultural Great Powers and while they are rebuilding their economies they are expanding their militaries as well. Brazil is clearly the dominant nation in South America. And Russia still spans the Eurasian continent even if the Soviet empire has collapsed. Indeed, Russian President Medvedev, sees the BRICs increasing their political clout as the relative strength of the G-7 countries declines: "By strengthening the economic base of a multi-polar world, the BRIC countries are objectively helping to create conditions for the strengthening of global security."[31]

If the BRICs can avoid the temptation to jolt their growth by quick-fix investment in fixed assets short-term real estate speculation and rather invest in projects with long-term payoffs--transportation and communication infrastructures, educational and medical systems, green technologies and the like—their social conditions will advance.[32] This necessary public spending in addition to ever-growing consumer demand will push their GDP growth much faster than other nations. GDP growth numbers are, after all, percentages, and when you start from a relatively low base, progress can seem to be magnified. Thus from an economic point of view, BRIC optimism should not be totally dismissed. We would, however, point out that interest in the BRICs comes in large part from the investment community which by its very nature is more interested in the cream (and perhaps the easy pickings) that rise to the top of the BRIC economies than, perhaps, the nuts and bolts of ordinary business activities of those economies and the societies which underlie them. The events of the very recent past would suggest that this is not an unfair observation.

Furthermore, while the BRICs and other "emerging markets" have a role to play in the world recovery—especially China and India—optimism and belief in trend lines need to be tempered. After all, BRICs goals and policies often conflict—China's currency policies irk Brazil, and Russia has complaints about market access in China and India.[33] If nothing else, the Asian financial crisis of a decade ago—and more recent "market exuberance"-- teaches that high-flying optimism can blind us to peril. The US dollar remains the world's key reserve currency, New York and London retain their key financial roles, Germany is still Europe's key economy, and Japan, despite its leadership problems and sensitivity to downturns in the US market, remains essential to Asian development. The participation of the BRICs in recovery is necessary, but is insufficient in itself. Here the full engagement of the entire G-20 community, will be required.

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[30] To be fair, Goldman's studies do recognize the problems faced by the BRICs. Still, as has been said about another country not on anybody's BRIC list, "It's a country of the future—and always will be".

[31] K. Rozhnov,"Bric countries try to shift power balance", BBC News, April 15, 2010 at http://news.bbc.co.uk/2/hi/business/8620178.stm

[32] Some observers doubt that China, still dominated by a plan mentality, will follow this path. See, for instance, Victor Shih, "China's 'Legless' Stimulus", *Wall St. Journal Asia*, 2 April 2009 http://online.wsj.com/article/SB123868771237082815.html

[33] These issues are discussed in Rozhnov, op.cit.