Press Release

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Brazil, India and China: the new leaders of the global economy, for at least the next five years

An analysis by credit insurer Euler Hermes

Having displayed extraordinary resilience to the global crisis, China, India and Brazil are about to experience an economic success that is set to last at least five years. According to Wilfried Verstraete, Chairman of Euler Hermes' Management Board: *"Barring a few exceptions, today companies from these countries remain domestically focused, but a number of global players from various industries are expected to rise up by 2015 or 2025."*

However, most of this expansion is still not driven by mass consumption, despite the fact that these countries have now chosen to refocus on increasing consumer demand. "*From 2010 to 2015, growth in these three countries will continue to be supported primarily by infrastructure requirements, particularly in construction and transportation. These investments will gradually transform a still low value-added manufacturing base into a high value-added one, along the lines of the OECD countries*,*"* explains Karine Berger, Euler Hermes' Head of Market Management - Marketing and Chief Economist.

1. The economic success in Brazil, China and India is set to last until at least 2015, driven by their vast infrastructure needs

To close their economic productivity gap, Brazil, India and China are focusing their efforts on infrastructure development, with investments selected and funded by their governments. Four industries are prime examples of this process.

Construction expenditure in China, India and Brazil has tripled in ten years and China could become the world's largest construction market by 2020. This rapid expansion stems from the fact that the level of infrastructure is still very low compared with developed countries. In addition to large-scale projects (dams, high-speed railways, metro systems, motorways, airports and shipping ports) and major events (Shanghai World Expo and Guangzhou Asian Games in China, and Soccer World Cup and 2016 Olympics in Brazil), construction expenditure also aims to meet social needs (new housing builds and refurbishments).

China, India and Brazil are also investing in **railways** to meet their substantial development requirements for passenger and freight transportation. **China has launched a $300 billion investment plan for 2009-11** aimed at expanding its rail network by 28%. Brazil is due to inject around $20 billion between now and 2020 in a flagship project to build a high-speed rail link between São Paulo and Rio de Janeiro. Lastly, India plans to invest $9 billion a year, from 2010 and over the next few years, and to build a freight railway linking Delhi and Mumbai.

Information technology investments by China, India and Brazil should total around $1,000 billion in 2014, i.e. nearly double the figure in 2008 and five times the level in 2003. Despite this sharp expansion, these three economies are taking time to catch up with the US. Only China is likely to rival the US market, and even then not before 2025.

The chemicals industry is expanding three times faster in China, India and Brazil than in the US, boosted by the surge in infrastructure requirements in these countries. **Chemicals production in China should rival that of the US by 2015,** fuelled by demand from the electronics industry. In India, the chemicals sector is underpinned by the plastics and fertilizer industries and in Brazil by the agrochemicals industry. While the Indian market is dominated by two domestic players, these companies have so far failed to make inroads into the global market. The Brazilian chemicals market is mainly controlled by subsidiaries of foreign multinationals.

2. The Chinese, Indian and Brazilian domestic markets are gathering pace but have yet to become mass consumer markets

"*Over the next five years, these three markets will naturally tend to focus on domestic consumption in order to reduce their reliance on exports as a growth driver. However, due to their persistently lower disposable income per capita compared with the US, they are unlikely to become mass consumer markets in the near future,"* stresses Karine Berger.

The automotive industry is a perfect example of the critical mass gained by these three countries: **80% of its worldwide growth is now generated by emerging countries**. In the space of five years, automotive production in China, India and Brazil has increased from 10% to over 25% of global output, fuelled by robust local demand.
China is now the world's largest market and is likely to consolidate this leadership position in the next few years as its car ownership rate is still very low (3% in 2008). Here, domestic manufacturers, such as Brilliance, Byd and Geely, are keenly competing alongside all the western manufacturers and now account for nearly one-third of a market that is still taking shape. The **Indian market** offers strong potential (1.4% car ownership rate in 2008) but is still one-tenth of the size of the Chinese market and is expanding based on the super low-cost model. The Indian auto industry, comprising manufacturers such as Tata, Bajaj and Mahindra, is still small and only accounts for 16% of the domestic market. **Brazil**, the largest South American market, offers attractive prospects, with a car ownership rate of 13.3% in 2008.

Passenger air transport in China, India and Brazil is expanding six times faster than in the US. Between 2005 and 2009, these three countries increased their share of the global civil aviation market by 5% to 15%. This growth in air traffic is set to continue and will be accompanied by heavy investment to the tune of $650 billion over the next twenty years, two-thirds of which will come from China.

However, many mass consumer products have not experienced these levels of growth. *"These three countries have strong growth prospects and part of their future is still being shaped,"* concludes Karine Berger. In **pharmaceuticals**, for example, although the sales potential offered by Brazil, India and China appears vast in light of their growth rates over the last decade, their purchasing power is still weak, preventing them from buying drugs developed by the world's leading laboratories. Expansion by the pharmaceuticals industry is also hindered by the lack of health insurance systems, which need to be developed from scratch.

3. By 2015-2025, we should see the emergence of several global leaders competing alongside companies from OECD economies

China and India already have companies large enough to compete in the global ICT (information and communications technology) and high-tech markets. However, players in other industries still have a predominantly local presence (see table).

"There are two strategic implications that our companies need to take on board. On the one hand, major infrastructure opportunities will be opening up on the Chinese, Indian and Brazilian domestic markets over the next few years. On the other hand, however, our companies must be prepared to confront new rivals from these countries, who will gain ground in the automotive, aviation and chemicals industries between now and 2015. These will be the future challengers for OECD companies. They will not only act as exporters but will also compete directly as manufacturers in the European and US markets. However, for even higher value-added industries, this is unlikely to happen before 2025," concludes Michel Mollard, member of Euler Hermes' Management Board.

Table: Transition from emerging economies to global players

Industry	Producing countries	Consuming countries	Global presence	Comments	Global player(s)
ICT	China India	China India Brazil	x	Global competitors: China for high-tech goods India for IT services.	China
Automotive	China Brazil	China Brazil		Restructuring in progress, with China aiming to develop global players.	China from around 2015/20
Aviation	Brazil	China Brazil India	x	Strong manufacturing base in Brazil. China has built up resources to expand its own industry.	Brazil China from around 2020
Chemicals	China	China India Brazil		Chinese players are government-funded, but are also private companies.	China from around 2015
Pharmaceuticals	India	Brazil		India's independent generics producers are losing momentum.	Not before 2025

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Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The group protects worldwide business transactions totalling €700 billion.
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