



Brazil, Russia, India, China: Australia's future fortunes?

There is a flurry of daily news about the drop in share values, but behind the headlines perhaps we are seeing a significant shift taking place. If powerful new economies are emerging and traditional economies are slowing, how will Australia fare?

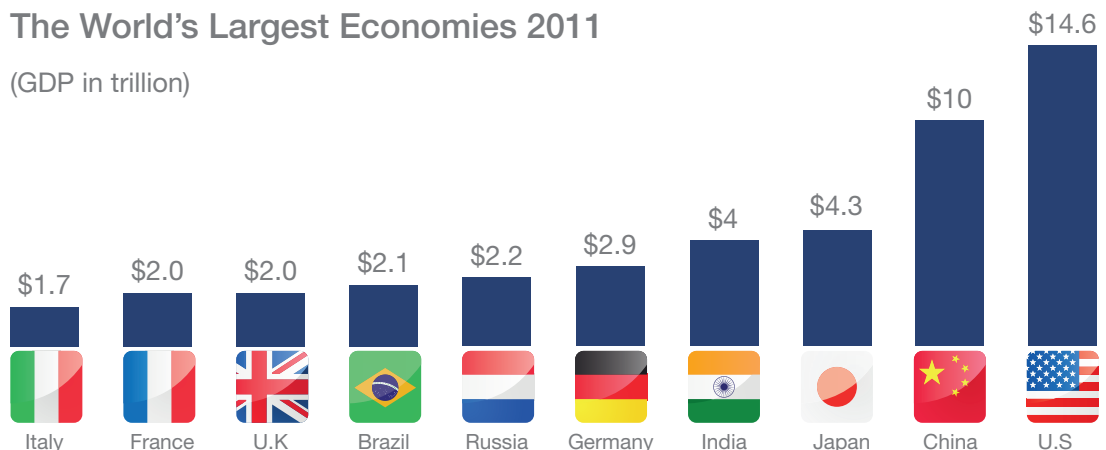
We're all familiar with the message that a combination of Australia's mineral resources, geographic proximity, and China's need for our coal and iron ore have enabled the Australian economy to outperform most of the developed world since the financial crisis of 2008–09.

There's no doubt China is the world's fastest growing major economy, set to overtake the USA within 25 years according to various forecasts. At the same time there is no guarantee China will play the role of Australia's economic protector forever. Factors such as China's ageing population as a result of its one child per family policy, a possible medium to long term decline in their consumption of Australian iron ore and coal and pressure on the Chinese government to relax currency controls — making Chinese exports less competitive — could all affect the runaway growth rates of the past decade.

Fortunately, China is not our only significant trading partner among the emerging economies.

The World's Largest Economies 2011

(GDP in trillion)



Source: www.the richest.org

Snapshots



More than one China in our future?

Australia's economic future is also tied to other growing economies in Asia, and beyond. These include the so-called BRIC group - Brazil, Russia, India and China. As the table on the first page shows, these four are now up there with the USA, Germany and Japan, the world's traditional economic powerhouses.

The four BRIC group countries are quickly catching up with the West. But just how quickly?

China's GDP is growing by 9.7 per cent p.a. and India's by 7.7 per cent p.a., compared with 1.6 per cent p.a. for the USA. Russia's economy is growing much faster than any of its European neighbours. A net exporter of energy with 20 per cent of the world's crude oil reserves and 35 per cent of its natural gas reserves, Russia is the envy of those around it. Brazil, like Australia, is a leader in agricultural production and a world-ranked supplier of commodities including iron ore. These factors helped Brazil grow at rates between 4 and 6 per cent p.a. over 2005–08, and recover quickly from recession in 2008–09 to enjoy 4.2 per cent GDP growth in 2010.

International consultancy firm PricewaterhouseCoopers estimates China's economy will exceed the USA's by around 2030, while the Indian economy may match the USA's by 2050. The remaining BRIC countries will not become as big, but should grow tenfold during the same period.

While the BRIC group is important to Australia's growth, its members are also emerging as competitors. India has vast coal deposits while Brazil's investment in bulk ore carriers has cut their price disadvantage for shipping ore to China from 40 per cent to only 10 per cent above Australia's price in just three years.

However, it is certainly not a one-way relationship. China and India are investing substantial amounts in Australian resources. At the same time, Australian mining companies are investing in mines and prospecting activities in South America.

Already investing in a BRIC?

Few Australians would feel comfortable about investing directly on the Moscow or Mumbai stock exchanges. Not only are they unfamiliar but governance standards are different from those which protect Australian investors.

This does not mean Australian investors are not already exposed to the growth of emerging economies. Household names including BHP and Rio already own assets in India, South America and Africa, while ANZ is expanding into Asia. International giants like Apple and Coca Cola are co-ordinating their growth strategies to focus on emerging markets as well.

Holding direct shares is not the only option for investors. Some managed funds focus on emerging markets including the BRIC group, and others seek out investment opportunities in countries such as Mexico (home of the world's richest man, Carlos Slim), Turkey and Indonesia. Any or all of these could develop into the BRICs of the future.

With big opportunities come big risks, of course. Emerging markets are generally considered a higher risk investment because economies with strong growth are historically more vulnerable to economic shocks.

If you would like to discuss how your investment portfolio is positioned to take into account this changing landscape or discuss the current market volatility, please don't hesitate to contact us.