

The BRICs and Global Markets: Crude, Cars and Capital

Continued growth in Brazil, Russia, India and China (BRICs) would push up trend growth for the world near-term, while the BRICs could see a rapid expansion in their middle class. In each of the energy, autos and capital markets, the BRICs have the potential to be a major source of growth within ten years

A year ago, we published a report which looked at how the world might change between now and 2050 if Brazil, Russia, India and China (BRICs) continued to grow strongly. The punch-line of that report was simple: the importance of the BRICs—as a source of new demand and as a share of global spending—could increase sharply over the next few decades.

Here, we look more closely at the impact on the world economy if the BRICs' 'dream' became a reality. We show what our BRICs projections would mean for the world growth outlook and what they imply for the emergence of a middle class in the BRICs countries. We then look in detail at what the BRICs growth story would mean for three big areas of market development: energy and oil (as the world's most important commodity); cars (as a major consumer durable) and the level of equity market capitalisation (as a proxy for the size of capital markets). Between them these three different markets—crude, cars and capital—give a good snapshot for the kinds of opportunities and pressures that could be associated with the BRICs dream.

Our Main Conclusions

We highlight some key conclusions that describe the impact of BRICs growth on global markets over the next few decades. Our larger report gives more detail on how we get to them (Global Economics Paper No. 118, *The BRICs and Global Markets: Crude, Cars and Capital*). We group our conclusions under five main topics: 1) The BRICs and the World; 2) The BRICs and a Growing Middle Class; 3) The BRICs and

Global Energy Markets; 4) The BRICs and Global Autos Markets; 5) The BRICs and Global Capital Markets.

Before embarking on that exercise, we offer three health warnings up front. The first is that our original BRICs growth projections, on which these results are based, are not pure forecasts, but projections if the conditions for growth in the BRICs are met. We will publish a piece soon looking at whether the advanced economies will actually 'allow' the BRICs to develop along the lines we suggest.

The second is that the task of modeling markets into the future is even more difficult than the task of modeling economies. Over long periods of time, tastes and technologies change and we spend little time on supply developments.

The third is that a more detailed view of any single area would bring a much wider range of specific knowledge to bear. What our analysis does is to set out the broad dimensions of the trends that will shape market development and to highlight the kinds of pressures and opportunities that might emerge.

Continued on page 2

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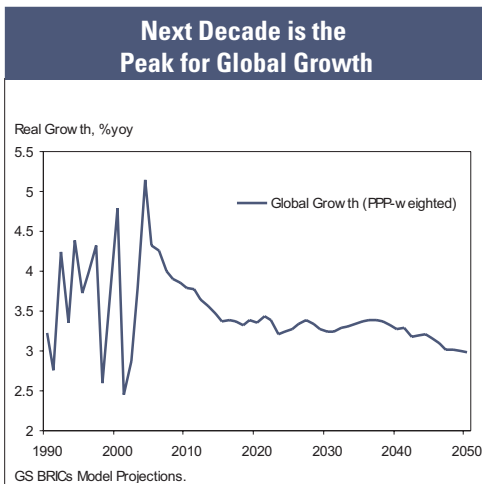
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Continued from page 1

1. The BRICs and the World

- Over the next few years, BRICs development (and in particular continued industrialisation in China and India) could push the trend world growth rate above 4%. World growth trends could remain above the average of the last twenty years (3.7%) for around a decade, though after that global demographic pressures are likely to lead to a gradual decline.
- If reforms either in Europe, Japan or in the BRICs themselves raised overall productivity growth rates, or if demographic pressures led to longer working lives, world growth could move higher than 4% in the short-term and stay higher for longer.
- The BRICs' share of world growth could rise from roughly 20% in 2003 to more than 40% in 2025. Their weight in the world economy could rise from less than 10% now to more than 20% in twenty years' time.

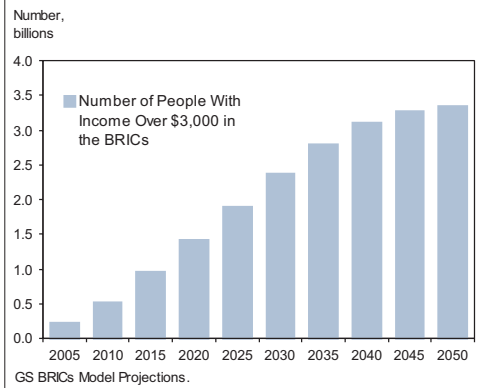


- The BRICs impact on global markets is likely to follow a sequence. Commodity markets are already the clearest pressure point for BRICs growth and their impact on those markets is likely to be at its peak in the next decade. The importance of the BRICs as consumer markets is likely to be the next phase and could be a major story in the next ten years. The importance of the BRICs to capital markets is likely to lag a little further behind that and to build gradually over the next twenty years.

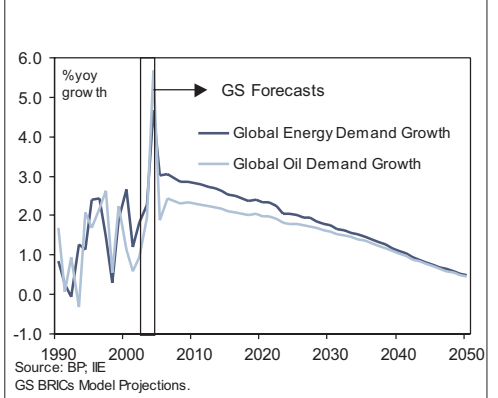
2. The BRICs and a Growing Middle Class

- The number of people with income over \$3,000 in the BRICs—a level consistent with entry into the 'middle class'—could nearly double in the next three years. In a decade, over 800 million people across the four economies may have crossed that threshold.
- In China alone, the number of people with incomes over \$3,000 could increase by close to ten times in the next decade and by nearly 14 times in India, though off a much lower base. In Brazil and Russia, that number could more than double.
- By 2025 there could be more than 200 million new people (more than the population of Japan) in these economies with incomes above \$15,000, up from a tiny fraction today.
- Individuals in the G6 will remain significantly wealthier than those in the BRICs. By 2025, income

The Middle Class in the BRICs Could Grow Fourfold in the Next Decade



Global Demand Growth For Energy and Oil Stays Strong Throughout Next Two Decades



per capita in the G6 could average roughly \$35,000. At that point, only 24 million people in the BRICs economies are likely to have incomes above that level.

3. The BRICs and Global Energy Markets

Underlying global demand growth for energy and oil could remain very strong (well over 2% annually) over the next 15 years or so as China's industrialisation continues and India's follows behind, suggesting pricing pressure could persist for some time.

Continued on page 3

The BRICs and Global Markets: Crude, Cars and Capital

Continued from page 2

After this period, the trend should decline gradually, as more economies move to a phase of lower demand growth.

- The BRICs could continue to increase their already substantial contribution to global oil demand *growth*. China's contribution should remain high but is likely to peak in 5-10 years time and should decline steadily thereafter. India's impact will become gradually more important. In less than 15 years, India's contribution to global demand growth could overtake China's.
- China's share of actual oil demand (as opposed to growth) may rise from 8-9% currently to a peak of around 16.5% in 20 years time, while India's share could nearly double and will gradually converge on China's.

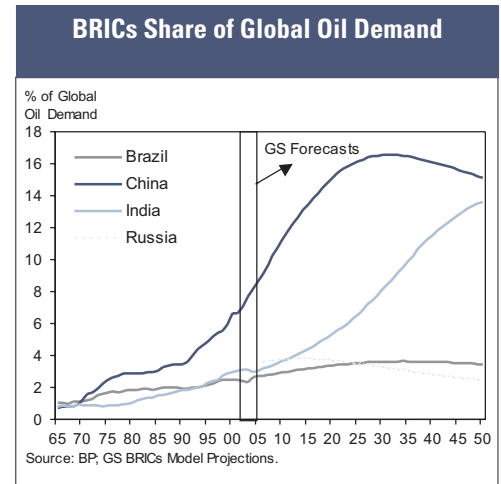
- Brazil, and even more so Russia, could also be important markets, each coming close to or exceeding Japan's oil consumption by 2020 if they can maintain growth. This implies a doubling of demand from current levels, well above the growth rates likely to be seen in the major advanced economies.
- The US is set to remain the largest consumer of oil for decades to come, unless its oil demand patterns change radically, and its dependence on oil is unlikely to alter. Russia is on a path to remain by far the largest per capita oil consumer of the BRICs.

- India's market growth will also rapid, with the potential for a threefold increase in car ownership over the next ten years. But the best decade for India's growth is probably about 10-15 years behind China's.

Continued on page 4

4. The BRICs and Global Autos Markets

- China is rapidly approaching the likely sweet spot for growth in its autos market. Car ownership could increase nearly fivefold in the next decade, though growth rates will probably peak in the next few years.



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The BRICs and Global Markets: Crude, Cars and Capital

Continued from page 3

- China and India may emerge as the world's number 1 and number 2 car markets. Within 20 years, China could have overtaken the US as the world's largest auto market, with India displacing the US perhaps as soon as 10 years later.
- Russia, where car ownership is much higher already, may be the surprise consumer story. In the next decade, if growth continues, the number of cars on the road in Russia could double and the number of cars on the road there might be comparable to Japan. The potential for strong growth comes as Russia moves through the sweet spot in income levels for consumer products.
- Unlike our oil projections, global autos demand growth may accelerate as the BRICs move through the sweet spot for consumer durable spending, peaking in around 20 years time. This suggests that there could even be upside to the more macro-based oil projections above.

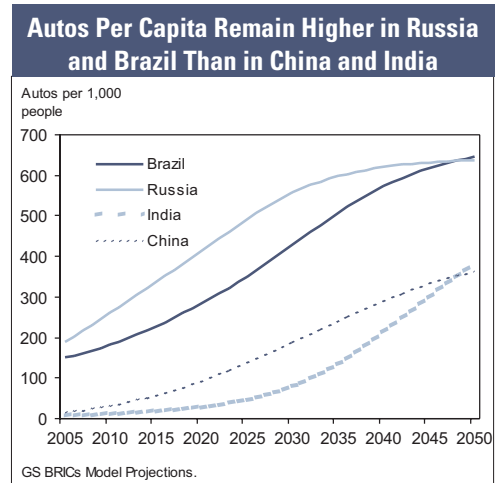
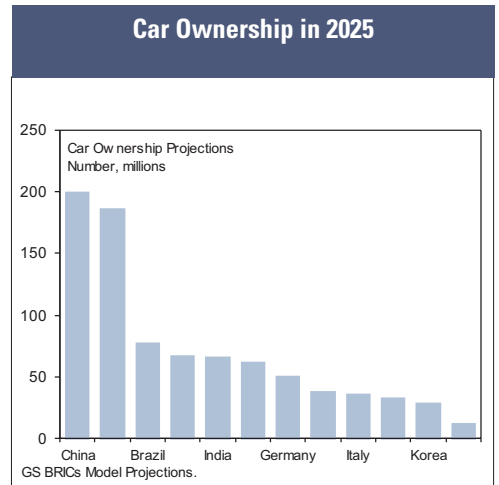
5. The BRICs and Global Capital Markets

- The BRICs' importance to global equity markets would rise from a paltry 3.5% currently to around 10% by 2020 depending on the extent of capital market development. If they choose a more market-based approach to corporate finance, their share could be as large as 17%.
- Market capitalisation in the BRICs' economies could increase by a factor of four times \$4 trillion, with a large increase in capital market activity. China and India alone could account for 60% of that total.
- Despite this rapid growth, BRICs' capital markets are still likely to be dwarfed by the US market for decades, but could come to rival Europe as a group within 15-20 years and could increase the weight of emerging markets in global equity portfolios.

The BRICs Impact on Global Markets: A Transforming Event

Our projections leave us in a little doubt that continued growth in the BRICs economies could be a major influence in shaping global markets in the next decade or two.

The broad sequence that our results describe show the BRICs having their largest impact on commodity markets first, then on consumer durables markets and finally on global capital markets. While that division is too neat, since the BRICs could be important in all areas within a decade or two, it gives a sense of where the maximum pressures and opportunities could come.



The key question remains: can they do it? On that front, the short-term risks in each of the BRICs remain as visible as ever, but we remain convinced of the value of exploring the 'dream' and delving into the consequences of what could be a major transforming event for the world. ■

For more detail, please see Global Economics Paper No. 118, *The BRICs and Global Markets: Crude, Cars and Capital*, 14 October 2004

BRICs Weight in Global Market Cap Set To Rise Significantly, Any Way We Cut It

