International Business Report 2007

Emerging markets

Grant Thornton

Brazil
Russia
India
China

Interviews

7,200

32

Economies

1 International Business Report

Welcome

This is the first focus report from the International Business Report (IBR) 2007 examining the four emerging economies – Brazil, Russia, India and mainland China (BRIC) – that are expected to play an increasingly important role in the global economy in the coming decades. These four countries have come to symbolise the exciting challenges and opportunities presented by dynamic emerging markets. The first part of the report outlines key features of these economies and their growing contribution to world output and trade. The second part analyses the perceptions of business owners regarding the impact of these countries on their businesses and trading patterns.

Alex MacBeath
Global leader of privately held business services
Grant Thornton International

By 2050, the BRIC economies will account for

44%

of global GDP.

The emerging markets account for an increasing share of global activity. Two centuries of vigorous industrialisation had propelled the economies of North America, Western Europe and Japan into a dominant position in terms of their share of world output (see figure 1). But the past three decades have seen a steady erosion from the peak they attained during the 1970s.

The emerging economies now account for over half of world output. These dynamic economies are changing the world economic order as they industrialise, improve their infrastructure and rapidly develop their service sectors. By 2050, they will account for almost 78% of global output. This projection uses realistic assumptions of annual growth rates of 5.3% to 2050, well below those posted in recent decades by the economies of developing Asia at over 7.5%. Growth at that pace is not sustainable over the long term – as economies mature, they inevitably lose some of their initial momentum.

Within the emerging markets, four economies – Brazil, Russia, India and mainland China – collectively known as the BRIC economies, have become the focus of particular attention[1]. These countries are transforming the existing patterns of economic activity and influence as well as trade and global investment flows. By 2050, they will account for 44% of global gross domestic product (GDP), using the realistic growth assumption noted above.

"Dynamic expansion in emerging markets, led by mainland China and India, is dramatically changing the global economic landscape. By mid-century, the emerging markets will account for almost 80% of world output."

Alex MacBeath
Global leader of privately held business services
Grant Thornton International

Figure 1: Share of global GDP in 1975, 2005 and 2050

Source: World Economic Outlook and Experian Business Strategies

1 Attention on this group stems from a report by Goldman Sachs: Dreaming with BRICs: The Path to 2050, Global Economics Paper No.99 (October 2003).

The BRIC economies compared

The BRICs, though increasingly considered together as a global force for change, are in fact a diverse group.

Both mainland China and India have huge populations of over 1billion each. Historically, they were the largest economies in the world, before the industrialisation of North America, Western Europe and Japan. These vastly different political and economic histories have helped shape current developments and attitudes.

The impetus for growth stems mainly from manufacturing in mainland China while India's growth is boosted by software services and call centres. Mainland China can already claim to be a global economic superpower and in the next few decades India looks set to follow suit.

Brazil and Russia have much smaller populations, 186 million in Brazil (rising strongly) and 142 million in Russia (declining steadily). In Brazil, exploitation of raw materials is the key driver of economic growth, but the industrial sector is developing strongly, led by machinery and transport equipment. In Russia, the exploitation of energy resources underpins the vibrant economic growth of recent years.

Other differences between these four economies (and some similarities) are highlighted in the charts. Mainland China's rapid economic growth (see figure 2) has raised its share of global output to a hefty 15% (based on the purchasing power parity (PPP) valuation of GDP. This is regarded as a better measure than simply translating the local currency valuation into say US$). Mainland China also has a significant share of global exports following extremely rapid growth in recent years (see figure 4). And in terms of population, mainland China and India together account for almost 40% of the world total.

A **diverse** group.

Figure 2: GDP real growth 1998-2006 (% per annum)

Source: IMF World Economic Outlook

Figure 3: Share of global GDP, exports and population 2005

Source: IMF World Economic Outlook

Figure 4: Volume growth of exports 2000-05 (%)

Source: UN Monthly Bulletin of Statistics

Table 1: Key exports

Brazil	Food	Machinery & transport equipment
Mainland China	Consumer goods	Office machinery
India	Engineering goods	Software services
Russia	Oil & gas	Other commodities

Source: National Statistics for each country

The next generation?

While the four emerging market BRIC economies are having huge impacts on the global economy, there are a number of other countries waiting in the wings to follow suit. Indonesia, Mexico, Pakistan and Turkey appear to be contesting the fight to become the next major emerging economy.

There are many differences between these economies, some of which have yet to take off, others are well on the way to industrial modernisation. Yet they are all large economies that can have a significant influence on the global market, provided that issues such as socio/political problems can be overcome. While these countries are not in the same league as mainland China and India, they have the potential to certainly rival Brazil and Russia in terms of economic clout in coming years.

Indonesia and Pakistan, with their large populations, have the potential to grow through labour-intensive exports and could capitalise on the process of low-cost production that mainland China has so successfully exploited. Mexico is benefiting from its close trading ties with the rest of NAFTA and is well-placed to play a more significant role in the Americas. Turkey is expanding robustly and is on the path to making the transition to a modern industrial economy and is set to increase its influence in Western Europe and the Middle East.

While the BRIC economies lead the emerging markets, opportunities are evident for others to seize the opportunity.

Figure 5, showing inflows of foreign direct investment (FDI) in recent years, highlights a major difference among the BRICs. Mainland China dominates the picture with more FDI than Brazil, Russia and India combined. Foreign companies have been keen to invest in the country to take advantage of relatively low labour costs and in general such investment has been welcomed. The main contrast is with India where the level of inflow is much smaller. This reflects the fact that, until recently, the attitude of the authorities towards FDI has been negative. But controls on foreign trade and investment have been reduced (in 2005 investment in real estate and retail were liberalised, though not with stringent criteria to be met) and this is likely to result in an increase in FDI in future.

The tables highlight the continuing importance of the US as a trade partner, but also the growing links between two large emerging economies, with mainland China being India's third largest export market and its largest source of imports. Regional trade links are also key in most BRIC economies.

Figure 5: FDI cumulative inflows 2002-05 (US$bn)

Source: UNCTAD World Investment Report 2006

Table 2: Main trading partners

Exports % share			
Brazil	US (19.6)	China (7.5)	Argentina (6.9)
Mainland China	US (21.4)	Hong Kong (16.3)	Japan (11.0)
India	US (16.7)	UAE (8.3)	Mainland China (6.5)
Russia	Netherlands (10.3)	Germany (8.3)	Italy (7.9)
Imports % share			
Brazil	US (19.7)	Germany (8.7)	Argentina (8.2)
Mainland China	Japan (15.2)	South Korea (11.6)	Taiwan (11.2)
India	Mainland China (7.3)	US (5.6)	Switzerland (4.7)
Russia	Germany (13.6)	Ukraine (8.0)	Mainland China (7.4)

Source: Central Intelligence Agency

Mainland China dominates the picture with **more FDI** than Brazil, Russia and India combined.

BRIC economies in 2050

Table 3: BRIC economies 2005 and 2050

Country	Population 2005 (m)	GDP 2005 (US$bn)	GDP per head 2005 (US$)	Growth to 2050 (% per annum) Pop	GDP	Population 2050 (m)	GDP 2050 (US$bn)	GDP per head 2050 (US$)
Brazil	186	1536	8258	0.8	3.5	266	7223	27131
Russia	142	1584	11155	0.2	3.4	155	7131	45903
India	1103	3666	3324	0.9	6.4	1651	59781	36215
Mainland China	1313	8883	6765	0.5	6	1643	122271	74402
US	298	12310	41309	0.7	2.7	408	40825	100089

Source: Central Intelligence Agency and Experian Business Strategies

Looking ahead 45 years produces interesting predictions. Using the growth assumptions that underpin our calculations for the BRIC economies share of global GDP in 2050, and our estimates of population growth, we project GDP in 2050 for each of the BRIC countries. As a benchmark, figures are also included for the US.

By 2050, average incomes in both India and Russia will be around the current US level of US$41,300. Brazil will still be well below this figure but will nevertheless achieve a level of income per head similar to that enjoyed in the European Union in 2005. By 2050, after another 45 years of solid expansion in Mainland China, GDP per head will be almost double the current US level, although by that time the US figure will have grown to over US$100,000.

The growth of average incomes projected over the coming decades, and the large populations of the countries concerned, indicates the emergence of a huge global middle class with considerable spending power. This presents great challenges and opportunities. It implies a massive increase in consumption of consumer durables and a strong rise in car ownership, providing enormous manufacturing opportunities. It also points to sustained strong growth in international trade in goods and services, notably global travel.

But all this means an increasing strain on world resources of energy and raw materials. There are already major concerns about the environmental impact of rapid economic expansion. Climate change, the devastation of large areas of the planet, and the depletion of natural resources are already under way. Apart from the political issues this raises, it highlights the greatest risk to the forecast – that the world's resources simply cannot sustain the growth projected.

Another key issue is population control, focusing on the one-child family policy since 1979. In the next few decades, mainland China may be faced with a situation where its elderly population continues to increase, while fewer young people with earning power are there to support them. The problem is exacerbated by a steady increase in life expectancy.

Policy makers are concerned at the implications of mainland China exhibiting the demographic profile of an advanced country featuring a mature welfare system. The economy is still developing and the transition to a financially sustainable system will be difficult and require significant government resources. An International Monetary Fund estimate suggests the transition cost of shifting to a viable pension system would be 7% of GDP in 2003, roughly US$100 billion.

IBR highlights

Brazil
Russia
India
China

Economic prospects

The Grant Thornton International Business Report (IBR) indicates that optimism regarding prospects for domestic economies is as strong as ever in the BRIC economies. Indian business owners continue to be the most upbeat in the world while those in mainland China are the third most optimistic (with the Philippines second). Businesses in Brazil and Russia are also more confident about their countries' economic prospects than the global average. Russians are significantly more optimistic than they were in 2006 reflecting the steady economic progress of recent years.

Financial constraints on expansion

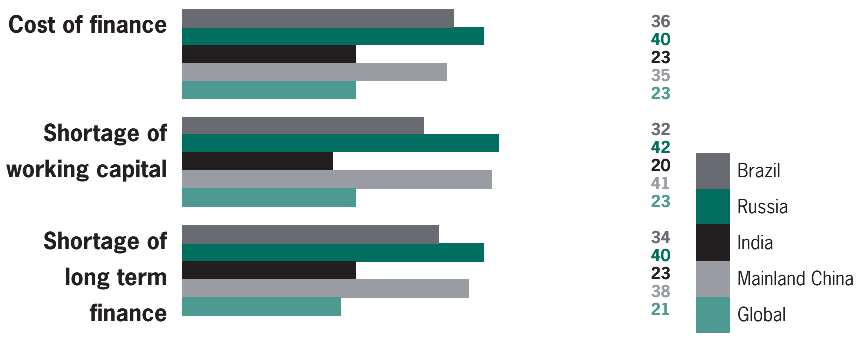
Relatively few of the 32 economies in our survey perceive finance as a major constraint on their ability to grow. However, in three of the four BRIC countries this is regarded as a key constraint. Four in ten businesses in Russia cite the cost of finance, shortage of working capital and shortage of long-term finance as major constraints on expansion. Businesses in Brazil and mainland China are also highly likely to cite these financial factors as restricting expansion. But Indian businesses are less likely to cite financial constraints as barriers to the growth of their business, and are indeed below the global average regarding shortage of working capital as a constraint. In terms of accessibility of finance, India appear to be in pole position amongst the BRIC economies.

Figure 6: Outlook for the BRIC economies over next 12 months (% balance*)

* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Source: International Business Report 2007

Figure 7: Financial constraints on business expansion



* % of respondents rating the constraint 4 or 5 on a scale of 1 to 5 where 1 is a minor constraint and 5 a major constraint

Source: International Business Report 2007

Brazil

Brazil – Economic background
GDP size US$1,536bn (US for comparison US$12,310bn).
Population 186m

- Brazil's economy is the largest in the Americas, after the US. Economic progress in the past two decades has been erratic and growth has averaged only 2% per annum – one of the slowest among the emerging market economies. However, the past three years have seen stronger growth, averaging 3.6% a year.
- The economy features large and well-developed agricultural, mining, manufacturing, and service sectors. The agricultural sector is particularly important. Brazil is a major world producer of beef, coffee, soya, oranges and wheat. Including food processing and other agribusinesses, the sector is estimated to account for 30% of gross national product (GNP) and 40% of jobs. Growth in the sector at an annual average of over 5% this decade has surpassed that in manufacturing and the service sector and potential for expansion is huge. Manufacturing growth has averaged 4% in recent years.
- Apart from slow growth, the Brazilian economy has been beset by inflation and debt problems. In 1988-97, inflation averaged almost 600%, but this was brought down to 7.5% in the period 1998-2005 and to 4.5% in 2006. Brazil's foreign debt is large in relation to GDP and the export base. Significant debt accumulation occurred during the 1970s when Brazil attempted to achieve high growth in the face of a rising trade deficit and managing the debt remains a key issue.
- The long-term challenge is to sustain growth at the pace achieved in recent years to generate employment and improve living standards. Economic management has improved and includes an inflation-targeting regime and restrained fiscal policy. Much will depend on the maintenance of economic discipline and political stability to achieve the hoped-for improvement in economic growth.

Brazil's economy is the **largest** in the Americas, after the US.

Brazil – IBR results

- Brazilian businesses are the least optimistic of the BRIC countries about economic prospects for the next 12 months – of which India is highest. They are indeed only marginally more optimistic than the global average. This caution probably reflects muted perceptions of economic prospects given the slow growth posted by the Brazilian economy over the long-term. Even the recent acceleration leaves Brazil's growth rate well below that achieved in other BRIC countries.
- Business performance expectations are generally buoyant and well above the global average, with Brazilian businesses expecting turnover to improve markedly with a balance of +74% expecting an increase in the coming year. This implies strong growth in employment and with selling prices also expected to rise, the outlook for profitability over the next twelve months is very positive, the third highest among the 32 economies in the survey. Against this favourable background, Brazilian businesses have strong investment intentions for the coming year with a balance of +43% expecting to increase investment in new buildings and +52% expecting to increase investment in plant & machinery, both comfortably above the global average. Export growth expectations are rather downbeat, probably in anticipation of the US slowdown this year.

Figure 8: Brazil – Economic structure

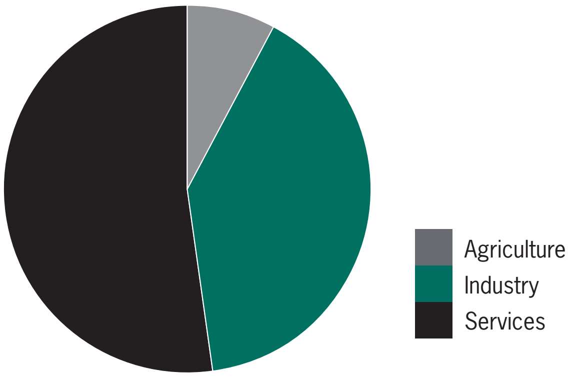
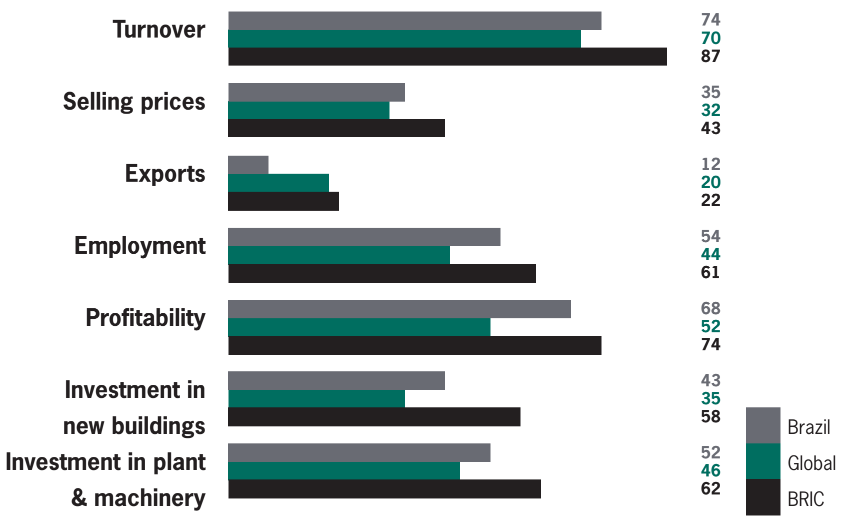


Figure 9: Business performance indicators (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

- The economic expansion in Brazil has increased global business only modestly. But in the Philippines the impact has been surprising – a balance of +29% report an upturn in business, even higher than in Argentina (+22%). At the other extreme, business has suffered slightly in Turkey and Thailand as a result of this expansion.

  The economic expansion in the three other BRIC economies has had a varied impact on businesses in Brazil. The expansion in mainland China has resulted in a marginal loss of business (-4%) whereas the expansion in Russia has marginally increased business (+3%). India's economic expansion has, on balance, had no impact.

  The majority of Brazilian businesses see globalisation as presenting an opportunity for their company. However a quarter, much higher than in the other BRIC economies, see globalisation as a threat to their business.

Mauro Terepins, Terco Grant Thornton, Brazil

"Economic progress in Brazil has been erratic and slow. However in recent years, inflation has fallen dramatically while democracy has prevailed and there has been a huge reduction in the public deficit. The challenges for the future are to stimulate growth and improve the distribution of wealth."

Trade and globalisation

- Businesses in Argentina are the most likely to import from Brazil (31%). Of these businesses, the majority are likely to continue to import from Brazil in the future. Only 4% of Swedish businesses import from Brazil at present and although 22% do not currently import they do have formal plans to start in the future.
  Of the BRIC economies, Brazilian businesses are most likely to import from mainland China. 11% of Brazilian businesses currently do so and have further plans to continue, while 3% do not plan to continue. Only 1% of Brazilian businesses import from India and 2% from Russia.
- Businesses in Argentina (26%), Italy and Spain (18%) are the most likely to export to Brazil. 21% of businesses in mainland China do not export to Brazil at present but have formal plans to start.
  Brazilian businesses are not very likely to export to the three other BRIC economies. 4% currently export to mainland China with only 2% to India and 1% to Russia. Of the businesses that do not export to these countries, 11% have formal plans to start in mainland China, 9% for India and 8% for Russia.

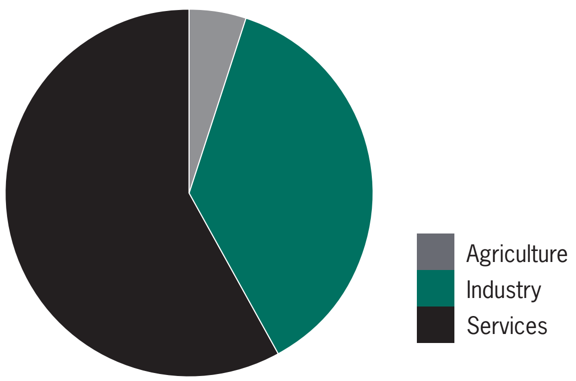
Businesses in Argentina, Italy and Spain are **most likely to export** to Brazil.

Russia

Russia – Economic background
GDP size US$1,584bn (US for comparison US$12,310bn).
Population 142m

- Russia's economy has expanded at a vigorous pace since 1999, averaging 6.7% a year. Much of this growth reflects a catch-up following the painful restructuring of the 1990s and the sharp decline of GDP during that period. But the reforms have laid the foundation for robust expansion and have raised business and investor confidence. High energy and commodity prices have also boosted growth in recent years.
- The country is still heavily dependent on commodity exports, leaving it vulnerable to swings in world prices and to a stop-go economic cycle. However, an increasingly broad-based economic structure has developed. Domestic household spending – now an important driver of activity – is forecast to grow by almost 11% this year, underpinning overall growth at 6.5%, with further strong expansion a prospect for 2008. Fixed investment is also growing strongly.
- The economy still faces problems. Years of low investment have left many industries antiquated and highly inefficient; corruption is widespread, and there is a lack of trust in institutions. There is also increasing concern that state control over the economy has increased recently, with a number of large acquisitions.
- Russia's economic prospects have improved dramatically since the transition to a market economy, but it remains a mixture of strengths and weaknesses. It has a significant role as a leading producer and exporter of minerals, gold, and all major fuels. However little progress has been made in building the rule of law; business regulations are unpredictable, and legal enforcement of private business agreements is weak.

Figure 10: Russia – Economic structure



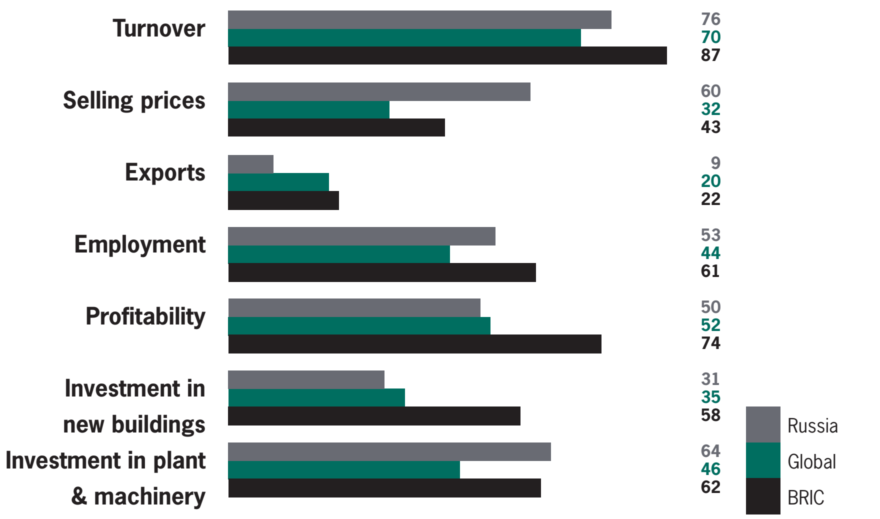
Sergey Aslibekian, Grant Thornton Trid, Russia

"Russia's economy has expanded vigorously since 1999, following the painful restructuring of the 1990s. Reforms have laid the foundation for further expansion but the economy is still highly reliant on energy exports."

Russia – IBR results

- Positive sentiment regarding the economic outlook for Russia has increased strongly, with a balance of +57% of respondents expressing optimism, well up on the +21% recorded last year. The current mood of confidence in Russia is also reflected in buoyant consumer spending and business investment.
- Expectations of business performance are also very positive. A balance of +76% of Russian businesses expect turnover to increase. This is substantially higher than in last year's survey (+58%) in line with improving sentiment about the economy. Selling prices are expected to continue to increase over the coming year with the balance of +60% – significantly higher than the global average and exceeded by only two countries (Botswana and India). Against this background, Russian businesses are optimistic about employment and profitability over the next 12 months. Investment is also expected to increase strongly, particularly in plant & machinery.

Figure 11: Business performance indicators (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Trade and globalisation

- The vigorous economic expansion in Russia has had significant effect on businesses in Armenia who show an exceptionally large positive balance of +42%. Another major beneficiary is Germany (+30%) followed by the Philippines (+28%).
  Mainland China's economic expansion has increased business for +9% of Russian businesses. The economic expansion in Brazil and India has only marginally increased business in Russia (+3% and +2%).
  Only 30% of Russian businesses see globalisation as presenting an opportunity for their company. This is the lowest proportion of all the BRIC countries. 19% see globalisation as presenting a threat for their company.
- Businesses in Armenia (28%) and the Philippines (14%) are the most likely to import from Russia. At present, only 9% of Chinese businesses import from Russia but 15% who do not, have formal plans to start. It is also interesting to note that 12% of Brazilian businesses do not currently import from Russia but do have formal plans to begin.
  Of the BRIC economies, Russian businesses are most likely to import from mainland China – 10% do so and have further plans to continue in the future. Only 3% of Russian businesses import from India and only 1% from Brazil.
- European businesses are the most likely to export to Russia. Italy (27%), Armenia (22%) and Germany (20%) are the most likely, while businesses in Brazil and Japan are the least likely (1%). A fifth of Chinese businesses and a tenth of Indian businesses do not currently export to Russia but have formal plans to start.
  Russian businesses are not very likely to export to the three other BRIC countries. Only 1% of Russian businesses currently export to India and mainland China. No Russian businesses export to Brazil with only 2% of companies having formal plans to start.

Positive sentiment regarding the economic outlook for Russia has increased strongly, with a balance of +57% of respondents expressing

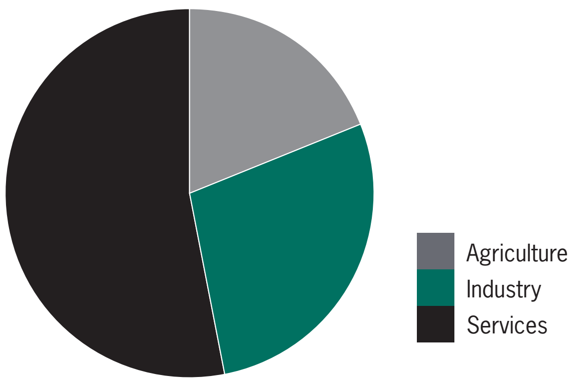
optimism.

India

India – Economic background
GDP size US$3,666bn (US for comparison US$12,310bn)
Population 1103m

- The economy is very large – the world's fourth largest – and is achieving rapid growth averaging 6.6% per annum in the past decade. This is among the fastest growth rates of all economies.
- External trade and investment have been progressively liberalised, producing a boost to economic growth, with exports booming and a surge of inflows of FDI. Expansion has also benefited from large-scale investment in transport and telecommunications. Attention is focusing on broadening the manufacturing base, including the development of electronics manufacture.
- India has developed a major role in business processing activities, which is boosting growth in the service sector. It is also capitalising on its large number of well-educated people skilled in English to become a major exporter of software and other business services.
- The economy continues to grow at a robust pace – around 8% in 2006 – with a similar rate in prospect for 2007. Expansion is led by strong activity in industry and services, amid healthy consumer demand and brisk export growth.

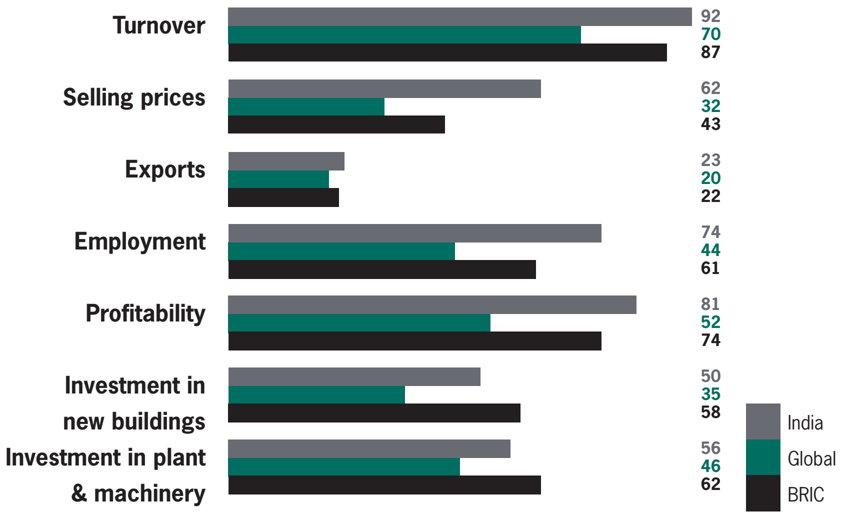
Figure 12: India – Economic structure



India – IBR results

- Indian businesses are very upbeat about the performance of their economy in the next 12 months with an optimism balance of +97%. They retain the position held over the past three years as the most positive regarding their country's economic prospects.
- India is in the top three countries in nearly all the business performance indicators. Turnover expectations are the most optimistic in India (a balance of +92%) while a balance of +62% expect selling prices to increase over the coming year, placing India second – only behind Botswana. Indian businesses are the most optimistic about employment and profitability for the coming year, with balances of +74% and +81% respectively, and are also among the most optimistic about investment in new buildings and plant & machinery. However, expectations about exports have fallen from +33% in 2006 to +23%, only slightly above the global average. India's main trading partner is the US and the expected slowdown in US activity in 2007 may be responsible for this decline.

Figure 13: Business performance indicators (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

Turnover expectations in India are the most **optimistic** out of all economies surveyed.

Vishesh Chandiok, Grant Thornton, India

"Reforms since the early 1990s have helped unlock India's economic potential and positioned India as one of the fastest growing economies in the world. Growth is accelerating, boosted by a dynamic, knowledge-based service sector and expanding manufacturing sector. No wonder, for the fourth successive year, Indian businesses continue to be the most optimistic in IBR about economic prospects."

Trade and globalisation

- The sustained economic expansion in India has increased business in many countries in our survey – mostly in East Asia. The most significant increases are in the Philippines (a balance of +28%) and Germany (+22%). However, there are some negatives. Five countries report a decline, notably Thailand (a balance of -9%) and Turkey (-6%).

  The economic expansion in Brazil, Russia and mainland China has led to a modest increase in business in India. An average of +7% of Indian respondents has increased business as a result of the economic expansion in Brazil, Russia and mainland China.

  More Indian businesses than in any other country see globalisation as an opportunity (+82%). However, 9% of all businesses in IBR see globalisation as a threat.

- Businesses in Spain and the Philippines are most likely to import from India (16%). It is interesting to note that although 15% of Brazilian businesses do not currently import from India, they do have formal plans to start. 13% of businesses in the US currently import from India and have further formal plans to export.

  Of the BRIC economies, Indian businesses are most likely to import from mainland China. 9% of businesses currently import from mainland China and have further plans to do so, however 3% currently import but have no formal plans to continue. Over 80% of businesses in India do not import from Brazil and Russia and have no formal plans to do so.

- Businesses in Italy and Singapore are the most likely to export to India (18% and 17%), with 16% of Italian businesses having further plans to do so. 19% of businesses in the Philippines and 14% of businesses in mainland China do not currently export to India but have formal plans to start.

  Of the BRIC economies, Indian businesses are most likely to export to mainland China (9%). Only 5% of Indian businesses currently export to Brazil and Russia with 78% not exporting and having no formal plans to start.

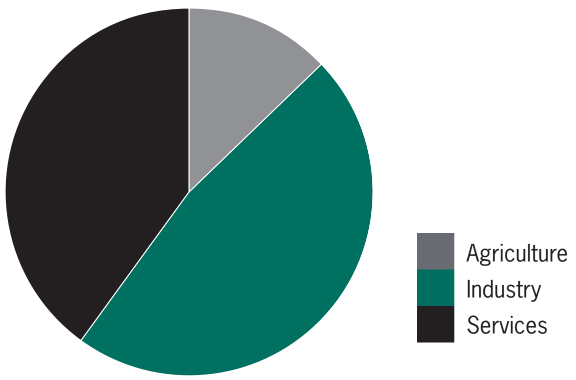
More Indian businesses than in any other country see **globalisation** as an opportunity.

Mainland China

Mainland China – Economic background
GDP US$8883bn (US for comparison US$12,310bn).
Population 1313m

- The economy has developed very quickly over the past 25 years, sustaining growth at almost 10% a year. Growth at this pace has been underpinned by a transition from a centrally planned system, that was largely closed to international trade, to a more market-oriented economy with a rapidly growing private sector. On some measures, mainland China is second only to the US in terms of economic size.
- Its economic size and rapidly expanding share of world trade and investment give mainland China a growing influence in regional and world economic affairs. Mainland China's emergence as a global superpower means that the world economy is no longer as dependent on the US to act as an engine of growth.
- Mainland China's ability to produce goods at low cost has had major consequences for international competition and trade. Manufacturers throughout the world have felt the pressure. The country's exports have boomed along with imports and intra-regional trade. Inflows of FDI have risen dramatically and are an additional source of growth. Investment is spreading from manufacturing (led by computers, other electronic equipment and textiles) to the service sector – distribution and financial services.
- Economic development has generally been more rapid in the southern coastal provinces than in the north and the interior. However, skills shortages and a diminishing supply of unskilled labour in the coastal areas such as Guangdong, Jiangsu and Shanghai means that the North East and the inland regions are now the focus of much new investment.

Figure 14: Mainland China – Economic structure



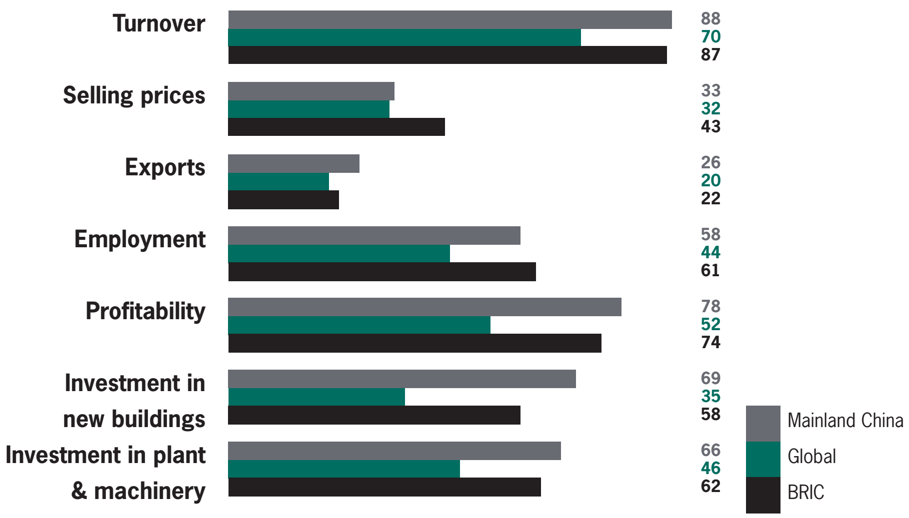
Desmond Yuen, Grant Thornton, Hong Kong

"Mainland China's spectacular progress in the past 25 years has produced a new global economic superpower. Strong growth in exports and investment inflows continue to underpin robust output growth."

Mainland China – IBR results

- Businesses in mainland China are highly optimistic about the economy's performance in the next 12 months. A balance of +86% are upbeat, an even higher proportion than in 2006 (+79%).
- Expectations for business performance over the coming year are also very buoyant. A balance of +88% expect turnover to increase, a figure surpassed only by India. Optimism regarding employment and profitability are correspondingly high, and well above the global average. Expectations about selling prices are positive, but only slightly above the global average. In line with the strong economic backdrop, mainland China is one of the most optimistic countries about investment over the coming year with a balance of +69% expecting spending on new buildings to increase and +66% expecting plant & machinery investment to increase.

Figure 15: Business performance indicators (% balance*)



* the balance is the difference between the proportion of businesses indicating optimism and those indicating pessimism

- The economic boom in mainland China has significantly increased business in recent years in the global economy, but the biggest impact is in the Asia Pacific region. Hong Kong, with a balance of +69%, is the main beneficiary, followed by Singapore (+35%), and the Philippines (+31%). It is interesting that two Western European countries, Germany and the Netherlands, also feature among the top six in this context. The boom is, however, perceived to have had adverse effects in several countries, notably Thailand, where a negative balance of -39% of respondents say that they have seen a significant decrease in business, followed by Turkey (-17%) and Poland (-8%).

The economic expansion in Brazil, Russia and India has had a modest effect on businesses in mainland China. A balance of +10% of Chinese businesses have increased business as a result of the expansion in Russia while an average of +6% have increased business due to the expansion in Brazil and India.

A large majority of mainland Chinese businesses see globalisation as presenting an opportunity for their company, in common with perceptions of businesses in other countries in the region. This no doubt reflects the huge export boost they have already enjoyed and the further potential which globalisation offers. But, a fifth of Chinese companies see globalisation as a threat to their business.

Trade and globalisation

- Businesses from Hong Kong (51%), Singapore (44%) and Spain (32%) are the most likely to import from mainland China. Just under a fifth of businesses from Germany and Brazil do not import from mainland China but have formal plans to start.

  Of the BRIC economies, Chinese businesses are most likely to import from India (11%). 9% of Chinese businesses currently import from Russia and 7% import from Brazil. It is also interesting to note that although 15% of Chinese businesses do not import from Russia, they do have formal plans to start.

- Unsurprisingly, businesses in East Asia are the most likely to export to mainland China with Hong Kong (45%), Singapore (28%) and Taiwan (25%) leading the way. Interestingly 16% of German businesses and 12% of Italian businesses do not currently export to mainland China but have formal plans to do so in the future.

  Of the BRIC economies, Chinese businesses are most likely to export to Russia (13%). 11% export to India and only 6% to Brazil. However 21% of businesses who do not currently export to Brazil plan to start.

Businesses from Hong Kong, Singapore and Spain are the **most likely** to import from mainland China.

Summary and conclusions

Financial constraints on expansion

Relatively few of the 32 economies in our survey perceive finance as a major constraint on their ability to grow. However, in three of the four BRICs – Brazil, mainland China and Russia – this is regarded as a key constraint.

Emerging markets

The high growth rates of recent decades are unlikely to be sustainable in the long term. Nevertheless, the dynamic emerging economies led by the two large BRIC economies – mainland China and India – will continue to grow strongly, and our projections indicate that they will account for almost 80% of global output by 2050. However mainland China may face potential problems with its aging population and rising old age dependancy ratio.

Increased spending power of a global middle class

We forecast that by the year 2050 the BRIC economies, which currently account for well over 40% of the world's population, will enjoy income levels equal to, or higher than, the current US level. This implies a huge increase in spending on consumer durables and services such as travel.

Environmental impact

The rapid development of these economies and continued steady growth in the mature markets, presents a major challenge. Climate change and the devastation of large areas of the planet will be exacerbated. Managing the depletion of natural resources will become an increasingly critical issue.

Optimism among the BRIC economies

Optimism regarding prospects for the domestic economy is strong in the BRIC economies. Indian business owners are the most upbeat in the world while those in mainland China are the third most optimistic. Business owners in Brazil and Russia are also more confident about their countries' economic prospects than the global average.

Business performance outlook

The BRIC economies are all upbeat about key business performance indicators such as turnover, profitability and investment in plant & machinery over the next 12 months. Mainland China and India are especially optimistic, reflecting the very favourable economic background in their countries.

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The International Business Report (IBR), formerly known as the International Business Owners Survey (IBOS), provides insight into the views and expectations of over 7,200 privately held businesses across 32 economies. This unique survey draws upon 15 years of trend data for original participants of IBR's predecessor the European Business Survey (EBS) and 5 years of trend data for original participants of IBOS. The research was conducted by Experian Business Strategies and Harris Interactive.

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