

The Emerging BRICs

Brazil, Russia, India, and China are fast emerging players in the global economy. Over fifteen years, Canadian exports to the BRICs rose 372 percent, and imports increased by 747 percent.^a Collectively, the BRICs accounted for almost 3 percent of all Canadian trade in 1993, and this nearly tripled to approximately 8 percent by 2008.

In 2008, Canada's trade with China represented fully 80 percent of the trade between Canada and the BRICs. Over the past fifteen years, China has accounted for almost 82 percent of the growth in Canada-BRIC trade.

Overall, Canada generated a trade surplus with the world, but a trade deficit with the BRICs, which has been increasing since the mid-1990s. Total Canadian exports to the BRICs in 2008 were approximately \$19 billion and imports were \$50 billion, resulting in a trade deficit of \$31 billion compared to only \$2 billion in 1993. Not surprisingly, in 2008, China generated over 98 percent of the overall Canadian trade deficit with the BRIC nations.

Brazil, Russia, and India are emerging as important trade partners

Although China is currently Canada's only significant trade partner among the BRICs, Brazil, Russia, and India are likely to become more important economically.

Brazil is an emerging strength in the Americas

In 2008, the value of trade between Canada and Brazil was almost balanced, with imports from Brazil being slightly higher. From 1993 to 2009, our exports to Brazil increased in the manufacturing and mining and oil and gas extraction industries. During the same period, the share of imports from Brazil only increased significantly in the manufacturing sector. Our key exports to Brazil are

commodity based, while key imports are commodities and manufactured goods (*Exhibit B*).^b

The Government of Canada has acknowledged Brazil as a Global Commerce Strategy Priority Market and identified certain export sectors for Canada to focus on for the future. For instance, the Market Plan recognized the oil and gas equipment and services sector as offering clear opportunities well suited to Canadian capabilities and interests.^c

Much of Brazil's current success is the result of recent government initiatives to create a stable macroeconomic environment in which businesses can flourish.^d Successful Brazilian companies like Petrobras (oil), Vale (mining), and Embraer (aircrafts) have grown and prospered. Foreign direct investment has also poured into Brazil, attracted by an economy that is moving people out of poverty and into a growing lower middle class.^e One of Brazil's major assets, which it has used to its advantage, is its vast stores of natural resources in agriculture and mining; it is poised to capitalize on recently discovered offshore oil reserves.

Russia is becoming an energy superpower

Russia's emerging economy depends upon the oil and gas commodity sector. Oil and gas exports accounted for about 60 percent of federal budget revenue as well as 60 percent of all exports.^f Since Russia is one of the world's leading producers of oil and gas, Canadian oil services companies have experienced substantial growth in Russia, and there is considerable potential for further growth in the development of offshore deposits off Russia's Arctic Shelf and in the Sakhalin region.^g

The Canadian Government has also identified Russia as a Global Commerce Strategy Priority Market. Out of the

^a Trade Data Online (TDO), Industry Canada, available online: http://www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

^b Foreign Affairs and International Trade Canada, International Trade: fast facts on Canada-Brazil commercial relations, available online: <http://www.international.gc.ca/commerce/facts-infos/brazil-2008-bresil.aspx>

^c Foreign Affairs and International Trade Canada, "Seizing global advantage, Brazil, a global commerce strategy priority market," available online: <http://www.international.gc.ca/commerce/strategy-strategie/r5.aspx>

^d "Getting it together at last," A special report on business and finance in Brazil, *The Economist*, November 2009, available online: <http://www.economist.com/node/14829485>

^e "Brazil takes off," *The Economist*, November 2009, available online: <http://www.economist.com/node/14845197>

^f "Russia's economic rise may be too well oiled – Business – International Herald Tribune," *The New York Times*, July 11, 2006, available online: <http://www.nytimes.com/2006/07/11/business/worldbusiness/11iht-ruble.2171938.html>

^g Foreign Affairs and International Trade Canada, "Seizing global advantage, Russia, a global commerce strategy priority market," available online: <http://www.international.gc.ca/commerce/strategy-strategie/r13.aspx>

BRICs, Russia trades the least with Canada. In 2008, Canadian exports were more manufacturing-oriented than those for the other BRICs. Our imports were more oriented to mining and oil and gas extraction from this energy superpower.

With its strength in metals, minerals, and related equipment and services, Russia is an export opportunity for Canadian equipment and services providers. They have established an excellent reputation for providing reliable, cutting-edge technologies and equipment. With a number of major Russian mining companies looking to expand and diversify, opportunities are arising in mining services for Canada – for example, surveying and extraction plans for mineral deposits.^h

India is awakening as a modern trading nation

Canada had a trade surplus with India in 2008. Our exports are driven primarily by commodities, and their share has increased over the past decade.

Indian imports into Canada were dominated by the manufacturing sector.ⁱ

Canadian firms are making the effort to build partnerships with India. For example, Canpotex – a marketing firm representing three of Saskatchewan’s major potash producers and owned by Potash Corporation of Saskatchewan, Agrium, and a Canadian subsidiary of Mosaic Co. – recently completed a deal with a group of Indian purchasers to sell approximately US\$222 million worth of its output for fertilizer production.^j

There are key markets in India in which Canada could compete. Canada already exports mining output, and we are in an excellent position to export engineering services, recovery technology and practices, and transportation infrastructure, based on years of knowledge and experience in oil and gas. Opportunities exist in natural gas exploration and development, offshore oil production, and pipeline technology.^k

Exhibit B China accounts for most of Canada’s trade with the BRICs

Total trade with Canada (billions)	Brazil \$5.3	Russia \$3.6	India \$4.6	China \$55.4
Top Canadian exporting industries to BRICs	Non-metallic and coal mining Paper mills Oil and gas Wheat	Animal meat Agriculture implements Mining, oil and gas field machinery Seafood products and packaging Aerospace	Non-metallic mining Dried peas and beans Pulp and paper Aerospace	Pulp Non-ferrous metal (ex-aluminum) Basic manufactured chemicals Oilseed (ex-soybean) Oil and gas
Top BRIC exporting industries to Canada	Aluminum Sugar manufacturing Automobile manufacturing Iron and steel Aerospace	Oil and gas Petroleum Fertilizer Non-ferrous metal (ex-aluminum) Iron and steel	Basic manufactured chemicals Jewelry and silverware Clothing Curtains and linens	Computer and peripheral equipment Dolls, toys and games Audio and video equipment Manufacturing Women's and girls' clothing Furniture

Source: Institute for Competitiveness & Prosperity analysis based on data from Industry Canada, Trade Data Online.

^h Foreign Affairs and International Trade Canada, International Trade: fast facts on Canada-Russia commercial relations, available online: <http://www.international.gc.ca/commerce/facts-infos/russia-2008-russie.aspx>

ⁱ Foreign Affairs and International Trade Canada, International Trade: fast facts Canada-India commercial relations, available online: <http://www.international.gc.ca/commerce/facts-infos/india-2008-inde.aspx>

^j “Potash group sells to India, \$370 a tonne,” Report on Business, *The Globe and Mail*, February 19, 2010, available online: <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/potash-group-sells-to-india-370-a-tonne/article1474047/?cmpid=tgc>

^k Foreign Affairs and International Trade Canada, “Seizing global advantage, India, a global commerce strategy priority market,” available online: <http://www.international.gc.ca/commerce/strategy-strategie/r9.aspx>

^l Richard Vincent and Larry McKeown, “Trends in telephone call centre industry”, 2008, Statistics Canada, p.8

Apart from goods industries, India is very popular for its service sector, especially for being the offshore hub of call centres. Canada has lost ground in this industry to low-wage competitors, such as India. However, for developing nations to become productive in this market, it is imperative for call centres to offer higher value added in terms of skills, both technical and linguistic, and technology.^l

India has an educated and talented workforce. Leading universities such as the Indian School of Business (ISB), associated with the Wharton School and the Kellogg Graduate School of Management, and the Indian Institutes of Technology (IIT) have added to India's sophisticated labour pool. The country has also progressed because of its strong market-driven economy with private corporations, democratic government, Western accounting standards, an active stock market, widespread English use, and rigorous training in computer science and math in its schools.^m

The BRICs are projected to become economic superpowers

Several studies have examined the changing structure of the BRICs to investigate their rise as economic superpowers.

In a March 2008 study, PricewaterhouseCoopers (PwC) examined the economic growth projections of several emerging economies over time, including the BRICs. Over recent years, India and China have exhibited solid economic growth and are on a track to reach parity in GDP output with developed nations. PwC employed a GDP growth model for the BRICs that took into account four key drivers of growth: physical capital stock, labour force, quality of labour (human capital), and technological progress.ⁿ With updated data, PwC used these inputs to create a long-run GDP growth and output model.

The model had important conclusions. China is expected to experience the highest growth rates among the BRICs over the next few years and could overtake the US economy as the world's largest by 2025. PwC forecasts faster growth for India over the 2020-2050 period, and that its economic output will surpass Japan's before 2030 and possibly the United States by 2050. Brazil could overtake Japan by 2050, and Russia might not be far behind.

Goldman Sachs published a global economics paper entitled "Dreaming with BRICs: The Path to 2050" that also mapped out GDP growth to 2050. Using an estimation model of demographic projections, capital accumulation, and productivity growth, they forecasted that by 2050 all four BRICs will be in the top six countries ranked by economic output – the other two will be the United States and Japan. Rounding out the top ten will be the United Kingdom, France, Germany, and Italy.^o

Goldman Sachs summarized the work of Robert Barro and other leading development economist to identify some of the most important requirements for the plausibility of its economic forecasts: sound macroeconomic policies and a stable macroeconomic background, strong and stable political institutions, openness to trade and foreign direct investment, and high levels of education. The BRICs are making progress on these requirements, with some exceptions

Renowned professor of history and international affairs at Princeton University, Harold James, has highlighted three major challenges for the BRICs to overcome. First, to be globally competitive, the underprivileged and illiterate citizens of mostly rural China and India will need to be integrated into mainstream society. Second, little transparency exists in the financial systems in China and Russia, while those in Brazil and India are still underdeveloped – this may increase the risk for a financial crisis. Third, Russia faces a demographic decline and an aging population, and China will experience a demographic downturn from 2040 onwards as a result of its one-child policy.^p

Long-term forecasts are never exactly correct and whether China surpasses the United States in 2020 or 2030 is not important. What matters most is that we recognize the dynamism of these four economies, and that we strive to benefit from much deeper trading relationships than we have now.

^m Manjeet Kripalani, Pete Engardio and Steve Hamm, "The Rise of India," *Business Week*, December 8, 2003, available online: http://www.hciottawa.ca/whyindia_bpo-Rise.htm

ⁿ John Hawksworth and Gordon Cookson, "The world in 2050 beyond the BRICs: a broader look at emerging market growth prospects," 2008, PricewaterhouseCoopers, pp. 7-12.

^o Dominic Wilson and Roopa Purushothaman, "Dreaming with BRICs: The Path to 2050," 2003, Goldman Sachs, p. 14.

^p Harold James, "The Rise of the BRICs And the new logic in international politics", *The Magazine of International Economic Policy*, 2008, available online: http://www.international-economy.com/TIE_Su08_James.pdf