

## Chapter Nine

### *BRIC by BRIC*

**Table 9-A**  
**MSCI BRIC Index vs. S&P 500® Index Total Return<sup>1</sup>**  
**Ten Years Ending March 31, 2010**

	<b>1 Year Total Return %</b>	<b>3 Year Total Return %</b>	<b>5 Year Total Return %</b>	<b>10 Year Total Return %</b>
<b>MSCI BRIC Index (MXBRIC)</b>	82.00	18.87	148.57	160.98
<b>S&amp;P 500® Index (SPX)</b>	49.72	-11.97	9.96	-6.35
<b>Outperformance of MSCI BRIC Index vs. S&amp;P 500® Index</b>	32.28	30.84	138.61	167.33

Please visit [www.degreen.com](http://www.degreen.com) for updated statistics and information.

*Brazil, Russia, India and China* are the world's largest emerging markets. Together, they account for an astounding 2.85 billion people. That's 42 percent of the world's 6.8 billion people.

**1** MSCI Brazil, Russia, India and China (BRIC) Index and S&P 500® composite indices through March 31, 2010. You may invest in the BRIC index through the iShares MSCI BRIC Index fund (BKF). You may invest in the S&P 500 Index through the SPDR S&P 500 ETF (SPY). Remember, an index is not an investment. Index-tracking ETFs will tend to slightly underperform their index due to fees and expenses.

Brazil and Russia, at 193 million and 142 million people respectively, are tiny compared to India's 1.2 billion and China's 1.3 billion people. However, economic activity in each of these countries profoundly impacts the regions around them.

Investors often refer to these four countries collectively by the acronym *BRIC*. While these countries share many similarities as emerging markets, they are by no means identical. As we'll see in this section, each offers unique investment risks and rewards.

## **The Enormity of *Chindia***

Thirty-seven percent of all the people in the world – nearly four of every ten – live in *Chindia* – China and India!

Brazil and Russia offer tremendous investment opportunities. But lumping them together with India and China does a disservice to any investment or economic analysis of these countries.

As you will see in the following two chapters, both the scale of *Chindia's* economic potential, and its rate of economic growth, are staggering.

Moreover, it is not entirely fair to compare India and China to each other. Although they have much in common, one is the world's largest democracy, and the other is the world's largest authoritarian state. Each has a somewhat different set of resources, and each must confront significantly different challenges.

But one thing they do have in common is people: China's 1.3 billion, and India's 1.2 billion souls make each country approximately four times larger, by population, than the world's third largest country – the United States.

# India and China Toe to Toe

I've compiled Table 9-B to help you more fully appreciate not only *Chindia's* vast potential, but also how India and China compare in a number of specific areas. Often lost in a discussion of either country is the sheer scale of the numbers. Remember that between them, *China and India account for nearly forty percent of the world's population!*

**Table 9-B**  
**India-China Comparisons**

<b>Item</b>	<b>India</b>	<b>China</b>
<b>Population</b>	1.2 billion	1.3 billion
<b>Average Income (PPP<sup>2</sup>)</b>	\$2,659	\$5,292
<b>Literacy Rate<sup>3</sup></b>	65%	90%
<b>% of People Living Below Poverty Level of \$1/day</b>	42% <sup>4</sup>	10%
<b>Personal Savings Rate as % of Income</b>	35%+	35% +
<b>Median Age</b>	22	33

Please visit [www.degreen.com](http://www.degreen.com) for updated statistics and information.

## Other Comparative Comments

### India

1. India's official illiteracy rate of 35 percent represents more than a third of their population – about 400 million people – who can neither read nor write.

2 Purchasing Power Parity

3 This is India's "official" literacy rate. Many experts, including The CIA Fact Book, put the figure closer to sixty percent. Five percent matters as it reflects an additional 60 million people who can neither read nor write.

4 Source: World Bank, as of 2005.

2. From 2003 through 2007, India's economy grew at nearly nine percent per year. India's 2008 growth was 7.45 percent, and it is expected to grow about 8.15 percent annually through 2011<sup>5</sup>.
3. India's 60 million chronically malnourished children represent forty percent of the world's total number of underfed youngsters.
4. Sixty-five percent of Indians live off agriculture, but agriculture accounts for only 18 percent of India's economy.
5. Nearly ninety percent of all manufacturing jobs in India are with companies that employ fewer than ten people. This is due to draconian regulations that apply to companies with ten or more employees.
6. Because of India's low median age, it must absorb more than 14 million new workers into its economy each year.

## **China**

1. From 2003 through 2007, China's economy grew at nearly eleven percent per year. In 2008 it grew at just under ten percent, and in 2009 it grew at a still brisk 8.7 percent. During 2010 through 2011 its economy is expected to grow at a breathtaking 10.1 percent<sup>6</sup>.
2. One third of the children in China's poorest rural areas suffer from malnutrition.
3. More children in China are now overweight than underweight. About 25 percent of all Chinese are overweight.
4. China's one-child policy has resulted in a high median age in that country, by emerging market standards. This will put increasing pressure on China's health and social welfare systems over the next 50 years.
5. Ten years ago, China's poverty rate was similar to India's rate today.

5 Source: JP Morgan as published on Bloomberg 04-20-10.

6 Source: Bloomberg consensus estimate 04-20-10.

## Let's Hit the *BRICs*

Again, Brazil and Russia are no slouches either! Opportunities abound there. However, as you'll see in the following chapters, beyond size, there are significant differences between these economies and the economies of India and China.

To mention just one important example: both Brazil and Russia are net commodity exporters. India and China are net commodity *importers*.

Therefore, while the world economic slowdown negatively affected all countries, the commensurate decline in commodities prices hurt Brazil and Russia deeply. But it actually helped India and China. During 2009 and 2010 India and China embarked on a worldwide race to purchase, or to enter into long-term contracts with, commodities producers. Both nations have an insatiable thirst for commodities to support their burgeoning economies.

All this has obvious investment implications. So...with an appreciation of the profound differences among these countries, let's hit the *BRICS*...