

Emerging Nations: The Year Ahead

by [KRISTI ELLIS](#)

Posted THURSDAY JANUARY 28, 2010

From [WWD.COM](#)

[Add Note](#)



Emerging Nations Leading Economic Revival

Photo By Garry Hunter/Getty Images

WASHINGTON — Select countries in Asia, South America and Eastern Europe are emerging from recession ahead of the rest of the world, and these fastest-growing consumer economies are prime markets for brands to explore.

Retailers and brands have been expanding their footprint globally for years, and the trick has long been to select the right target market. Right now, many companies have their sights set on what is being called the “BRICs” — Brazil, Russia, India and China.

Coach Inc. said this month it will open a 7,000-square-foot flagship in Shanghai in April and also has plans for aggressive expansion throughout the Far East, while iconic Italian labels such as Ermengildo Zegna, which expects consumer demand from China and Brazil to bolster business, according to chief executive officer Gildo Zegna, and Dolce & Gabbana Group, which opened its first D&G boutique in Moscow this month, are exploring new horizons.

As the recession that rocked global markets last year bottoms out, consumer demand is bouncing back and retail and production expansion will increase, according to economists.

Global gross domestic product growth is projected at 2.7 percent in 2010, following an “unprecedented” 2.2 percent decline in 2009, and is expected to increase modestly to 3.2 percent in 2011, according to the World Bank’s “Global Economic Prospects-Crisis, Finance and Growth 2010” report.

The world’s emerging economies are recovering at a faster pace than rich and industrialized economies, and are expected to grow 5.2 percent in 2010, up from 1.9 percent in 2009, and by 5.8 percent in 2011, according to the report. The fastest-growing emerging economies in 2010, projected by the World Bank, are China, with an estimated 9 percent increase in output growth; India, forecast to expand 7.5 percent; Indonesia, with a 5.6 percent expected increase, and Bangladesh, seen growing 5.5 percent.

BRIC nations Brazil and Russia are forecast to increase output by 3.6 percent and 3.2 percent, respectively, in 2010. By contrast, growth rates of 2.5 percent are expected in the U.S. in 2010, while the Euro area is expected to expand 1 percent.

Jorg Decressin, head of the International Monetary Fund’s World Economic Studies division, said Asia, particularly China, has led the economic recovery. Eastern Europe, with the exception of Poland, has been “less successful with little sign of recovery,” and Latin America has more mixed results, “with countries like Brazil faring relatively well and others, like Chile, lagging behind.”

On a regional basis, East Asia and the Pacific are expected to grow 8.1 percent, while economic expansion is also expected from South Asia, at 6.9 percent; sub-Saharan Africa, 3.8 percent; the Middle East and North Africa, 3.7 percent, and Europe and Central Asia, 2.7 percent.

Hans Timmer, director of the World Bank’s Development Prospects Group, who joined Decressin on a panel of leading economists hosted by the Carnegie Endowment for International Peace here in early January, said the recovery is being driven by the “turn up in production” in emerging Asia and “to a large extent because of the [government] stimulus [measures] in China.”

“But then within the emerging economies there is a major differentiation,” Timmer said. “The kind of recovery that we are seeing in Asia is not there in Central and Eastern Europe despite the fact that indeed Poland shows relatively solid performance.”

Consumer demand, inextricably linked to employment rates and commodity prices, is also strengthening this year in many regions.

Andrew Burns, manager of the World Bank’s development prospects group and lead author of the 2010 global economic forecast, said Asia will continue to lead growth in consumption rates this year.

“With Asia growing at an 8 percent rate, that means [the region] will have consumer demand growth in the 6 to 7 percent range,” said Burns. “That means that the contribution of Asian consumer demand to global consumer demand is very high, notwithstanding the fact that they might have higher saving rates.”

Latin America, on the other hand, has a “much slower potential growth rate and therefore its contribution to [global consumer demand growth] is lesser,” he said.

In Asia, many consumers see themselves as “out of the woods,” said Uri Dadush, director of the Carnegie International Economics Programs. “The consumer is therefore doing relatively well. Generally, consumers in Asia were in good shape going into the crisis and had big savings rates. The governments were in good shape, and banks didn’t suffer the same problems that they did in the West.”

Despite a strong rebound in consumer confidence in most of Asia, Japan has not fared as well, Dadush said.

“Japanese customers have done a little bit better than the worst fears, but they are still relatively anemic,” he said. “Japan has had a problem with trying to reignite consumer demand now for many years, and I think those issues will, by and large, continue.”

With a population of 1.3 billion and a growing middle class that has an appetite for Western goods, China remains the biggest lure for brands and retailers among emerging economies. The Chinese government implemented what is largely seen as a successful \$587 billion economic stimulus package last year, with a major part of it flagged for programs intended to encourage its citizens to buy more.

“The Chinese government is trying to strengthen domestic demand in both the middle class and rural areas,” said Tu Packard, senior economist with Moody’s Economy.com. “Where the West has an advantage is in its high-end stuff; you’ve got a lot of rich Chinese, and they love buying all the famous names. That’s been an eager market for quite a while now, and I think it will continue to be eager.”

Economists were almost in lock step about their positive projections for China.

“I don’t think China is saturated, simply because China is growing rapidly and the size of the middle class is growing rapidly,” said Nariman Behraves, chief economist for IHS Global Insight. “There is huge scope for any kind of industry or any company that sells into the large middle class market and that potential is still quite untapped in China.”

Retailers view China as a consumer market ripe for expansion, said Casey Chroust, executive vice president of retail operations for the Retail Industry Leaders Association.

“Prosperity continues to expand and proliferate within the country, and that only speaks to more buying power within that country and that is very appealing,” said Chroust. “When you have 1 billion-plus people who are potential shoppers in the long term, it becomes a no-brainer and an easy one to want to try to get into.”

Brazil, leading South America out of the crisis; Indonesia, and India are considered three of the fastest-growing consumer economies, behind China.

“Brazil and Indonesia are a little smaller than India and China but in the same league in a sense that they are also moving up the ranks and the middle class is increasing and is likely to keep increasing in the next 20 to 30 years,” said Behraves. “The other thing that exacerbated things in Russia was it alienated foreign investors by nationalizing a lot of companies. That kept a lot of foreign capital away from Russia.”

Dadush said, “Brazil is already a higher-middle-income-economy and so its per capita purchasing power relative to other developing countries is right up there. It has very unequal income distribution...but increasingly there is a significant middle class together with the wealthy class, and it has become an important consumer market.”

Chroust of RILA said Brazil is “at the top of most retailers’ lists for consideration due to the economic engine that exists there, but also the type of consumer...which tends to respond well to U.S. retailers.”

India is growing rapidly but still has a wide gap in income distribution, said Philip Suttle, chief economist at the Institute of International Finance in Washington.

“There are two question marks when comparing India to China,” Suttle said. “One is India does not start off with as high a savings rate as China has. The second issue is that the Indian government has a relatively high budget deficit and relatively high debt, and clearly as they look further out they will probably need to pull the deficit down, which means there will be no alternative but to raise taxes, and that could dampen consumer spending a bit.”

While three of the BRIC countries continue to show major strength economically, Russia has fallen precipitously and could remain volatile for some time, economists noted. The impact of falling oil prices, from \$150 a barrel in mid-2008 to about \$80 today, and a collapse of domestic credit combined to hurt Russia’s economy.

“Russians, especially private companies, borrowed too much from their own banks and as [oil and commodity] prices collapsed last year, the bubble burst and a lot of private companies and individuals were left holding huge loans,” said Behraves. “The other thing that exacerbated things in Russia was it alienated foreign investors by nationalizing a lot of companies. That kept a lot of foreign capital away from Russia.”

Suttle said, “Russia has been unique in the way its assets are distributed. A lot of wealth accumulated among the young who have an appetite for conspicuous consumption, which is why you often saw Russians spending abroad, especially in London. The Russian boon is over, but it is still an economy that has a lot of potential to grow over time.”