

# Profiting from globalisation

Opportunities and risks in the BRIC economies

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# Immediate global issues



## Ouch....

- Credit crunch
- Is the worst over?
- Our forecast

# Deleveraging & asset price deflation

## Subprime issue

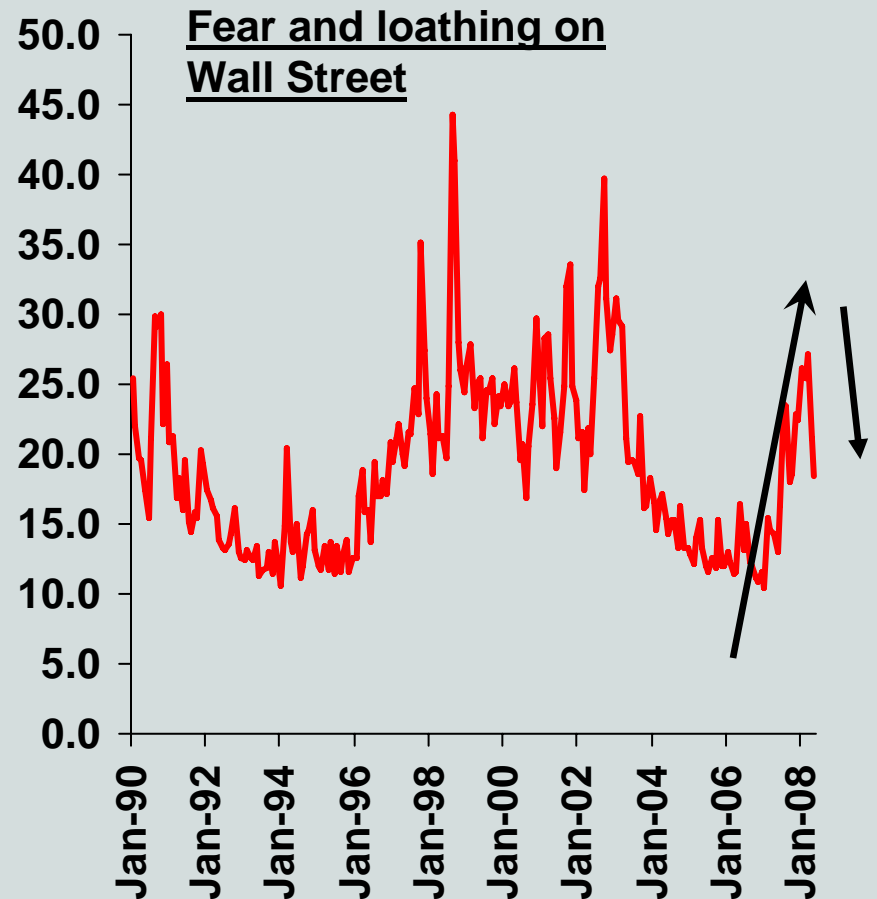
- US consumer

## Liquidity issue

- Central banks can mitigate this

## Solvency issue

- The most damaging – fully fledged banking crisis
- Asset markets go into reverse
  - downgrades
  - fire sale
- Margin calls, balance sheet damage
- Central banks powerless



VIX index: Chicago Board Options Exchange Volatility Index  
(implied volatility of S&P500 options in % points)

# The worst is over?

## The good news

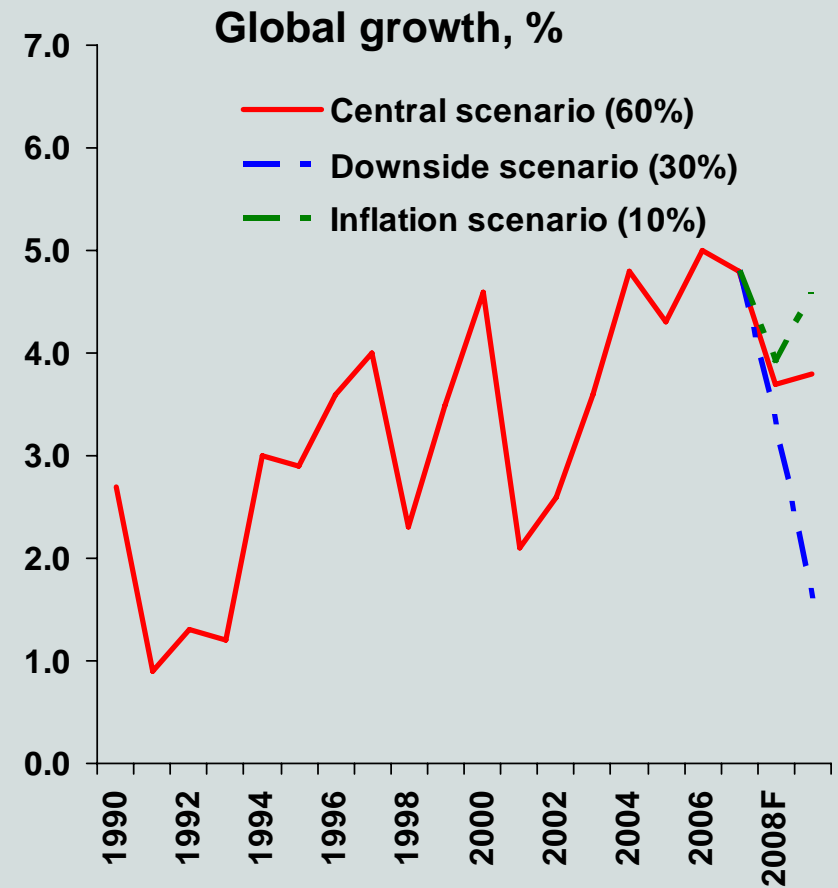
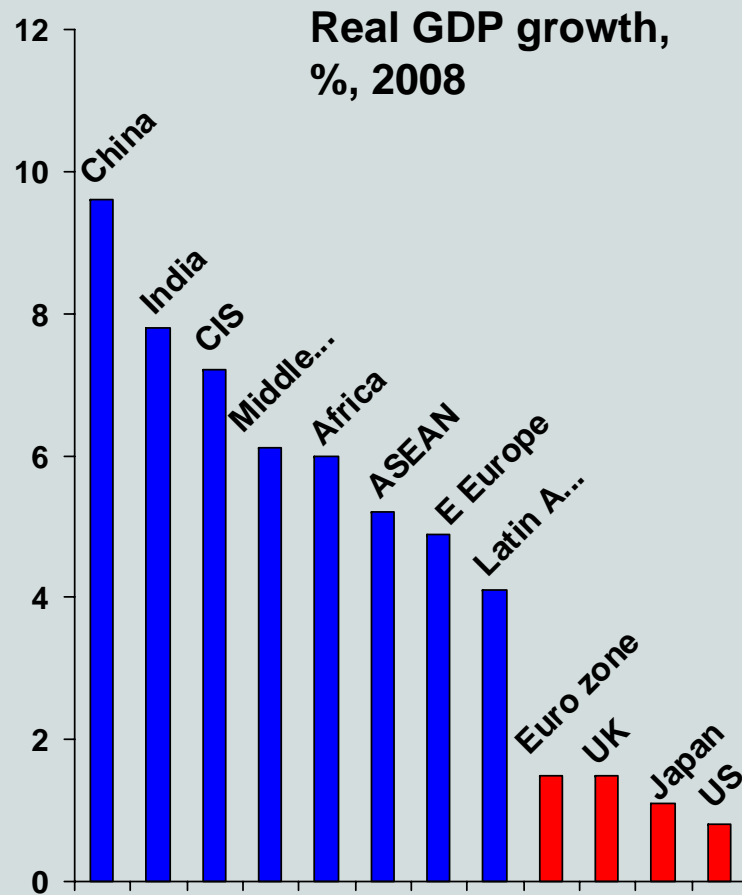
- Transparency
- Capital injections

## The bad news

- Housing
- Leverage finance
- Corporate profits



# Risks to the economic forecast are high



At PPPs

# The BRICs



A beginners guide to the world's largest rollercoaster

- Why BRICs
- Why not BRICs

# Why BRICs?

## Big economies

- The trillion dollar club, similar to the G7

## Large populations

- Potential consumer markets

## Fast growing

- By any standards

## Low costs

- If you localise

**But don't be fooled – it's the ICs**

# Why not BRICs?

## Low income

- Very poor, although growing middle class
  - Addressable market?

## Operational difficulties

- Infrastructure, rule of law

## Instability

- Economic and political

# Brazil – hot but complex

## Attractions

- Latin America's largest market
- Diversified economy
- Stable politics
- Macroeconomic stability
- Supportive demographics



## Problems

- Income levels
- *Custo Brasil*
- High crime rates
- Slower growth than other BRICs
- Skills shortages



# Russia - no pain, no gain

## Attractions:

- Stable economy
- Emerging middle class
- Rising real incomes
- Margins can be high



## Problems:

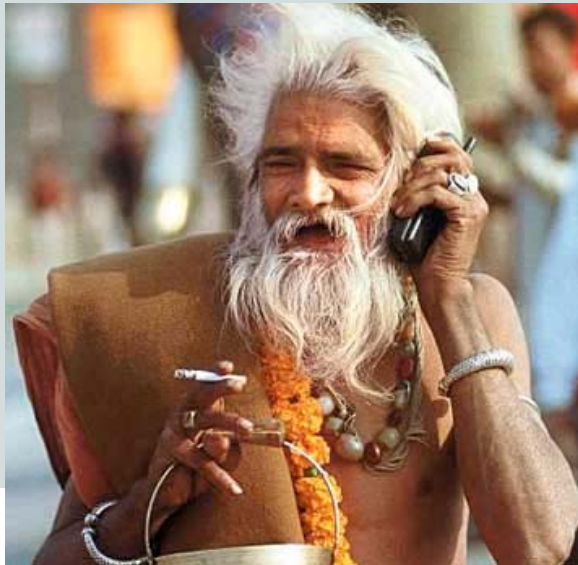
- Concentrated in Moscow etc
- Poverty & corruption widespread
- Government interference
- Demographics



# India – profitable chaos

## Attractions

- World's largest democracy
- Macroeconomic stability
- English speaking middle class
- World outsourcing capital
- Emerging export house



## Problems

- Appalling infrastructure
- Unemployment/poverty
- Red tape
- Manufacturing problems
- Most chaotic market



# China – the flawed giant

## Attractions

- World's third largest economy
- Sustained economic boom
- Share of world trade soaring
- Low cost base & fairly open to FDI



## Problems

- Social inequality
- Environmental devastation
- Increasingly unstable?
- Authoritarian politics



# The worlds largest rollercoaster

Low cost base

- If you try hard enough

Rapidly growing markets

Barriers to business

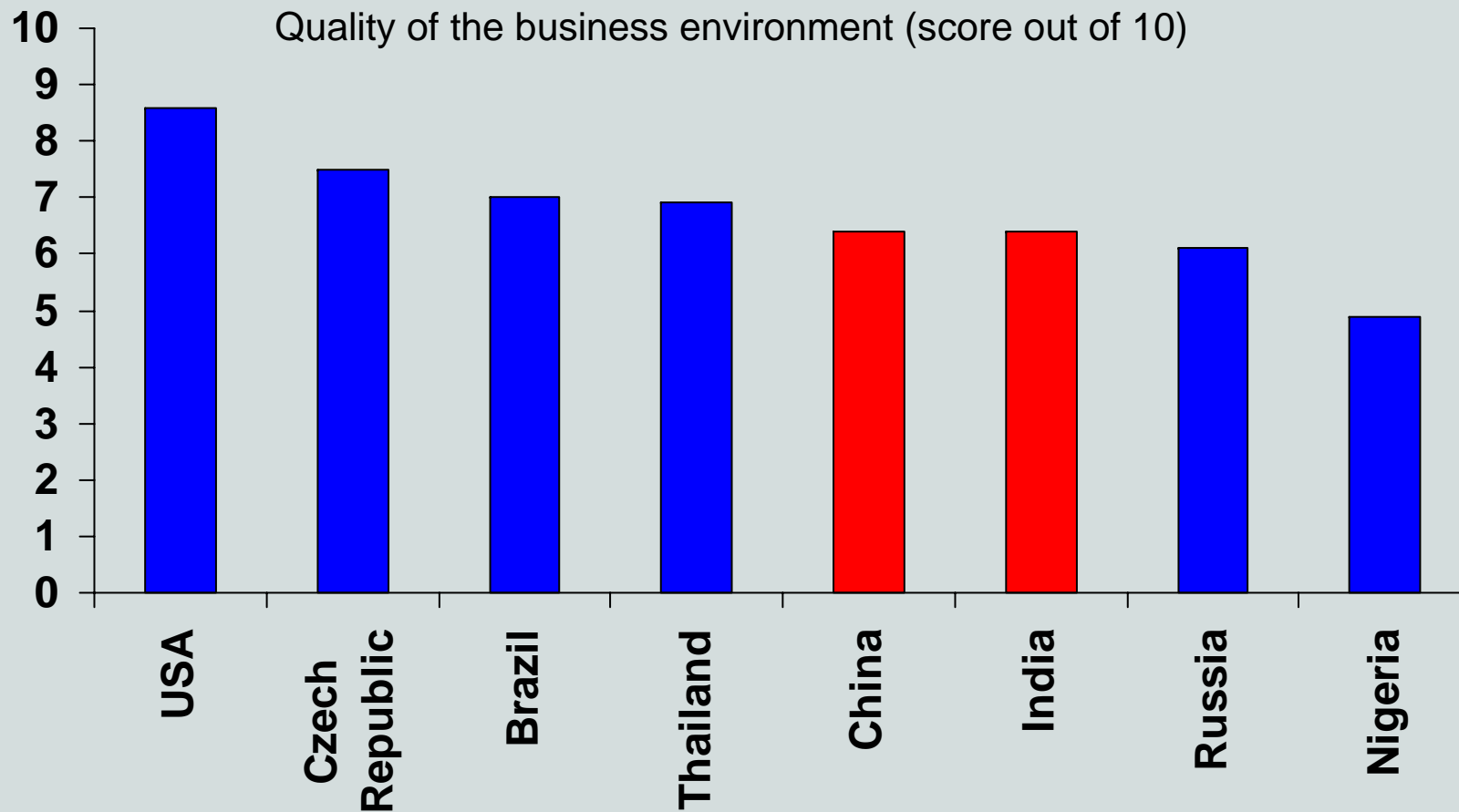
- Legal, illegal, physical, cultural

Risks of instability

- Economic and political

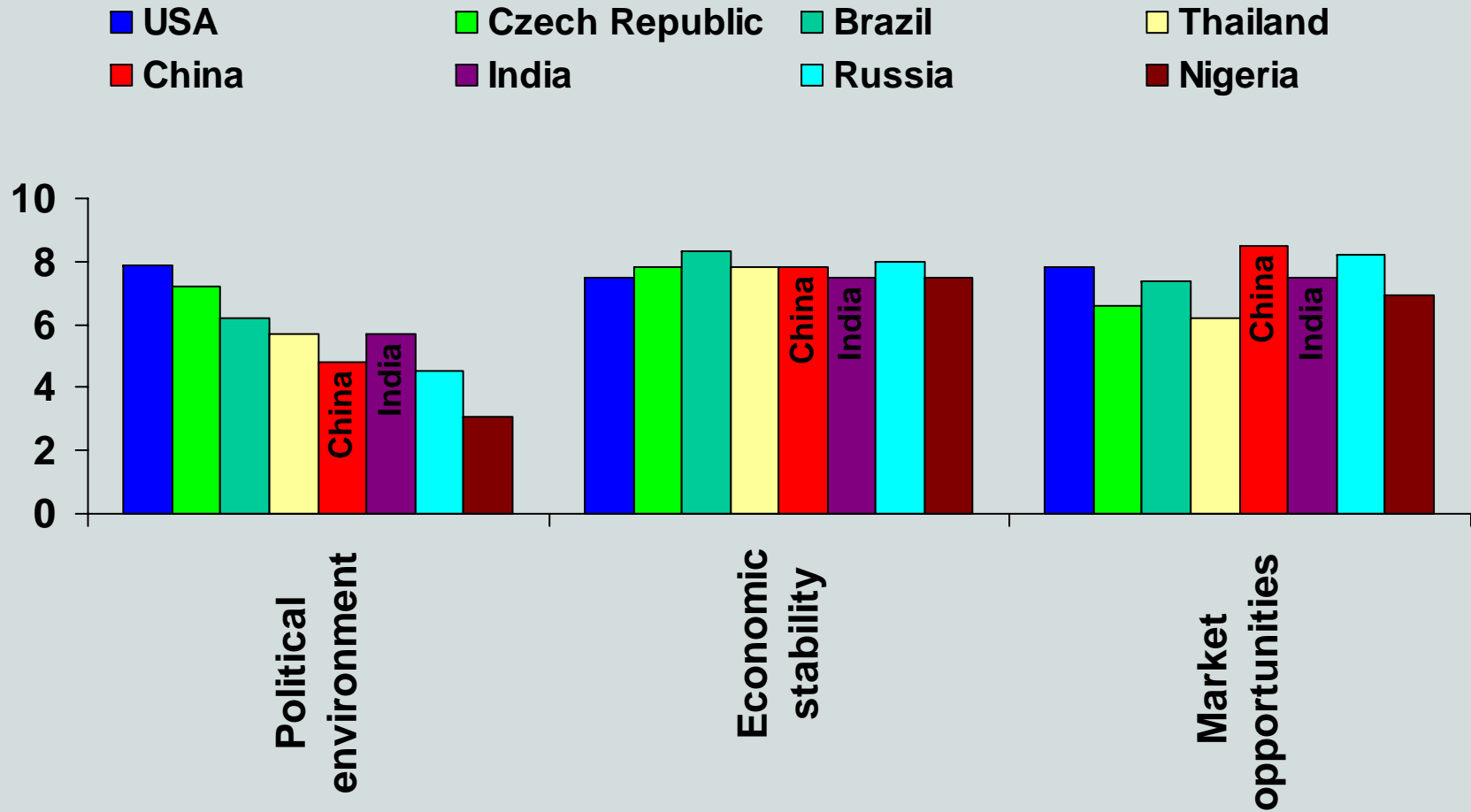
**This is the future**

# Assessing the opportunity

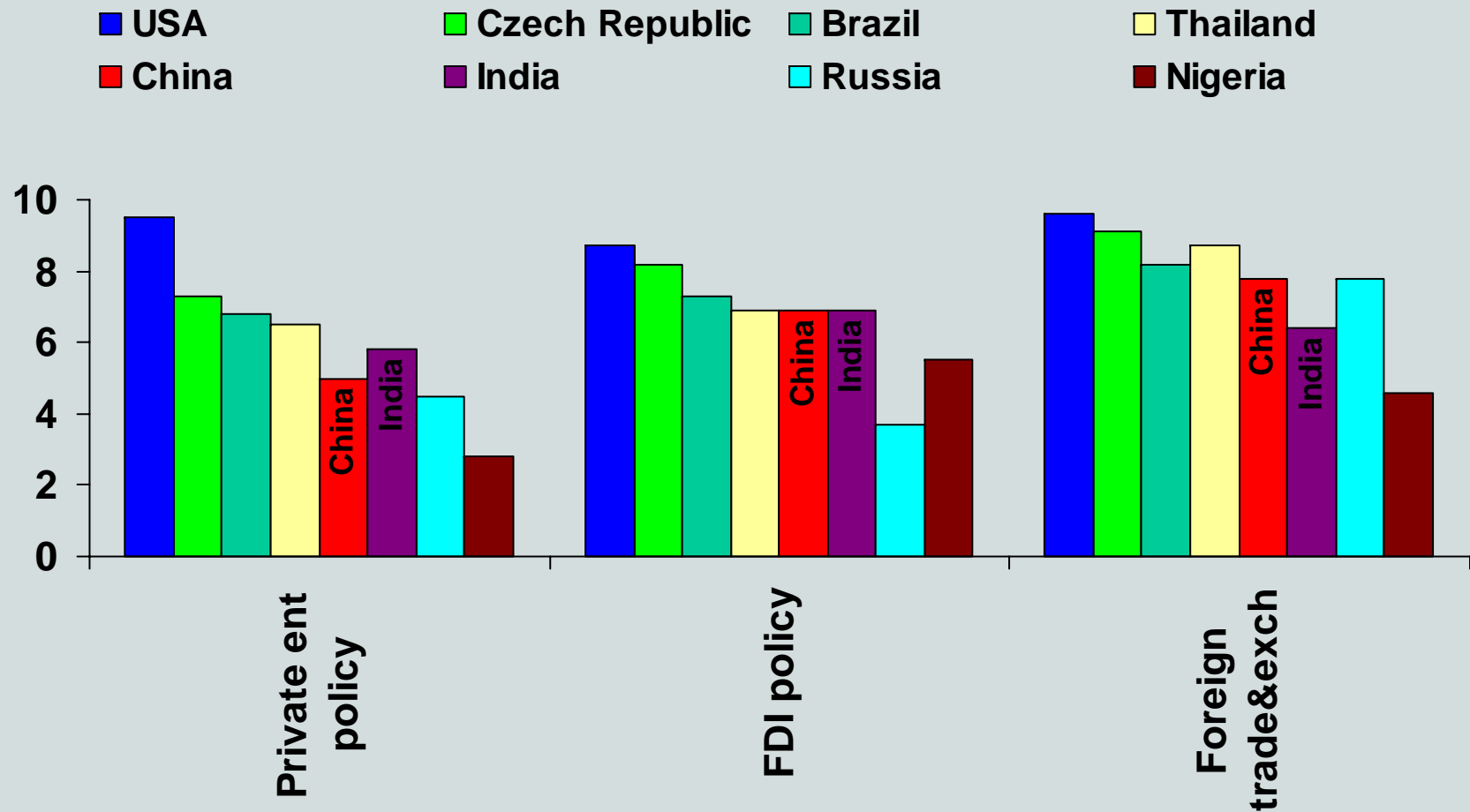


10 = high quality business environment

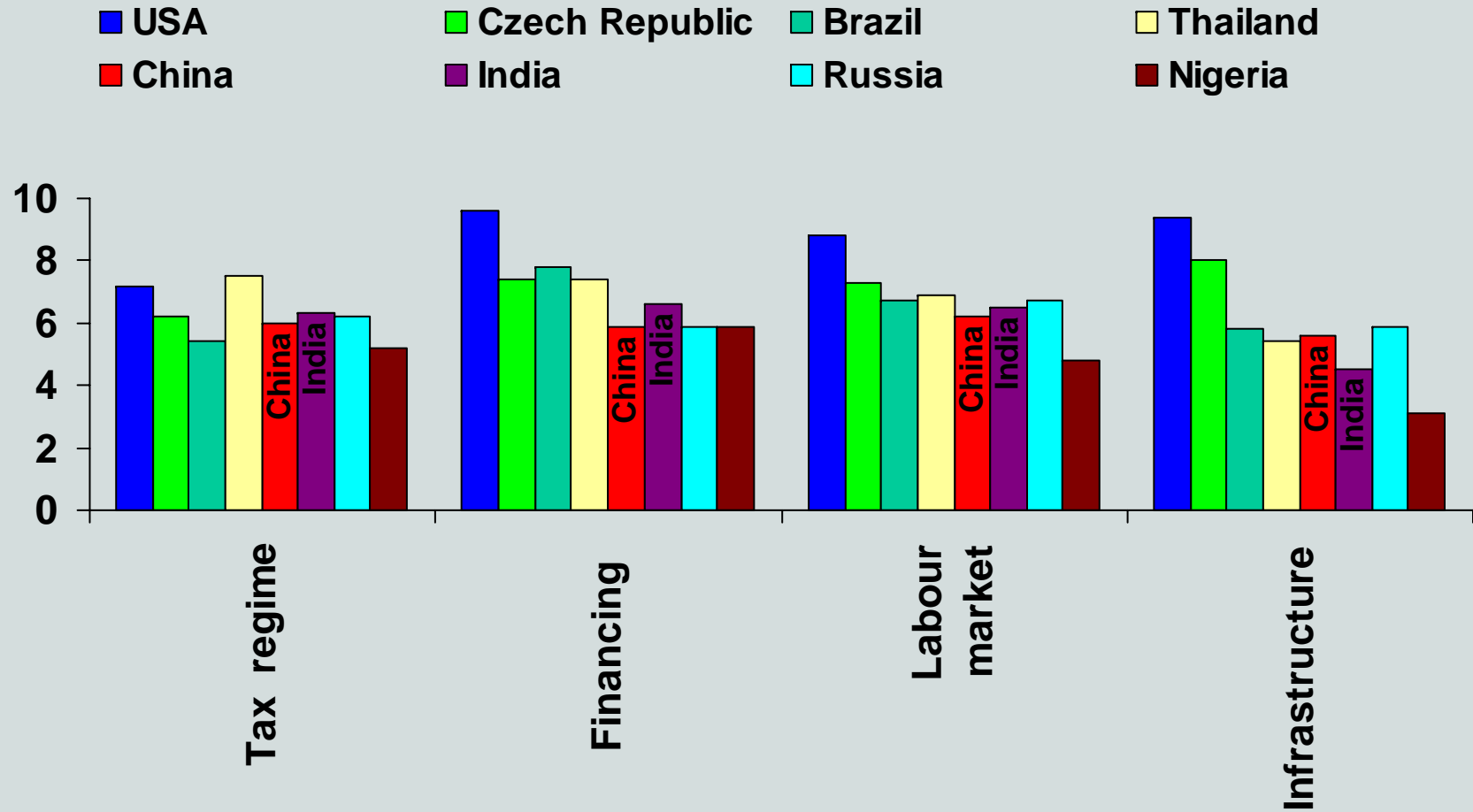
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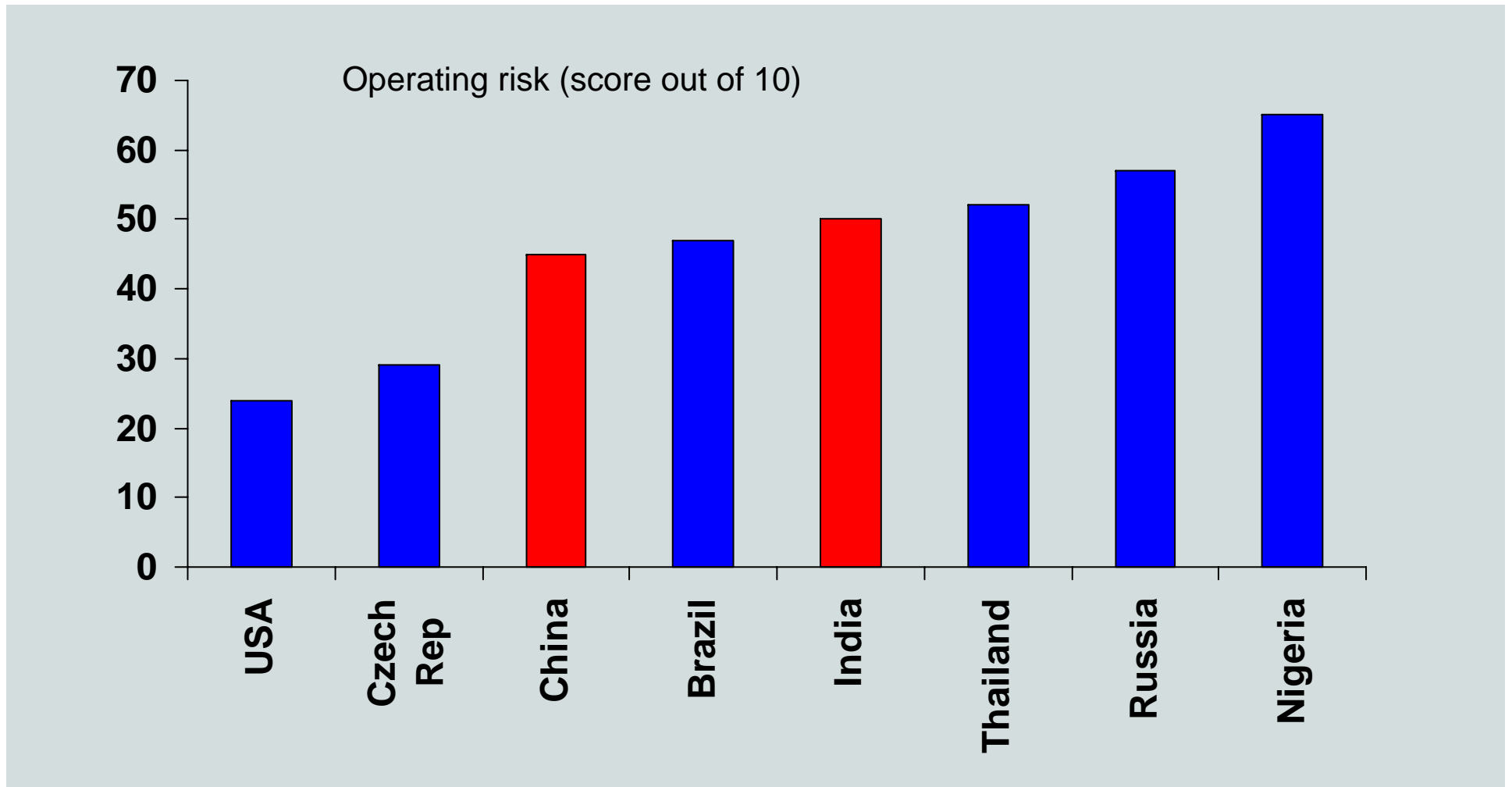
# Assessing the opportunity



# Assessing the opportunity



# Assessing the risks



10 = high risk

# Main operating risks

## China

- Government effectiveness
  - corruption, cronyism
- Legal / regulatory
  - enforceability, discrimination, IPR, unfair competitive practises
- Labour
  - skilled labour, labour laws

## India

- Government effectiveness
  - corruption, cronyism, red tape
- Tax
  - Level, instability, discrimination
- Labour
  - skilled labour, labour laws, unmeritocratic pay

# Working effectively cross borders

## Favoured technologies

- Web conferencing
- Video conferencing
- VoIP
- VPN
- Wireless / mobility
- Instant messaging
- Collaborative product design systems

# Barriers to cross border working

Complexity of collaboration tools

Employee skill set

- Technical, but also communication skills

Culture

- Openness to sharing information
- Willingness to partner
- Rewards for collaboration

Leadership

- Definition of responsibilities