Perspective

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Quebec and BRICS: A relationship with a future

Quebec is an open economy; that is a recognized fact. The vitality of its business trade is key to its prosperity. It has become essential that we develop markets beyond North America. Brazil, Russia, India, China and South Africa (BRICS) are economies that have been booming in recent years and that offer tempting and growing possibilities for Quebec exporters. Some have already tried their luck there. But is BRICS really the best opportunity, now that other parts of the world are starting to emerge and offer tantalizing promises? We need to keep in mind that those five countries represent 40% of the world's population, and while they appear to have been losing steam since the recession, in the years to come they will offer growth at least twice as fast as that of industrialized countries. Quebec is far from having done a thorough survey of this vast market, which clearly has not yet delivered its full potential.

BRICS: A WARM WELCOME FOR FOREIGN PRODUCTS

BRICS does not stand for "Buckets of Research Invested for Commerce Somewhere else", although that is not all that far from the truth. BRICS is the "successor" to BRIC, a term invented by analysts at an American investment bank in the early 2000s to refer to a group of countries in the midst of an economic boom. Brazil, Russia, China and India were the members of this privileged circle. These countries were recognized both for their large size and for their impressive economic growth. More recently, South Africa has joined this prestigious club, which is now dubbed BRICS (BRICA in French).

Table 1 – Comparisons between BRICS and G7

Group of countries	Share of global economy (2012) in %	Share of global growth (since 2000) in %	Share of global growth (in past 5 years) in %
BRIC	26.4	44.9	63.0
BRICS	27.1	45.6	63.6
G7	37.8	19.5	4.9*

* Negative growth in 2008 and 2009.
Sources: World Bank and Desjardins, Economic Studies

This is a group of countries that deserve a good look because of their economic importance and their considerable development potential. Table 1 puts their size into perspective. In 2012, the BRICS countries accounted for 27.1% of global GDP, while the G7 represented 37.8%. It is interesting to note that BRICS accounted for 45.6% of growth between 2000 and 2012, which compares favourably with the G7's 19.5%. Finally, in the past five years, BRICS has supported 63.6% of global growth, compared with 4.9% for the G7, which lost ground during the recession.

This group of countries comprises a little over 3 billion people, i.e. approximately 40% of the world's population (table 2 on page 2). From a trade perspective, that is a large contingent of consumers. However, we must remember that there is great disparity in income among these people, and poverty is rampant there, especially in rural areas. In terms of development, there is a long way to go; hence the colossal potential for growth that is anticipated.

BRICS is a substantial economic force which, as we saw in the 2000s, propelled commodity prices to peaks rarely seen. China, in the lead, exerted enormous pressure on demand for energy, metals and agricultural products. By way of

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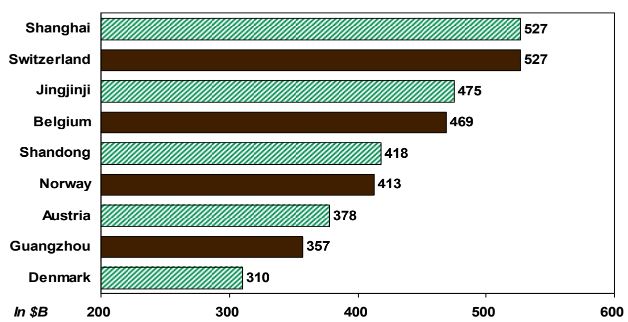
Table 2 – Economic profile

For 2012	Population Number of inhabitants	GDP per inhabitant US$ PPP*	% of Quebec's exports	% of Quebec's imports
Brazil	198,656,019	11,831	0.85	1,77
Russia	143,169,653	23,038	0.98	0,36
India	1,236,686,732	3,827	0.76	0,66
China	1,377,064,907	8,856	4.15	10,26
South Africa	52,385,920	11,047	0.33	0,21
BRICS	3,007,963,231	n.a.	7.07	13,26
United States	314,278,000	49,907	68.50	29,92
Quebec	8,054,756	36,548	n.a.	n.a.

* Purchasing power parity.
Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Graph 1 – GDP of some urban competitive clusters in China compared with a few European countries (2010 $B)



Source: McKinsey & Company, August 2012

illustration, graph 1 gives us an idea of the considerable economic clout of certain Chinese cities compared with some European countries. . . food for thought.

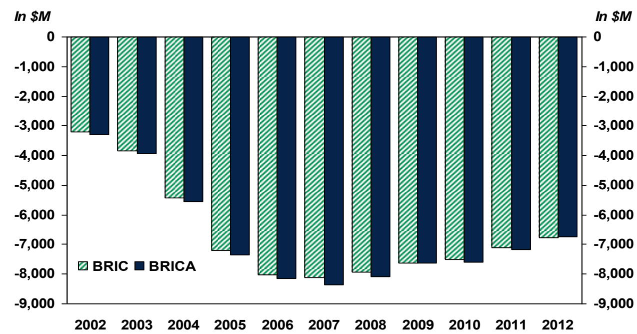
Meanwhile, the BRICS countries have become aware of their importance. They now hold annual summit meetings, like the G7. In short, this is a giant that cannot be ignored, from the demographic, political, economic, financial and commercial points of view.

QUEBEC AND BRICS

Quebec is not impervious to the magnetism of BRICS. For several years, it has been trying to open up trade. For one thing, Quebec entrepreneurs are seeking to diversify their export markets in order to reduce their dependence on the U.S. market. They have been quite successful in that, since approximately 84% of Quebec's international exports were headed for the United States in 2002, whereas that proportion stood at just under 70% in 2012 and 2013 (table 2). For another, they want to take advantage of booming markets, which would support the growth of their businesses for many years to come.

This desire for closer ties manifests itself statistically as follows: in 2012, 7.1% of Quebec's international exports were headed for BRICS countries. On the imports side of the equation, 13.2% came from there. The balance of trade with this group is negative. This has been the case throughout the decade, as may be seen in graph 2.

Graph 2 – Quebec's trade deficit with BRIC and BRICS has declined since the recession



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

That trade deficit peaked in 2007 and has been gradually declining since then. In fact, between 2002 and 2012, exports to the BRICS countries nearly quadrupled (3.8 times), while imports from there more than doubled (2.5 times). In 2012, Quebec also imported 2.5 times more from those countries than it exported to them. That import/export ratio was 3.8 in 2002, so it is coming down.

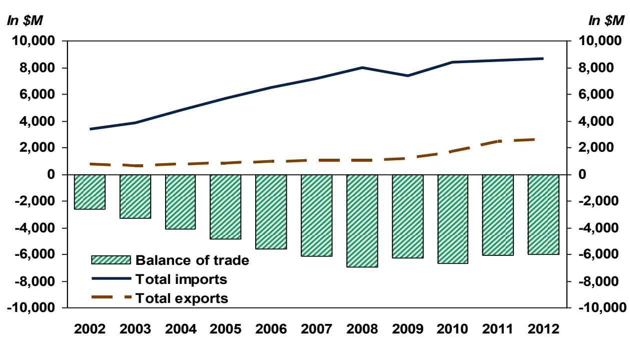
What about trade with each of these countries individually? It comes as no surprise that China is the country with which Quebec has the greatest trade. Here is an overview of Quebec's trade ties with each of these countries.

FIVE COUNTRIES, FIVE DIFFERENT DYNAMICS

The BRICS countries combined accounted for 7.1% of Quebec's international exports in 2012. China clearly dominated that trade. Year after year, the Middle Kingdom has easily led both imports (over 75% of BRICS trade) and exports (nearly 70%) between Quebec and BRICS. Over time, China has risen to second place among Quebec's main trading partners, for both imports and exports, after the United States. Quebec imports 3.3 times more from there than it exports.

The volume of trade with China in 2012 was $11.3 billion. Quebec exported $2.6 billion worth of merchandise and imported $8.7 billion worth that year. The preliminary numbers for 2013 show an increase in both exports (8.5%) and imports (1.8%). The balance of trade is negative by a wide measure (graph 3). Of the top three exported products, we note that iron ore is by far in the lead, well beyond the value of aircraft and space vehicles (table 3). On the imports side, we have manufactured products such as other information processing equipment, electrical devices for telephone service, and trunks and suitcases (table 4 on page 4).

Graph 3 – China and Quebec: Quebec exports have picked up steam since 2010



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

As far as its trade with Brazil is concerned, Quebec imports 2.8 times more than it exports. The volume of trade stood at $2.0 billion in 2012. The trade deficit was estimated at around $1.0 billion. The main exports were newsprint, turbojet and turboprop engines and aircraft launching gear. Newsprint alone accounts for nearly 30% of Quebec's exports. The three main imports were resources (aluminum oxide, sugar cane and beets, and sucrose). The incomplete data for 2013 point to a simultaneous slowdown in both exports and imports, which would narrow Quebec's trade deficit.

Table 3 – Quebec's three main exports (in 2012)

	In $M	Total $M
Brazil		**542.5**
Newsprint	159.6	
Turbojets, turboprops	63.7	
Aircraft launch apparatus*	28.3	
Russia		**621.6**
Pork	325.5	
Turbojets, turboprops, turbines	31.9	
Aircraft, space vehicles	31.2	
India		**484.9**
Newsprint	152.1	
Aircraft, space vehicles	94.6	
Iron/steel waste and scrap	33.1	
China		**2,636.0**
Iron ore and concentrates	809.5	
Aircraft, space vehicles	252.0	
Soybeans	213.5	
South Africa		**206.6**
Aircraft, space vehicles	76.4	
Pork	17.1	
Aircraft launch apparatus*	10.1	
Total for all 5 countries		**4,491.7**

* Includes ground-based flight training equipment and parts.
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des finances et de l'économie du Québec

India is the third BRICS partner with a volume of trade amounting to $1.1 billion, nearly twice as small as that with Brazil and approximately ten times smaller than that with China. Quebec's exports to India are in the order of $0.5 billion and imports come to $0.6 billion. Of the three main exports, two are resource products (newsprint and ferrous waste and scrap). On the imports side, petroleum oil dominates considerably, with 20% of imports. The initial estimates for 2013 show an increase in exports and a decline in imports, which would enable Quebec to show a slightly positive balance of trade this year.

Russia is in fourth place with less than $1 billion in trade in 2012. Exports were twice the size of imports ($0.6 billion and $0.3 billion, respectively). This gave Quebec a trade surplus. In 2013, reduced values of both exports and imports will nevertheless preserve a surplus, but it will be smaller than in 2012. Over 50% of Quebec exports lie in the "pork" category. On the imports side, resources rule the day, with petroleum or mineral oils (nearly a third of imports), and nitrogenous mineral or chemical fertilizers (over 25%).

Table 4 – Quebec's three main imports (in 2012)

	In $M	Total $M
Brazil		**1,520.3**
Aluminum oxide, aluminum hydroxide	738.3	
Sugar cane/beets, sucrose	250.1	
Crude petroleum oils or bituminous mineral oils	108.9	
Russia		**312.3**
Petroleum oils or bituminous mineral oils	97.3	
Nitrogenous mineral or chemical fertilizers	86.2	
Flat-rolled products and other alloy steels	16.7	
India		**564.0**
Petroleum oils or bituminous mineral oils	112.9	
Medicinal drugs	35.7	
Bed, table, bath or kitchen linens	22.0	
China		**8,664.2**
Other information processing equipment	828.0	
Electrical equipment for telephone service	326.3	
Trunks, suitcases and similar containers	236.6	
South Africa		**183.0**
Fresh or dried citrus fruit	21.4	
Radioactive chemical elements	17.2	
Ash/residue*	15.3	
Total for all 5 countries		**11,243.7**

* Includes ash and residue containing metal or metal composites (excluding iron and steel).
Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des finances et de l'économie du Québec

Pulling up the rear, South Africa enjoyed a volume of trade with Quebec in the neighbourhood of $0.4 billion in 2012. Exports ($0.2 billion) and imports ($0.2 billion) were practically even. The leading exports were aircraft, which clearly dominated (37%), while on the imports side, resources took pride of place (citrus fruit, chemicals, ash and residue which by themselves accounted for 30% of Quebec imports).

Based on these data, we note that, in many cases, trade relies on just a few products. This leads us to think that more could be done in the near future.

IS THERE A CHOICE IN THE MATTER?

Does Quebec really have a choice about taking an interest in the BRICS countries? Given that the growth in Quebec's population and its economy is relatively modest, Quebec businesses that wish to prosper need to seek markets outside Quebec. Whether they choose to head towards the United States, the BRICS countries or the emerging countries is up to them. The BRICS market is a very attractive option right now, with trade ties proliferating and intensifying around the globe.

Trade agreements seem to be all the rage nowadays. Over the past 25 years or so, Canada has signed free trade agreements with countries as diverse as the United States, Mexico, Chile, Israel, Iceland and Norway, to name just a few. Just recently, it reached an agreement in principle for an economic and trade pact with the European Union. Since the World Trade Organization (WTO) negotiations have been dragging on for the past ten years or so, the need for trade has generated a proliferation of bilateral trade alliances around the globe. China even opened the door to Canada for free-trade negotiations a little over a year ago. However, no discussions have been undertaken. On the Canadian side, opinions are divided: the idea of a treaty with China garners both greed and fear.

In the current decade, activities surrounding international trade have been generating a good deal of interest, although the recent recession cooled people's enthusiasm. Many see it as key to the expansion of their firm or their economy. Quebec and Canada are expending great effort to support businesses in prospecting new markets, as other major industrialized countries and developing countries are doing. The competition is fierce: for example, Japan, which is a well known player and whose reputation for quality products is now established, even has an agency. The Japan External Trade Organization has offices throughout the world to support Japanese exports.

If Japan feels a need to showcase itself, one can well imagine that smaller economies, like Quebec, perceive the necessity of promoting themselves. In fact, Quebec has been on a "trade warpath" for some time now. Missions abroad, targeting countries or regions that are booming, are organized on a regular basis, and have been for some time. Quebec's regions and municipalities are also taking this approach. Three-year or five-year action and development plans are being adopted by the federal and provincial governments.

More specifically, Quebec has set up trade offices abroad. As far as the BRICS countries are concerned, Quebec has an office in Sao Paulo, Brazil, another in Moscow, Russia, one in Mumbai, India, one in Beijing and one in Shanghai, China. Quebec does not currently have an office or even representation in South Africa.

More recently, the Quebec government has tabled an external trade development plan for 2013 to 2017. It has been determined that from 2009 to 2012, 40% of the increase in Quebec's international exports of goods and services was attributable to the BRICS countries. Quebec has therefore decided to strengthen its efforts; it has undertaken to "expand political and institutional relations to support external trade." One of the strategies it has chosen is to consolidate the teams that are already established in the BRICS markets, and another is to provide more funding to its efforts in Africa. To that end, $2.2 million will be allocated to those efforts annually, starting with the 2014–2015 budget and ending in the 2016–2017 budget. Moreover, an instrument has been created to support SMEs in their efforts to penetrate foreign markets: Expansion Québec.

The federal government also wants to support SMEs in emerging markets. To that end, it just tabled a five-year plan on international trade, in the fall of 2013. The intention is to give SMEs a boost in markets showing strong growth. Accordingly, the percentage of Canadian SMEs that are active in those markets would rise from 29% to 50% over the next five years. The federal government's activities do not end there; it is organizing trade missions and has websites about the various markets to be prospected, for each country, and is negotiating agreements. At present, the conclusion of a "Comprehensive Economic Partnership Agreement" between Canada and India, negotiations for which started in 2010, is keenly awaited.

THE NEW "PROMISED LANDS"

A growing number of observers are pointing out that BRICS has already peaked and that it is time to look elsewhere. Since 2008, economic growth has slowed in the member countries of this select group, and the pace of growth is no longer as frenetic as it used to be. However, we must recognize that the pace seen before the recession was not sustainable in the long term. China, for instance, is gradually transitioning from a manufacturing powerhouse to an economy where research is gaining importance and where the production of more sophisticated goods is gaining ground. Despite this deceleration, these huge countries are still significant economic hubs. Moreover, while they are not entirely independent of Europe and North America, these countries have learned to work together. Consider China and Brazil, or the Chinese presence in Africa, which has not gone unnoticed. But does this rule out the prospect of developing business ties with Quebec?

Certainly, we must look elsewhere. Opportunities for exports are mushrooming all around the globe. As we have seen, the close relationship between Quebec and the United States has not prevented businesses from diversifying their markets. Similarly, BRICS is not merely a final frontier, an end in itself. It constitutes a step towards a broadening of international trade. This group of countries does not have a monopoly on growth. The question remains: where should we look? Which countries offer the best outlooks?

In the past few years, many consulting firms, academics and analysts have proposed many "lists" of countries that are promising from a trade perspective. It is always tempting to create an acronym or a label for a group of such countries, but we must keep in mind that doing so also has a limiting effect. Similarities that exist between countries at a given point in time may be valid for only a few months or a few years, no more.

For example, the designation "Next 11" was created in 2007, comprising 11 countries that were carried on the tail of the BRICS comet: Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam. However, due to the recession that upset the precarious balance that existed in some of those countries, this group no longer appears as promising as it did when it was popularized. In fact, some people now talk about the "Ex 11".

Since then, analysts of the international stage have proposed other groups. One group that was popularized was the "MINT" (Mexico, Indonesia, Nigeria and Turkey); another was the "CIVET" (Colombia, Indonesia, Vietnam, Egypt and Turkey). These are attempts to sum up the economic and trade potential that certain countries have to offer. Simple and practical, such labels are also subject to dispute: they do not tell all, and simplify reality to an outrageous degree.

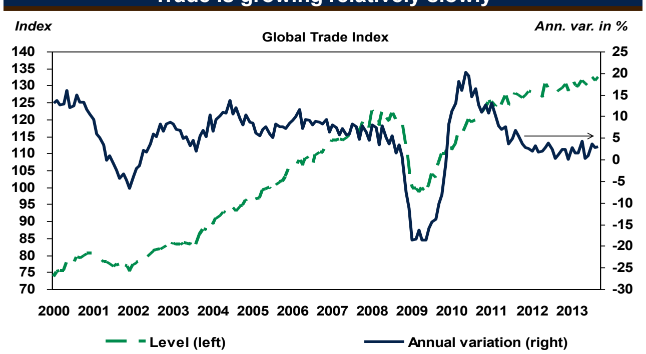
Many Quebec exporters can testify as to the differences that exist between countries and, often, between regions. There is no market that is homogeneous and perfectly stable. For example, the "Asian market" is an illusion: trade is not conducted with the Chinese, with the Vietnamese and with the Koreans in the same way. Similarly, there is no African, South American or European market. An offer of products and services cannot be copied from one country to another, or even from one region to another. Penetrating new markets requires careful attention to detail, in particular, familiarity with the clientele and respect for the local business protocol. This knowledge of the "lay of the land" cannot be gained quickly; that is why governments are doing their bit to bolster the efforts made by businesses.

INTERNATIONAL TRADE: A CHANGING REALITY IN THE 21ST CENTURY

Trading beyond Canada's borders has become a necessity, given that Quebec's economic growth is moderate and its demographic growth is very modest. However, we quickly find that the benchmarks that were used in the 20th century no longer apply, and those that prevailed during the past decade warrant a review. Does this hold true for BRICS?

We find that trade growth has slowed considerably in 2012 and 2013. The pace of growth has slackened compared with the rebound observed in the aftermath of the recession. It is also less robust compared with the average of the 2000s (graph 4). We note that the loss of steam of the major American, European and Asian trading blocks has contributed to this. However, despite slower trade growth, the value of trade is still higher than it used to be. In light of this finding, some analysts go so far as to suggest that global growth is drawing to an end, and that international trade will stagnate. Should that prediction come true, it will not happen right away.

Graph 4 – The international economy: Trade is growing relatively slowly



Sources: Netherlands Bureau for Economic Policy Analysis (CPB) and Desjardins, Economic Studies

Table 5 – Global GDP growth adjusted for purchasing power parity

Rate of global GDP growth*	Annual variation (%) Global weight (%)	Annual variation (%) Average (2013–2018)
Industrialized economies	**44.6**	**1.9**
G7	**36.9**	**2.0**
United States*	18.2	2.6
Canada	1.7	2.3
Japan*	5.2	1.4
United Kingdom	2.7	2.1
Euro zone	14.0	1.1
Germany	3.9	1.5
France	2.8	1.2
Italy	2.3	0.4
Other	3.0	2.4
Emerging and developing economies	**55.4**	**5.0**
Northern Asia (China, Hong Kong, India and South Korea)	22.9	6.5
Southern Asia (Indonesia, Malaysia, Thailand and the Philippines)	3.6	5.3
Latin America	8.1	3.5
Eastern Europe	8.5	3.4
Other (including South Africa)	12.2	4.1
World*	**100.0**	**3.7**

* According to Desjardins.
Sources: World Bank, Consensus Forecasts and Desjardins, Economic Studies

Despite this lull of recent years, there are still opportunities for business. The recent signing of an agreement between Canada and the European Union, a mature economy, is evidence of this. We detect interesting potential for our local businesses there. In the current context, given that BRICS represents approximately 40% of the world's population and that it will show enviable growth in the years to come (table 5), it offers possibilities. Growth will be at least twice as fast in the emerging and developing economies as in the industrialized countries. Moreover, an analysis of the export data by product shows that in many cases, Quebec's trade relies on just a few types of goods, and that it is far from having exhausted all the opportunities that exist. Clearly, it would be premature to say that BRICS has delivered on all its promises.

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