The So What from BCG Podcast

Imagining a New World Order

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GEORGIE FROST: Over the last half century, emerging markets have been gaining increasing significance on the global stage. In recent years, while half the world's attention has been diverted by geopolitical turmoil and macroeconomic instability, a movement's been growing that could turn the established order on its head. Can this so-called BRICS+ group of nations dethrone the G7 and sideline the dollar as the world's trading currency? And is your business ready? I'm Georgie Frost, and this is The So What from BCG.

DANIEL AZEVEDO: All of these nations and beyond BRICS+, they will become the largest economies in the world. It's a sheer factor of population size and dynamism. It's going to happen. Looking at these markets with the eye of an opportunity and not an eye of challenge is certainly the right way to go about it.

GEORGIE FROST: Today I am talking to Daniel Azevedo, who leads BCG's Global Advantage practice in Europe, the Middle East, South America, and Africa.

DANIEL AZEVEDO: One of the more silent movements that most people aren't really much aware of is exactly the expansion of the BRICS. And yes, it did start back in the 2000s essentially as a collection of large, fast-growing economies—Brazil, Russia, India, China— that were labeled as such in a Goldman Sachs report that was essentially giving awareness to these as potential investment opportunities. And for quite a bit of time, it just remained as such. However, 2009, the collective of countries decided to flip it around and take it on their own terms and decided to create a group around it.

However, ever since it has given significant steps towards becoming an actual grouping that takes actions and initiatives together just to name a couple of these movements, first was the creation of the new development bank back in 2013 that essentially is largely funded by China, but funds infrastructure projects across the nations.

And more recently, it has created, given maybe an even stronger step, which was the inclusion or expansion and welcoming a new set of countries like South Africa had joined 2010, but now we have five new nations joining. You have Egypt, Ethiopia, Saudi, Arabia, Iran, UAE. So it's expanding. And if you look at the agenda that's being discussed in terms of things they want to collaborate on, it's quite impressive. And it could start to re-shift a little bit the balance of power in global institutions towards the South.

GEORGIE FROST: Daniel, coming from Brazil, you’re based in Brazil, you deal with the entire world, what’s been your perspective of those who continue to hold onto the very original premise that these BRICS nations are just an investment opportunity for the West?

DANIEL AZEVEDO: The investment opportunity is there whatever projection you would like to use in terms of future growth and wealth creation. If you take a long-term view, all of these nations and beyond BRICS+, you can go to Indonesia, Nigeria, et cetera, they will become the largest economies in the world. It's a sheer factor of population size and dynamism. It's going to happen.

You might discuss which nations and how long it's going to take, but the economic power of the South will only enhance versus the Western perspective. Looking at these markets with the eye of an opportunity and not an eye of challenge is I think, in my view, the right way to go about it because Western companies can very much benefit and thrive in these markets.

We have many, many multinationals that are incredibly successful in these markets and have benefitted from the boom in China not only using China as a production hub, but also as an end consumer market. The same can be true to several other dynamic growing southern economies.

GEORGIE FROST: I do want to dig into that in more detail, but before we get there, I just want to understand a little bit more about, I guess how cohesive this group is. There seems to be such disparity of wealth and resources that it seems almost odd to think that these countries have really anything to do with each other to create some sort of a group that could rival G7. I guess what are the risks of it all falling apart?

DANIEL AZEVEDO: Well, the risk is certainly high and there's no assurance that this will indeed be a successful endeavor. And you are very right when you say that they're very diverse, and not only in wealth and resource. If you think about the political systems and the economic models, very, very different. So the cohesiveness might be the one thing that limits their ability to fulfill their potential.

I would just say that maybe the counter to that, in my view at least, is the fact that when you look at what they're targeting, it tends to be very pragmatic in nature if we're talking about a development bank that's investing in infrastructure projects, if you're thinking about trade agreements, if you're thinking about joint research and development of space programs.

So it tends to be focused in areas that are mutually beneficial. And I think if they can leave aside topics that are even very clear disputes between and among the members and focus on the practical things that can move those countries forward in terms of development, I think that's going to be probably a big win. So it doesn't mean that they need to be cohesive as long as they agree to focus on the things that are of mutual interest.

And so far it has been relatively successful in that regard. The progress that we've seen has been clearly in areas where they're all benefiting and even attracting new members as I was mentioning. Not only they're welcoming those five members that I alluded to, but there's already 12 new countries that have asked to join the grouping, which is already a sign of dynamism.

GEORGIE FROST: What have they achieved so far? What has the progress been apart from attracting new members?

DANIEL AZEVEDO: Yeah, yeah, that's a great question. So I think the most known achievement is probably the creation of the new development bank. That is a hundred billion dollars in funding for infrastructure projects. A third of it has already been deployed, but I like to look, if we just take a recent figure around trade, if we take the last couple of years of trade, the trade between the intra-BRICS countries, and this was before the expansion, so the trade intra the original BRICS, is the fastest growing trade in the whole world. And the BRICS trade with non-G7 countries is already double what it is with G7 countries. And that was not true two years ago.

So if you take pure figures, you can see that the intent of joint development and cross-opportunities is already delivering a much more integrated economic development model with more integrated supply chains and greater reliance on each other for imports and exports. So that is something that has really materialized.

Now, I must say that part of that has been a little bit of a counter-effect from sanctions towards Russia. All of the BRIC nations have increased their trade with Russia over the last couple of years as the west has reduced, but that only reinforces one of the group's original intentions, which is to create a counterpoint to the global economic political order that has essentially been dominated by G7 nations.

And what we've seen is the G20, that includes the BRICS, plus the G7 and a few others has become gradually or less relevant form. The G7 has strengthened and the BRICS has strengthened. In that sense, it's also creating a little bit of a polarization, so to speak, in terms of global order.

GEORGIE FROST: Let's talk about then the opportunities. Where do you see the greatest opportunities for businesses?

DANIEL AZEVEDO: I can point to two, one more broad and maybe one more specific. On a broader terms, the continuous cross-exploration of opportunities, be it in infrastructure, be it in oil, and I'll talk to that in a bit, be it to trade, supply chains, that is a very true, vibrant, real concrete opportunity now. If you are a Western company and you have your global supply chain and you want to diversify it, enhance its resilience, et cetera, you will have to look into BRICS countries or the expanded, the new BRICS countries.

So understanding this phenomenon and leveraging whatever framework they are building in terms of fostering trade and shifts in currency, which was one thing that you referred to earlier, yes, the global economy is dominated by the dollar, but you see increasingly, still at a small volume, but increasingly transactions done that are not dollar denominated. And those are primarily South-South. And framework is being built around that to allow and foster that.

So if you do want to continue to play a global game, be it on a supply chain or as a target for your products and services, you need to understand where your footprint is, where it can expand or the advantages of cross-border supply chains within this BRIC framework. So it doesn't really matter if you're a BRIC-based company or not, if you're a multinational company that you happen to have a footprint in a BRIC country, and I would say most multinationals do, the development, this will impact you. And it could impact you very positively if you're willing to leverage the opportunities that come with these new propositions that are out there.

GEORGIE FROST: I do want to ask you about what you think the significance would be of a less important dollar and what could replace it. I just wonder what that would mean for the West and for the BRICS+.

DANIEL AZEVEDO: Yeah. I honestly don't see that as a very likely scenario. The dollar is completely dominant. It's the reserve currency. It is a market-based currency. The Chinese renminbi, which is the second, a very, very, very distant second, it has controls, it is less free-flowing and it has very limited reserves. So I don't see that as a likely scenario in the short term or even medium term.

However, one thing that I do see is for the first time, I'm going to go to the oil example that I was alluding to earlier, for the first time you have some of the largest oil producers and exporters in the bloc. So you have Russia, Saudi, Iran, UAE, and you have some of the largest net importers, right? The largest consumers--China, India.

So you have now in one, bloc, or I think it's a little going a little bit too far calling a bloc. You have in one grouping, consumers and producers. What if within this BRICS setup, they create a mechanism to trade oil outside of Western financial institutions and even outside of the dollar? That's an enormous, enormous opportunity.

Now, will they enact on them? I don't know. Yet to see, but this is something very new and has been triggered by this new entry, right? Today it's between 40 and 50% of global oil trade already sits within these BRICS. So they are large enough, and again, have both sides of trade to be able to start setting up a system that is potentially even not dollar-denominated to start trading oil.

GEORGIE FROST: When you talk to leaders in the West, what is the sentiment? What are they telling you?

DANIEL AZEVEDO: Curiously, first of all, they're largely unaware that this is going on. And those that are aware are still a little skeptical, I would say, that this could live up to its potential. I would say that's the dominant view. However, my perspective is that although I agree, I also have my dose of skepticism that this will all be put into place in the near or even medium term.

However, when we look at what's happening, it is making its progress. So building the development bank, they have several working groups on different topics. They established a financial contingency system to protect against financial crisis. They implemented a mechanism during COVID to exchange vaccines that were not that available for emerging markets in the beginning. So they have made some concrete paths. And before these paths was made, everyone was skeptical that these things would actually happen, right?

So I'm not saying they're moving fast, and I'm not saying that it's more likely that they will succeed, I'm just saying that they're making a progress that nobody expected them to make.

GEORGIE FROST: How can businesses outside of these markets take advantage and position themselves in a way that they can succeed in both worlds, I guess? That the BRICS+ is that added opportunity rather than a massive headache...potentially.

DANIEL AZEVEDO: Yeah, I think companies should embrace the opportunity to become increasingly multi-local, right? What does that mean? If you pick Nestle, if you think about Nestle, Swiss-based company, very successful consumer products available all over the world. If you talk to consumers in many of these markets that we're talking about, let's pick Brazil—close to home.

Many people believe Nestlé is a local brand, right? Because they were born, Nestlé was there. They've lived their whole lives, Nestlé was there. And that is very true to many companies, right? And if you look at Nestlé or other companies' management in some of these markets, they're largely local. You have Brazilian leadership all the way to shop floor operations, everyone's Brazilian. So in some sense, it is a kind of a local company even though it's owned or a brand as a different origin.

So when companies learn how to operate locally, they become nimbler and they leverage the opportunity that some of the local players are exposed to given the change in scenario. Now going back to your question, trying to answer it more directly, I think companies should avoid being seen or as a individual country...company if that is not their strategy, right? If I want to play a global game, I need to be multi-local in a sense.

Obviously there's always standards and platforms that are common and global. Yes, for sure, that's a part of the success of many of these global corporations. But if you act local, you take advantage of opportunities that are there for the BRICS companies, emerging market companies. So I think that's, to me, the more structural mindset that impacts how you run your business that can unlock a lot of these opportunities in the foreseeable future.

GEORGIE FROST: if you are a brand new company or a newer company looking to gain exposure in these areas, what advice would you have to get started? Because I imagine we spoken earlier about the diversity in a range of economic, political, all sorts of things. What advice, Daniel?

DANIEL AZEVEDO: There's two things that I think people should be very aware and actively work towards. One is what we call building geopolitical muscle within the company. And what do I mean by that? I think over the course of the post-Cold War stabilization, so to speak, geopolitically wise, this is a muscle that went untrained for a very long time, and now it's getting retrained or should get retrained.

Business leaders should be able to talk about future scenarios of global events that could impact them, their supply chain, their consumers, their perception of their brand. Companies and business leaders have been accustomed to a globalized world that is largely stable. That's no longer a guarantee, and everyone I think wishes that it continues to be, but I think a big word of the last couple of years has been resilience. So how do you build resilience? And part of this resilience comes from this geopolitical muscle to understand the impacts on your business. And it doesn't need to be just conflicts.

One recent development in the EU for example, is that EU carbon border tax. When you start taxing carbon from imports from other nations that have different production standards regarding carbon, that will impact a number of industries. And if you rely very much on exports to the EU or if you don't but you have higher standards, and you could start doing that, it's certainly a huge opportunity. It could be a threat, it could be a huge opportunity. So having this geopolitical muscle and thinking on scenarios I think is a skill that was a little bit forgotten and needs to be revived. I think that's the first.

The second I would say is the large multinational organizations have been run very much in a similar way over the last few decades, right? You have these large org matrices where you have functions and you have business units and you have country managers and that kind of stuff. And the way that I see this, how you run a global business is changing. There's always been a tradeoff between centralizing decisions, decentralizing decisions, and companies have gone back and forth with that.

I think the time that we're living now calls business leaders to think a little bit differently on how they run their global businesses. And by that, I mean building platforms, so functional platforms within the business that deliver the consistency that is required for their critical processes and have local flexibility and decision-making power as long as these platforms are being leveraged.

A good example of that is Uber. You travel a lot and you can use your Ubers across dozens of countries in the world. And if you open your Uber app everywhere you go, it's essentially the same app, the same options, the same UX. But if you open it up in the UK, you have a certain set of options. If you open it up in Brazil, have a different set of options.

If you open it in India, you have tuk tuks and you have motor bike rides that you can take. So that's I think, an interesting illustration because it's the very common platform that I was alluding to, but with the flexibility to deliver what the market needs and wants. And I think that should be an inspiration for business leaders living in these turbulent times.

GEORGIE FROST: Daniel, thank you so much, and to you for listening. We'd love to know your thoughts to get in contact. Leave us a message out at The So What at bcg.com. And if you liked this podcast, why not hit subscribe and leave a rating wherever you found us? It helps other people find us too.