

Allianz RCM BRIC Stars Fund



# BRIC: Country Profiles

September 2008

**Allianz**   
Global Investors



**Brazil**

## Country facts – Brazil

Area	8,511,965 km <sup>2</sup>
Population	196,342,592
Birth rate <sup>1</sup>	18.72
Life expectancy	71.71 years
Labour force	99,470,000
Unemployment	9.3%
GDP 2007	\$1,836bn
GDP real growth	5.4%
Inflation (CPI)	3.6%
Industrial production growth	4.9%



<sup>1</sup> (births/1,000 population).  
Source: CIA The World Fact Book.

## Country facts – Brazil

**President:** Luiz Inacio Lula da Silva

Luiz Inacio Lula da Silva, popularly known as Lula, secured a second term in a landslide election victory in October 2006.

He promised to boost economic growth and to narrow the gap between rich and poor. In January 2007, Lula marked the start of his second term in office by announcing an ambitious investment programme.

But with a weakened presence in congress, his left-wing Workers' Party may have to rely on political alliances to pursue planned tax, social security and political reforms.

Lula implemented tough fiscal policies in his first term, overseeing economic stabilisation and falling levels of inflation and foreign debt.

He changed the pension system and pushed through a modest increase in the minimum wage. Welfare programmes targeted millions of poor families. But he had to contend with a surge of land invasions by activists frustrated at what they saw as the slow pace of agrarian reform.

In 2005 his popularity was dented by claims of corruption in the ruling party, focusing on a cash-for-votes scheme in Congress. The president apologised and said he had known nothing about the alleged corruption.

Lula was born in 1945 in the impoverished north-east. His family moved to Sao Paulo when he was seven and he left school at 14 to become a metal worker.

In the 1970s, he honed his political skills as a fiery union leader in the industrial suburbs of Sao Paulo. He went on to help found the Workers' Party.



# Country facts – Brazil

## Economy

### Background

More than 20 years of military rule ended in 1985 and a new constitution was ratified in 1988. The government of Fernando Henrique Cardoso (1995-2002) ended hyperinflation and advanced reforms to liberalise the economy, but public-debt indicators deteriorated amid low economic growth. The current government, under the president, Luiz Inacio Lula da Silva, has been successful in consolidating macroeconomic stability, while stepping up social spending. However, the political environment is obstructing the implementation of deeper reforms needed to accelerate growth.

### Political structure

The president executes policy approved by the 513-seat Chamber of Deputies (the lower house) and the 81-seat Senate (the upper house). Constitutional review is by an independent judiciary. Although the president can resort to temporary decrees to push through legislation, the 1988 constitution gives Congress ample capacity to frustrate the executive. A total of 21 political parties are represented in the lower house and party discipline has traditionally been weak.

### Policy issues

The Lula government has stuck to fiscal and monetary conservatism and improved the public debt ratios, while stepping up poverty-alleviation programmes. But fiscal problems persist, preventing a steeper decline in interest rates. Public debt remains high at around 41.2% of GDP and despite improvements social security expenditure still appears to be on an unsustainable path. The success of Lula's plan to raise annual average real GDP growth to 5% (mainly through higher infrastructure investment) will depend on progress in reforms, including streamlining the complex tax system, strengthening the regulatory framework, improving the quality of social spending and tackling labour informality.

### Major exports 2007 % of total

Transport equipment & parts	12.5
Metallurgical products	11.6
Soybeans, meal & oils	8.2
Chemical products	1.9

### Major imports 2007 % of total

Machinery & electrical equipment	26.1
Oil & derivatives	16.6
Chemical products	15.4
Transport equipment & parts	12.0

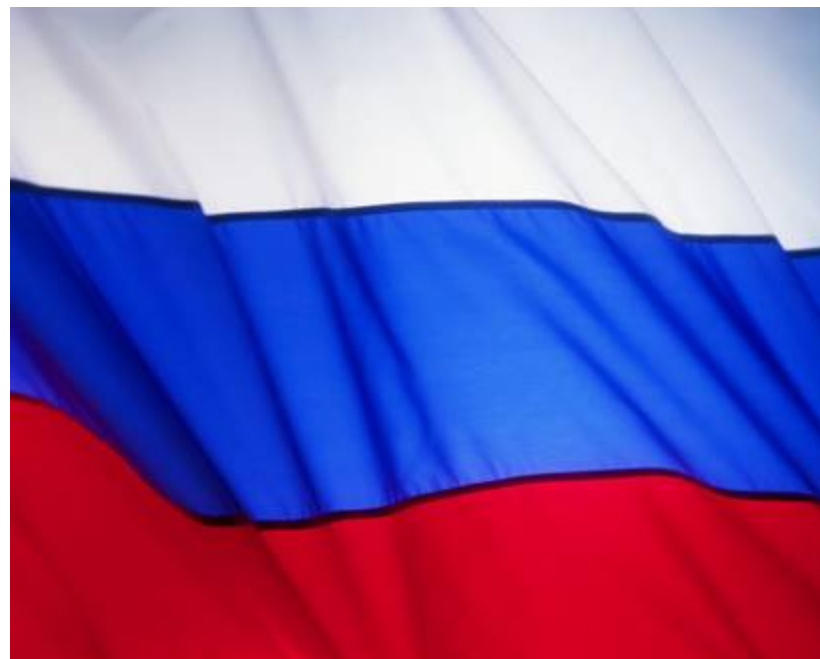
## Country facts – Brazil

Economy Cont'd.

### Taxation

Brazil has a poorly structured revenue system characterised by heavy tax burdens, a narrow taxable base, complicated levies and widespread tax evasion. Companies, both foreign and domestic, employ tax professionals and devote considerable resources to managing their tax affairs. The corporate and indirect taxation systems are particularly complex, porous and unwieldy; the income tax system is considered to be relatively efficient, with a top rate of 27.5%.





**Russia**

## Country facts – Russia

Area	17,075,200 km <sup>2</sup>
Population	140,702,096
Birth rate <sup>1</sup>	11.03
Life expectancy	65.94 years
Labour force	74,100,000
Unemployment	6.2%
GDP 2007	\$2,088bn
GDP real growth	8.1%
Inflation (CPI)	11.9%
Industrial production growth	7.4%



<sup>1</sup> (births/1,000 population).  
Source: CIA The World Fact Book.

## Country facts – Russia

President: Dmitry Medvedev

Dmitry Medvedev was sworn in as president in May 2008, taking office as Russia's third president since the collapse of the Soviet Union.

The chosen successor of former president Vladimir Putin, Mr Medvedev won just over 70% of the vote in presidential elections held in March.

He conducted a fairly low-key campaign, but received generous media coverage and was always the clear favourite to win.

As his victory became clear he said that he hoped to work with Mr Putin as his prime minister to improve the quality of life for Russians.

He also said there would be little change in Russia's foreign policy. In August 2008, he showed that he was determined to maintain the assertive stance set by his mentor when, in the wake of the conflict between Russia and Georgia, he declared that Russia did not want a new Cold War but was not afraid of one either.

Dmitriy Medvedev is 42 and has been associated with Vladimir Putin since the early 1990s when they were both involved in politics in St Petersburg.

Mr Medvedev is a lawyer by training and managed Mr Putin's presidential election campaign in 2000.

He subsequently worked as chairman of Gazprom and as first deputy prime minister in charge of social programmes.



## Country facts – Russia

Prime Minister: Vladimir Vladimirovich Putin

Former president Vladimir Putin was confirmed as Russia's new prime minister on 8 May 2008, one day after his protege Dmitry Medvedev was sworn in as president.

Mr Putin's unprecedented move from the Kremlin to the premiership completed a carefully staged transition which will ensure he remains at the heart of power.

As prime minister, he has promised to curb inflation, cut taxes and boost social spending. Mr Medvedev has said his political mentor will play a "key role" in shaping the country's development over the next decade.

Mr Putin was barred by the constitution from running for a third presidential term in the elections of March 2008.

He was elected to a second term as Russian president by a landslide in March 2004 with around 70% of the vote. His nearest rival, the Communist candidate, mustered 14%.

Vladimir Putin, who was born in St Petersburg in 1952, started his career in the ranks of the KGB. From 1990 he worked in the St Petersburg administration, before moving to Moscow in 1996. By August 1999 he was prime minister. He was named acting president by his predecessor, Boris Yeltsin, who introduced him as the man who could "unite around himself those who will revive Great Russia".

He went on to win presidential elections in May 2000, having gained widespread popularity for his pledge to take a tough line against Chechen rebels.



# Country facts – Russia

## Economy

### Background

Like the Soviet Union before it, Russia is a collection of diverse territories at different stages of development. The former president, Vladimir Putin, worked to bring the regions under central control, and to this end he abolished direct elections for regional governors.

### Political structure

Boris Yeltsin won the first democratic presidential election in June 1991 and was re-elected in July 1996. Repeated confrontations with the legislature culminated in the dissolution of parliament in September 1993 and a violent showdown the following month. The powers of the executive were greatly increased by a new constitution, adopted in 1993. The December 1993 election produced a new parliament dominated by anti-reformists; its conservative cast was strengthened by the December 1995 election. The 1999 and 2003 parliamentary elections increased the influence of pro-Kremlin political forces, easing the passage of reform legislation. Mr Putin was elected in March 2000 and re-elected to a second term in March 2004. A loyal ally, Dmitry Medvedev, won the presidential election in March 2008 and took over in May 2008.

### Policy issues

Despite the election of a relatively liberal president to succeed Mr Putin, policy continuity is expected. Liberalisation in some areas, such as the extensive reforms of the electricity sector, will co-exist with tight government control elsewhere. Dealing with a surge in inflation and other signs of an overheating economy is the main near-term policy challenge. Diversifying the economy away from commodity dependence remains a crucial policy goal.

### Major exports 2007 % of total

Oil, fuel & gas	65.0
Metals	13.5
Chemicals	5.5
Machinery & Equipment	5.0

### Major imports 2007 % of total

Machinery & electrical equipment	43.9
Chemicals	12.0
Food & agricultural products	11.7
Metals	6.6

## Country facts – Russia

Economy Cont'd.

### Taxation

Reforms since 2000 have aimed to rationalise the tax system, reducing the number of taxes and the corporate tax burden. Changes to the tax regime that came into effect in January 2001 included the introduction of a flat rate of personal income tax of 13%, and a simplification of the administration of social security contributions. The corporate tax rate was lowered from 35% to 24% at the start of 2002. The basic rate of value-added tax (VAT) was reduced from 20% to 18% at the start of 2004, and a regional 5% sales tax was abolished. Further cuts are likely in the coming years.





**India**

## Country facts – India

Area	3,287,590 km <sup>2</sup>
Population	1,147,995,904
Birth rate <sup>1</sup>	22.22
Life expectancy	69.25 years
Labour force	516,400,000
Unemployment	7.2%
GDP 2007	\$2,989bn
GDP real growth	9.2%
Inflation (CPI)	6.4%
Industrial production growth	8.9%



<sup>1</sup> (births/1,000 population).  
Source: CIA The World Fact Book.

## Country facts – India

**President:** Pratibha Patil

Pratibha Patil became India's first female president in July 2007, after being voted into office by members of state assemblies and the national parliament.

Mrs Patil, the candidate of the ruling Congress Party, was previously the little-known governor of the northwestern desert state of Rajasthan. She drew criticism during the campaign over scandals involving family members, and over controversial remarks.

Supporters hailed her election as a victory for women, but critics wondered how much influence she would have.

India has had several women in powerful positions - most notably Indira Gandhi, one of the world's first female prime ministers in 1966 - but activists complain that women still face widespread discrimination.

Mrs Patil succeeds APJ Abdul Kalam, a scientist and the architect of the country's missile programme.

Indian presidents have few actual powers, but they can decide which party or individual should form the central government after general elections.



## Country facts – India

Prime Minister: Manmohan Singh

Manmohan Singh became prime minister in May 2004 after the Congress Party's unexpected success in general elections.

The party's president, Sonia Gandhi, the widow of former prime minister Rajiv Gandhi, shocked her supporters by declining the top post, apparently to protect the party from damaging attacks over her Italian origin.

Mr Singh said his priorities were to reduce poverty and to plough on with economic reforms. He stated a desire for friendly relations with India's neighbours, especially Pakistan.

During his first year in office he held together a coalition which included communist allies and ministers accused of corruption. He continued to pursue market-friendly economic policies and oversaw the introduction of nuclear non-proliferation legislation.

But his promised "New Deal" for rural India - an attempt to raise the poorest citizens out of poverty - has still to bear fruit.

Mr Singh made his reputation as a finance minister in the early 1990s, under the Narasimha Rao government, when he was the driving force behind economic liberalisation.

When the Congress Party was voted out of office, Mr Singh became opposition leader in the upper house.

A Sikh born in West Punjab, Mr Singh is a former International Monetary Fund official and governor of India's Central Bank. He was educated at Oxford and Cambridge.



# Country facts – India

## Economy

### Background

India gained independence in 1947, after two centuries of British colonial rule. Partition at the same time created the state of Pakistan, with which India has fought three wars, two over the disputed territory of Kashmir. India is the second most populous country in the world, with 1.1bn people in 2007. Its economy is the 12th-largest in the world measured in nominal US dollars, but rises to fourth-largest when measured at purchasing power parity exchange rates. The large (and inefficient) public sector co-exists with a sizeable and diversified private sector.

### Political structure

India has been a democracy since independence. The growing importance of regional parties has made coalition government the norm at the federal level. Democratic procedures are, on the whole, respected. The prime minister is the leader of the government, requiring the support of a majority in parliament. The president is the head of state, and, although limited in executive power, can influence the formation of governments at both state and national levels when no party has gained an outright majority. The judiciary is formally independent, and is becoming increasingly assertive.

### Policy issues

Strong economic growth has allowed the government to undertake big spending programmes at the same time as reducing the fiscal deficit from 6% of GDP in 2000/01 to 2.8% of GDP in 2007/08. However, further progress on this front will be difficult, given major government spending initiatives and a slowdown in economic growth. With inflation rising rapidly in the first half of 2008, the government has said that tackling inflation is its main priority even if this means a lower rate of economic growth.

### Major exports 2007

	% of total
Engineering goods	23.0
Petroleum products	14.7
Textiles & textile products	13.5
Gems & jewellery	12.3

### Major imports 2007

	% of total
Petroleum & petroleum products	29.9
Electronic goods	6.4
Gold & silver	7.7
Machinery	7.3

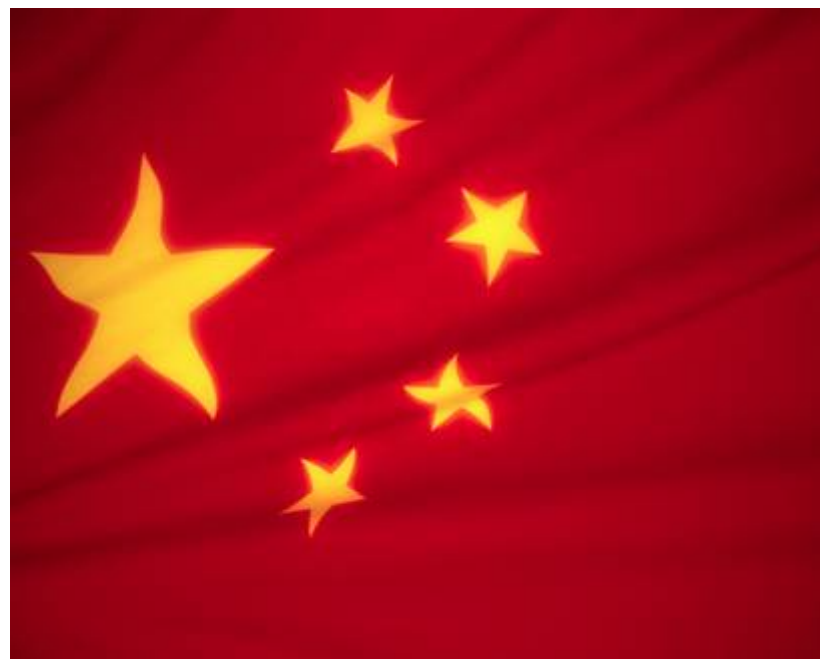
## Country facts – India

Economy Cont'd.

### Taxation

The top rate of personal income tax and corporation tax for Indian companies is 30%. The corporation tax rate for foreign companies is 40%. However, a complex system of exemptions reduces the effective tax rate for Indian companies to less than 20%. All firms pay a 10% tax on distributed profits. Customs duties have been lowered substantially but remain high by international standards.





**China**

## Country facts – China

Area	9,596,960 km <sup>2</sup>
Population	1,330,044,544
Birth rate <sup>1</sup>	13.71
Life expectancy	73.18 years
Labour force	803,300,000
Unemployment	4.0%
GDP 2007	\$6,991bn
GDP real growth	11.4%
Inflation (CPI)	4.8%
Industrial production growth	13.4%



<sup>1</sup> (births/1,000 population).  
Source: CIA The World Fact Book.

## Country facts – China

Head of State: President Hu Jintao

Little was known about the low-profile Mr Hu when he was elected by the National People's Congress in March 2003.

His position as the presidential heir-apparent had been cemented at the 16th Communist Party Congress in 2002, when he succeeded Jiang Zemin as head of the party.

Mr Jiang's decision to stand down as head of the powerful Central Military Commission in 2004, three years earlier than planned, was said to have completed the first orderly transition of power since the communist revolution in 1949.

Mr Hu has made the fight against corruption a priority; he has promised to promote good governance, saying the fate of socialism is at stake. But he has rejected Western-style political reforms, warning that they would lead China down a "blind alley".

Responding to rising social tensions and China's wealth gap, he advocates a drive to build a "harmonious society" and has promised greater spending on health and education in rural areas.

Hu Jintao was born in Anhui province in 1942, according to his official biography. He studied hydroelectric engineering at university in Beijing and worked in the Ministry of Water Conservancy and Power after he graduated.

A committed Communist Party member since 1964, his party career took off in the late 1970s. In the 1980s he served as party chief in Guizhou and Tibet, where he oversaw crackdowns on pro-independence protests. In 1992 Mr Hu became the youngest member of the Politburo Standing Committee, the party's main decision-making body. He was re-elected as president in March 2008.

He is said to enjoy dancing and table tennis and has been described as a cautious, intelligent man with remarkable powers of memory. Party loyalty and obedience are believed to have contributed to his political rise.



# Country facts – China

## Economy

### Background

The People's Republic of China was founded in 1949 by the Chinese Communist Party (CCP). The CCP chairman, Mao Zedong, then led the country for nearly three decades. After gaining power in 1978, two years after Mao's death, Deng Xiaoping introduced economic reforms. From 1989 to 2002 Jiang Zemin presided over a more collective leadership. The CCP is now led by Hu Jintao, who is also state president.

### Political structure

The CCP dominates the government. Mr Hu is general secretary of the CCP, state president and chairman of the Central Military Commission, which controls the armed forces. Wen Jiabao leads the government as premier. The politburo standing committee is the main decision-making body. The National People's Congress is a largely rubber-stamp legislature. The Chinese People's Political Consultative Conference contains political, social and religious groups within a powerless institution. There is no formal political opposition to the CCP.

### Policy issues

China's leaders want continuing economic liberalisation and sustainable growth alongside enduring political control. They recognise that many people have failed to benefit since economic reforms were launched at the end of the 1970s, and that such large numbers of disadvantaged citizens constitute a political liability. Accordingly, the balance of economic development is being altered in favour of social priorities. The government will continue to pursue further economic liberalisation, following China's accession to the World Trade Organisation in 2001. A private sector made up of domestic and foreign-funded interests is now strongly encouraged to expand while complementing the state sector.

### Major exports 2007 % of total

Electrical machinery & equipment	10.5
Clothing & garments	9.5
Yarn & textiles	4.6
Petroleum & products	1.0

### Major imports 2007 % of total

Electrical machinery	21.9
Petroleum & petroleum products	10.4
Industrial machinery	3.2
Textiles	1.7

## Country facts – China

Economy Cont'd.

### **Taxation**

From January 1st 2008 the standard rate of corporate income tax has been 25% for both Chinese and foreign firms. However, preferential tax rates continue to be enjoyed by many firms, including enterprises investing in favoured sectors and regions and foreign-invested companies whose preferential rates are in the process of being phased out.

