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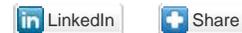


Emerging Countries Threaten Traditional Aircraft Powerhouses

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By: [Mark Koba](#)

Senior Editor



No longer content to be minor players in the field of aviation, the so called BRIC nations—Brazil, Russia, India and China—are making moves to threaten traditional industry giants like the United States, France and the U.K.



Frederic J. Brown | AFP | Getty Images

A Sichuan Airlines A320 jet inside a hangar at the Airbus Tianjin factory in Tianjin, northern China.

"To varying degrees, these countries are moving up the aviation food chain." says Robert Mittelstaedt, dean of W.P. Carey School of Business at Arizona State University. "The growing demand for aviation and aerospace material is attractive enough for them to develop into competitive players."

"There will be tremendous demand for new commercial aircraft over the next 15-20 years," says Ken Evans, U.S. Transportation and Logistics Leader of PwC, a management consulting firm. "That demand is increasing the opportunities for BRIC countries."

It's not just the commercial side that is spurring BRIC ambitions, says Scott Thompson, U.S. Aerospace and Defense leader at PwC.

"All four are interested in growing military production for aircraft," Thompson explains. "We know China is interested in space and is making huge investments there. The Russians have great capability and would like to export more aircraft than they are now."

What's helping the BRIC nations become a stronger force in aviation is globalization, says PwC's Evans.

"There's more international air travel as companies have to ship people and goods around the world," he says.

More broadly, travel is rebounding from the worldwide recession.

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The latest numbers from the [International Air Transport Association](#) show that global air traffic for April, 2011 was up 16.5 percent from a year ago.

BRIC nations are seeing their own domestic air travel grow as well. Brazil's is up 24 percent in April of 2011 compared to 2010, while India had 25 percent, according to the IATA. China and Russia had declines but both are attributed to tighter economic policies.

For an aviation company like Brazil's **Embraer** [[ERJ 23.51 ▲ 0.40 \(+1.73%\)](#)] —which produces commercial, military and executive aircraft and is the fourth largest commercial aircraft company in the world, and is now moving into the defense sector — the increase in air travel has pushed them to the forefront of the BRICs,

"Brazil is clearly the leader at this point with Embraer and its tremendous growth from smaller civilian and military aircraft," adds ASU's Mittelstaedt. "It's competing on that level with Boeing and Airbus."

"Because the Chinese government funds and centrally plans the industry, it's less reliant on short term profits."

Damien Lasou
Global Managing Director
Accenture

But India and China are also on the move, as exemplified in 2008 by China's two major aircraft makers joining forces to build a domestic passenger jet to rival **Boeing** [[BA 62.80 ▲ 1.70 \(+2.78%\)](#)] and **Airbus**.

"India has a well developed industry around aircraft components, repair and support which makes them a major player," Mittelstaedt argues. "China has moved aggressively to build capabilities that will make them a serious player in all areas of the business."

What the BRIC countries are doing in aviation is drawing attention and money from U.S. companies, says Steve Fulton, technical fellow for the PBN Services Unit of **General Electric** [[GE 15.54 ▲ 0.09 \(+0.58%\)](#)] **Aviation Systems**, a producer of jet engines for military and commercial aircraft.*

"We're making significant investments in all these countries," says Fulton. "GE Aviation provides Chinese airlines with modern cockpit technology and operations support. We've just announced a partnership with **GOL** airlines in Brazil."

While private money is a source for most of the BRIC nations, China, Russia and India are also getting help in the form of subsidies.

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"Because the Chinese get government funds and centrally plans the industry, it's less reliant on short term profits," says Damien

Lasou, global managing director with Accenture's aerospace and defense group. "For Russia and India, the aerospace industry remains a government priority with appropriate funding."

If there's one BRIC member struggling to find its way, even with government help, it's the former Soviet Union.

"Russia has historical roots in this market especially on the military side," says Lasou. "But the break up of the Soviet Union into so many different parts has hurt them. It caused their aviation industry to split into various directions as

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well."

That split covers domestic aircraft as well, says Jeff Knittel, president of **CIT's** [\[CIT 33.11 ▲ 1.22 \(+3.83%\) 📈\]](#) Transportation Finance department.

"Passenger aircraft production and development has fallen in recent years as Russian airlines have replaced Soviet era aircraft with more efficient aircraft from Airbus and Boeing," Knittel explains.

For BRIC countries who haven't quite arrived on the manufacturing scene, they are important players on the buying side, says Mark Sawyer, president of sales and marketing at Aerosim, a flight training and simulation firm.

"We have contracts to train pilots from China because they and countries like India and Russia are buying Boeing and Airbus products," Sawyer says. "They're opening up their airspace and that will lead to more manufacturing of at least smaller aircraft."

For now, the BRICs still have a ways to go to challenge the more traditional manufacturing players like Boeing and Airbus—each a global leader in aviation sales, and in Boeing's case, the third largest military and aerospace firm in the world.



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Airplane factory in Shanghai, China

"They are all high growth markets but each of the BRIC countries faces a different set of problems," says Usha C.V. Haley, a professor of international business at Massey University in Auckland, New Zealand. "Brazil appears to be the strongest competitor right now."

For investors, the BRIC countries offer limited options, says Chris Dimitropoulos, a principal with Astor Group, a merger and acquisition

and advisory firm.

"I think the opportunities are much greater in Brazil in airlines than manufacturers," Dimitropoulos argues. "Embraer production is picking up this year, but the airlines are much more focused on cost cutting and are the better investments."

The real impact of the BRICs in aviation is still to be felt, say experts, but that time will come.

"Over the next five to ten years, the threat from the BRICs is relatively insignificant," says Accenture's Lasou. "But in 20 years or so, the threat will be much greater."

"The current leaders won't maintain their lead in aviation forever," ASU's Mittelstaedt contends. "So yes, countries like the U.S. should be worried about the BRICS down the line."

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