

Follow the Money

by

Sol Trujillo¹

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Since the end of WW II, the attention of the world has been on the developed nations. The reason is clear: Developed nations:

- Create wealth, raise living standards, promote prosperity,
- Provide capital for investment to advance economic development, and
- Consume goods and services that are the products of modern economies.

Right after the war the US was the only nation left standing – both in terms of military and economic power. By the 1950s, the war-torn economies of Europe and Japan were in recovery. Global leadership was increasingly shared – first with Britain, France, Germany and the other recovering European economies...and then with Japan, Asia's rising economic powerhouse. With global prosperity increased, the richest nations began to meet outside of the International Monetary Fund (IMF), the World Bank and other established international institutions so they could address pressing problems of international finance and commerce. That's how the so-called "Group of 6" and later the "G7" came into existence. The "G7" – with GDPs totaling more than \$30 trillion – includes:²

1. USA,
2. UK,
3. Italy,
4. Japan,
5. Germany,
6. France, and
7. Canada

The lesson: Follow the money and you'll know who has a seat at the table.

¹ Solomon D. Trujillo, chairman of Trujillo Garcia Holdings, has served as CEO of high-cap media-communications companies in the US, the EU and Australia. A digital pioneer and a long-time champion of high-speed broadband to increase productivity and advance innovation across all sectors of the economy, Sol is actively engaged in media-communications businesses in both developed and emerging markets, from China and South Asia to North America, Europe, Africa and the Middle East and sits on corporate boards in the US, EU, and China – including Target and Promerica Bank of Los Angeles, where he is vice chairman; and China's Silk Road Technologies, where he is board chairman.

² Nations are ranked highest to lowest (1-19) in terms of consumption as a percent of GDP.

During the past few years, however, the "G7" forum has not been big enough to address the world's pressing economic, social, and political problems. That's why, in the wake of the financial turmoil of 1997-99, the "G7" established the "G-20" – bringing in the next 13 richest nations (including the EU) to help promote international financial stability. Once again, national wealth was the key.

Then, during the 2008 Global Financial Crisis (GFC), President George Bush and other "G7" leaders convened the "G-20" to help resolve the new global economic crisis. When it comes to trade and finance, size matters. That's why the "G7" has repeatedly turned to the larger forum that includes the world's major emerging economies, to deal with the GFC.

The "G-20" includes the "G7" plus the major emerging markets, headed by the "BRIC" countries – with GDPs totaling more than \$10 trillion:"³

8. **Brazil,**
9. **Russia,**⁴
10. **India, and**
11. **China...**

But also including another \$6 trillion in the remaining nations of:

12. **Mexico,**
13. **Turkey**
14. **Indonesia,**
15. **Saudi Arabia**
16. **Argentina,**
17. **Australia,**
18. **Korea, and**
19. **South Africa...**

Along with representatives from the IMF, the World Bank and others, plus formal membership by:

20. **The European Union (EU)**

The lesson: Follow the money and you'll see that in global policy making the richest nations increasingly share political decision-making with emerging market countries where middle class consumers are the principal drivers of consumption and growth. In fact, the coming decade will be the first in 200 years when emerging market countries contribute more to global growth than developed countries.

³ Nations 8-19 are also ranked highest to lowest in terms of consumption as a percent of GDP.

⁴ Russia is often included in meetings of the "G7" – hence, media references to the "G8."

Put another way: Political power is rooted in economic power – and not the other way around. China is only the most recent example. China has always had big armies and a lot of people, but China's political influence began to rise with increasing per capita wealth and a growing middle class – with growing economic power that comes from wealth creation, investment, innovation and rising productivity

In short, political power and influence come the old fashioned way: You have to earn it...and you earn it through being productive.

What do we know about global emerging markets – from Brazil, Mexico, and Korea to Indonesia and South Africa? They have certain attributes in common:

- a young population,
- increasing productivity,
- rising per capita income, and
- an appetite for consumption that will fuel new spending.

And because of these attributes, these nations are experiencing new investment from around the world, high rates of growth, higher incomes and more broadly distributed prosperity – including income, health care and education.

But let me ask a question: Where do we find parallels to the attributes of the emerging markets? The answer: Right here in the US. It is here in America that we find one of the world's most important emerging markets. It is called the Hispanic American market. And it is important because among the world's emerging markets, the emerging Hispanic American market is one of the:

- largest,
- newest,
- most rapidly growing,
- most productive, and
- most innovative.

The American Hispanic market is characterized by (this should sound familiar):

- youth,
- increasing productivity,
- rising per capita income,
- an appetite for consumption that is fueling new household spending, and
- entrepreneurship, a distinctly American quality with deep roots in Hispanic culture.

And America's domestic emerging markets are, in many ways, just as important as the global emerging markets that get all the attention. Just consider the facts:

The domestic emerging market of Hispanic America currently totals more than 50 million people – 16 percent of America's population of nearly 310 million. This is a very large number by any measure.⁵ Indeed, if Hispanic America were a nation, it would rank #24 in population among the world's 193 nations – ranking just below Great Britain and Italy and just above Korea and South Africa.⁶

More importantly, even the large size of the American Hispanic population is overshadowed by its own dynamics. Consider just a few examples from the 2010 Census:

- The Hispanic population is growing...fast. Over the past decade, the non-Hispanic US population grew a modest 9 percent; the American Hispanic population grew a whopping 43 percent;
- The Hispanic population is younger – more than 34 percent are under 18; compare this to the rest of the US population, which grew less than 23 percent; and
- The US population is older – more than 14 percent are over 65; less than 7 percent of Hispanics are over 65.

Most importantly – remember, we need to follow the money – if we look at the domestic emerging market of Hispanic America from an economic perspective, we learn from the Census that Hispanic purchasing power, which now exceeds 1.0 trillion, will top \$1.5 trillion by 2015.

That means the Hispanic market in America would be the 11th largest economy in the world – just below France, Italy and Mexico and above Korea, Spain, Indonesia and Turkey.⁷

Put another way, if Hispanic America were a nation, it would be a member of the "G-20," the international forum of the world's richest nations. In fact, Hispanic America's purchasing power per capita (at \$20.4 thousand) exceeds the GDP per capita of every one of the four BRIC countries – Russia (\$15.9), Brazil (10.8), China(\$7.6), India (\$3.5)

⁵ According to the Census, America's 50+ million Hispanics include those from Cuban, Mexican, Puerto Rican, or South or Central American origin – or others of Spanish origin, regardless of race. Hispanics of Mexican origin account for 63% of all Hispanic Americans and have had the largest increase since the 2000 Census – growing from less than 21 million in 2000 to nearly 32 million by 2010, an increase of 54% which accounted for 75% of the over-all increase in America's Hispanic population. Others contributing to the increase were, in order, Cubans and Puerto Ricans. Among those of Central American origin, most came from El Salvador (1.6 million) followed by Guatemala (1.0 million) and Honduras (633,000). Hispanics from South America are led by those from Colombia (909,000) followed by Ecuador (565,000) and Peru (531,000).

⁶ Based on data from the Department of Economic and Social Affairs, Population Division, (2011), *World Population Prospects, 2010*, United Nations. The number 193 refers to the members of the UN.

⁷ International Monetary Fund, World Economic Outlook Database, September 2011, Nominal GDP list of countries. Data for the year 2010.

– and most of the remaining "G-20" nations: South Africa, Mexico, Argentina, Indonesia and Turkey (excepting only Korea, Saudi Arabia and Australia).⁸

Hispanic America's future growth is perhaps even more important than its current size and wealth. According to U.S. Census forecasts, the US Hispanic population is poised to grow by 83 million by the half century mark – from the current 50+ million to 133 million by 2050, making Hispanic America larger than the current population of Japan and just short of the current population of Russia.

Put another way, the growth of Hispanic America over the next 40 years will be the equivalent of adding 10 additional New York Cities populated only with Hispanics. Indeed, Census Bureau Director Robert Groves opined that the growth of the Hispanic population is one of the big stories from the 2010 Census...and he was absolutely correct.

It's not just the growth in headcount that counts. It is also the economic dynamism and demand for goods and services that count in Hispanic America.

Growth in wealth is advanced not only by population growth but also by expanding entrepreneurship. Hispanic America already includes nearly three million Hispanic-owned businesses⁹ – as documented by the Census, HispanicBusiness.com, *Entrepreneur* magazine and other sources – and these numbers are growing significantly every month.

Growth in wealth is also advanced by expanding international business, and here again Hispanic America is a huge and growing asset. Consider the following:

The U.S. exports to Latin America are nearly 3x larger than our exports to China. U.S. Hispanics are uniquely positioned to expand business with Latin America. By leveraging family ties, cultural affinities, and a shared language, Hispanic Americans give the US a competitive advantage in doing business with a rapidly growing \$6.4 trillion market of 579 million people in 21 countries plus Puerto Rico.¹⁰

The demand for consumption goods and services is also rising as household spending increases. If spending patterns in the domestic emerging market of Hispanic America is anything like spending patterns in other emerging markets, we can expect a shift in

⁸ *CIA World Fact Book*, 2010.

⁹ Tamara Monosoff, "Embrace the Hispanic Market," *Entrepreneur*, November 12, 2009. And for Hispanics, a business is a family affair. While 54 percent of the general population of business owners plans to pass their businesses on to their children, 70 percent of Hispanic business owners plan to do so. On this point see, <http://bit.ly/ti5fzZ>, "Who most embraces the American Dream? Hispanics!"

¹⁰ *CIA World Fact Book*, 2010.

spending from food, beverages, tobacco and even apparel with more share of the pocketbook going for:¹¹

- Housing, already a \$204 billion market
- Transportation, already a \$111 billion market
- Personal insurance, already a \$65+ billion market
- Utilities, already a \$51+ billion market
- Healthcare, already a \$25 billion market
- Entertainment, already a \$24+ billion market
- Education, already an \$11+ billion market
- plus communications, recreation and other personal products and services.

The contributions of American Hispanics to the nation's wealth and well-being going forward cannot be denied. American Hispanics who have been here for generations have already made their mark...in business, sports, entertainment, and politics.

Recently arrived American Hispanics bring new energy, connections, and know-how that are badly needed at every level of the workforce in modern American society, and their contributions will be critical to our nation's future growth and development.

Indeed, the importance of American Hispanics to the US is not limited to Hispanic entertainers or sports icons who make a lot of money. Nor is our importance limited to entrepreneurs, scientists, and engineers who invent things and create businesses that provide jobs, pay taxes and deliver goods and services. It is all this plus...

The importance of American Hispanics also includes our labor and our contributions to those who make things, mine things, grow things, and move things around. From construction and laying bricks to harvesting and landscaping, we find Hispanics doing the heavy lifting. Farmers, ranchers, miners; butchers, bakers, and bankers; homebuilders and landscapers, restaurateurs and road builders – all of these and others increasingly turn to Hispanic labor when there is work to be done and only Hispanics raise their hands.

In short, American Hispanics provide brains, brawn and skills at every level and in every sector of America's turbulent and ever-changing economy, and that impact needs to be better measured and more widely understood.

As we approach the election season, a time when Americans will be thinking about our nation's future, we should be mindful of our heritage as a nation of immigrants and the moral and cultural implications of the world-famous poem of Jewish-American poet, Emma Lazarus, carved on the pedestal of the Statue of Liberty, inviting those seeking a new life to build it in America.

¹¹ The following data are from *Geoscape 2012 American MarketScape DataStream Report*. See www.geoscape.com.

Hispanics – and especially those from the Western Hemisphere – have answered the call. The result is a huge asset – America's large and growing Hispanic community. That community is a big plus for America...by almost any measure...and not the least because it constitutes a huge emerging market right here in our own backyard.

We need to affirm what is good about America – and a large part of America's good is Hispanic America and its growing, connected, ambitious, family-oriented, increasingly educated, upwardly-mobile – and, let us not forget, increasingly productive – population.

Honor America's heritage and you honor Hispanic Americans. Consider America's future and you find that Hispanics will continue to enrich America, give substance to the American dream and increase our wealth and influence vis-à-vis the rest of the world.

Follow the money, and it will lead you to a vibrant Hispanic market that is expanding in every sector – right here in the US and in Spanish-speaking cultures in the Western Hemisphere and around the world.

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