Tough BRIC, Got MINT?

In 2001, British economist Jim O'Neill coined the term BRIC in a paper entitled "Building Better Global Economic BRICs".

In the paper, he outlined three key points:

- In 2001 and 2002, real GDP growth in large emerging market economies will exceed that of the G7.
- At the end of 2000, GDP in US dollars on a Purchasing Power Parity (PPP_ basis in Brazil, Russia, India and China (BRIC) was about 23.3% of world GDP.
- Over the next 10 years, the weight of the BRICs and especially China in world GDP will grow, raising important issues about the global economic impact of fiscal and monetary policy in the BRICs.

BRIC leaders in 2008.

Although the four major economies of Brazil, Russia, India and China are important on the world stage, they have been struggling of late. Let’s take a look at them more closely.

Brazil

Brazil is the largest national economy in Latin America, the world's seventh largest economy at market exchange rates and the seventh largest in purchasing power parity (PPP), according to the International Monetary Fund and the World Bank. Brazil has a mixed economy with abundant natural resources. The Brazilian economy has been predicted to become one of the five largest in the world in the decades to come. Its current GDP (PPP) per capita is USD12,528 in 2014, putting Brazil in the 77th position according to IMF data.

The country has been expanding its presence in international financial and commodities markets and has been the world's largest producer of coffee for the last 150 years. It has become the fourth largest car market in the world. Today, Brazil ranks 23rd worldwide in value of exports.

Since April 2013, the central bank has raised rates by 375 points to 11 percent to battle inflation that has remained stubbornly high despite lackluster growth. The sharp increase in borrowing costs is expected to further slow the economy, which is expected to grow only 2 percent this year. The bank has warned it is near the end of the tightening cycle despite a spike in food prices caused by a drought in southeastern Brazil.

Despite it playing host to the World Cup this year, Brazilian growth will continue at a slow pace in 2014. According to the IMF, it now expects Brazil’s annual growth to be only 1.8%, compared to 2.3% in January. Growth will be slower than expected because of weak infrastructure and low private investment reflecting a lack of confidence in the industry.

In 2013, Brazil's GDP grew just modestly for the third year in a row at 2.3%, compared to a solid 7.5% in 2010.

Let’s check in on its currency. Over the last four years, from April 2010 to April 2014, the Brazilian Real has weakened against the US dollar. In April 2010, 1 USD could get you only 1.76 Real. In April 2014, 1 USD got you 2.22 Real.

Russia

Russia has a market economy with enormous natural resources, particularly oil and natural gas. It has the 8th largest economy in the world by nominal GDP and the 6th largest by purchasing power parity (PPP). Since the turn of the 21st century, higher domestic consumption and greater political stability have bolstered economic growth in Russia. The country ended 2008 with its ninth straight year of growth, averaging 7% annually between 2000 and 2008. Oil, natural gas, metals, and timber account for more than 80% of Russian exports abroad.

The picture is markedly different in 2014, with the Russian-Ukraine crisis. In March 2014, the World Bank warned that Russia could see record capital outflow of USD150 billion if the crisis over Moscow's annexation of Ukraine's Crimea deepened. This is more than twice the USD63 billion outflow for the whole of last year, and higher than the USD120 billion in capital flight that Russia saw in 2008 during the global financial crisis.

During that same time, the central bank (Bank Rossii) also poured about USD10 billion into the currency market after the threat of Western sanctions against Russia. That was followed by a hike in interest rates after the Ruble sank to a record low. Economists expect the Russian economy to contract between 1-2% in 2014.

India

India has the third largest economy in the world by purchasing power parity. It is one of the G20 major economies.

In 2010 and 2011, India’s economy grew by about 9-9.5%. However, according to ratings agency Moody’s, India’s growth rate would be about 5.5% in 2014 and 2015. The Statistics Ministry in New Delhi recently reported that India's GDP came in at only 4.7% in the last quarter of 2013.

On 28 August 2013, the Indian rupee hit an all time low of 68.80 against the US dollar. In order to control the fall in the rupee, the government introduced capital controls on outward investment by both corporates and individuals. India also suffered a very high fiscal deficit of USD 88 billion (4.8% of GDP) in the year 2012–13.

Reserve Bank of India Governor Raghuram Rajanhas has raised interest rates three times since taking charge in September 2013, saying curbing inflation is the best way to generate sustained long-term growth. The prospects for a rebound in GDP are likely to depend on whether the elections produce a stable coalition with a clear mandate.

In April 2014, Analytical firm CRISIL Research published a report entitled "Of growth and missed opportunity." Crisil calculates that as many as 226 million people will remain below the poverty line at the end of fiscal 2019 if growth averages 6.5 per cent. On the other hand, at 9 per cent growth, the number of destitute will reduce to 177 million, bringing about a sharp decline in India's poverty ratio to 13.6 per cent from 22 per cent now. Conversely, assuming 5 per cent GDP growth would mean India's poverty ratio would just moderate to 19.6 per cent.

India's Incremental Capital Output Ratio or ICOR, which measures investment efficiency, has worsened to almost 8 in the last two fiscals from 4.4 during the high growth period of 2003-04 to 2010-11. Higher the ICOR, lower the efficiency of investment.

China

In the September 2013 report by the Bank for International Settlements, China's currency entered the top 10 most traded currencies for the first time in history, coming in at number 9. Turnover for the Renminbi was recorded at USD120 billion, accounting for 2.2% of global Forex volumes. In January 2014, the

Renminbi (yuan) surpassed the Swiss Franc to become the seventh most-traded currency in the world.

However, the growth rate in the world's second largest economy has been less than promising. In 2012, China cut its growth rate to 7.5%, its lowest since 2004. The move signaled an intention from the authorities to rebalance the export-driven economy to a more sustainable consumer-driven one.

In April 2014, China reported that annual growth slowed to 7.4% in the first quarter from a year earlier, its slowest reading in 18 months. Additionally, China's factory activity shrank for the fourth straight month in April, signaling economic weakness into the second quarter. All this points to signs that Premier Li Keqiang may face difficulties reaching an expansion target of 7.5% this year without stimulus.

The yuan itself has fallen 2.8% since the start of 2014, as part of the central bank's efforts to weed out speculative bets and to gain more space for its monetary policy. The People's Bank of China (PBOC) doubled the daily trading band from 1% to 2% last month, signaling a tolerance for more weakening, traders say.

One of China's problems has been its shadow banking system. The term "shadow bank" was coined by economist Paul McCulley in a 2007 speech at the annual financial symposium hosted by the Kansas City Federal Reserve Bank in Jackson Hole, Wyoming.

A short explanation would be a parallel banking system that doesn't follow traditional bank regulations. This is how banks were able to literally package their mortgages into commercial paper backed securities and sell them in the shadow banking system in 2008. Those high risks mortgages were then taken off the banks' balance sheets to be sold on the market.

A key player in China's shadow banking system is a Trust company. Trust companies are non-bank lenders that raise funds by selling high-yielding investments known as wealth management products (WMPs) and use the proceeds to fund loans to risky borrowers such as property developers, local governments and others to whom banks are reluctant to lend.

Here’s two examples that went bad:

On 29 November 2013, the coal miner Liansheng Resources Group owned by Xing Libin, which was formerly the largest private company in Shanxi province, filed for bankruptcy with approximately USD5 billion of debt. This was the first Chinese bankruptcy filing in the modern era, and was facilitated by a shadow bank called Jilin Trust and sold by China Construction Bank.

In March 2014, Shanghai Chaori Solar Energy Science & Technology Company was the first bond default by a Chinese company in the modern era. Only two months before in January, China Credit Trust had been bailed out when its investment product, which had been sold by ICBC, went sour.

The good news is that China has issued stricter guidelines governing trust companies, in a bid to counter systemic risks posed by the biggest players in the country's shadow-banking sector.

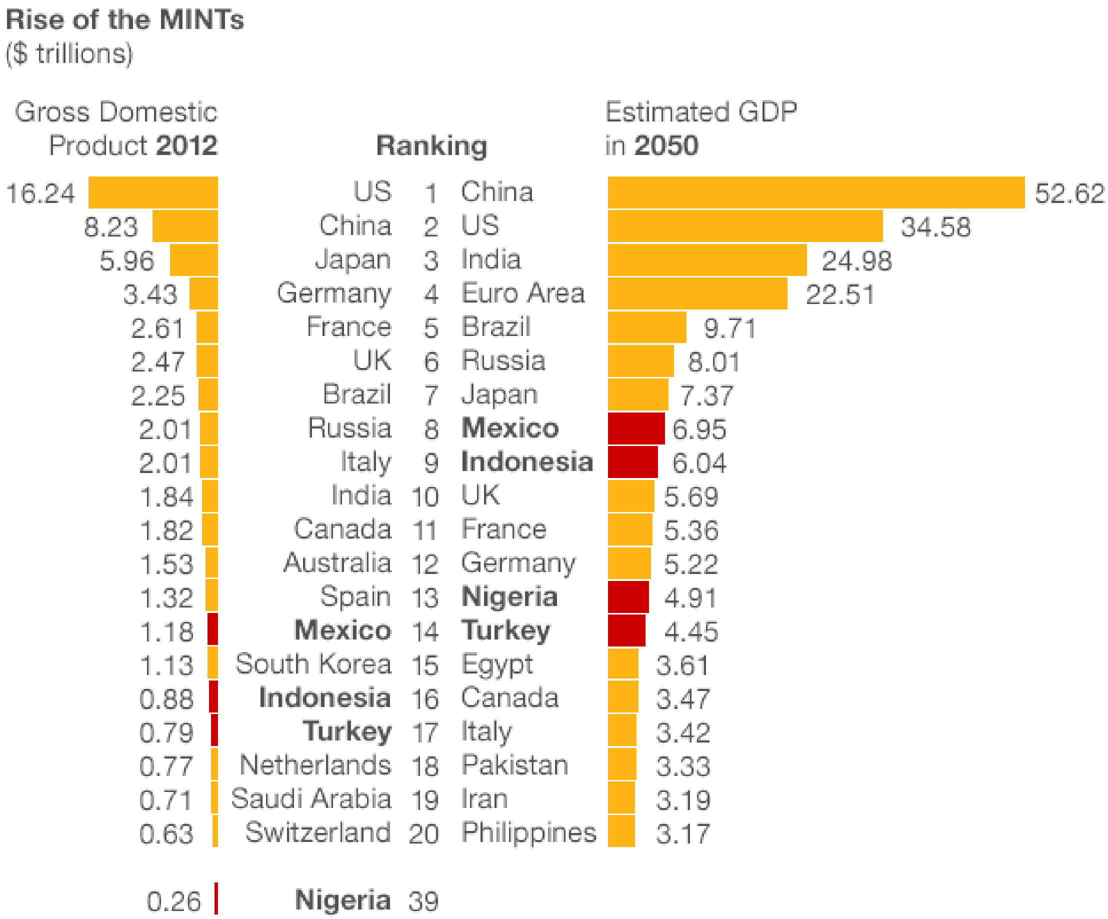
The new rules from the China Banking Regulatory Commission (CBRC) aim to reduce liquidity risks associated with off-balance-sheet WMPs by forbidding trusts from operating so-called "fund pools" that enable them to fund cash payouts on maturing products with the proceeds from new WMP sales.

Suffice to say, the BRIC countries have been experiencing either growth or liquidity challenges recently. Enter the MINT economies.

MINT is an acronym which stands for Mexico, Indonesia, Nigeria and Turkey. The term was originally coined by Fidelity Investments, a Boston-based asset management firm, and was popularised by Jim O'Neill of Goldman Sachs, the same person who coined the term BRIC.

What’s so hot about the MINT economies?

For starters, Mexico is next door to the US, but also Latin America. Indonesia is in the heart of South-east Asia but also has deep connections with China. Turkey is in both the West and East. Nigeria’s recent GDP rebasing gives it the largest economy in Africa, ahead of South Africa.



Source: World Bank, Goldman Sachs

Mexico

Due to Mexico's rapidly advancing infrastructure, increasing middle class and rapidly declining poverty rates it is expected to have a higher GDP per capita than all but three current European economies of 2014, by 2050. This new found local wealth also contributes to the nation's economy by creating a large domestic consumer market which in turn creates more jobs.

It is increasingly common for investors to say they like Mexico "because it isn't Brazil", and although that remark is naturally a bit flippant, there is some truth in it. Brazilian companies have tended to be sluggish and mired in state policy while Mexico has gained from market-friendly reforms and a sense of national momentum under President Enrique Pena Nieto. These positive changes could lead to steady increases in foreign investment.

Indonesia

Indonesia is considered the largest country by population in South East Asia and a member of the G20 major economies. Jim O'Neill has predicted that it will be ranked 7th in the world in terms of GDP by 2050.

Indonesia's estimated nominal GDP as of 2012 was USD928.274 billion with estimated nominal GDP per capita GDP at USD3,797. At the World Economic Forum in June 2011, the Indonesian President said Indonesia would be one of the top ten countries with the strongest economy within the next decade.

Indonesia regained its investment grade rating from Fitch in late 2011, and from Moody's in early 2012, after losing its investment grade rating in December 1997 at the onset of the Asian financial crisis. At that time, Indonesia spent more than Rp450 trillion (USD50 billion) to bail out lenders from banks.

In 2012, Indonesia edged out India to emerge as the second fastest G-20 major economy just behind China. In 2013, Indonesia recorded a GDP growth rate of 5.78%. Although lower than the 6.23% rate in 2012, the main reason was due to the aggressive rate increases by the central bank aimed at easing the current account deficit and reining in inflation.

The exciting part about Indonesia is its middle class. The transition of millions of Indonesians out of poverty into a "consuming class" is a big part of Indonesia's continuing growth story. Boston Consulting Group estimates that Indonesia is home to 74 million 'middle class and affluent' consumers, with that number set to rise to 141 million by 2030.

Nigeria

Nigeria is a middle-income, mixed economy and emerging market, with expanding financial, service, communications, and entertainment sectors. It is on track to becoming one of the 20 largest economies in the world by 2020. Nigeria's economy produces a large proportion of goods and services for the West African region.

In April 2014, the National Bureau of Statistics (NBS) did a GDP revision for Nigeria. As a result of the GDP rebasing, the size of the Nigerian economy has grown by 89 percent to N80.3 trillion (USD509.9bn). This ranks Nigeria as the world's 26 largest economy, the largest economy in Africa, bigger than Angola, Egypt and Vietnam put together, and 12 times the Ghanaian economy. The 89 percent jump thumped the expectations and forecasts of analysts who projected an increase of between 40 percent 60 percent from the rebasing. That officially ranks Nigeria as the largest economy in Africa, even ahead of South Africa.

Reniassance Capital estimates that Nigeria's economy was worth USD405 billion in 2013, compared to USD355 billion for South Africa. On top of that, Renaissance points out, it will become 20% of the MSCI frontier index. Nigeria's growth is not without challenges though – from corruption to theft of natural resources. However, with a population three times the size of South Africa, Nigeria is a high-population market of growing wealth and opportunity.

Turkey

In terms of wealth, Mexico and Turkey are at about the same level, earning annually about USD10,000 per head. This compares with USD3,500 per head in Indonesia and USD1,500 per head in Nigeria.

Considered one of the world's newly industrialised countries, Turkey is among the world's leading producers of agricultural products, textiles, motor vehicles, ships and other transportation equipment, construction materials, consumer electronics and home appliances. In recent years, Turkey had a rapidly growing private sector, yet the state still plays a major role in banking, transport, and communications.

Turkey's economy grew 10.3% in 2013, faster than China, and was the third fastest growing economy in the world. Economic growth came mainly from construction, rather than exports like China and Russia. With its large domestic consumption base, Turkey's nominal GDP is set to grow to USD4.45 trillion in 2050. That would rank it as the 14th largest in the world.

According to a survey by *Forbes* magazine, Istanbul, Turkey's financial capital, had a total of 28 billionaires as of March 2010 ranking 4th in the world behind New York City (60 billionaires), Moscow (50 billionaires), and London(32 billionaires).

Projected growth in average income (thousands $)

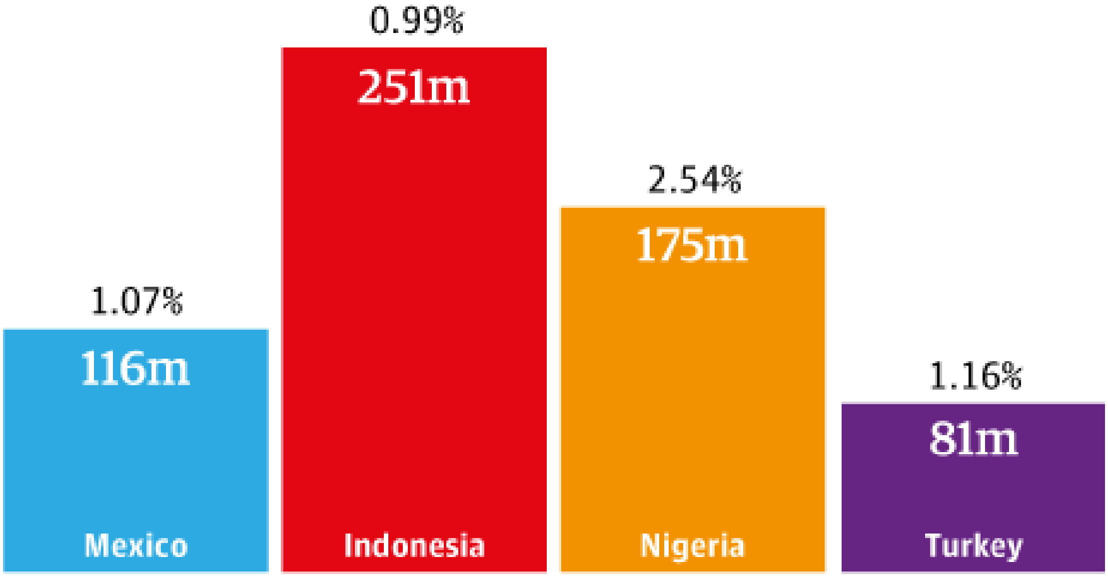
	2000	2012	2050 (projected)
Mexico	7.0	10.6	48.0
Indonesia	0.8	3.6	21.0
Nigeria	0.2	1.4	12.6
Turkey	4.1	10.6	48.5

SOURCES: IMF, GOLDMAN SACHS

Here's a snapshot of the MINT population and economic growth in 2013:

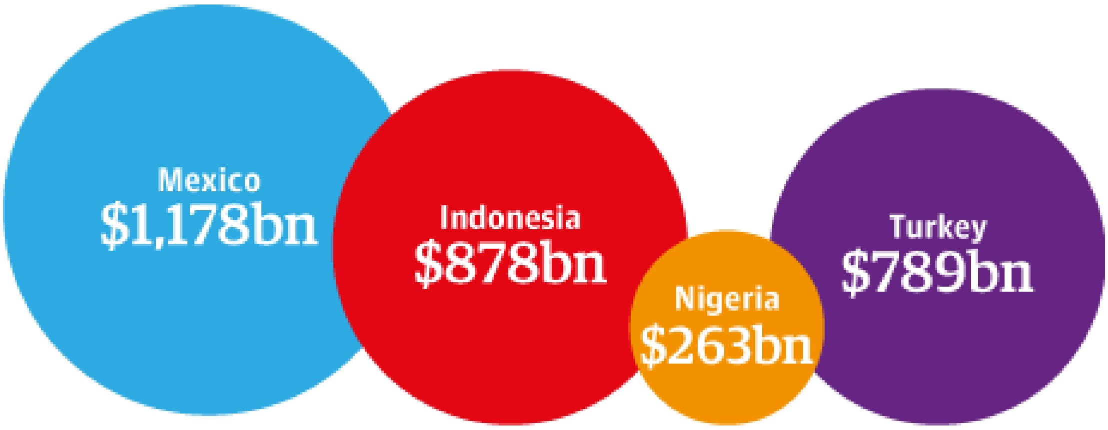
MINT economic indicators

Population and % growth, 2013



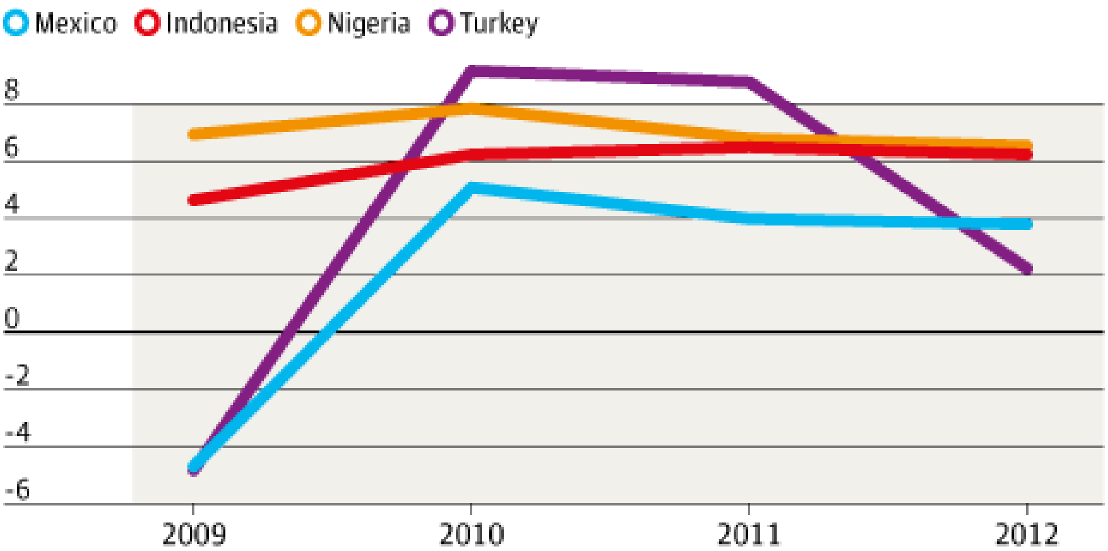
SOURCE: CIA WORLD FACTBOOK

GDP, 2012



SOURCE: WORLD BANK

GDP growth, %



SOURCE: WORLD BANK

Ease of doing business, World Bank index

Singapore	1	Germany	21	Index averages a country's

This is the envy of many developed countries but also two of the BRIC countries, China and Russia. So, if Mexico, Indonesia, Nigeria and Turkey get their act together, some of them could match Chinese-style double-digit rates between 2003 and 2008 in the next few years and be a real force to reckon with on a global scale.

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