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Betting on the next BRIC economy…

Amid the current wave of speculation that the global economy may finally be on its road to recovery, there are some economies currently weathering the global economic storm that have sparked our interest. Most investors, if not all, would be familiar with the BRIC acronym developed by Goldman Sachs back in 2001 that refers to the fast-growing developing economies of Brazil, Russia, India and China, that when combined, account for more than a quarter of the world's land area and more than 40% of the world's population. It was and still is argued that these economies are growing so rapidly that by 2050, the combination of these 'power houses' could eclipse the combined economies of the current richest countries of the world!

Back in 2005, Goldman Sachs also coined the acronym N-11, or the Next-11, which comprises the potential BRIC successors including; Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey and Vietnam. Whilst the inclusion of some of these countries may be debatable, their profiles share the characteristics of rapidly growing populations coupled with great industrial potential. Of these countries, Mexico, South Korea and Indonesia have been making recent headlines with respect to their inclusion in the BRICs. In fact, these countries are the 13th, 14th and 19th largest economies in terms of nominal GDP, right behind the BRIC and G7 economies. With Mexico already considered a major economy and global contributor and South Korea known for its advanced technology and infrastructure, the case for their inclusion is relatively weaker as their overall contributions are perceived as limited given the size of their economies.

By process of elimination, that leaves Indonesia. In our opinion, Indonesia is frequently overlooked as one of the world's major emerging markets and in a nutshell, has seen "remarkable turnaround for a country that was, until the last few years, widely viewed as the world's biggest basket case." Indeed, Indonesia is rich in natural resources and has become one of the world's largest palm oil producers and second-largest coal exporters. Indonesia is among the top ten (10) most populous countries in the world behind China, India and the United States and is already among the top twenty (20) economies in the world in terms of GDP.

According to a Morgan Stanley report, "Indonesia's economic growth may accelerate to 7% starting in 2011, providing a case for its inclusion in the so-called BRIC economies." To be sure, Indonesia's Finance Minister has indicated that such growth is "possible and achievable" while the International Monetary Fund has noted that the economy "may expand as much as 4% in 2009, making it the fastest growing major economy in Southeast Asia." Despite a noted slowdown in the economy since the onset of the global economic crisis, expanding 4% in June 2009 from 6.42% a year earlier, Indonesia continues to remain relatively immune to the adverse effects of the recession primarily due to its robust domestic consumption base. Whilst neighboring Malaysia, Singapore and Thailand have recorded economic contractions, Indonesia continues to flourish and we expect them to post positive growth figures and be an out-performer in the Asian region in 2009.

Indonesia's economy is expected to double over the next six (6) years as it becomes one of the leading suppliers of commodities. Dubbed as Asia's "next growth triangle", Indonesia plays a symbiotic role in the emergence of China and India and this role is expected to become more pronounced in the future. Indeed, Indonesia continues to feed China and India, the world's two most-populated nations as a result of weak demand from other countries. According to the World Bank, India, which is the biggest importer of Indonesia's palm oil and cashew, may overtake China as the world's fastest growing economy in 2010. Furthermore, India's coal imports from Indonesia are expected to double by 2012 which is equivalent to about 40% of Indonesia's estimated coal production in 2009. Indonesia's exports to China grew 16% in 2008 compared to a 10.7% increase in demand from the US over the same period. On this basis, many analysts believe that Indonesia is ready to rise in the world economic hierarchy and take its place alongside China and India.

Going forward, political stability is also expected to play a vital role in boosting demand in the $433 billion economy. Indeed, much of the recent rise in the economy is attributable to the current administration's success in reducing and in some cases eliminating terrorism, civil wars, excessive state spending as well as corruption. The recent re-lection of the current President in the July 2009 elections bodes well for the economy and "suggests continued stability in this democratic political framework and is a critical factor in unleashing Indonesia's growth potential", according to the Morgan Stanley report. The same report also highlights that the "economy may grow 60% in the next five (5) years to $800 billion due to a stable administration, lower capital costs and a government plan to spend as much as $34 billion to build roads, ports and power plants by 2017."

Despite these positives, Indonesia still lags behind the BRIC economies in terms of the quality of higher education which is "crucial in moving the economy up the value-added ladder." Despite a per capita GDP that exceeds $2000, the country remains poor in light of an increasingly uneven distribution of income. Furthermore, as at February 2009, official unemployment stood at 8.1% while part-time workers accounted for a disproportionate 70% of the total number of employed Indonesians.

Based on historical experiences, the Indonesian economy is highly vulnerable to sudden swells of risk aversion due to increased uncertainty in the global economic environment and domestic events, sharp swings in commodity prices and subsequent capital outflows. Whist over the short term horizon, the outlook is still on the cautious side, the medium to longer term paints a more promising picture. The emerging markets offer remarkable investment opportunities and Indonesia is "re-emerging as one of the world's most exciting developing countries." In our opinion a more serious look into investments in this market would yield commensurate returns given the risks involved. According to Goldman Sachs, "the BRICs may overtake the combined $30.2 trillion GDP of the G7 nations by 2027", a decade sooner than forecast and could possibly be even sooner as Indonesia continues to put up a strong case for its inclusion as a BRIC economy.

FINANCIAL & ECONOMIC INDICATORS

As at 17 September, 2009

Exchange Rate/US$	Closing Value	Previous Week
Yen	91.08	91.73
Euro	1.47	1.46
Jamaica	89.10	88.95
Guyana	205.20	204.90

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	72.47	71.94
Natural Gas (US$/mmbtu)	3.46	2.68
Gold (US$/Troy Ounce)	1,013.60	996.60

Eurobond Indices (As at 17-09-09)	
Lehman Brothers Global Aggregate Index (Return % YTD)	7.47
JP Morgan EMBI+ (Basis points)	317
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	30.98

Policy Interest Rates (%)	Closing Value	Previous Week
United States	0.18	0.15
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	8.75	8.75
Trinidad	6.75	6.75
Jamaica	12.50	13.50
Barbados	2.50	2.50

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	0.09	0.14
US 10-Yr Treasury	3.39	3.35
3-month UK Libor	0.59	0.63
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	8.60	8.59
TT 90-day T-Bill	2.46	2.23
Jamaica 90-day T-Bill	16.72	16.72
Barbados 90-day T-Bill	3.65	3.65

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com