

Six Sizzling Markets

***How to Profit from Investing
in Brazil, Russia, India, China,
South Korea, and Mexico***

PRAN TIKU



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This book is dedicated to the memory of my parents,
Trilok Nath and Kanta Tiku, whose inspiration and
encouragement were boundless and beyond words.

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Preface

Today's world is bound together as never before. Countries are connected not only by the visible means of trucks and trains and ships and planes, but also by invisible electronic pathways. There are an impressive number of trade and commercial agreements between nations that are unprecedented and historic and range from bilateral to global and create compacts between nations that provide a needed framework for the global economy. More and more countries have come to realize that opening their economies to the rest of the world is a likely gateway to future prosperity. In the global economy of today, a design change of a cell phone initiated in Seoul, Korea, may affect jobs for workers at Motorola in Austin or Chicago. And the fact that General Motors cars are more popular in China than in the United States may determine the fate of the largest car company in the world. The comparative advantage of nations is on display as a part of this global order. The addition, elimination, and shifting of jobs as countries compete can have a dramatic impact on individuals, families, and, in some cases, entire towns.

The new order is resulting in the forming of alliances at a rate never before seen. The emergence of the European Union, after centuries of blood-letting, as a unified political and economic force is a vivid example of such an arrangement. But other such unions are no less visible, such as the North American Free Trade Agreement (NAFTA) connecting the economic superpower United States with its neighbors Canada and Mexico. There are many such arrangements either in the works or already functioning in regions such as Latin America and South America as well as Southeast Asia, South Asia, and the Pacific.

As the world grapples with issues such as global warming, safeguarding the environment, and reducing poverty, there is more political and economic pressure to cooperate. The shrinking of the world is likely to continue as nations recognize the truth—that a world composed of a few economic superpowers is not very likely and that many of the colossal problems the world will face will have solutions only when nations engage. This book takes this theme and looks at the world for the next two to five decades and examines the opportunities that may become available to investors. It is our opinion that the six countries of Brazil, Russia, India, China, Korea,

and Mexico, which are currently thought of as emerging countries, are likely to play a prominent part in the future world order, along with the United States, Japan, Europe, and Canada.

The ascendance of these six countries in the next decade or so is likely to provide investment opportunities that were not available to investors of U.S. stocks or European stocks a century ago. The book has been organized into six country sections to give readers more than a casual look into the historical as well as political background of the country, and then explain both the current and future economic potential as well as investment opportunities.

For those investors ready to take the next step, the appendices provide some additional tools to identify investment opportunities, from exchange-traded funds and other mutual funds to American Depositary Receipts (ADRs) listed on the U.S. exchange.

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Introduction

The world is on the threshold of a change, a change that is remarkable and silent, revolutionary and yet shrouded in mystery. There are no roaring throngs in the streets, but nonetheless this change will alter nations and affect millions of people around the world. It is a change that will be felt from the cornfields of the American Midwest to the crowded streets of Seoul, from the sunny beaches in the south of France to the frozen Siberian tundra. It is a change that will shift the center of gravity from the financial capitals of New York, London, and Tokyo to places such as Beijing, Mumbai, and São Paulo.

So, what is this change? It is a shift in the balance of power that will displace the cozy relationships among the current advanced nations and help create entirely new economic powers out of countries currently on the fringe or near fringe. The major beneficiaries of such a shift are likely to be what we refer to as the “six sizzling markets” or “BRIC+2” countries. The term *BRIC* (referring to Brazil, Russia, India, and China) was coined by the investment firm Goldman Sachs in an original study in 2003. The authors predicted that within several decades, these four countries would come into political and economic prominence as the eventual home to a large portion of the world’s population and wealth. We argue that there is sufficient evidence to include Mexico and South Korea, both countries that are poised on the brink of a new economic order. Mexico and Korea will be strategic players in the global trade game, in large part due to the geographical and political significance in relation to the United States.

Brazil, Russia, India, China, Korea, and Mexico are poised to dominate the world economy. These six countries will become a great source of opportunity for their own populations as well as pivotal players in the global economy for generations to come. Investors have already warmed to the idea of international investing, as evidenced by the billions of dollars flowing into foreign markets annually. *Six Sizzling Markets* provides a basis for investing in the BRIC+2 markets by giving a brief historical background and then describing the current political and economic backdrop in each country. This book will guide potential investors into a world of heretofore unknown investment opportunities.

Investment opportunities in developing markets are neither well known nor well understood by most investors. Many people look at developing and emerging markets with a great deal of suspicion. After all, the returns of these markets have proven to be far from stable. These markets have generated high double-digit and even triple-digit gains in the past, creating excitement among investors, to be followed by subpar or negative returns for years. Our goal is to explore the remarkable opportunities that exist in the six selected countries. Understanding these countries and their markets will help readers take advantage of unparalleled investment opportunities for coming decades. With such opportunities, of course, also come difficulties and challenges. It is our aim to help the investor balance the risk inherent in investing in developing nations by providing effective strategies that will help mitigate risk.

Eight Tenets of Change

We have identified eight major forces causing this dramatic shift in the world's economic and political balance of power. These forces, which we call "tenets of change," are the prime movers of a phenomenon that we believe will help revolutionize the current world order and help investors reap substantial financial profits.

We believe that these eight tenets of change will disproportionately favor some aspect of these countries' markets and will likely create extraordinarily profitable opportunities for investors. Thus, in order to understand how you can profit from investing in one of these six sizzling markets, I will first define and explain these "tenets of change" so that you may have a better understanding of why they will play a critical role in the growth opportunities presented by these BRIC+2 countries.

Tenet One: Demographics

Large numbers of young people yearning to improve their lot in life is a timeless story, from the time of early industrialization to the postwar Baby Boomers. The difference today is the shift in locale. Not unlike the British, Portuguese, and Spanish colonists of the past, countries with burgeoning young populations are poised to take a big slice out of the world's resources, and in the process create exceptional opportunities not only for their own populations but for people around the globe.

The world has never witnessed such an explosion of concentrated populations. There are over 2.3 billion people currently living in China and India, which accounts for a full 43 percent of the world's population. This population explosion in developing and emerging countries is happening

as the populations of current advanced nations such as the United States, Europe, and Japan are graying.

Is the East going to become the new West? Is the southern hemisphere going to become the new north? Will the world become unipolar, a nondirectional entity where the colossal Asian nations of China and India will rule alongside select southern nations such as Brazil and Mexico? The populations of these newly emerging countries are young, hungry, and enthusiastic. Half of the population of India, for example, is under age 25. This is a far cry from the United States, where the median age is 36, the highest it has ever been. Russia is an aging nation as well, while Korea and China's populations are younger. Mexico and Brazil are almost as young as India, with median ages of 25 and 28, respectively.

Tenet Two: Economic Performance

It goes without saying that the economic performance of a country is a tenet that substantially impacts a country; however, the way in which investors should measure a country's economic performance has often been unclear. As such, in this book, we consider economic performance to be primarily measured by four different factors: the growth of the middle class, the gross domestic product (GDP), the shift from agriculture, and urbanization.

A large and stable middle class is one of the characteristics of a developed nation with an advanced economy. A growing middle class is good news for investors for another reason—it signifies politically and socially stable societies and better standards of living.

The developing nations' population growth, combined with rising levels of disposable income, is likely to create the largest middle class in the history of the world. For example, India's middle class already accounts for nearly a quarter of its billion-plus population, while the McKinsey Global Institute estimates that by the year 2025, Chinese middle-class households will be the largest consumer market in the world (www.mckinsey.com/mgi/reports/pdfs/china_consumer/MGI_china_consumer_chapter_2.pdf).

Moreover, it is projected that within the next 10 years, as Brazil, Russia, India, and China become developed nations, these four countries will create a middle class equal to 800 million consumers. This number is greater than the entire population of the United States, Western Europe, and Japan today combined. This new influx of disposable income will create an increase in demand for consumer goods that will benefit all producing nations in the world. These future consumers will drive the growth not only in their own economies, but will also be the engine that propels growth in the current advanced nations. It is estimated that spending power in emerging markets will jump from \$4 trillion in 2007 to \$10 trillion by 2025. Therefore, a major consequence of this growing middle class is the push toward urbanization