

MIST Countries: the new emerging markets

As far as new emerging economies are concerned, the first name that today comes to our mind is MIST. MIST is an acronym coined by Jim O'Neill from the Goldman Sachs, that refers to the large and surprisingly growing economies of Mexico, Indonesia, South Korea and Turkey.

The relevance of these countries is underlined by many relevant economic operators who strongly considers them as the new BRIC (acronym that stands for Brazil, Russia, India and China): in fact, in the last twelve months the MIST's stock markets widely beat the BRIC's, the related investment demand have hugely grown and now the above mentioned nations are expected from the principal economic indicators to represent a very interesting investment, especially over the next 20-30 years.

What makes these countries so attractive and tempting for the foreign investments today is their common points of excellence. First of all the MIST's are members of the G-20 group and have been favorably considered in the last N-11 Equity Found as the four major next emerging markets. Also thanks to their good strategic geographical positions they would make easy to enter some important markets such U.S. or Europe ones and are powered by a growing young population and an emerging middle class with solid consumption levels. In addition their purchasing power is quickly growing and balanced by a relatively well-controlled inflation and a constantly stable economic growth.

Comparisons are easily done: are MIST countries are able to face the BRICs? In this view it must to be said that at the present time MIST countries are not capturing the same attention that the BRICs did when being coined back in 2001; this probably it is due to the fact that MISTs are not, generally speaking, expected to become great economic powers. On the other hand many economists believe that MIST countries have got what it takes to close the gap: among others, MIST's markets have an high degree of openness in the view of a new economic era and overall MIST countries provide more favorable business environments thanks to their current sustainable economic prosperity. Secondly, even if the MISTs are growing fast, they still don't approach the BRICs in economic

output or population (it is compulsory to consider that only BRIC's China is the most populated country in the world); indeed, MIST's long-term growth rate will surpass most of the current largest economies, in this way the chances are that they will closely approach the BRICs and will gain economic power also in view to the fact that developed countries are facing problems such as the debt crisis, the recession and the unemployment threats, so that MIST countries will become for sure a real complementary investment option. As a result, the strategy for investments is paying off, and trusting these emerging countries.

Now, turn to introduce every country belonging to MIST's (common in some fields and heterogeneous in others), in order to better understand why economists strongly believe in their growth.

Mexico is of course one of the most surprising country in this period because while facing the political instability is being at the same time able to carry its growth out. It is widely known that conducting business in Mexico could be a challenge because of the rates of corruption and organized crime, but beyond this it has to be taken into consideration that the manufacturing sector is becoming more competitive thanks to the low labor cost (even if the labor market is still quite rigid) and the dynamic and young population living in the country. Do not forget Mexico can boast to be the world's 11th largest economy, and the inflation is normal and stable at the moment. Mexican stock exchange (increased of the 18,8% in the last year) suggests investing in the media and telecommunications markets but also the retail industry, the energy and the chemical sectors, travel and tourism are the points that offers more opportunities.

Everybody knows Indonesia is the world's bigger archipelago, with a richness in natural resources such as petroleum, natural gas, bauxite and many others that makes it a rising star in the economy market. This endowment of natural resources and its geographic position leads Indonesia to be a key market for the consumption and production, and it is confirmed by the attention that global investment banks is turning to the country, since in the last year Indonesia has registered strong economic growth with the increase of the 6,4% in GDP. In addition, thanks both to the ASEAN Economic Integration (AEC) and to its natural and human resources (Indonesia boasts a population of 250 million), the country will become for sure in 2015 one of the most important regional mega market. While having plenty of economic positives, also Indonesia has to face corruption struggle and a too complex regulatory environment that both inevitably influence business conduction in negative: in fact, starting a business or dealing with construction permits and registering property is

consider to be much harder than in the others MIST countries, and for this reason the investors are still hesitant in betting on this country. Anyway, apart from the natural resources, the field of energy and the retail industry are considered points of excellence.

Three words seem sufficient to describe South Korea: the new Japan – or, if we prefer using O'Neill's words it is “the model for everybody to aspire to”. The country is of course the one which increases the growth's average of the MIST's, their economic powerhouse, firstly due to the fact that it seems incorrect to define it as an “emerging country” because of its high industrialization (e.g. the presence of industries of multinational corporations such as Samsung). Moreover the retail market, due to its in depth manufacturing knowledge, is expected to grow significantly, consider that the luxury goods market alone is showing a 12% annual growth every year since 2006, and also the medical services and the huge investments in renewable energy are helping to this amazing growth. The governmental long-term support in foreign direct investment, helps the country to remain a well-developed centre for international business operation, being a strategic point of reference for the U.S. and European business, even if the political stability is still unknown. But unfortunately all that glitters is not gold since South Korea has to face to a rapidly aging population (the 11.4% of the population are over 65) so it lacks the youth that is the power of the other MISTs, and also the labor market is fairly inflexible: actually, it must be said that the unemployment is the lowest in the G-20 (only 3.3%) but the strict regulation in the field could make really challengeable starting a business in the country. Last but not least, is overall strongly recommended buying stocks in South Korea as the country will benefit from rising exports thanks to its powerful industries.

What the last “T” stands for is Turkey. This country's location gives it the possibility of being the bridge between Europe and Asia, that of course influences its political and economical ambitions: first of all the application to join the EU seems arrived to an acceptance and of course a future admission will help the economy of the country. But there is much more to say about the Turkey, in fact the GDP growth is stated to be above the 8%, ahead of most emerging market, including the BRICs (with the exception of the Russia). As well, the tourism industry is quickly growing and the government's investments in the tourism promotion expect to double it by 2023, reflecting at the same time positive effects to the retail and hospitality industries too; also the field of energy is robust since the government is incentivizing renewable energy projects. In terms of manpower, Turkey has a population of 75 million people, the majority are young and one key factor is the unemployment's rate that is under the 11%: but, on the other hand, labor cost are excessive and it

could affect the intention of doing business of the foreign investors as well as a long history of high inflation rates.

This brief overview of the MIST countries leads us to quickly analyze the relationships between the MIST's and the other Continents: as said above, Mexico's proximity to the US market as a link between Central and South America markets and its Hispanic culture too, these all prompt the investors and multinational corporations to choose Mexico as investment location, and the same argument is for Turkey that, after the liberalization of the trade terms with USA and Europe, will be a point of reference for the global market. Indeed South Korea, with its own aging and labor regulation problems, maintains its importance thanks to the high level of exportation, that makes the country one of the top ten exporters in the world and additionally will soon meet the European demand for commodities exports due to the new government's plan meant to build railways, airports and seaports to bind the islands of the Southeast Asia closer together. Finally, as far as Indonesia (but broadly speaking, all the MIST countries) is concerned, Australia may be the most significant partner for the MISTs, especially due to the long history of political, trade and social relationships between the two countries; moreover also South Korea has strong impact on Australian investments, being the third largest export market for Australia (this connection hopefully will also influence the political relationship between Australia and North Korea).

To sum up and giving all above, at this stage it is still difficult to state if MIST countries will be as successful as BRIC countries are, or if they even will surpass their growth in the future. It is undeniable that the MISTs have a great potential especially in the long-term economic growth but by the same token is important to calibrate expectations as MIST countries are still emerging and maintaining several significant differences between each other, they show very good new energy but, at the present time, fewer financial credentials. Time will tell if this long-term economy prediction is right or not, of course it mostly depends on the investors planning for market entry and expansion.

Attorney Paolo Zagami and Ms. Valeria Bicchi