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Who is following the BRICs?

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Introduction

The term BRIC was coined by Goldman Sachs over a decade ago to show the great economic potential of Brazil, Russia, India, and China. It has become the most influential term symbolising the shift in global economic power to emerging markets. It has also become widely used in investment, in particular referring to emerging market bonds.

As the prediction that the BRIC countries would become global economic powers is becoming realised, much recent debate has centred on which countries will become the next BRICs.

This article examines the debate and evaluates what the impact will be for policy, economies, and investment.

Rival groups

The main candidate groups put forward as the most promising emerging markets are shown in Table 1.

The first five groups focus on countries which, to varying degrees, have large and growing markets and populations, natural resources, industrial strength, stability, sophisticated financial systems, openness to trade and investment, and high quality education.

The EAGLES (Emerging and Growth-Leading Economies) takes a different approach, focusing on countries which will contribute the most to world GDP growth in the next 10 years.

Table 1: Next BRICs: The contenders

Group	Countries	Author	Year
BRICs	Brazil, Russia, India, China	Jim O'Neill / Goldman Sachs	2001
Next 11	Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, Vietnam	Jim O'Neill / Goldman Sachs	2005
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey, South Korea	Robert Ward / Economist Intelligence Unit	2009
MAVINS	Mexico, Australia, Vietnam, Indonesia, Nigeria, South Africa	Bloomberg	2010
MIKT	Mexico, Indonesia, Korea, Turkey	Jim O'Neill / Goldman Sachs	2011
EAGLES	China, India, Brazil, Indonesia, Korea, Russia, Mexico, Egypt, Taiwan, Turkey	BBVA Research	2011

Why finding the next BRICs is important?

The BRIC economies are all in the top 10 largest economies in the world and are expected to be among the top 6 largest economies in the world by 2030. They are leading economic powers in an increasingly multi-polar global economy.

As the analysis in this article will demonstrate, in the next decade no other country will transform the global economic map like the BRICs. So, therefore, why is it important to identify the next group? The reason is because for policy makers, companies, and financial markets it essential to know:

- Which countries are likely to become of global economic importance and will play a major role in the international political economy?
- Which countries will become major markets for goods and services, offering new trade and investment opportunities?
- Which countries will experience rapid economic growth and, through the increase in corporate earnings potential, offer strong stock market opportunities?

Methodology to find the next BRICs

To answer the above three questions we applied the following methodology:

- Countries of global economic importance: GDP of $1 trillion+ by 2020
- Counties becoming major markets: Increase in absolute GDP, population, and income by 2020
- Countries with stock market opportunities: GDP growth to 2020 and market liquidity

The year 2020 was used for the forecasts so that they have some degree of accuracy. Any longer time period involves a very high level of speculation and uncertainty and is typically beyond the timeframes used either by corporations or the markets in allocating investment.

We include all the countries in BRIC-type groups put forward in Table 1. We also include Argentina, Poland, Thailand, and Ukraine as each country has around 40 million+ population with the potential for economic growth. Saudi Arabia is also included due to its large economy. This creates a list of 20 candidate countries to join the next group after the BRICs.

Other countries with a large population (Ethiopia, DRC, Myanmar, Tanzania, and Kenya) were not included as their economies are too small to have a significant global economic impact by 2020.

For comparison, we also include in our analysis the USA, Japan, Germany, and France which are the four largest developed country economies and all members of the G7.

Global economic importance

Table 2 shows the estimated size of economy of the 20 candidate countries, the BRICs, and the four largest developed economies in 2011 with forecasts for 2020.

Already, in 2011, Australia, South Korea, and Mexico had GDP's of over $1 trillion, and can be considered countries of global economic importance. Indonesia and Turkey will be the only two countries joining the elite group of $1 trillion+ economies by 2020.

However, the absolute gap between the BRICs and Australia, South Korea, Mexico, Indonesia, and Turkey will continue to grow – none of the 20 candidate countries will become BRIC economies.

In terms of global rankings, India and Brazil will overtake France in economic importance by 2020 – with Germany in their sights – and Russia will not be far behind France.

Other countries will put in impressive growth performances, but will be far off from becoming $1 trillion economies, with the exception of Saudi Arabia who is likely to become a $1 trillion economy in 2025.

Table 2: Size of economy, 2011 and 2020

Country	GDP 2011 $ trillion	GDP 2020 $ trillion
USA	15.17	18.49
China	6.99	13.07
Japan	5.87	6.34
Germany	3.74	4.19
India	1.95	3.71
Brazil	2.41	3.53
France	2.92	3.29
Russia	2.00	2.79
Australia	1.51	1.97
South Korea	1.16	1.60
Mexico	1.19	1.60
Indonesia	0.83	1.41
Turkey	0.76	1.12
Saudi Arabia	0.56	0.86
Poland	0.53	0.70
Taiwan	0.51	0.69
Iran	0.48	0.61
Argentina	0.44	0.59
South Africa	0.42	0.55
Thailand	0.34	0.51
Colombia	0.32	0.47
Nigeria	0.25	0.41
Egypt	0.23	0.37
Philippines	0.22	0.34
Pakistan	0.20	0.31
Ukraine	0.16	0.22
Vietnam	0.12	0.20
Bangladesh	0.12	0.20

Source: Authors estimates based on CIA World Factbook and Economist Intelligence Unit

Major consumer markets

Table 3 shows the absolute increase in GDP and population from 2012 to 2020. Looking first at the BRIC contenders, we can see that Indonesia, Australia, South Korea, Mexico and Turkey are expected to contribute the most to world economic growth – the same countries which be $1 trillion countries by 2020 or before.

Indonesia will contribute more to world growth than Japan, Germany, or France, fuelled by a 20 million+ increase in population. Australia will contribute more to world growth than Germany, with Australia 60% more wealthy than Germany by 2020. South Korea and Mexico will contribute more to growth than France, with strong population growth of over 10 million in Mexico and a near doubling of per capita income in South Korea. Turkey's contribution is based on both strong population and income growth. The BRIC economies, however, will be the main drivers of global economic growth. China will account for nearly one-third more of world growth than the US, Germany, Japan, and France combined. The BRIC economies will contribute nearly $10 trillion to world economic growth from 2012-2020.

Table 3: Contribution to global economic, population, and income growth, 2012-2020

Country	Increase in GDP ($ billion)	Increase in population	Increase in GDP per head ($)
China	6082	62.2	11190
USA	3318	22.9	18310
India	1756	161.1	2810
Brazil	1126	13.4	10220
Russia	796	-3.1	14350
Indonesia	575	21.2	5030
Japan	473	-5.0	5670
Australia	467	3.1	20520
Germany	448	0.2	7890
South Korea	441	0.5	18140
Mexico	411	11.0	5905
France	376	2.6	9010
Turkey	352	5.7	9150
Saudi Arabia	296	9.0	5490
Taiwan	188	0.4	14700
Thailand	173	2.8	5380
Poland	170	-0.6	10760
Nigeria	164	24.0	1110
Argentina	154	3.2	6530
Colombia	145	5.2	6470
Egypt	136	14.0	4330
South Africa	133	-0.5	2650
Iran	125	7.6	9850
Philippines	124	15.5	2150
Pakistan	103	34.3	1500
Bangladesh	82	21.9	661
Vietnam	81	7.6	1520
Ukraine	61	-2.2	5960

Source: Author's estimates based on: http://en.wikipedia.org/wiki/List_of_countries_by_population, CIA World Factbook, and Economist Intelligence Unit

Stock market opportunities

Stock market performance is driven by many factors. Macroeconomic policy and regulatory and institutional factors have a major influence on the functioning of stock markets, such as policy certainty on interest and exchange rates, shareholder protection, and entry and exit restrictions. Many emerging market companies cross-list on international exchanges, reducing financial activity in the home market.

Taking into consideration all the factors which influence stock markets, there is a link between economic growth and stock market performance. The stock price is the discounted present value of the firm's payout, and the payout should be positively related to economic growth.

Table 4 shows the forecast increase in the size of economy for each country. It also shows the ratio of stock market capitalisation to GDP as an indicator of how liquid the stock market it. The higher the ratio, the stronger the link we would expect between economic growth and stock prices.

India and China are forecast to lead economic growth. Both countries have stock market capitalisation relative to GDP around the OECD average of 90%, and therefore we might expect the rapid economic growth to be linked to stock market performance.

Table 4: Economic growth and stock market capitalization

Country	Increase in size of the economy 2012-2020	Stock market capitalisation as % GDP 2010
India	90%	94
China	87%	81
Bangladesh	71%	47
Indonesia	69%	51
Vietnam	67%	20
Nigeria	66%	26
Egypt	59%	38
Philippines	58%	79
Saudi Arabia	53%	81
Thailand	51%	87
Pakistan	51%	22
Brazil	47%	74
Turkey	46%	42
Colombia	45%	72
Russia	40%	67
South Korea	38%	107
Ukraine	37%	29
Taiwan	37%	175
Argentina	35%	17
Mexico	35%	44
Poland	32%	41
South Africa	31%	278
Australia	31%	136
Iran	26%	19
USA	22%	118
France	13%	75
Germany	12%	43
Japan	8%	75

Source: Authors estimates based on CIA World Factbook, Economist Intelligence Unit, and World Bank

The other top performing countries, with the exception of Indonesia, are mainly Least Developed Countries including Bangladesh, Vietnam, Egypt, and Pakistan. Each will achieve economic growth of over 50% by 2020. Most of these countries have underdeveloped stock markets. Out of the 15 fastest growing economies only India's stock market exceeds OECD levels of size relative to GDP. The link between economic growth and stock market performance in the fastest growing economies may therefore be weak, unless other factors change to improve the functioning of the stock market.

Implications for who's after the BRICs?

Our analysis has re-confirmed the importance of the BRIC group in terms of their global economic importance, major consumer markets, and growth potential. No other countries will be close to joining this group by 2020. Contributing nearly $10 trillion to the world economy from 2012-2020, the BRIC economies will be the drivers of world growth. Our analysis also demonstrates that Russia should remain part of this group, as it continues to close the gap with the largest developed economies and with its contribution to world growth above that of every other country bar US and the other BRICs.

In terms of the next group of leading countries, Australia, Indonesia, Mexico, South Korea, and Turkey comprise a group of high performance countries. They are the only emerging countries with $1 trillion+ GDP by 2020 (Australia's nearly $2 trillion). The contribution of each of these countries to world economic growth will be at or above that of Germany and France. Australia and South Korea will see a level of wealth creation unsurpassed by any other country, with huge growth in per capita income. In this respect, they can be considered emerging markets despite both being advanced economies. Indonesia's and Mexico's performance is underpinned more by population growth, while Turkey performance is based on both strong population and income growth.

As none of the current acronyms being suggested capture this group of countries, we suggest that IMAST (Indonesia, Mexico, Australia, South Korea, and Turkey) is used to reflect this group of emerging markets.

Implications for policy and economics

The BRIC economies will become more influential in the world economy. We expect them to dominate growth in trade and investment. They will increasingly be able to insist on more influence in international institutions governing the world economy. The rest of world will become more dependent on the BRICs for their economic growth. The US will still be extremely important, and the only economic superpower (still over twice the economic size of China), but the growth opportunities will be far high in the BRICs. The IMAST countries will all be $1-2 trillion economies by 2020, and will command a much more important position in the world economy as they rapidly catch up with the largest developed economies.

Implications for investment

The BRIC economies will be highly attractive for foreign direct investment, both greenfield and M&A. With rapid economic growth, we also expect their domestic companies to accelerate FDI overseas. With FDI closely correlated to economic growth, India and China in particular are likely to see the fastest increase in overseas FDI out of every major economy.

The IMAST countries will also become much more important players in trade and investment – and in particular we expect a strong growth in inward FDI to all of these countries, although for South Korea we expect outward FDI to accelerate much more rapidly. As other countries will be achieving faster economic growth than the IMAST countries – albeit from much lower levels - FDI in countries like Bangladesh, Vietnam, Nigeria, and Egypt is expected to increase rapidly.

The impact of economic growth in the BRIC, IMAST, and other emerging markets on stock market performance is likely to vary considerably depending on regulatory and institutional factors and current liquidity of the stock markets. The fundamentals for stock market investment appear strongest in India, China, Australia, USA, South Africa, Taiwan, South Korea, Thailand, Saudi Arabia, and Philippines, although much depends on progress made with regulatory and institutional reform.