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The world's 'New Tigers' lie ready to pounce

These nations have the potential to reshape the global economy

By Myra P. Saefong, MarketWatch

"Turkey has the potential to be the economic super power of the region," says one expert. Above, Istanbul.

SAN FRANCISCO (MarketWatch) — As the big headliners for economic growth lose their appeal, the search for new stars has begun.

The "New Tigers" of the world are nations that have flown below investors' radar, but are most likely to stand out in the years ahead as economic powerhouses such as the U.S., Japan, Germany, France, the U.K., Italy and Canada give up the spotlight to countries experiencing stronger growth.

Poland and Turkey in Europe, Peru and Colombia in Latin America, the Philippines and Indonesia in Asia, and Ghana in Africa, among others, have the potential to draw attention away from their better-known regional peers, defy the global slowdown, pique investor interest and reshape the global economy.

"An economic tiger should have a pattern of growth that is more than just a quarter or two," said Karim Rahemtulla, emerging markets/options director

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The New Tigers of the world have the potential to steal the spotlight from their regional peers, defy the slowdown and reshape the global economy.

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Turkey and Poland dazzled observers with their economic performance following the global credit crunch, but remain vulnerable to euro-zone crisis.

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at Wall Street Daily. “It has to be growing due to some type of competitive advantage that is afforded by its population, either through education or skilled or unskilled labor.”

Also, the political system must “recognize the need for growth and encourage it through looser monetary policy and with incentives for foreign direct investment, while at the same time moving to a system of legal protection for investors’ capital,” said Rahemtulla.

The world has already seen much of these strengths in Brazil, Russia, India and China, also known as the BRICs, which have taken center stage in recent years. Growth there remains strong, but they’re no longer seeing the spectacular expansions investors have come to expect.

The growth available in the BRICs is far from over, and “years and years of growth are left as the countries modernize, increase efficiency and continue to expand their middle classes,” said Bill Kornitzer, a portfolio manager of the Buffalo International Fund.

But the “avenues of growth will change as these economies mature and I believe we are already witnessing this as China moves from an economy focused on cheap exports to one focused more inward toward a rising consumer class,” he said.

Against this backdrop, “some other smaller ‘emerging’ or ‘growth’ economies are becoming increasingly important,” said Gene Huang, FedEx chief economist. “These countries may not have the size of the BRICs, but they play a significant role in the global supply chain.”

Europe

Poland and Turkey have managed to distance themselves from Europe’s continuing debt crisis.

“Turkey has the potential to be the economic super power of the region,” said Rahemtulla.

“The engine of growth is the country’s position as a trading hub,” he said, pointing out that it “stands at the crossroads of several important energy markets” as it borders Iran, Iraq and Azerbaijan, and has access to the Mediterranean Sea and the Black Sea.

“International corporations increasingly prefer to use Turkey as a regional export hub because of [its] political stability and large domestic market,” said Martina Bozadzhieva, practice leader for Central and Eastern Europe at Frontier Strategy Group.

It is the 17th most populous nation and its population is young, with only 6.3% of about 75 million people aged 65 or older, according to the U.S. Central Intelligence Agency.

“It has a great location, next to affluent Europe and a booming Middle East,” and with a large population and competitive wages, it’s become “the region’s workshop,” said Ravi Ramamurti, director of the Center for Emerging Markets at Northeastern University.

“Turkey is to Europe what Mexico has been to the U.S.,” he said.

Poland’s economy, meanwhile, is not over-reliant on exports, is supported by a large domestic market, and was the only European economy to avoid recession in 2008-2009.

Some of the leading sectors in Poland include consumer goods, auto manufacturing and energy, Bozadzhieva said. Success in shale gas production is likely to be a "game-changer" for the economy, lowering energy prices and local production costs, attracting foreign investment in local manufacturing and supporting high growth in the consumer sector.

ETFs focused on Poland include the iShares MSCI Poland Investable Market Index Fund (NAR:EPOL) and the Market Vectors Poland ETF (NAR:PLND) , while the iShares MSCI Turkey Investable Market Index Fund (NAR:TUR) provides exposure to Turkey.

Latin America

In Latin America, Brazil is the largest economy in the region, but Peru and Colombia may not be far behind.

Open market policies, along with political stability, young populations and competitive advantages in certain industries have helped Peru and Colombia become "two of the strongest emerging economies" in the region, said Alex Ashby, analyst at ETF provider Global X Funds.

Peru boasts the world's second-largest copper and silver production, and it's a major producer of gold.

"Peru is an upper middle class economy with abundant supplies of copper, gold and silver," and copper production will likely drive growth over the coming years, said Dawn Bennett, chief executive of Bennett Group Financial Services LLC.

Still, with 60% of exports in the materials sectors, Peru's market is quite cyclical and commodity prices could be very volatile, said Alan Ayres, emerging market equity product manager at Schroders, which has neutral ratings on Peru and Colombia.

For investors, it's important to note that many companies that trade on the U.S. stock exchange have major operations in Peru, and those include Creditcorp Ltd. (NYSE:BAP) and Southern Copper Corp. (NYSE:SCCO) . There's also an exchange-traded fund called the iShares MSCI All Peru Capped Index Fund (NAR:EPU) .

"In Colombia, household earnings are growing faster than the regional average," Frontier Strategy Group analysts said in a recent report. It has "vigorous" export growth, an uptick in oil and gas production, an impressive investment in infrastructure, disciplined economic policy-making and a stable security environment after years of violence.

Bennett, who is also president and manager of the Bennett Group of Funds, pointed out that Colombia is a "rarity" in Latin America.

"It has not only received an investment grade rating from S&P, Moody's and Fitch, but also is the only Latin American country to never default on an external debt commitment," she said.

Colombia's mining and petroleum sectors will also outperform with half of foreign direct investment going directly into these sectors, she said.

Among the ETFs that focus on Colombia is the Global X FTSE Colombia 20 ETF (NAR:GXG) .

Still, FSG analysts warned that "deficiencies in ground transportation infrastructure present supply bottlenecks and other significant obstacles, contract enforcement is difficult [and] … corruption remains pervasive, especially at the state and municipal levels."

Asia

Population is an obvious strong point for Asia, and Indonesia and the Philippines have huge ones.

"Large and young demographics generally help a country's growth," said Taizo Ishida, lead manager of the Matthew Asia Growth Fund (MFD:MPACX) . Those two nations have close to 10% of Asia's population, or 25% excluding China and India, so "consumer discretionary/staple and service industries, including financial services, are industries poised to benefit."

The Philippines has a bit of an advantage in the region.

It's had a "tremendous investment and collaboration with U.S. interests since its independence," said Usha Haley, chaired professor of international business at Massey University in Auckland, New Zealand. Its involvement has kept its economy going despite "ineffectual and corrupt governments over the years."

There has also been quite a bit of progress in terms of the war on corruption, in infrastructure, and fiscal consolidation — all of which should boost the country's growth potential in the coming years, said Adam Jarczyk, associate practice leader, Asia Pacific, at Frontier Strategy Group.

And among the sectors with significant potential is information technology and business process outsourcing (IT-BPO), he said.

"The Philippines has overtaken India as the world's largest provider of call-center services by revenue, buoyed by the rapid rise of the country's IT-BPO industry," which expanded last year at a rate of 24% year on year, he said, with the country's success largely attributed to its English language standard.

Meanwhile, consumption has been key to growth in Indonesia, the fourth most populous nation.

"Domestic consumption has seen rapid growth in the last few years, driven by the rising income of the average Indonesian," said Shijie Chen, director of Asia Pacific research at Frontier Strategy Group, and its economy is much less dependent on external factors than other South East Asian countries.

Investors wanting to gain exposure to Asia can look to multinational companies that are setting up or have set up a presence in the area, said Robert Fuest, chief operating officer and head of investment research at Landor & Fuest Capital Managers LLC, adding that some of those include DuPont (NYSE:DD) , Dow Chemical Co. (NYSE:DOW) and Veolia Environment (NYSE:VE) .

"These companies can offer investors a way to reap some of the rewards while at the same time having diversification from a geographical and sector perspective," he said.

Among the mutual funds that focus on the Philippines are balanced funds such as the ALFM Growth Fund and stock funds such as the Philam Strategic Growth Fund. For Indonesia, there's the Market Vectors Indonesia Index ETF (NAR:IDX) .

Africa

Opportunities in Africa aren't quite as transparent and there are more risks involved with that region.

Most African nations that do have stock exchanges have ones that are not large or liquid enough — or easy enough to trade in for the majority of investors, said Rahemtulla.

But there is "tremendous opportunity" in the natural resource sector, local tourism and construction, he said.

"Ghana's rapidly expanding economy is fueled by increasing revenue from high commodity prices for cocoa, gold and … oil," said Matt Spivack, practice leader for Middle East and Africa at Frontier Strategy Group.

And "with oil production expected to increase every year through at least 2015 at the Jubilee oil field, the nation's government will have the revenue to continue infrastructure upgrades that raise Ghanaians' standard of living and attract foreign investment," he said.

Earlier in May, a senior energy official told Reuters that the government plans to raise its oil revenues to $650 million in 2012, from $350 million last year.

Still, "it has yet to be seen if oil-related revenue is spent wisely," said Paul Herber, portfolio manager of the Forward Frontier Strategy Fund (MFD:FRONX) (MFD:FRNMX) . Another issue is that its population is small, so it's tough for Ghana's economy to have a broad impact on the region.

Analysts also see potential and risks in Uganda.

Development of Uganda's oil infrastructure is expected to attract more than $10 billion in the next two years — "a scenario that promises to accelerate Uganda's overall growth prospects as well as its fiscal position," said Anna Rosenberg, senior analyst of Africa for Frontier Strategy Group.

At the same time, the country's main driver of foreign direct investment is increased trade coming from regional integration within the East African community, she said. "The knock-on effect of increased trade is infrastructure projects in road, rail and port development that will benefit the region and investors in the long term."

That development in transportation and infrastructure will help offset disadvantages involved with being a landlocked country, said Robert Scharar, president of wealth management firm FCA Corp, though being landlocked also means that it shares borders with five other African countries.

Other nations in Africa represent good opportunities and another aspect to look at would be political stability.

In the analysis of growth potential, political leadership is a factor that has been overlooked, said Scharar.

"Both Senegal and Malawi have experienced recent 'peaceful' changes in government to leaders who are truly part of the new generation of leadership and thus may experience additional growth," he said.

In terms of investing, there's the Nile Pan Africa Fund (MFD:NAFAX) , a "'pure play' fund that exclusively focuses on investing on the Africa continent," said Larry Seruma, who's a portfolio manager for the fund. ■