Special Report: business potential in future 7 economies

Euromonitor International has identified the Future 7 (F7) – Argentina, Egypt, Indonesia, Mexico, South Africa, Turkey and Vietnam – as the world's next big emerging markets that offer long-term investment potential. These economies provide numerous opportunities for businesses across sectors. However, their business and regulatory environments are showing mixed progress in reform and challenges in the form of corruption, skills shortages, high crime rates and large informal economies remain.

Key Points

- Business environments in F7 economies present numerous opportunities for investment owing to their resilience towards the global economic crisis of 2008-2009, affluent and urbanising populations, strong integration into global markets and a firm commitment from their governments towards liberalisation. Together, these factors make F7 economies an attractive investment opportunity for domestic and international businesses;

- F7 economies are focussing on strengthening their institutional and regulatory reforms. There is, however, significant diversity among the countries. According to the World Bank's Doing Business 2012 report, South Africa ranked the highest out of the F7 economies in the Ease of Doing Business 2012 at 35 out of 183 economies, while Indonesia ranked the lowest at 129 out of 183 countries;

- South Africa has significant market potential as it benefits from a strong business environment where regulations support foreign investment and the simple tax system is conducive for business. On the other hand, Indonesia's business environment suffers from rigid labour laws along with widespread corruption that are impacting the economy's competitiveness;

- Vietnam witnessed the largest drop in the Ease of Doing Business 2012 ranking compared to the previous year within F7 economies, falling by eight positions and ranking 98 out of 183 economies. The country's affluent population and high literacy rate make it a strong candidate to attract outsourcing jobs from China, but its communist state and high corruption are an impediment to the business environment;

- F7 economies are underexplored and their investor interest is expected to rise over the coming decade. By 2020, 1-in-10 of the world's consumers will belong to the F7 population. In addition, rising disposable incomes and a strong middle class presence in these economies will transform consumer markets and offer exciting opportunities for marketers of consumer goods and services.

Diversity in business environments within F7 economies

- According to the World Bank's Doing Business 2012 report, F7 economies showed significant diversity in their Ease of Doing Business 2012 rankings. With a rank of 35 out of 183 countries, South Africa had the highest ranking amongst F7 economies followed by Mexico (53), and Turkey (71). South Africa benefits from a strong business environment where regulations support foreign investment and the simple tax system is conducive for business;

- Indonesia had the lowest ranking within F7 economies at 129 out of 183 countries in the Ease of Doing Business 2012 rankings followed by Argentina (113) and Egypt (110). At the same time, according to the World Economic Forum's (WEF) Global Competitiveness Index 2011-2012 rankings, Indonesia ranked 46th out of 142 countries – the highest within F7 economies;

- Indonesia's openness to trade and investment, large consumer market and strong economic growth are attracting investor interest. According to the Doing Business 2012

report, for 'protecting investors' and 'trading across borders', the country ranked 46th and 39th out of 183 countries respectively. Nonetheless, widespread corruption, rigid labour and investment laws, and lack of electricity pose obstacles for businesses;

- In terms of competitiveness, Egypt had the lowest ranking (94 out of 142 countries) in WEF's Global Competitiveness Index of 2011-2012 followed by Argentina (85), and Vietnam (65). Egypt's competitiveness deteriorated by 13 positions compared to the 2010-2011 rankings. This was a reflection of the impact of the Arab Spring which increased uncertainties in the future direction of economic policy and unleashed the structural weaknesses in the country's public institutions.

Ease of Doing Business ranking in F7 economies: 2011 – 2012	Doing Business 2012	Doing Business 2011	Change in Rank
Argentina	113	114	1
Egypt	110	108	-2
Indonesia	129	126	-3
Mexico	53	54	1
South Africa	35	36	1
Turkey	71	73	2
Vietnam	98	90	-8

Source: Euromonitor International from World Bank

Note: (1) Rankings are based on data sets across 183 countries. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies. (2) Ranking for 2011 covers the period June-May of previous year. Regulations in Doing Business 2012 are measured from June 2010 until May 2011. The data for all sets of indicators in Doing Business 2012 are from June 2010 until June 2011 (except for paying taxes data which refers to January–December 2010).

Opportunities for businesses

- Governments in F7 economies are focussing on strengthening their institutional and regulatory reforms to increase competitiveness. According to the Doing Business 2012 report, Indonesia, Mexico, South Africa, Turkey and Vietnam implemented positive reforms between June 2010 and May 2011 making it easier to do business. Increased reforms make it easier for domestic and international firms to start up and operate in these economies;

- F7 economies continue to be attractive investment destinations and have proved to be resilient to the global economic crisis of 2008-2009. In 2010 (latest data available), foreign direct investment (FDI) inflows in F7 economies amounted to US$63.5 billion, up by 10.0% (fixed US$ constant terms) compared to the previous year;

- Within F7 economies, Mexico attracted the highest level of FDI inflows in 2010 at US$18.7 billion. However, Vietnam and Indonesia witnessed the highest period growth in FDI inflows between 2006 and 2010 at 154% and 108% (fixed US$ constant) respectively and together accounted for 33.8% of total FDI inflows into F7 economies;

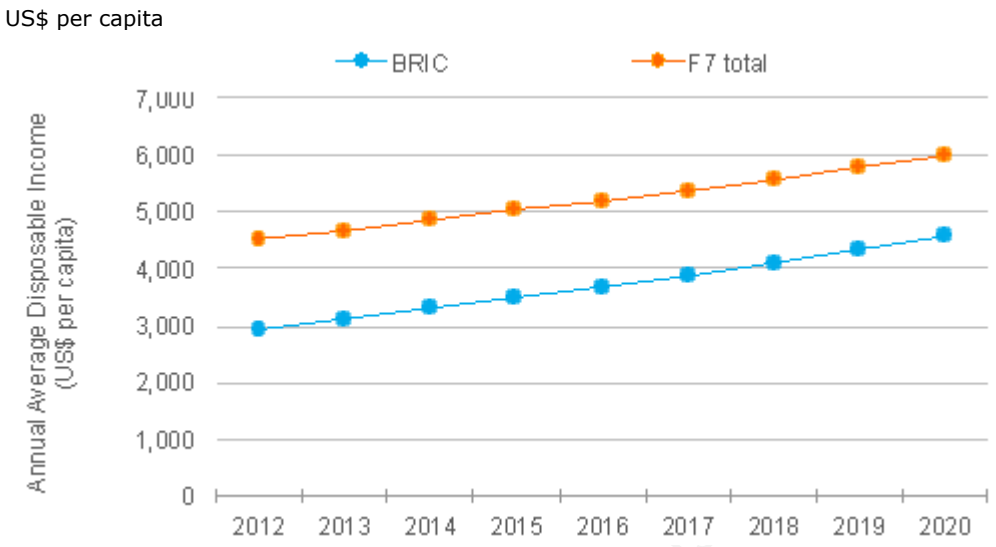
- The young, growing and urbanising population of F7 economies will transform consumer markets by creating more demand for consumer goods and services. The working age population (aged 15-64) in F7 economies is forecast to grow by 10.4% between 2012 and 2020 to reach 499 million by the end of the period, compared to the period growth of 5.2% in Brazil, Russia, India and China (BRIC) economies;

- Rising disposable incomes and a thriving middle class will attract businesses across sectors. Historically, the per capita annual average disposable income of F7 economies

has been above BRIC economies. By 2020, the average disposable income of F7 economies will reach US$5,983 per capita (fixed US$ constant) compared to US$4,571 per capita in BRIC economies;

- Like BRIC economies, F7 economies are also a source of cheap labour and low cost manufacturing for companies globally. In 2011, the wage per hour in manufacturing in Indonesia, Egypt and Mexico stood at US$0.8, US$1.2 and US$2.1 respectively, cheaper than China (US$2.9) in the same year.

Annual Average Disposable Income in BRIC and F7 Economies: 2012 – 2020



Source: Euromonitor International from national statisticsNote: (1) Data refers to forecasts. (2) Data in fixed US$ constant terms.

Challenges constraining the business environment

- Corruption is prevalent in F7 economies and proves to be a hindrance to the business environment. Within F7 economies, Turkey was the least corrupt country according to the Transparency International's corruption perceptions' index 2011 ranking 61st out of 183 countries while Egypt and Vietnam were the most corrupt with both ranking 112th out of 183 countries;

- High crime rates in economies like South Africa and Mexico raise security issues for businesses. For example, South Africa's business environment remains largely attractive and supportive of foreign investment but high crime rates, particularly in affluent areas impose costs on business operations;

- Overly burdensome regulations and inefficient institutions discourage the creation and expansion of businesses. For example, Argentina's business environment has suffered from increasing government intervention since the early 2000s creating uncertainty amongst investors;

- In Mexico, the government has been seeking rapid integration with the global economy and introduced positive reforms in the areas of construction, getting credit and paying taxes between June 2010 and May 2011. However, the success of Mexico's reform implementation has been undermined by lack of effective monitoring;

- Other challenges faced by F7 economies include skills shortages, large unregulated informal sectors, lack of infrastructural development and political instability. In many of these economies, job creation is low and businesses are unable to find the required skill sets. This also results in high levels of unemployment in these countries.

Prospects

- The economic outlook for F7 economies remains strong. Between 2012 and 2020, real GDP growth in F7 economies is forecast to grow by 5.1% per year on average (fixed US$ constant). While this is slower than the 7.0% growth per year (fixed US$ constant) expected in BRIC economies, it is still higher than the 2.5% annual average growth forecast in advanced economies;

- Growth in F7 economies will be driven by strong domestic demand. By 2020, 1-in-10 of the world's consumers will belong to the F7 population. The total number of households in F7 economies is also forecast to rise to 222 million by 2020, up from 185 million in 2011, creating a potential pool of new consumers that will cause a rapid increase in demand for discretionary and non-discretionary products;

- While there is significant potential for businesses, prospects for F7 economies remain vulnerable to the uncertainties in the global economic environment. As a result, spill over effects in the form of sharp movements in currency, equity and commodity markets can impact overall growth and business environments.

Fonte: Euromonitor International, 25 Apr. 2012. [Base de Dados]. Disponível em: <http://www.portal.euromonitor.com>. Acesso em: 27 Apr. 2012.

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