

The Booming Emerging Markets

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In the “developed world”, an even worse financial crisis has, some say, been averted, and despite the talk of “double-dip” recession, there is optimism that a slow but sure recovery is underway. The number of unemployed Americans still teeters just below the psychological double digit level but the policy of supporting, stimulating and generally spending their way out of trouble is apparently working. The European countries, united but individually dragged down by a common currency, uneasily forge their way forward.

But if you turn your attention to the other direction, the emerging markets have quietly been booming. Singapore has reported greater than 30% growth in gross domestic product (GDP) in the first quarter of 2010, Malaysia’s GDP has grown by 10%, and the concern is more about overheating economies. One of the great stories of the current year is the economic situation enjoyed by many of the “less advanced” countries which stands in stark contrast to the problems of those who should be more experienced and thus better able to steer their commerce.

Why is it, with all the recent turmoil, that Thailand is helping to lead the emerging market economies higher? It's not because of a stable political scene; we all know there has been unrest recently in that direction. The fighting in Bangkok may well have reduced the GDP growth, and current estimates are 6.5% for the year, well down from the benchmark level set in the first quarter.

Foreign investors pulled more than \$2 billion out of the stock market earlier this year, maybe because they took the protests as an example of the risks of investing in emerging market, and the demonstrations have cost nearly \$5 billion in damages. Tourism has suffered because of the unrest, and previously this accounted for up to 20% of the GDP, although estimates put it much lower now. Yet if you look at the iShares MSCI Thailand Index Fund, THD, an exchange traded fund (ETF) traded on the New York Stock Exchange, the overall picture this year has been strong growth. This index fund is weighted one-third to the financial sector and one-third to energy, but still captures the rest of the market in staples and telecommunication.



Anyone who bet on Thailand a year ago and invested in this ETF has enjoyed a more than 40% gain, with more than 30% of that in the last six months. Since the low on October 27, 2008, during the financial meltdown, Thailand's ETF has gained a stunning 150%.

On the positive side, for some reason there are a number of foreign investors who still look favorably on Thailand. These include Ricoh printers and Bridgestone tires. Perhaps it's because the financial institutions and banks are well capitalized, unlike the banks in the developed world which contributed to the financial crisis with their over leveraging on assets which turned out to be "troubled". Or perhaps it's because the 16% growth in GDP in the first quarter was second only to Singapore. Or perhaps it's because of the 1 per cent unemployment figure which is the lowest in Southeast Asia -- just compare that to the USA's 9.5 per cent for the second month running.

Perhaps there are good reasons that the Thai economy is looking so good. The slight downturn in April was to be expected because of the protests, but outside of Bangkok it's reported that business continued as normal, and the automobile industry is growing strongly, with domestic sales increasing dramatically. The government has a stated aim of reducing the dependence on tourism, and focusing the economy on increasing exports to perhaps 18% of GDP this year. As an emerging market economy, Thailand is justifiably taking the lead in the region, and prospects are excellent for the future, provided that political influences are not allowed to further impact the growth. This economy has a lot going for it.

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