



IPED

EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT
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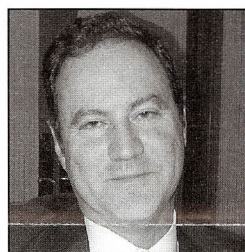
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Alumni Profile: Alberto Sánchez

Banco Santander is the fifth largest bank in the world by stock market value, excluding Chinese banks. Its remarkable success has largely been due to its focus on retail banking, a buoyant home market and investment in high-growth emerging markets in Latin America. Infrastructure, capital and know-how are paramount to getting development started in these and other countries; once they are in place, "the results can be incredible," says Mr. Alberto Sánchez, 1997 IPED graduate. "Recognizing the rich diversity and needs of each country in which the firm works is also important."

Mr. Sánchez remembers the dark, snowy nights taking the train from Grand Central to Fordham while working full time on Wall Street as a Senior Latin American Bank Analyst for Deutsche Bank. His tenacity paid off. Ten years after graduating from IPED, Mr. Sánchez is now the head of Corporate Development for Santander's Consumer Finance Division.

From Santander's high rise office building in midtown, Mr. Sánchez offered *Emerging Markets Watch* his perspective on the best way to analyze emerging markets. He highlighted Santander's decentralized approach to managing Latin American markets. Knowing the macro picture of an economy is important for the initial stages of analysis, he explains. "Macroeconomic indicators can give us hints to booms or busts, but the information can be outdated. Local management is essential to know the local market. Forecasting is an art, not a science, and the best tool is looking at what the locals are doing in the



Alberto Sánchez

market." There's always an unknown element and investors must be "ready and able to respond quickly," he said. From his perspective, the provision of stability and capital to an emerging market can vastly improve the country's economic situation. "Mexico has achieved incredible economic advances over the past years," he explains. Seeing the win-win results of Santander's work in emerging markets has been very gratifying. It is "the human side of investment, which IPED also embodies, that has been the most rewarding part of my work."

Indeed, Mr. Sánchez attributes his understanding of emerging markets in Latin America and the politics, economics and social aspects surrounding them, to his IPED education. He recalls successfully applying what he was learning from teachers like Dr. Dominick Salvatore directly to his work at the time on Wall Street.

Now, as a manager at Santander, Mr. Sánchez knows what makes a great applicant. "Technical skills are a given these days. We look for people with diverse backgrounds and perspectives, who can each contribute something unique." He recommends that IPED students "become good at something you like. If you enjoy something, it will not be burdensome to become an expert. As such, you will add real value to any team." ■

What is IPED?

IPED stands for the International Political Economy and Development Program at Fordham University in New York City: a program that trains graduate students in the advanced interdisciplinary analysis of global economic relations and international development issues. Graduates frequently work as financial analysts in the private sector, economists and policy analysts in the public sector, and project managers in the non-profit sector.

Emerging Markets Watch is a student-run newsletter of Fordham's IPED Program. It aims to share with prospective students and friends in the academic, non-profit, government and corporate community an IPED analysis in the fields of emerging markets and country risk analysis.



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Investment Prospects for Emerging Economies

EDITORS' NOTE: Fordham's *Summer Certificate Program in Emerging Markets and Country Risk Analysis* is an intensive 10-week program designed for international business professionals as well as current graduate students. The program offers students the opportunity to develop the political, economic, and financial analytical skills needed to evaluate the potential risks and rewards associated with the dynamic and volatile financial markets of Asia, Latin America, Africa, and Eastern Europe. Below are abstracts of the papers completed during the summer of 2007. Full versions of the papers can be found at www.fordham.edu/emp.

For more information about the program, please visit www.fordham.edu/iped/summer/index.html.

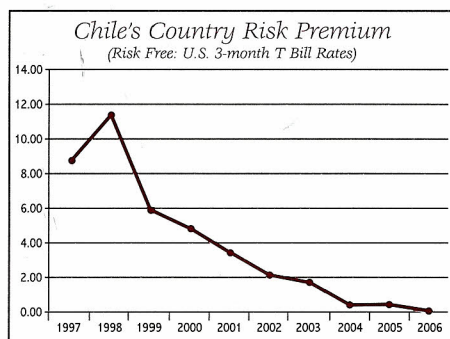
Chile

By Diego Oyharbide

Chile's economic prospects are good. The country is experiencing healthy growth rates, low inflation, and a robust external performance accompanied by favorable terms of trade. This is the result of over thirty years of sound economic policies and a competitive export-oriented economy.

Following modest growth in 2005 and 2006, the Chilean economy showed a larger than expected growth rate of 5.8% for the first quarter of 2007. This was led by strong export growth combined with a burgeoning domestic demand and increasing copper production. The boost in domestic demand comes from government consumption, in line with the government's decision to increase spending on social programs over the next several years.

The export sector has benefited from strong global demand and high commodity prices, a favorable condition that is expected to continue over the next 12 months. The latest data from the central bank indicates an increase in exports of 13% by the end of the first quarter of 2007. Mineral production and exports also surged in the first quarter of 2007 due to climbing



copper prices. Addressing the country's high dependence on the global demand for copper, the government has promoted the diversification of exports.

Since 2002, debt ratio indicators have experienced a favorable turn. Total debt to gross domestic product declined by 35% from 2002 to 2005 and debt service payments to exports declined by 47% in the same period. As a result, its 2006 risk premium was the lowest in Latin America and was slightly above that of any industrialized country (0.08%).

The autonomous central bank of Chile keeps inflation tightly under control and this, along with favorable terms of trade and a sound financial system, has encouraged further investment in the economy. Unemployment is expected to reach a ten year low of 5.8 % for 2007. ■

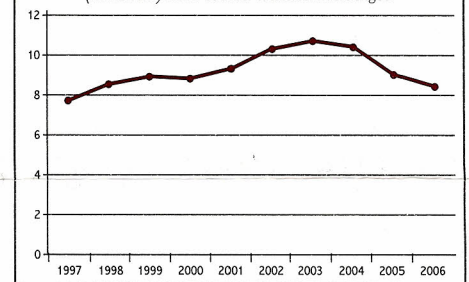
Israel

By James L. Handras

Prospects for portfolio investment in Israel are good. Growth in 2006 was over 5.1% and is projected to be 5.6% for 2007. Unemployment has fallen steadily since the 2003 recession where it peaked at 10.7%. The current unemployment rate in Israel is 8%. Job growth has been steady in tourism and information technology.

The technology sector is the engine behind the Israeli economy and its 2007 growth. In 2006, export earnings grew 8.1%, with the high tech goods and services and pharmaceutical sectors leading the way. The main destination for Israel's exports are the United States and the EU, but exports to Asia have also expanded, with 15% of total exports going to South Korea, China and Japan.

Israel's Unemployment Rate
(In Percent) Data Source: www.bankisrael.gov



Investor confidence has been increasing, resulting in record levels of foreign flows of capital both in foreign direct investment (FDI) and portfolio investment. Income outflows are expected to rise in line with growing foreign investment. Transfer inflows are expected to level off, as the immediate post-war needs recede, and as the US phases out its civilian grants. Additional outflows are expected from the expansion of foreign workers remittances.

Foreign investment in the Tel Aviv Stock Exchange (TASE) has grown substantially and the government is continuing with its privatization program. The TASE lists 660 companies, about 60 of which are on stock exchanges in other countries. The stock market continues to benefit from a combination of stronger-than-expected macroeconomic growth and low interest rates. Over the past 5 years the TASE-100 has been up 274.51% and in the past 6 months it is up 24.85%.

Overall, investor confidence is high. Growth is evenly distributed across many sectors as the Israeli economy has become well diversified. The government worked to integrate Israel into the global economy through privatization and trade liberalization programs and the country has benefited. ■

Venezuela

By Eloy Fisher

Portfolio investment prospects in Venezuela are poor.

President Chavez has undertaken large social spending projects to strengthen his electoral standing and, indeed, he is immensely popular. But his administration, buttressed to high oil prices, blatantly disregards sound economics.

Despite improvements in welfare during Chavez's tenure, such as the steady dwindling of unemployment, there have been large increases in inflation and a substantial government deficit. From 2000 to 2006, the Consumer Price Index rose 189%. From Real Gross Domestic Product figures, we see an uninterrupted contraction since 1997, accelerating in 2002 when opposition groups rallied behind a massive recall campaign and an unconstitutional coup to oust Chavez from power.

Next to inflation, exchange rates are another source of consternation. As part of its capital control scheme, in 2003 the government devised a currency board to manage foreign exchange. Pundits are keen to point out that the Venezuelan currency is highly overvalued. But the government has dug itself into a dead end: devaluing the currency will only hasten the inflationary spiral.

High oil prices made it possible for the Venezuelan government to repay large portions of its external debt (now around 14.6% of GDP) which could make the country eligible to plunge into world credit markets, if so desired. Venezuela has also amassed a large cushion of reserves it could tap if oil prices were to suddenly drop — almost 10 months worth of imports in 2006, enough to pay off almost all of its foreign debt.

The stock market in Venezuela exhibits an array of mixed signals. Although Chavez reiterates that it will uphold property rights, the constitutional reform to introduce his indefinite reelection has many doubting the claim. Investors are jittery and their long term prospects are at best, uncertain.



A constant state of political flux and incendiary rhetoric makes the country a powder keg always on the brink of explosion. While reserves may be high and oil prices over the roof, adding soaring inflation and pegged exchange rates to a highly volatile political mix make the economy wholly dependent on high oil prices. In the medium term, the outlook does prove to be stable mainly because of Chavez's immense popularity, so investment opportunities (and high returns) are available to high risk institutions or individuals.

Mexico

By Chris Hayes

The financial and economic agenda established after the 2000 presidential election of Vicente Fox has vastly improved Mexico's stability. GDP growth, exchange rates, inflation targeting, and government spending have all been managed with consistent responsibility. This trend continues with the Calderón administration, which has reached across party lines to gain legislative support so that the progress may continue. The overwhelming majority of key indi-

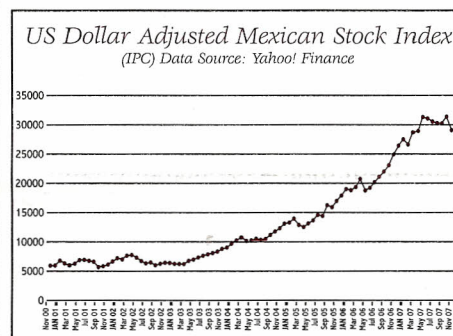
cators point to a positive environment for long-term investment. In the short-term, however, equity investment prospects are only fair.

The main limitation of Mexico as an emerging market for portfolio investment is its low diversification value. Mexico's greatest economic strength — its association with the American economy — is also a key weakness, at least in the short-term. Given Mexico's dependency on U.S. demand to support its manufacturing sector and oil prices, the eminent slowdown of the American economy implies that Mexico's stock market growth will be restrained significantly.

Expected to fall as well, due to U.S. economic downturn, is growth in remittances. In 2006, twelve million Mexican citizens living in the U.S. sent home more than \$23 billion dollars to Mexico, but Banco de Mexico statisticians estimate that growth in remittances will slow by 5% in 2007. This will decrease domestic spending and lower demand for imports.

Uncertainty about the sources of future government revenue is the most concerning fiscal dilemma facing Mexican officials today. Pemex,

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Global Markets Fellowships

Designed to attract highly qualified full-time students who seek careers in the analysis of international commercial and financial markets into the IPED Program, the Global Markets Fellowship consists of a tuition scholarship combined with a graduate assistantship. Eligibility criteria are: relevant professional work experience, professional proficiency in English and another language widely used in international business, and strong cross-cultural skills. Students committed to a professional career in international business and finance with a focus on emerging markets may also apply for the Emerging Markets Travel Program. The application deadline is early January for the following fall semester. For further information, go to www.fordham.edu/iped/aid.html

Faculty Interview: Dr. Mary Burke



Dr. Mary Burke is a Clinical Associate Professor of Economics at Fordham. Her IPED courses, "Economic Analysis" and "Domestic and International Banking" are offered in the fall and spring.

Dr. Mary Burke has been connected to Fordham for a long time. She received her BA in Math, MA in Economics and PhD in Economics at Rose Hill. After her studies, she worked with several high profile companies, including Deloitte & Touche, gaining valuable management consulting and business experience. She returned to Fordham eight years ago to teach.

Emerging Markets Watch asked Dr. Burke to share with us, in her own words, her current work in management consulting.

"Management consulting refers to the practice of helping companies improve their performance by analyzing existing business problems and developing future plans to resolve them. Initially, my work focused on helping companies identify industries that would complement their existing lines of business, provide further sources of revenue

and even reduce the firm's costs."

"My most recent work has been more specialized. I provide valuation services to businesses for a variety of purposes such as federal taxation, transfer pricing, goodwill impairment analyses, and mergers and acquisitions. 'Valuation' entails establishing the fair market value of the equity of privately held corporations and the value of intangible assets such as customer lists, loan portfolios, trademarks, patents and goodwill."

"My clients are from a wide range of industries, including banking, financial services, manufacturing, media, newspapers, publishing, and securities. It has been fascinating to work with so many different companies and to study new industries, analyzing their strengths and weaknesses. Intellectually, the work is very satisfying in that the rules are

constantly changing and each project is different. It pulls on all aspects of one's education and experience and constantly demands continued learning."

According to Dr. Burke, the most valuable aspect of the IPED Program is the diverse backgrounds of the students. She greatly enjoys the "mutual exchange" of teaching IPED students and feels that in giving the students tools for their careers, she "receives so much in return." Her greatest advice to students and alumni is to "learn the material and become an expert in your field, so that you develop a set of skills you can apply to the wide range of challenges you'll face in your career." Students interested in banking, finance, and economics continue to find Dr. Burke a valuable resource in preparing for their careers. ■

Mexico

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Mexico's nationally-owned oil company currently provides 25-35% of the government's revenue. This has drained Pemex' exploration budget and the company is in serious need of new infrastructure.

The ongoing attempt at reform and transparency by the government has encouraged long-term foreign direct investment and portfolio investment. Inflows of foreign capital have been

particularly strong in 2007. The peso has also been increasingly stable against the U.S. dollar since it was allowed to float in 2001. This stability is a crucial factor in attracting inflows of foreign investment to Mexico.

With the 2009 midterm election in sight, President Calderón's ability to produce opposition party support for his reform agenda will be tested. Whether Mexico's progress will continue despite the significant slowing of the U.S. economy will be a major question for investors. ■



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