IPED

EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT
FORDHAM UNIVERSITY

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Alumni Profile: Joseph Portera

The MainStay Global High Income Fund (MGHAX) has outperformed the JP Morgan EMBI Global Diversified Index over the past 1-, 3-, and 5-year periods* under the management of IPED alum Joseph Portera.

Mr. Portera graduated with a B.A. in Soviet Studies from Fordham University in 1981. After years of managing portfolios at ABN-AMRO, Fiduciary Trust Company, and Mackay Shields, he enrolled in a MBA program; he did not, however, find the broad, global perspective he was looking for. Further searching led him back to Fordham and IPED. He juggled family, classes, employees and a portfolio focused on emerging markets, graduating in 1998.

This was the same year the MainStay Global High Income Fund was first offered to the public. The Fund invests in high-yield debt securities issued by non-US governments (69% of allocation) and corporations (24%), principally in emerging markets. Brazil, Russia, Mexico, Argentina, and the Philippines are the top five countries represented in the portfolio.

According to Mr. Portera, while many people see emerging markets as high-yield, only 40% are investment grade. When analyzing government bonds, investors must look at risk in two areas: (1) the government's ability to pay and (2) the government's willingness to pay.

For ability to pay, the group analyzes the country's liquidity and solvency measures, which show the economy's long-term ability to service debt. Indicators include the debt-to-GDP ratio and the trade-to-external debt ratio. This allows investors to separate countries with deteriorating credit from those with improving credit.

Joseph Portera

ILLUSTRATION BY JOHN GUMMERE

To determine a government's willingness to pay, one must research the political situation of the emerging market. Analysis of this kind requires a thorough understanding of historical, local, and regional trends. Sometimes it requires "feet on the ground" to talk with corporations to get a solid feel of the economic and political situation.

IPED offers broad training that helps students gain a comprehensive economic worldview, in contrast to the narrow perspective, Mr. Portera says, that many have on Wall Street. Courses in demographics, accounting, and econometrics enable one to more effectively evaluate trends in emerging markets.

For students considering a career on Wall Street, Mr. Portera says it is a fun, though stressful, place to work. Emerging market funds are continuing to grow along with many other interesting opportunities for analysis. He suggests two trends to watch: investment moving from government to corporate debt, and transitioning US dollar-denominated debt to local currency debt. ■

Source: MPI Stylus, 6/30/06.

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 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 2006. Full versions of the papers can be found at *www.fordham.edu/emp.*

China

By Kevin Komoroski

The short term prospects for portfolio investment in China are good. The economy remained strong in 2005 with a high GDP growth rate of 9.9% and a stabilizing unemployment rate. Government management of the economy has also improved.

At 1.8%, inflation is low and the government budget deficit has fallen to 1.9% of GDP from 2.6% in 2002. Strong export growth of 28.4% has led to a record current account surplus of $160 billion in 2005, while China's foreign exchange reserves of $941 billion are now the world's largest.

Since being revalued by 2.0% last July and pegged to a basket of currencies, the Yuan has further appreciated by 1.4%. Appreciation will continue as the government allows more flexibility in the exchange rate and uses a stronger Yuan to curb export growth and bring the economy in for a soft landing.

The Shanghai Stock Exchange Composite Index (SSE) shows good diversification value and strong returns, averaging monthly returns of 4.3% over the past year. This is a dramatic improvement from the five year monthly average near zero. However, while improving, China's equity markets retain numerous restrictions and are prone to government interference. Foreign investment in the Chinese equity markets is still limited to qualified institutional investors who must meet the government's strict requirements.

A repressive domestic political climate introduces further uncertainty and may even exacerbate social problems within China as it transitions to a market economy. Potential conflict with Taiwan and instability in North Korea further caution against over-reliance on China in an emerging markets portfolio. Direct investment aimed at long-term returns will remain the best means of taking advantage of China's growth until financial markets are further liberalized and better regulated as transparency increases. ■

Hungary

By Matthias Resch

The prospects for equity investment in Hungary for the next year are fair.

The Hungarian real GDP (in USD) has been growing at an average rate of 8.6% per annum since Q1 1996, albeit routinely displaying some sharp contractions in the first quarter. The growth rate in 2005 was 5.09%.

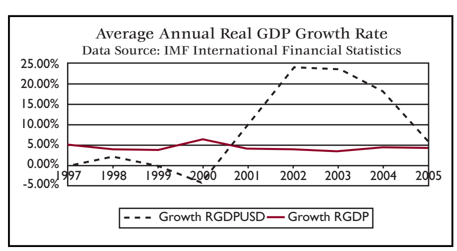
The Hungarian Forint appreciated to its strongest value against the USD in the second quarter of 2005. It recently started to recover from a moderate depreciation that lasted from the June '05 high until June 2006. The Forint was traded at 213.2 to the USD as of July 31st. Concerns about Europe's highest budget deficit and a shortfall from Maastricht criteria may trigger renewed depreciation of the Forint.

If wages remain stagnant, austerity measures meant to curb the deficit will be enacted, such as an increase in regulated prices and tax hikes, which may boost inflation.

Having entered into the EU in 2004, Hungary has since been privatizing many of its key industries, and strengthening its institutions and capital markets. On August 1, 2006, the socialist government (re-elected in April 2006) officially presented a new National Development Plan based on the EU budget period 2007 – 2013.

The stock market has been experiencing outstanding growth after several successful privatizations. Efforts to reduce the budget deficit may include further privatizations. Investors deserting emerging markets as a result of rising global interest rates and eroded demand for more emerging-market assets caused the CHTX to fall by 16.0% from May to July. However, the index is once again on the rise as the national bank of Hungary, the Magyar Nemzeti Bank, raised its base rate by 50bps and investor confidence and premiums hence started to increase.

The only major concern for US investors are the revised budget deficit and uncertainty about Hungary's eventual Euro-convergence. Also disconcerting may be the foreign debt at 58% of GDP. ■



Malaysia

By Ahmed Lotfy

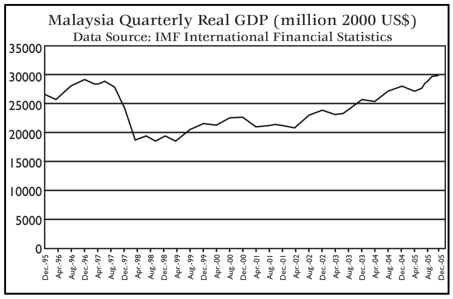
The prospects of short-term portfolio investment in Malaysia are fair.

With the exception of 2001, Real USD GDP growth rate has been positive for the last seven years (topping 7.0% in 2005). The Ringgit has been steadily appreciating against the USD since the peg was removed in 2005, reflecting a good reserve position.

The Malaysian stock exchange suffered from two shocks, in 1997 and 2001, but should be heading towards more stability and growth in the medium term. The weak returns on the stock market and higher risk (relative to other emerging markets such as China and Singapore) are reasons for rating the short-term portfolio investment prospects as fair. However, the Malaysian stock market has great potential to grow given the increasing investments in Shar'iah compliant securities offered in the Islamic Capital Market.

Unemployment and inflation are largely under control by the government with the prospects of a little inflationary pressure in the near future. Fiscal measures taken by the government have resulted in a lower deficit, 3.8% of GDP in 2005, down from 4.3%.

The current account surplus is increasing with a positive effect on the balance of payments and hence international reserves, increasing to $69.7b. USD in 2005.



The country's plan to diversify its economy toward services will mitigate the risks of any further shocks caused by the decline in exports, namely electronics.

Malaysia's debt position is satisfactory and provides confidence particularly with the low percentage of debt dominated in foreign currency (Domestic financing constitutes 87% of total debt).

Overall, the economy is moving steadily towards achieving the country's "2020" goal to transform into a developed nation. However, in the short-term, the stock market needs to be more profitable and stable to suit portfolio investment. ■

Australia

By John McCormick

Short term equity investment in Australia is good, showing excellent promise in key industries, especially mining.

Since the 2001 global recession, the Australian economy has produced solid growth primarily due to exports of large volumes of high-priced iron ore, coal and gas to China. The Australian economy has entered its 15th straight year of growth in Australian dollar terms—its longest ever.

Australia is highly dependent on foreign trade and capital. Mining contributes about 5.60% of GDP and mineral exports contribute around 35% of Australia's exports. Export growth will likely continue to expand in the near future due primarily to China's need for raw materials for industrial growth.

Despite strong export performance, imports continue to steadily increase ahead of growing exports. The current account deficit has steadily widened from 1.46% to 4.22% since 2001 and continues to drain foreign reserves. A potential depreciation of the Australian Dollar versus the USD may in turn help the export market.

Real GDP growth was 2.20% in 2001 during the global recession. Real GDP growth rose to 4.10% in 2002, but slowly declined to 2.50% in 2005. It is forecasted to be 3.30% in 2006. Measured in Australian dollars, growth percentages during the period from 1997 to 2005 range between 1.82% and 5.07%. However, when measured in Real GDP USD, this same period shows an even greater range, between -11.45% and 26.73%, exposing Australia's vulnerability to external shocks.

The Australian Dollar appreciated against the USD from 2000 to 2003, but has remained relatively constant for the last three years, despite higher interest rates. The currency market should continue to be exciting in the next four to six months for active speculators due to interest rate increases and the expected

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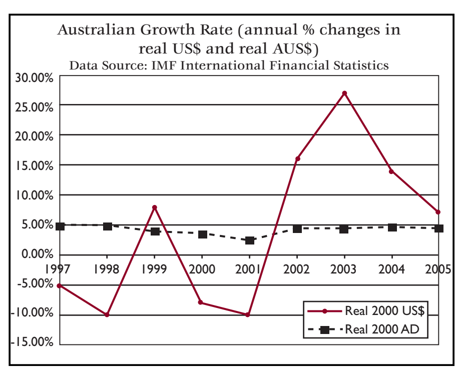
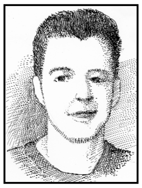


Global Markets Fellowships

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: two years of 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 applications deadline is early January for the following fall semester.

For further information, go to www.fordham.edu/iped/aid.html

Faculty Interview: José Alemán



José Alemán

ILLUSTRATION BY JOHN GUMMERE

Questions about trade liberalization, labor market reforms and democratization are best answered by Cuban-born Dr. José Alemán, in his second year as Assistant Professor of Political Science and faculty member in the IPED program at Fordham University. Professor Alemán completed his B.A. at Cornell University and Ph.D. from Princeton.

Emerging Markets Watch found Dr. Alemán eager to discuss his work.

In his opinion, "Programs like IPED, like the Woodrow Wilson School, are really important for their interdisciplinarity. In many places, political science and economics are next door to each other but seldom work collaboratively. Political Economy allows you to bring in discussions from both fields. You can look at the consolidation of democratic institutions and the role of labor from an institutional or an economic perspective, and both are important."

The focus of Dr. Alemán's dissertation was the tripartite relationship between institutions, unions and firm representatives in Chile and South Korea, and the roles that collective bargaining and social dialogue play in those negotiations. He is in the process of transforming this project into a book, while working on other research projects.

"My current focus is how much income inequality new democracies can tolerate before abandoning the experiment. This is still a new field of inquiry, and the assumption is that a country with high inequality cannot become, or last, as a democracy. Moreover, where capital mobility is low, which tends to happen in very unequal countries, the government does not invest in public goods. This may not be a case for a group of countries in the middle, and I'm interested in studying what the threshold of inequality might be," he says.

In his class this fall, "The Political Economy of Reform", Dr. Alemán introduced students to the problem of identifying the political factors for market reforms in new democracies.

When asked for his opinion about the conditions of workers, Prof. Alemán thought that conditions were mixed. "What's new is that workers can sit at the table and negotiate with governments, and the labor market is becoming more competitive and flexible. Unions, which are much weaker in developing countries, are having a hard time with government fixed-term contracts. But they should stay at the table. Labor movements are also looking beyond their borders and sharing tactics and experience, forming transnational coalitions and appealing to international organizations. And nations who meet to discuss trade liberalization policy are starting to address the question of labor standards."

One of his reasons for coming to Fordham was the opportunity to live in New York City. An avid musician and drum player, Prof. Alemán enjoys the city's jazz scene. ■

AUSTRALIA, *continued*

pause of US interest rate increases.

Short term equity investment in Australia is good, showing excellent promise in key industries, especially mining. Equity returns have shown growth the past five years and are much stronger than other global markets. Taking into account historical precedence and other leading indicators, it is unlikely Australia will experience a currency crisis in the short to medium term. Country developments in the next few years, however, will be more telling of Australia's growth prospects into the twenty-year range. ■

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