IPED

Emerging Markets Watch

The Graduate Program in International Political Economy & Development
Fordham University

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Alumni Profile: Joseph Quinlan

Mr. Joseph Quinlan is currently the Chief Market Strategist and Managing Director for Global Wealth and Investment Management at US Trust. US Trust is the private wealth management arm of Bank of America. Over the years he has published widely. His most recent work, "The Last Economic Superpower" will soon to hit the shelves. Mr. Quinlan is moving on to his next research topic concerning the effect of the 'one child' policy in China, and its effect on the world.

In regards to the most recent economic downturn and its effects on emerging markets, Mr. Quinlan explained: "There's a lot of progress, particularly in China, but we need a lot more progress. The key question is, is the West ready for the rise of the Rest? And I don't think they are. I think there are underlying assumptions among the US, Europe and Japan, that it's our world, and that's very myopic, backward looking. You see the tensions there between the US and China, China and Japan, Brazil and the foreign exchange markets. I do believe in the emerging markets, but by no means do I think it's clear sailing for these folks from now and forever." China's recent dramatic ascension in economic development often is discussed in conjunction with emerging markets, but Mr. Quinlan is not sold on a Chinese century. He is also keen to explore secondary markets like Indonesia, Turkey, Egypt, South Africa, Taiwan, and Chile.

"There's a lot of progress, particularly in China, but we need a lot more progress. The key question is, is the West ready for the Rest?…"

Mr. Quinlan feels that his experience with the IPED program was very instrumental for his current line of work, and that the importance of the program has only grown over the years. IPED's multidisciplinary approach helped him in examining all the moving parts of the global economy. ■

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 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 2010.

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

South Africa

By Sarah Scarcelli

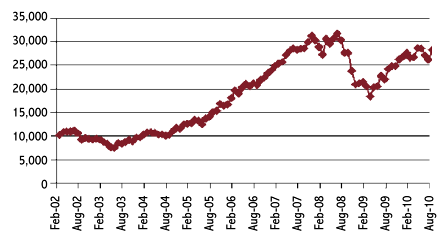
The prospects for short term portfolio investment in South Africa are above average. The diversity in South Africa's export market made it less vulnerable to a drop in demand in one particular foreign market. South Africa also avoided a big economic dip through government spending on infrastructure projects in preparation for the 2010 World Cup. However, it suffers from high unemployment. Unfortunately, the labor force's main problem is not a lack of jobs, but lack of skills. If South Africa is successful in capitalizing on its recent publicity from the movie *Invictus* and hosting the World Cup, the country could boost its tourism numbers.

The rand has appreciated somewhat in the last two years, leading to fears that the currency is getting too strong. Given its past performance, the rand is likely to depreciate, but only slightly, over the next year. Investors, then, should not fear either a government-induced or market-driven dive in the rand's exchange rate in the coming year.

The Johannesburg Stock Exchange (JSE) appears to have weathered the recent financial crisis better than other markets (see chart). Unlike many emerging markets, in the case of South Africa these higher rates of return were not accompanied by higher rates of volatility. With the recent financial crisis hitting the S&P 500 hard the JSE's relatively low correlation [0.20] probably helped to protect it from the volatile market shifts associated with the crisis. Secondly, lack of confidence in the equity markets led investors to put money in precious metals, especially gold. This would have boosted returns for the JSE's commodity markets but it would have also increased returns for the South African mining companies listed on the JSE. ■

Johannesburg Stock Exchange Monthly Returns

JSE All Share Index



Hong Kong

By Joseph Theriault

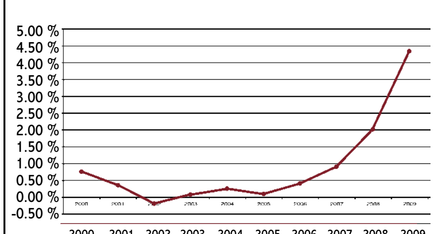
The prospects for portfolio investment in Hong Kong are average. Hong Kong's trade with China will maintain the high growth that was already achieved in 2010's first quarter. With exports on the rise and some sense of stability returning to the world's financial industry, Hong Kong's economy has now enjoyed some renewed strength. It has so far outperformed last year's first quarter by about 4.55%. Despite this, Hong Kong's long-term prospects are mixed.

Although low at about 2.9% and 41.4%, respectively, Hong Kong 2009's Bank capitalization and foreign bank liabilities as percentages of assets have not deviated significantly from their stable and respective decade averages of 3.25% and 40.7%. Even though such figures are quite unusual and may indicate potential vulnerability, they reflect the banking sector's historic stability. Such stability should continue in the future as the HKMA — Hong Kong's Monetary Authority — effectively maintains the currency's peg to the USD.

The country's recent surpluses have enabled it to accumulate enormous reserves, which now amount to about $259 billion. Since Hong Kong's currency peg forfeits its monetary policy to the U.S., real interest rates have been very low for much of the past decade at around 0.5%. Due to recent inflation, real interest rates were actually negative at -3.86% and -0.54% for 2008 and 2009 respectively. These negative interest rates have attributed to considerable investment and upward prices in housing, which together have caused the expanding real estate bubble.

Hong Kong has a steady macroeconomic future, especially if it continues to nurture its financial relationship with the mainland and if regional growth continues. A weak western recovery and a quickly inflating housing bubble, however, may pose a severe threat to market gains. This mixed outlook deems its prospects for portfolio investment average. ■

Hong Kong Government Surplus/GDP



Indonesia

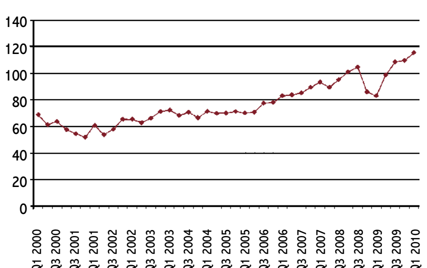
By Patrick J. Wayne

Indonesia is an excellent prospect for an investment in a global portfolio. Since the Asian Financial Crisis in the late 1990's, Indonesia has experienced steady growth in Real GDP. The economy had a phenomenal recovery from the Great Recession. During this time, Real GDP contracted for only two quarters. Within three quarters Real GDP returned to Pre-Great Recession levels and continued on its upward trend. (See Chart 1.) The economy is resilient and continues to grow through earthquakes, landslides, tsunamis, avian flu, and separatist movements.

Indonesia's currency was hit hard during the Asian Financial Crisis in the late 1990's. To regain control of the currency, the government increased bank reserves from 149 trillion rupiah in 2001 to 530 trillion rupiah in 2009. During this time, foreign liabilities went down and then increased, but the foreign liabilities ratio went from 5.2% in 2001 to 3.2% in 2009. The government learned from the crisis and took measures to ensure that it does not happen again. For the latest 12 months, Indonesia has a current account balance of $9.8 billion as of the end the first quarter. The risk premium in Indonesia is 6.73%.

Indonesia offers excellent opportunities as part of a global portfolio. We expect exchange rates and inflation to be stable with exceptional growth. Indonesia's mining, energy, and palm oil exports make it less dependent on the price of a single good. Exports to the US, China, and high domestic consumption offer different avenues for growth — a stark contrast to other stagnating economies. The Jakarta Stock Exchange (JKSE) offers diversification from the S&P500 which will help optimize risk-return in a global portfolio. Historically exchange rates have been volatile, but Indonesia has consciously added to reserves to ensure that the past is not an indication of the future. We are predicting strong global growth and expect Indonesia to have high returns. ■

Indonesian Quarterly Real GDP
Billion 2005 USD



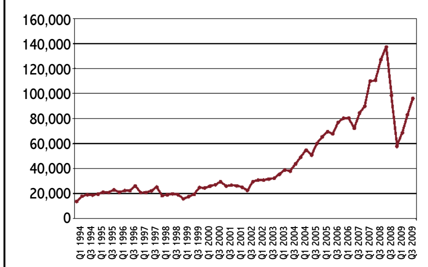
Russian Federation

By Susan Tomasetta

Prospects for portfolio investment in Russia is poor in the long term. Growth for the first quarter of 2010 was extremely weak and the growing budget deficit is an increasing worry. An increase in the price of oil has moved Russian exports closer to their 2008 highs, but it is unclear if they will be able to maintain oil production as their current oil fields dry up and costs increase.

In 2008 the global financial crisis hit Russia hard beginning with the collapse of world oil prices, a critical source of Russian export revenues and government funding. In 2009 Russia's 10 year period of growth came to an end with GDP shrinking by 8%, the greatest decrease in GDP since the fall of the Soviet Union in 1991. The first quarter of 2010 saw a slight recovery with an increase in GDP of 2.4%. The decline in oil prices has also contributed to a decrease in their current account from $103,722 million in 2008 to $48,971 million in 2009. The current account should remain strong in 2010 if oil prices remain at their forecasted levels. However, research shows that unless Russia increases investment in the oil sector they will not be able to sustain production.

Russian Federation Quarterly Exports
Million USD



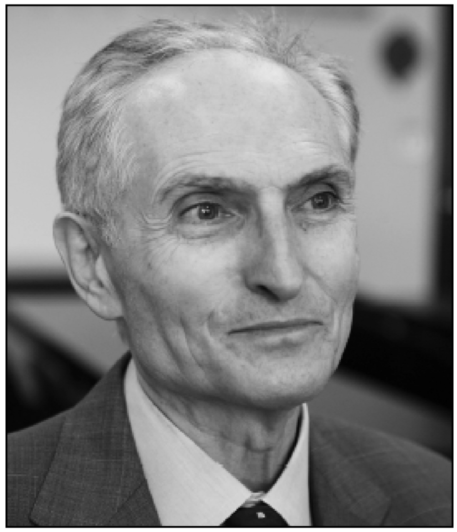
Russia implemented many policies in the 90's after the fall of the Soviet Union to encourage growth and bring stabilization to their country and succeeded in many ways. However, they were not able to eliminate their dependence on the oil markets and diversify themselves. When oil prices are high Russia benefits greatly, but their oil production capabilities are limited and showing signs of strain. They were also not able to rid corruption from their leaders and establish strong protection of intellectual property rights. Any investor should be wary of these things if they take the risk to invest in Russia. ■

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 and follow the link to "Financial Aid."* ■

Faculty Interview: Dr. Dominick Salvatore

Dr. Dominick Salvatore took a roundabout path to his current career in economics. After many semesters as a top-notch engineering student, he decided that he wanted more human interaction in his future career. After an aptitude test indicated a propensity for music, and a short stint at business school, he finally landed in the economics department at the City College of New York. Shortly after, he found his way to Fordham University as an Assistant Professor, and is now a Distinguished Professor, Director of the Ph.D. program and Department Chair in Economics. He also writes popular textbooks and consults for various agencies including the World Bank, IMF and UN.

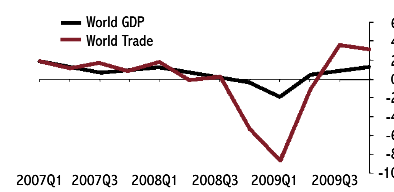


Dr. Salvatore explained how the most recent economic crisis manifested itself in emerging markets in the real sector instead of the financial sector as in the US and Europe. "When advanced countries got into a deep recession — a decline of GDP [of] 2.5% for the US, almost 4-5 % in Europe — they cut sharply their imports. So the decline in real GDP for the world economy was around 2%, the decline in world trade was 9% (see chart). Most of the exports of emerging markets go to advanced countries; when they got into recession, they stopped or they cut their imports dramatically." Additionally, "emerging markets were getting huge amounts of capital inflows from advanced countries, and suddenly there was a sharp, sharp decline." To help rectify these issues, Dr. Salvatore sees the need to reduce the large structural imbalances that exist in the world today (especially between the United States and China) to avoid another financial crisis. The United States should reduce its consumption and stop living beyond its means (so as to correct its huge and unsustainable trade deficit), while China should use more of its huge savings domestically and increase domestic consumption.

When *Emerging Markets Watch* asked Dr. Salvatore to share his thoughts on the current relevance of the IPED program, he praised the IPED program because there is an incredible need and opportunity for such students as the program brings together international trade, finance, development and interaction with the real world. ■

Growth of Cross-Border Capital Flows

Trillion Dollars and Global GDP, 1980-2008



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