



EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT
FORDHAM UNIVERSITY

IPED

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Alumni Profile: Dr. Tanweer Akram

Dr. Tanweer Akram is currently a Senior Economist of Global Rates for ING Investment Management. He provides analysis of the United States and other G7 nations regarding macroeconomic indicators and provides a perspective regarding growth and future outlooks of these countries. Including a recent publication for ING's Market Perspectives, Dr. Akram has published works in *Global Journal of Economics and Finance* as well as *Third World Quarterly*.



United States is showing a slow recovery, the Eurozone is dealing with a debt crisis and Japan is debating about increasing its consumption tax in order to raise revenues, Dr. Akram

believes that "most emerging markets should fare decently". This can partly be attributed to their "internal demand which has grown over the last ten years and serves as an important driver these days". Instead of focusing on growth due to demand in exports, internal demand can keep an economy growing when there are fluctuations in global markets.

Dr. Akram believes the coursework and diversity of the student body within the IPED program helps build an understanding of the global economy. Additionally, the program provides an overview of various Economic and Political Institutions which is fundamental in understanding how our world works. It is instrumental in building the skill set necessary to be successful in our increasingly interdependent world. ■

Concerning the persistent talk of a renewed recessionary environment in the U.S., Dr. Akram considers this unlikely. While Dr. Akram believes that mediocre growth in the developed nations has an effect on the growth prospects of emerging markets, these countries have improved their ability to sustain growth by diversifying their growth prospects. Even though the

Internal demand which has grown over the last ten years... serves as an important driver these days.

Investment Prospects for Emerging Economies

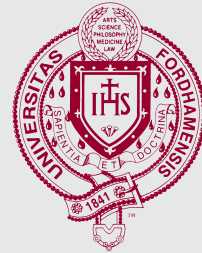
EDITORS' NOTE: Fordham's *Summer Certificate Program in Emerging Markets and Country Risk Analysis* is an intensive 10-week program designed for international business professionals as well as current graduate students. The program offers students the opportunity to develop the political, economic, and 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. On page 2 are abstracts of the papers completed during the summer of 2011.

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

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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Chile

By Jesus A. Reyes

The prospects for portfolio investment in Chile are above normal. This is due to its independent Central Bank, fiscal and monetary stability and diversification of trading partners.

Chile's Central Bank, the Banco Central de Chile (BCCh) has a very strong reputation of independence. This includes a mandate for price stability, an inflation target/rate mandate of 3% to 6%, which the Bank has achieved with contractionary monetary policy and active intervention in the foreign exchange market. Given the independence of the BCCh, Chile has enjoyed the highest credit risk rating, S&P BBB+, of any nation in Latin America and has become the second nation in the region to join the OECD club.

The nation boasts that it has the most trade agreements in the world, with approximately 54 nations. This allows it to diversify its risk across geographies and has allowed the country to maintain a positive balance of trade every quarter, but three, since 2000.



Due to the country's diversity and rising revenues from copper which represents about 33% of the nation's revenues, Chile has been able to develop a sovereign wealth fund. This fund which invests in both Chilean and foreign markets, has helped the nation cope with downturns in prices of its main exports: copper, fruit, fish products, paper and pulp, chemicals and wine. Chile's fiscal policy allowed it to spend approximately \$2 billion of its fund to stimulate the economy and maintain its budget deficit within the desired limits, no more than 2% of GDP. This has helped the nation maintain its debt-to-income ratio below 50% since 2000.

With strong economic growth, circa 6% per year, independent monetary authorities, balanced fiscal policy plus low dependence and correlation to any single major economy makes the prospects for portfolio investment in Chile above normal. ■

India

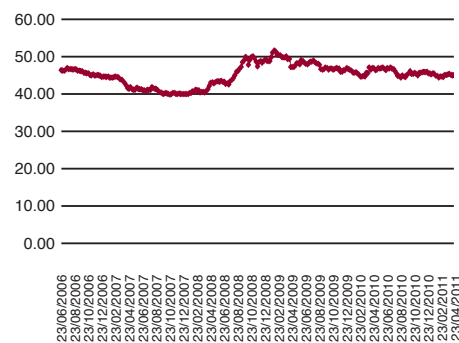
By Oleskii Liman

The prospects for portfolio investment in India are normal. Factors which underpin India's attractiveness for investors include fast economic development and a healthy banking system. Recent threats that undermine investors include inflation, exchange rate dynamics and temporary stock index stagnation.

The macroeconomic performance of India's economy since the beginning of 2011 has been showing the signs of post-crisis improvement. GDP is growing at a fast pace: last year the real growth was equal to 10.4%. The IMF forecast shows that in 2012-2016 India's economy is expected to grow at the rate of 8.1% on average. With this pace India is expected to deliver 5.6% of world GDP in 2011.

This strength in growth however has put upward pressure on inflation. Since 2006 it has accelerated to reach its peak of 13.2% on average in 2010. The IMF forecasts average inflation in 2011 to be 7.5%. As a result of this, the Reserve Bank of India is supporting hard policy against inflation and is raising interest

India Weekly Spot Exchange Rate (rupees/US\$)



rates to tackle the problem. The Bank has raised rates ten times since March 2010 to the current level of 7.5%. To further reduce threats to the economy the state has begun to enhance capitalization of the banks. Since 2001, banks have held 6.8% of deposits on average which is above the minimum amount of 6%. Furthermore, banks within India have a capitalization of 11.4% which easily meets the requirements of the new Basel 3 capitalization rules.

During the crisis there was a swift outflow of capital causing a balance of payments deficit and a significant decrease in reserves. This resulted in India's exchange rate plunging from 40 rupees in 2008 to around 50 rupees per dollar in the beginning of 2009. Their exchange rate has begun to appreciate as of late due to India's sustainable level of external debt and its recent decreasing ratio of debt service payments but there is still caution due to the threat of inflation.

Lastly, India's stock market has been going through a period of turbulence. Since the beginning of 2011 it has lost 9.1% of its value in dollar terms. High inflation and consequent tight monetary policy helps explain this drop in value. In addition to these two problems, investors have been concerned with the postponement of necessary economic reforms and a lack of investment in infrastructure needed for sustained growth. These factors have made investors less active in investing in India's stock market.

India has one of the strongest and most promising economies among

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India

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emerging markets. Its strengths include sustainable growth of GDP, levels of external debt and a healthy fast-growing banking system. The economy's weaknesses are relatively high inflation, threat of capital outflows, a fluctuating exchange rate and lack of confidence in the stock market. Therefore, the prospects for portfolio investment in India are normal. ■

South Africa

By Emily Groene

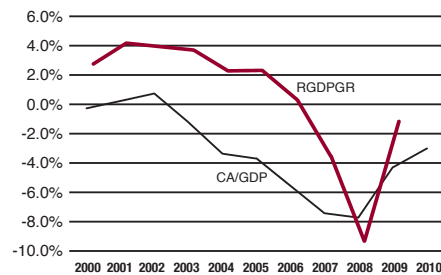
Prospects for short-term portfolio investment in South Africa remain normal based on slow but steady macroeconomic performance including a strong financial sector, good exchange rate stability and stock market prospects. Alternatively, there are concerns with unemployment and inequality as well as levels of foreign direct investment.

South Africa has steady growth and a well developed, diversified economy. South Africa's GDP growth rate was 4.8% in the first quarter of 2011. This growth is recovering from the economic downturn in 2008, driven by increased consumption and government expenditures. The financial and business services sector makes up about 20% of GDP and is growing. These sectors are strong and conservative, especially after the financial crisis of 2009.

South Africa has a normal level of exchange rate stability when compared with other emerging markets. Its coefficient of variation of 0.03 over the course of a year reflects the Reserve Bank's adherence to monetary policies that don't devalue the Rand to promote exports. Instead it favors a floating exchange rate to increase flow to capital accounts.

The stock market prospects show varied levels of returns, steady levels of volatility, a low correlation with other financial markets, and no evidence of inefficiency. The monthly returns when compared against other emerging mar-

South Africa Current Accounts/GDP and Real GDP Growth Rate



kets are strongest over 10 years at 1%. The correlation with the NYSE is 0.21 so it would make a good addition to diversify a stock market portfolio and is regulated by the World Federation of Exchanges, an association that develops and promotes standards in markets.

Unemployment is an imposing challenge with official estimates at 25%. This results in one of the most unequal income distributions in the world, with a Gini coefficient of 0.65 as of 2005. This high unemployment also creates fiscal policy issues as costs of high, long-term unemployment for 12 million people on social grants are borne by the tax base of 6 million, which is unsustainable.

The World Cup provided many gains in service delivery improvements, especially infrastructure challenges and increased tourism. However, the expected increase in tourism was short-lived, and investors are now considering other African markets for investment. The post-apartheid policy of Broad-Based Black Economic Empowerment requires mandatory divestment of foreign companies currently active in South African firms and thus these constraints could encourage investment elsewhere.

South Africa displays positive investment attributes with steady macroeconomic performance, a stable exchange rate and a stock market with low inefficiencies. Conflicting with these positive attributes is the country's high unemployment rate and challenges with improved infrastructure and social policies regarding investment. Due to these reasons, South Africa has a normal prospect for investment. ■

Ukraine

By Lydia Mulyk

The prospects for portfolio investment in Ukraine are below normal. Though the economy has been growing, it is well below its potential as a result of government intervention which impedes growth, large current account deficits and inflationary pressures.

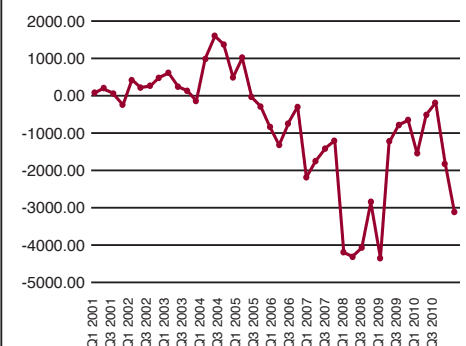
On the surface, Ukraine's macroeconomic performance looks promising, but upon dissection one finds many points of concern. The quotas imposed on grain earlier this year severely dampened the business climate in Ukraine thus stifling growth from achieving its full potential. Growth in Ukraine as a result of unpredictable government intervention will continue to be volatile and subdued for at least the rest of this year.

Ukraine's current account since 2006 has been generally negative. The current account deficit fluctuated from a high of -7.1% of GDP in 2008, and decreasing thereafter from -1.5% and -2.1% in 2009 and 2010 respectively. Similarly to the current account trends, the trend for balance of payments has been drastically negative. Ukraine's government has been running an increasingly higher deficit as a portion of GDP at -3.6% in 2009, suggesting it is spending far beyond its means and that Ukraine's government maintains a poor budget performance.

The World Bank recently raised its inflation forecast for 2011 in Ukraine from 10.7% to 11.4%. Due to possible

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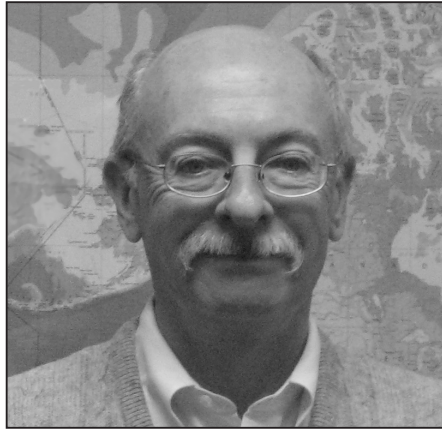
Ukraine Quarterly Balance of Payments



Faculty Interview: Dr. Michael Buckley

Dr. Michael Buckley was initially exposed to a life-long career in emerging markets while in Graduate School. While in Graduate School he worked part-time in a bank research department and he decided that he preferred working on the application side of development and thus pursued a career in banking. In the early 1990s, Dr. Buckley participated in re-opening the market for Latin American borrowers to get long-term funds from the global banking market, notably including a \$900 million loan to finance oil pipelines in Colombia. By investing in an oil pipeline which provided Colombia with revenues while improving access to energy resources, the project provided a working example to the financial markets that investment in developing nations could be successful. Additionally, it helped to end the exclusion of Latin American countries from global capital markets, facilitating healthier economic development. After working for twenty-five years in the private sector, which included exposure to foreign exchange, internal risk and emerging market lending, Dr. Buckley joined the faculty of Fordham University in 2003. He teaches two IPED courses: Financial Analysis and Global Financial Markets.

Emerging Markets Watch asked Dr. Buckley how the economic down-



turn affected emerging markets. He commented that similar to developed nations, developing ones have been more cautious in utilizing their funds for investment projects and developing their human capital. This is unfor-

Ukraine

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increasing inflation and historically low wage rates, the citizens of Ukraine may have diminished purchasing power and demand for goods may decrease. This may further dampen growth opportunities.

In addition to the problems mentioned above, Ukraine has a suboptimal reputation regarding its stock market. This may be explained as a result of the stock market being newly created and thus is exposed to volatility and the

tunate because the recent economic growth in developing nations, mostly in commodity exports, has resulted in a surplus of funds that could be used to improve infrastructure and diversify growth sectors. This would help develop human and social capital.

Dr. Buckley observes that IPED students acquire a skill set that makes them well suited to excel in a globalizing world. This includes critical and analytical thinking as well as the ability to apply learned concepts to real-world problems. Dr. Buckley states, "Students in IPED are well suited for the way of thinking necessary in global interactions of political, economic and financial factors". These skills will be desirable to the government, private and non-profit employers as globalization spreads. ■

low number of companies listed on the exchange. Additionally, there is a threat of insider trading where certain parties are privy to government access thus giving them an unfair advantage over other investors.

There are a number of concerns for an investor when looking at Ukraine. This includes political instability, large current account deficits, a negative balance of payments, creeping inflation and a nascent stock market. All of these factors solidify Ukraine as a below normal prospect for investment. ■

