The Graduate Program in International Political Economy & Development, Fordham University

Emerging Markets Watch

IPED FORDHAM UNIVERSITY

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Fordham University's Graduate Program in International Political Economy and Development trains graduate students in the advanced interdisciplinary analysis of global economic relations and international development issues. Graduates frequently pursue professional careers in global finance, international economic policy, and international relief and development.

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's analysis in emerging markets and country risk analysis.

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Phil Moccio Balances Science/Art at KPMG

KPMG gave Phil Moccio his first full-time job in 2001. Almost 17 years later and after obtaining a graduate degree through Fordham's IPED program, he is still with the global auditing firm, having climbed through the organization to serve as CFO of KPMG's Advisory business.

"Within KPMG, I've had the opportunity to advance my career by changing roles and taking on new challenges without having to leave the organization," says Moccio. "This has enabled me to develop new skills and relationships."

He has held a number of positions within KPMG's finance organization. Moccio began as a Business Unit Financial Analyst, before moving on to become Manager of Finance overseeing the Risk Advisory Services business. He then served as the firm's IT Controller and Director of Finance for Strategic Investments. In his current role, Moccio leads a team of roughly 35 finance professionals.

"The role of finance in an organization continues to evolve," says Moccio. "From managing the day-to-day financial transactions and leading planning processes, finance plays a significant role in evaluating investment decisions, supporting the firm's strategy, and driving profitable growth."

Shortly after beginning at KPMG, Moccio enrolled in IPED. He was attracted to the way the program melded social science and quantitative disciplines.

"You needed to balance the science with the art," he says. "I thought IPED did a great job of pulling it all together. It isn't an accounting program. IPED was much more thought-provoking. It allowed you to flex your critical thinking."

In the ever-changing digital landscape, Moccio recommends that students keep an eye on technological trends, particularly around new data modelling techniques. He also encourages anyone interested in the financial services sector to continue gaining new knowledge and to embrace diversity in their work teams.

"You have to maintain that appetite to learn new things every day. Continue to read as much as you can every day," he says. "When you have diversity of thinking, you get a better product."

He emphasizes the value of developing leadership skills as well.

"You don't need to be in a leadership position to be a leader. Honing in on that leadership skill, even when you think you're not in a position of leadership, is really important."

Moccio's career at KPMG is a model of an IPED alumnus putting this style of leadership into practice.

EDITOR'S 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. Included in this newsletter are the abstracts of the papers completed during the summer of 2017.

Photos of Indonesia, South Africa, Morocco, and Brazil on pages 2 and 3 courtesy of Pixaby

INVESTMENT PROSPECTS FOR EMERGING MARKETS

Indonesia

BY WESLEY MILILLO

Indonesia boasts the best economic performance in Southeast Asia, with above average prospects for equity investments. In 2018, real GDP is expected to grow between 5 and 6%, with inflation expected to remain stable near 5% and unemployment expected to remain near 6%.

Indonesia's Central Bank engaged in aggressive expansionism in 2016, cutting the Central Bank Policy Rate six times. This is likely to cease, leading many to fear a tightening of monetary policy that might hinder economic growth. Government spending is expected to increase as it has over the past three years.

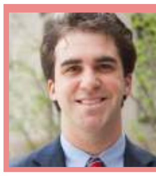
The banking sector remains fully capitalized and safe. The capital-to-risk weighted assets ratio increased to 20.62 in 2016, up from 16.18 in 2010. Non-performing loans to total gross loans declined to 2.9, indicating less willingness to engage in risky lending and stricter lending criteria.

One of Indonesia's largest challenges is crumbling infrastructure, with low critical investment unlikely to change without central government funding.

The Indonesian rupiah (IDR) is stable and expected to depreciate against the dollar slightly in 2018. Indonesia maintains a strong, growing positive trade balance. Top exports include coal briquettes and palm oil, with the United States, China, and Japan as top export destinations. While Indonesia's reserves have grown, so has its debt.

Equity markets are dynamic and promising for investment. The one-year return on the Jakarta Stock Exchange Composite Index was 15% compared with 15.5% on the S&P 500 and 10.2% on the FTSE 100. At the 10-year cycle, Indonesian equity markets returned 84.2%, beating the S&P 500 by more than 20%. Monthly volatility doubles that of the United States, signaling greater risk and return to potential investments. The biggest boon to broad investments occurred when Standard & Poor's upgraded Indonesia to investment grade BB+.

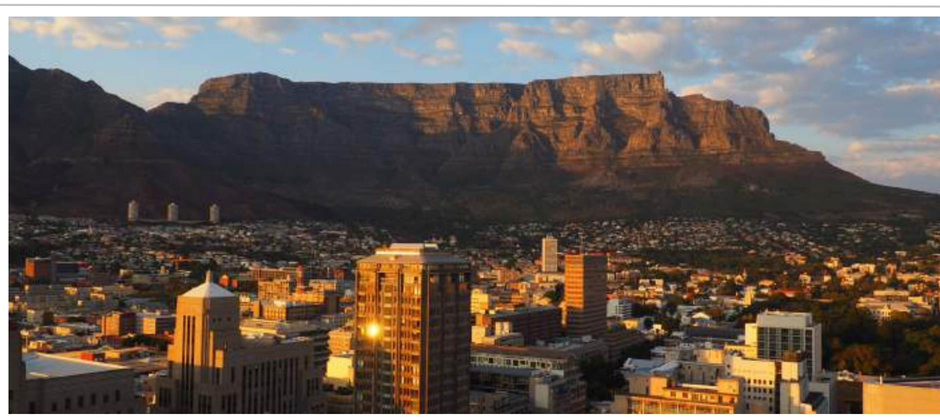
Despite certain macroeconomic, foreign exchange, and equity market variables, Indonesia remains a strong, stable location for international investment.



Wesley Milillo is pursuing his MA in International Political Economy and Development at Fordham University. He works at Société Générale.

South Africa

BY LUTHER FLAGSTAD



Equity prospects in South Africa over the coming year are below normal, with macroeconomic performance likely to be weak and the exchange rate likely to remain volatile. Uncertainties in South Africa will mean poor stock market performance relative to other emerging markets.

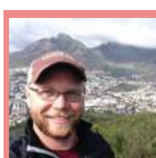
South Africa's real growth rate over the past year was 0.8% and is unlikely to rise above 1% in 2018. Inflation is at 5.5%, and unemployment is a dismal 27.7% and trending higher. This low growth is driven by the economy's struggles with draught, recent contraction in manufacturing, and a decline in business outlook, with firms hesitant to spend given current political uncertainty after the vote of no confidence for President Jacob Zuma. Continuing political uncertainty will be the largest brake on the economy in the year ahead.

South Africa is facing a fiscal policy dilemma: a contracting economy may call for a stimulus, but if the expenditure ceiling is crossed, government debt will be downgraded, causing interest payments to rise. This will result in fewer funds for government stimulus programs. The South African Reserve Bank will likely lower the repo rate by 50 basis points to help drive stagnating spending, but this is unlikely to have a strong, immediate effect.

Countervailing forces will affect the exchange rate, depreciating the rand with any level of political uncertainty but appreciating the rand concurrent with any strengthening of the trade balance and/or stronger fiscal performance.

Stock market returns have averaged 0.6% per month over the past 10 years but have been flat for the period between July 2016 and June 2017. Compared with the United States and other BRICS countries, returns were tied for the worst with Russia.

South Africa will continue to be a destination investors turn to for diversification and potential for higher return, but investors may want to hold off until the next presidential election in 2019 for any major movements into the market.



Luther Flagstad is a Public Service Fellow pursuing dual MAs in Economics as well as International Political Economy and Development.

Morocco

BY KELSEY GARCIA

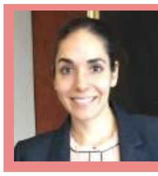
Prospects for equity investment in Morocco are above average. Growth is expected to decrease slightly to a 4.3% rate in the coming year, and inflation will continue to be low at around -0.2%, with unemployment expected to remain near 10%. Youth unemployment and the urban/rural divide has led to social unrest associated with the Al-Hirak al-Shaabi popular movement. Though Morocco's king may extend government services to promote youth employment and avert violence, any reforms will be artificial and achieve little more than appeasing the population.

With sound fiscal policy, a low inflation rate, and a reformed banking system, Morocco is attractive for foreign direct investment (FDI). Civil unrest and regional terrorism could hinder growth in tourism, but the government's efforts to increase FDI and macroeconomic stability will counteract this downfall. The construction industry is expected to grow this year.

A stable exchange rate is also anticipated in the coming year. Volatility will remain low, and a current account deficit and increasing import prices of energy will lead to a negative balance of payments in 2018. That said, international reserves have continued to increase. Coupled with growing FDI, these reserves will finance the country's deficit. Morocco's money supply will continue growing, but because of low inflation, interest rates will be unaffected.

Morocco's Casablanca Stock Exchange is the third largest stock market in Africa. In 2018, returns should remain near 2%, though risk will also remain relatively high. The most commonly traded securities on the exchange are financials, consumer goods and services, technology, industrials, and basic goods. The construction and infrastructure industry and financial sector offer the best investment prospects.

Morocco's efforts to become an economically sound leader in the Middle East and North Africa have paid off, leaving its prospects for equity investment in the coming year above normal.



Kelsey Garcia obtained her MA in International Political Economy and Development. She is an education manager at Success Academy in New York.

Brazil

BY ASHLEY DASWA

Portfolio investment prospects in Brazil are below normal due to below average macroeconomic performance, high inflation, double digit unemployment, and constrained fiscal and monetary policy discipline. Political turmoil surrounding President Michel Temer's corruption scandal has destabilized the Brazilian Real (BRL).

Brazil still suffers from the 2014 recession's aftermath. Real GDP growth decelerated by 7.3% between 2015 and 2016 and exhibited a marginal increase of 0.5% in the first quarter of 2017. The Banco Central do Brasil (BCB) managed to bring the inflation rate within its target bend of 2 and 4.5% as the year-to-date inflation rate dropped from 11 to 3%. A steady decline of the inflation rate would create room for BCB to trim the interest rate and stimulate growth.

Brazilian unemployment is very high at 13.5%. The government plans to raise taxes and cut public expenditure to meet fiscal targets, as public debt is 72% of GDP. Nonetheless, energy and other key sectors have been resilient.

By the end of 2016, the current account deficit declined to 1.6% of GDP. This exceptional performance is partly due to the BRL's deceleration. It will be further improved by an increase of exports like iron ore and oil. International reserves have grown from U.S. $368 billion in August 2016 to U.S. $382 billion in July 2017.

The São Paulo Stock Exchange is "event driven." It has been on an upward trajectory since President Dilma Rousseff's impeachment in 2016. The Bovespa Index has reported year-to-date returns of 16.27%, higher than the S&P 500. This modest performance is partly attributable to the performance of Petrobras, a state oil company which revealed positive short-term gains despite being at the helm of the corruption scandal involving both the ousted and current president.

Ultimately, gains in the stock market and throughout the rest of the Brazilian economy remain vulnerable to political noise. These realities, high inflation and unemployment, and a lack of fiscal and monetary policy discipline leave Brazil's investment prospects and macroeconomic performance below average.

Ashley Daswa is a research analyst in South Africa. He holds a master's in Finance and Investments from University of the Western Cape.

Faculty Feature: Dr. Sean Collins

Dr. Sean Collins always knew he wanted to be a teacher and expected to leave his mark in a high school social studies classroom. His plans changed when he took a required economics course as an undergraduate student at Florida State University.

"I loved it," Dr. Collins recalls. "So I brushed up on my math and decided to go into economics."

Dr. Collins stayed at Florida State for his master's degree and PhD, before moving to Fordham University. His specializations include experimental and financial economics, with a focus on asset bubbles, bargaining and management, and decision making under uncertainty. With work published in a number of peer-reviewed journals, Dr. Collins explores the factors that lead to higher frequency fluctuations in prices and asset markets.

"Some of my research looks at how people make decisions," he explains. "When faced with a risky decision, how do you make that decision?"

To answer this question, Dr. Collins and Fordham colleague Dr. Duncan James examined the preference reversal phenomenon. This, for example, could be demonstrated by someone changing their inclination for one lottery over another after receiving an independent valuation of the two choices.

"We applied a model to this and basically discovered that if you ask if you value [the lottery] not in dollars but in probabilities of a better outcome, you can get different shifts in the types of reversals you might see," says Dr. Collins.

Another paper Dr. Collins and Dr. James co-authored with other colleagues updated the market entry game. While the game's designers traditionally administer prices, the new game examined what happens when participants are allowed to set the prices at which they trade.

"When you actually go through the act of trading," says Dr. Collins, "the market is more efficient."

Based out of Fordham's Lincoln Center campus, Dr. Collins has occasionally taught IPED students when other professors have been on sabbatical.

"I think IPED students are great," he says. "They come in with a diverse range of backgrounds and ways of thinking. They're cut from good cloth." His advice to current or prospective IPED students is to follow their passion.

"I think you can make a difference. The job placements from IPED are very good," he says. "If you are going into IPED, you're probably doing it because it's something you love. And that's probably the most important thing you can do in life."

Global Markets Fellowship

Designed to attract highly qualified full-time students who seek careers in global finance and emerging 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 used widely in international business, and strong cross-cultural skills. Students committed to a professional career in global finance with a focus on emerging markets should also apply for the Emerging Markets Travel Program. The application deadline is early January for the following fall semester.

For further information, go to *iped.fordham.edu* and follow the link to "Financial Aid."

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