Emerging Markets

Emerging markets

- Definition: EM are markets of countries that are in the proces of transformation.
- EM are markets of countries that are in a transitional phase between developing and developed status.

Emerging markets

- Emerging Markets are NOT only small or poor.
- Examples:
  - China: is considered an emerging market.
    - It has vast resources and a population about 1,3 billion.
  - Bangladesh: despite poor governance and weak public institutions, the country has achieved an average annual growth rate of 5% since 1990.
    - In December 2005, Goldman Sachs named Bangladesh one of the "Next Eleven – group of developed and developing countries that have very optimistic outlook for investors.

Emerging markets

- Emerging markets are in process to make their economy
  - strong,
  - more open to international investors and
  - more competitive in global markets.
- Large or small, most nations **have something of value for international trade** in terms of natural resources, labour, technology, location or culture.

Emerging markets

- Countries considered to be emerging markets generally possess some, but not necessarily all, of the following characteristics:
  - A low per capita gross domestic product
  - Recent liberalization of economic and political systems
  - A lack of well-developed capital market
  - Non- membership in the Organization of Economic Cooperation and Development (OECD)

Emerging markets

- Antoine W. van Agtmael, an employee of the World Bank’s first used the term "emerging markets" in 1981.
- He defined as an economy with low-to-middle per capita income. Such countries constitute approximately 80% of the global population, representing about 20% of the world's economy.

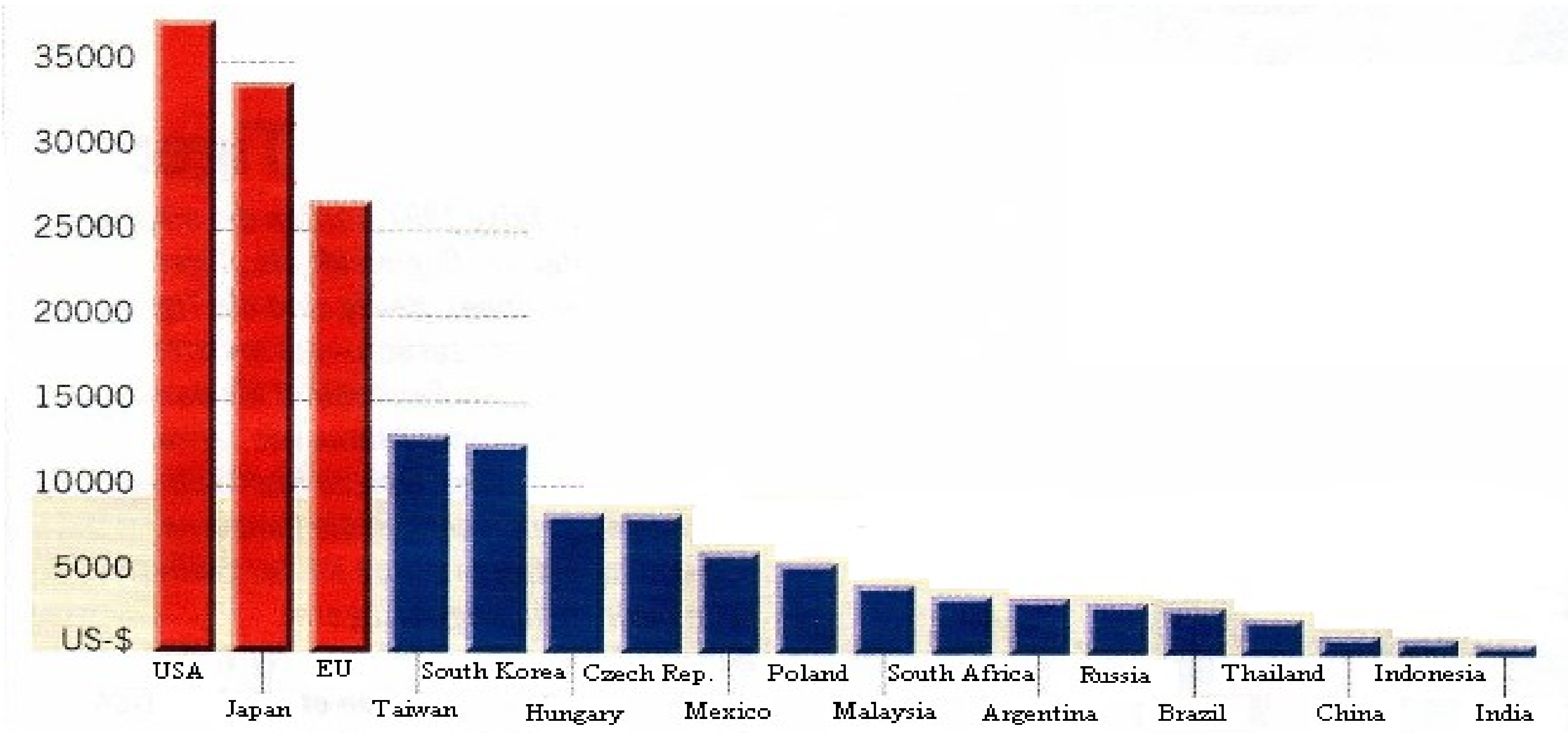
Emerging markets

- But the concept of investing in less developed countries with potential for economic expansion has been a part of individual and institutional investment strategies since the 19th century
- At the beginning of 1990s many investors were looking for higher yields and geographical diversification and so they discovered securities in developing countries.
- But then some crises appeared (Mexico 1994-1995, South Asia 1997, Russia 1998, Brazil 1999) showed risk related with this markets.
- Some international investors favour emerging-market stocks and bonds because of the potential for high return in a relatively short period of time.
- There is a great deal of risk involved in these investments because emerging markets are by definition in a state of transition and subject to unexpected political and economic shocks.

Emerging markets

ASIA	AMERICAS	EUROPE	MIDDLE EAST	AFRICA
China India Pakistan Malaysia Indonesia Thailand Vietnam Philippines	Mexico Brazil Argentina Venezuela Ecuador Peru Chile Colombia	Russia Poland Ukraine Czech Republic Slovakia Hungary Romania Bulgaria	Turkey Israel Jordan Syria Lebanon Iran Iraq Gulf States	Egypt Libya Morocco Algeria Tunisia South Africa Nigeria Zimbabwe

EMERGING MARKETS THROUGHOUT THE WORLD



EMERGING MARKETS
ASIA

People‘s Republic of China

- The People’s Republic of China is the most populous country in the world, with a population of more than 1,3 billion.
- Since 1979, when China began to open its economy to the rest of the world and initiate reforms, its economic performance has been impressive.
- In 2008, its gross domestic product (GDP) reached 5 trillion USD, although per capita GDP remained low – about 3.600 USD.

People‘s Republic of China

- Beginning in late 1978, the Chinese leadership has been reforming the economy from a Soviet-style centrally planned economy to a more market-oriented economy that is still within a rigid political framework under Party control.
- The reforms
  - replaced collectivization of Chinese agriculture with privatization of farmlands,
  - increased the responsibility of local authorities and industry managers,
  - allowed a wide variety of small-scale enterprises and promoted foreign investment.
- Price controls were also relaxed. These changes resulted in mainland China's shift from a planned economy to a mixed economy.

People‘s Republic of China

- China became a member of the World Trade Organization in 2001.
  - China’s accession into the World Trade Organization (WTO) was a goal achieved after nearly fifteen years of exhausting negotiations carrying many legal, political and social implications for all parties.
  - China was finally able to convince WTO members that without China, the WTO is only partially a worldwide trade organization
- At the end of 2005, the PRC became
  - the fourth largest economy in the world by exchange rate,
  - and the second largest in the world after the United States by purchasing power parity at US$8,158 trillion.
  - But with its large population this still gives an average GDP per person of only an estimated US $8,000 (2006), about 1/5th that of the United States.

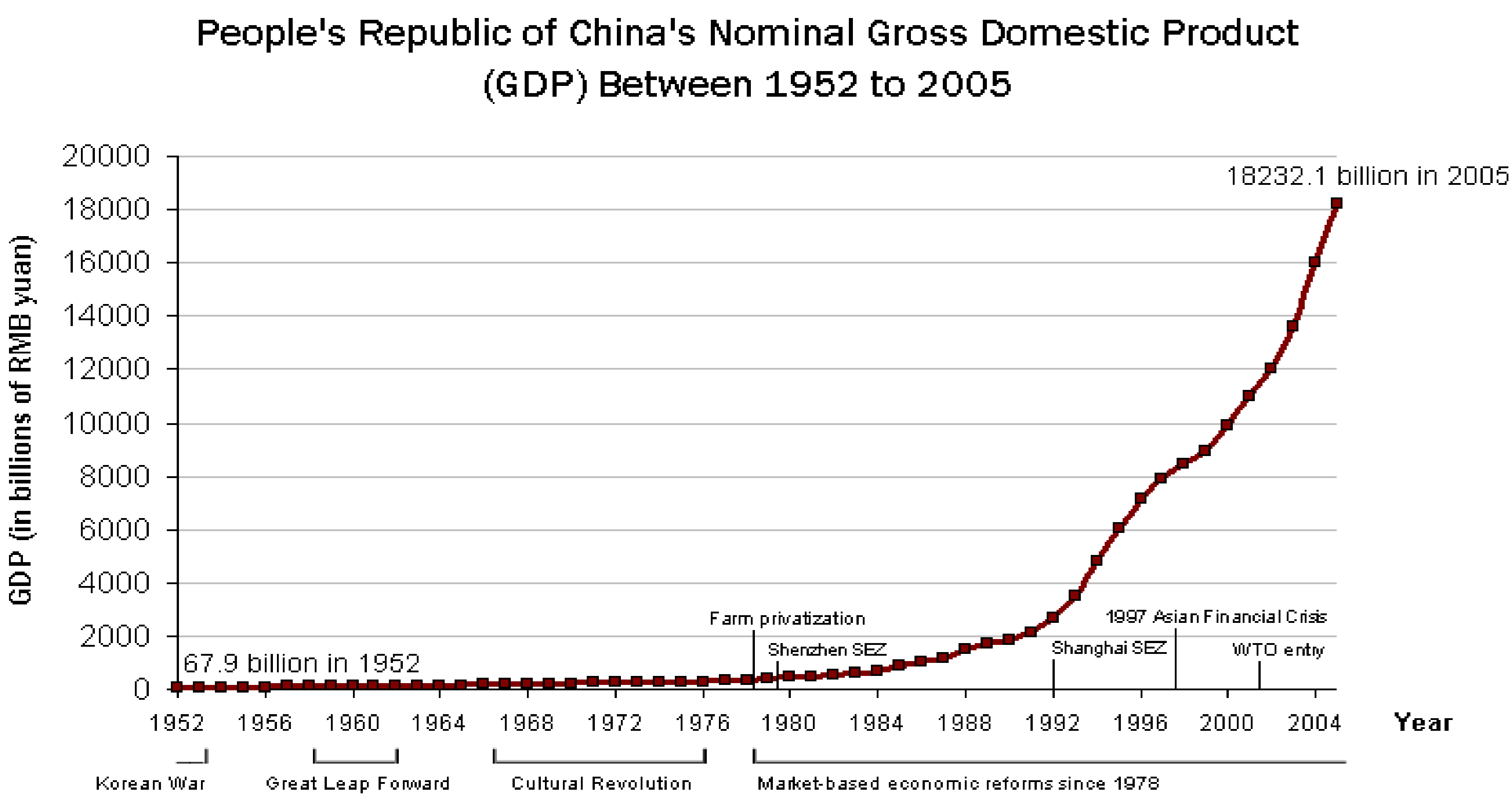
People's Republic of China

- Mainland China has a reputation as being a low-cost manufacturer, which caused notable disputes in global markets.
- This is largely because Chinese corporations can produce many products far more cheaply than other parts of Asia or Latin America, and because expensive products produced in developed countries like the United States are in large part uncompetitive compared to European or Asian goods.

People's Republic of China

- The government also focuses on foreign trade as a major vehicle for economic growth, which led to 5 Special Economic Zones
  - (SEZ: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan) where investment laws are relaxed so as to attract foreign capital.
- There has been a significant rise in the Chinese standard of living in recent years.
  - Today, a rapidly declining 10 percent of the Chinese population is below the poverty line
  - 90.9% of the population is literate compared to 20% in 1950.

People's Republic of China



Hong Kong

- Hong Kong lost its sovereignty on July 1, 1997, as a result of Special Administrative Region of the PRC.
- China promised to grant Hong Kong a high degree of autonomy for at least 50 years.

Hong Kong

- Hong Kong maintains a highly capitalist economy built on a policy of free market, low taxation and government non-intervention.
- It is an important centre for international finance and trade, with the greatest concentration of corporate headquarters in the Asia-Pacific region.

Hong Kong

- Hong Kong has little arable land and few natural resources within its borders, and must therefore import most of its food and raw materials.
- Much of Hong Kong's exports consists of re-exports, which are products made outside of the territory, especially in mainland China, and distributed through Hong Kong.

Hong Kong

- Hong Kong's economy is dominated by services, which accounts for over 90 percent of its gross domestic product.

Thailand

- Population more than 60 million, per capita GDP in 2005 8,542 USD.
- Before 1997 crisis, Thailand had enjoyed a long period of rapid economic growth, boosted by foreign investment.
- The Thai economy contracted during crisis 1,4 percent in 1997 and 10,4 percent in 1998.
- Significant progress has been made over the past few years in stabilizing the economy and fostering an economic recovery
- However, the recovery remains fragile because:
  - there are large sums of nonperforming loans in the banking sector and,
  - Thailand relies too heavily on exports (about 65 percent of its GDP).

India

- For most of its post-independence history, India adhered to a quasi-socialist approach
  - with strict government control over private sector participation,
  - foreign trade and
  - foreign direct investment.
- Since 1991, India has gradually opened up its markets through economic reforms and reduced government controls on foreign trade and investment.
- India has the world's third largest GDP at US $4.164 trillion. India's per capita is 3600 USD.
- Despite significant economic progress, a quarter of the nation's population earns less than the government-specified poverty threshold of $0.40 per day.
  - 2005 27.5% of the population was living below the poverty line.
- India has the world's second largest labour force, with 509,3 million people.

Indonesia

- Indonesia has a market-based economy in which the government plays a significant role
  - It owns more than 164 state-owned enterprises and
  - administers prices on several basic goods, including fuel, rice, and electricity.
- In the 1960s, the economy deteriorated drastically as a result of
  - political instability,
  - a young and inexperienced government,
  - and ill-disciplined economic nationalism, which resulted in severe poverty and hunger.

Indonesia

- In the mid-1960's the New Order administration brought a degree of discipline to economic policy that
  - quickly brought inflation down,
  - stabilized the currency,
  - rescheduled foreign debt,
  - and attracted foreign aid and investment.
- Indonesia is Southeast Asia's only member of OPEC, and the 1970s oil price raises provided an export revenue windfall that contributed to sustained high economic growth rates.
- Following further reforms in the late 1980s,foreign investment flowed into Indonesia, particularly into the rapidly developing export-orientated manufacturing sector, and from 1989 to 1997, the Indonesian economy grew by an average of over 7% .

Indonesia

- Indonesia was the country hardest hit by the East Asian financial crisis of 1997–98.
- Against the US dollar, the currency dropped from
  - about Rp. 2,000 to Rp. 18,000, and the economy decline by 13.7%.
  - The rupiah has since stabilized at around Rp. 10,000, and there has been a slow but significant economic recovery.
- Political instability since 1998, slow economic reform, and corruption at all levels of government and business, have contributed to the patchy nature of the recovery.
- (Transparency International, for example, ranked Indonesia 143rd out of 180 countries in its 2007 Corruption Perceptions Index).
- As of 2006, an estimated 17.8% of the population live below the poverty line, and 49.0% of the population live on less than US$2 per day.

South Koreas

- The economy of South Korea is the 14th largest in the world according to GDP measured in PPP, and the tenth when measured nominally, as of 2006
- Per capita gross national product, only $100 in 1963, exceeded $20,000 USD in 2005
- The core of the South Korean economy has changed substantially over the country's six-decade existence
- In the 1940s, the country was predominantly agricultural, with little industry

South Koreas

- In the 1950s, South Korea was one of the poorest countries in Asia. This was partly due to the destruction of much of the country's infrastructure during the Korean War.
- in 1962, South Korea embarked on a series of ambitious for economic development similar to the macro-economic schemes of the Soviet Union.
- Emphasis shifted to foreign trade with the normalization of relations with Japan in 1965, which resulted in a boom in trade and investment. Rapid expansion, first into light and then heavy industries, so in 1973 Korea became the 34th wealthiest country in the world.
- This growth is often called the "Miracle on the Han River",

South Koreas

- Since the Asian financial crisis of 1997 the corporate landscape has changed considerably as a result of massive bankruptcies and government reforms.
- The crisis exposed longstanding weaknesses in South Korea's economy, including
  - high debt-to-equity ratios,
  - massive foreign borrowing,
  - and an undisciplined financial sector.
- This led to two rounds of financial and industrial restructuring; once in 1997 and again following the collapse of Daewoo in 1999. Daewoo's collapse has been recorded as one of the largest bankruptcies in world history. By 2003, just over one-half of the 30 largest corporations from 1995 remained.

Emerging Markets

EUROPE

Russian financial crisis

- The Russian financial crisis (also called "Rouble crisis") hit Russia in August 1998. It was exacerbated by the global recession of 1998, which started with the Asian financial crisis in July 1997.
- Given the ensuing decline in world commodity prices
  - countries heavily dependent on the export of raw materials, such as oil, were among those most severely hit.
- The economic cost of the first war in Chechnya that is estimated at $5.5 billion (not including the rebuilding of the ruined Chechen economy) was also a cause to the breaking out of the crisis. In the first half of 1997, economy showed some signs of improvement.

Russian financial crisis

- Russia bounced back from the August 1998 financial crash with surprising speed.
- Much of the reason for the recovery is that world oil prices rapidly rose during 1999–2000
  - just as falling energy prices on the world market helped to deepen Russia's financial troubles,
- so that Russia ran a large trade surplus in 1999 and 2000.
- Another reason is that domestic industries, such as food processing, had benefited from the devaluation, which caused a steep increase in the prices of imported goods.

Russia

- Russia has
  - the world's largest natural gas reserves,
  - the second largest coal reserves and
  - the eighth largest oil reserves.
- It is the world's
  - leading natural gas exporter and
  - the second leading oil exporter.
- Oil, natural gas, metals, and timber account for more than 80% of Russian exports abroad.

Russia

- Over the past several years, Russia has used oil revenues to its Stabilization Fund of the Russian Federation to prepay all Soviet-era sovereign debt to Paris Club creditors and the IMF.
  - Oil export earnings have allowed Russia to increase its foreign reserves from $12 billion in 1999 to some $470 billion at the end of 2007, the third largest reserves in the world.
  - The country has also been able to substantially reduce its formerly massive foreign debt.

Turkey

- During the 1980s, Turkey began a series of reforms.
- Turkey shifted its economy from
  - a statics, insulated system to
  - a more private-sector, market-based model.
- The reforms spurred rapid growth, but this growth was punctuated by
  - sharp recessions and financial crises in 1994 and1999
  - following the earthquake of that year in 2001,
- resulting in an average of 4% GDP growth per annum between 1981 and 2003.

Turkey

- In recent years, the chronically high inflation has been brought under control and this has led to the launch of a new currency
  - On January 1, 2005, the old Turkish Lira was replaced by the New Turkish Lira by dropping off six zeroes (1 YTL= 1,000,000 TL).
- As a result of continuing economic reforms, inflation has dropped to 8.2% in 2005, and the unemployment rate to 10.3%.
- With a per capita GDP of 5,062 USD, Turkey ranked 69th in the world in 2005.

Israel

- Israel is considered one of the most advanced countries in the Middle East in economic and industrial development.
- It has the second-largest number of startup companies in the world (after the United States) and
  - the largest number of NASDAQ-listed companies outside North America.
- In 2007, Israel had the 44th-highest gross domestic product and
  - 22nd-highest gross domestic product per capita.

BRIC, BRIMC, N - 11

BRIC, BRIMC, N - 11

- Brazil, Russia, India, China
- In 2003 – Dreaming with BRIC's: The Path to 2050
- Population: 39 % of word's population
- GDP (PPP): approx. 13 trillions USD
- Until 2050 four most dominant economies
- BRIMC-- (2005) Brazil, Russia, India, Mexico, China

BRIC, BRIMC, N - 11

- Unfulfilled expectation in Brazil
- Prediction of developing in China
- Disregarding of human rights
- Political and social conflict
- Nothing more than 4 largest emerging market economies but nothing in political and economic term.

BRIC, BRIMC, N - 11

- Next 11 is group of 11 countries that have promising outlook for investment and future growth
- As a criteria was chosen
  - macroeconomic stability
  - political stability
  - openess of trade and investment policy
  - quality of education system

N - 11

- Nigeria (Developing country)
- Pakistan (Developopnig country)
- Phillipines (Newly industrialized conutry)
- South Korea (Developed country, Advanced economy)
- Turkey (Developed country)
- Vietnam (Developing country)
- Bangladesh (Developing country)
- Egypt (Newly industrialized country)
- Indonesia (Newly industrialized country)
- Iran (Developing country)
- Mexico (Developing country)

Thank you for your attention