FINS2622 NOTES

Emerging Capital Markets

UNSW Semester 2 2018

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WEEK 1: WHAT ARE ASIA PACIFIC MARKETS AND WHY STUDY/INVEST IN THEM?

IMPORTANCE OF ASIA PACIFIC MARKETS

- The size of these emerging/frontier economics: China, India
- The total of all emerging markets equates to 77% of the world's land mass
- The total population of all emerging markets equates to 80% of the world's population
- The total GDP of all emerging markets equates to approximately 50% of the world's GDP.
- Australia and its future? Is it part of Asia?
    - Australia may not technically be part of Asia, but Australia is regionally close enough to be affected by the workings of these Asian emerging economies e.g. in trade, services and education

DEFINITIONS AND TERMINOLOGY

- Generally, emerging markets are financial markets of economies that are in the growth stage of their development cycle and have low to middle per capita incomes
- Frontier Markets are less developed than emerging markets; early stage of development; less regulated. Hence 'pioneer' image/perception

CHARACTERISTICS OF EMERGING MARKETS

- In transition, increasing in size, activity, or level of sophistication, investible/less investable
- Rule of law
- Treatment of shareholders
- Absence of government interference/shadow economies
- A small increase in per capita income → disproportionately large return for investors
- Less correlated with developed markets → justifiable portfolio diversification

WHY INVEST IN EMERGING MARKETS?

1. Growth and Diversification
    - Emerging markets are growing at approx. 6% p.a. while developed markets are growing at 2% p.a. These are approximates but are not far off the true figures. E.g. China grows at approx. 10% p.a.
    - Why the sudden spurt of growth?
    - 2001 - 10% of total world stock market capitalisation.
    - 2011 - this figure was approximately 34%.
2. Emerging markets don't have to re-invent the wheel: this is an advantage because they do not have to spend time nor resources on innovation, they can simply mimic the acts of developed countries
    - Examples from China, India, Thailand, Malaysia, Vietnam, Singapore
3. Technology/Manufacturing - they are quite efficient compared to developed economies.
4. Infrastructure needed: physical and institutional → this leads to an abundance of investment opportunities in these emerging economies. Opportunities to invest in:
    - Institutions such as stock market/trading mechanisms: capital flows/IPOs/FDI/Portfolio investment etc.
    - Physical infrastructure: roads/bridges/ports. Recall the benefits of portfolio diversification and FDI
5. Huge existing population and population growth: huge consumption markets
    - Population as a driver of growth in Asia

STOCK MARKETS IN EMERGING MARKETS

- Bond markets: small and infrequently traded
- General characteristics:
    - Capitalisation
    - Alternatives/Small & medium enterprises