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EMERGING MARKETS INVESTORS ROUNDTABLE
27th January 2009

Some salient points and outcomes
(Quotes reflect statements, but without specific attribution)

Macro themes

- We are the midst of a brutal process of deleveraging and the current crisis is the first crisis of globalization in the modern era. It is truly global and no country is immune. The effect on emerging markets will be dramatic. Emerging Europe is likely to be hit the hardest. Combining substantial currency reserves with governance reforms is the best way to build resilience
- The key to stabilizing the world economy can be summed up in 2 words: *spend* and *balance*. This implies a rebalancing between surplus and deficit economies and a greater willingness on the part of surplus economies (typically emerging markets) to focus more on domestic consumption. However, not everyone can have a current account surplus (since at the world level supply must equal demand). The current desire of governments around the world to pursue current account surpluses can only push the world economy into depression: as excess demand in deficit countries is coming to an end, excess supply of surplus countries must also come to an end, either via offsetting increases in demand (unlikely) or brutal contractions in supply
- The indebtedness of deficit countries (particularly the US one) raises doubts about the prevalence of the Western model. How much debt is too much? (In the US, the ratio of public and private debt to GDP reached 360% at the end of last year). There is no easy way out, but "there is one magic bullet: it's called inflation"
- The economic crisis is exacerbating geopolitical and societal tensions, which in turn generate a negative feedback loop. Paradoxically, the risk is greater in democracies where the politics is first and foremost domestic. On the upside, the crisis might coerce developing countries to new forms of collaboration, particularly in Asia and mostly in energy and the environment
- "Nothing will be ever be the same" may sound like a cliché, but nobody should underestimate the radical nature of the shift on the brink of occurring – "if you don't change, change will visit you and it will be painful"
- Global governance is in a mess and the West tenaciously holds onto its entrenched power in intergovernmental bodies. The IMF and other Bretton-Wood institutions are structurally ill-equipped to deal with a *global* financial crisis. G20 is in the limelight, but it is the G2 that really matters as the defining bilateral economic and geopolitical relationship rests between the US and China. Several participants voiced disquiet over Geithner's remark that Beijing is manipulating the yuan
- Muscular state intervention to prevent a systemic financial collapse and fiscal stimulus, whilst indispensable to refloating the world economy, also threaten deeper and broader capital markets. Moreover, the global trading system is in jeopardy as national governments look to their own. A multilateral commitment by both government *and* the private sector in concert to open up capital markets is vital, even more so as EM governments may resort to capital controls and other forms of intervention if their creditworthiness is seriously called into question
- Is there any good news?
    - The current mess, which originated in the most sophisticated market in the world, will make us realize that the West represents only 12% of the world's population. The voice of the remaining 88% (the "Rest") will eventually be heard
    - Profound crises spur change. This might be an "enabling crisis" that will force us to change our institutions, our behaviours and some of our bad habits ("conscious consumption" might ultimately prevail). "Forced collaboration" may also prevail (as suggested above)
    - There are significant indicators suggesting that Al Qaida is on the verge of implosion

Investment themes

- The resources of EM SWFs are dwarfed by EM central bank reserves. The former will be more cautious in future – their strategy of moving out of debt instruments (T-bills) into a more aggressive equity-based approach has led to huge losses as equity markets around the world haemorrhaged massively. SWFs are under pressure to focus closer to home: providing liquidity to local capital markets. There will also likely be greater focus on EUR-based investments and Asia
- The "youth bulge" in Africa (and significant parts of Asia and the Middle-East) is both a threat (high unemployment and "male surplus" leading to social unrest) and an opportunity (huge investment required in social infrastructure – health and education)
- At the current rate of deterioration, US public finances will look worse than Italy in 5 years' time – the next financial crisis may well usher in the definitive demise of the dollar as the world's reserve currency. "Then the liberal economic order based on US supremacy will be finished. This is an opportunity staring at us down the barrel of a gun"
- The infrastructure themes remains powerful as EMs will continue to consume vastly more power (electricity), roads and other infrastructure
- The financial crisis may distract us from the imperative of tackling climate change, but decoupling growth from carbon emissions constitutes a huge R&D and business opportunity. The themes of alternative energies and energy conservation remain powerful, especially in EMs
- EMs are producing their own upscale brands that may eventually rival Western luxury goods
- There is a question over the future of biofuels. However, land & water shortages and population growth will drive an increase in biofuel prices
- Acqua-culture markets will likely exhibit annual growth rates of 20-25 percent