

What is this course about?



Opportunities in Emerging Markets

- Highest growth rates in the world
- Most of the people in the world
- High rates of return
- Cheapest labor

Focus: Recent Growth Rates

2007				2009			
Gross domestic product				Gross domestic product			
	latest	qtr*	2007†		latest	qtr*	2009†
United States	+2.6 03	+3.9	+2.0	United States	-2.5 03	+2.8	-2.5
Japan	+1.6 02	-1.2	+2.0	Japan	-5.1 03	+1.3	-5.4
Britain	+3.3 03	+3.2	+2.9	Britain	-5.1 03	-1.2	-4.5
Canada	+2.5 02	+3.6	+2.5	Canada	-3.2 03	+0.4	-2.5
Euro area	+2.5 02	+1.3	+2.6	Euro area	-4.1 03	+1.5	-3.8
China	+11.5 03	na	+11.5	China	+8.9 03	na	+8.2
India	+9.3 02	na	+8.0	India	+7.9 03	na	+5.5
Indonesia	+6.3 02	na	+6.2	Indonesia	+4.2 03	na	+4.2
Malaysia	+5.7 02	na	+6.0	Malaysia	-1.2 03	na	-2.4
Pakistan	+7.0 2007**	na	+6.4	Pakistan	+2.0 2009**	na	+3.7
Singapore	+9.4 03	+6.4	+7.4	Singapore	+0.6 03	+14.2	-4.5
South Korea	+5.2 03	+1.4	+5.0	South Korea	+0.9 03	+13.6	-1.0
Taiwan	+5.1 02	na	+4.3	Taiwan	-1.3 03	na	-3.6
Thailand	+4.4 02	+5.2	+4.5	Thailand	-2.8 03	+5.5	-4.3
Argentina	+8.7 02	+8.8	+8.0	Argentina	-0.8 02	+1.1	-0.5
Brazil	+5.4 02	+3.2	+4.7	Brazil	-1.2 02	+7.8	nil
Chile	+6.1 02	+6.5	+5.8	Chile	-1.6 03	+4.6	-1.2
Colombia	+6.9 02	+4.4	+6.7	Colombia	-0.5 02	+2.7	+0.2
Mexico	+2.8 02	+5.3	+2.8	Mexico	-6.2 03	+12.2	-7.1
Venezuela	+8.9 02	na	+6.5	Venezuela	-4.5 03	na	-3.0
Egypt	+7.2 02	na	+7.0	Egypt	+4.5 02	na	+4.7

Richer Countries

China & India

Other Poorer Countries

Opportunity: High Growth Rates

- Best 10-year average growth rate in the USA since 1950
 - 3.3%
- Percentage of countries in various regions with a better 10-year average growth rate

	Number of Countries		
	Total	That have outperformed US best	%
Asia	21		
Sub-Saharan Africa	47		
Latin America	31		

Opportunity: High Growth Rates

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	Number of Countries		
	Total	That have outperformed US best	%
Asia	21	18	86%
Sub-Saharan Africa	47	30	64%
Latin America	31	26	84%

Opportunity: Market Size

- Big national populations
 - China: 1.3 billion
 - India: 1.1 billion
- China already overtaking USA in annual market expansion, even in pre-crisis year

	China	India	USA
2007 GDP	\$3 Trillion	\$1 Trillion	\$14 Trillion
Growth Rate	11.5%	8.0%	2.0%
New Income	\$350 Billion	\$80 Billion	\$280 Billion

(GDP at market exchange rates)

- When would Chinese economy overtake US in total GDP?
- Growth in market share vs. growth in market

Opportunity: High Rates of Return

- Portfolio Investment
 - 1976-1992 (Harvey 1995)
 - 20.4% average (nominal) return in emerging market equities
 - 13.9% average (nominal) return in world market average

- Direct investment (FDI)
 - Survey of 135 foreign firms in India (FICCI 2003)

Financial Performance

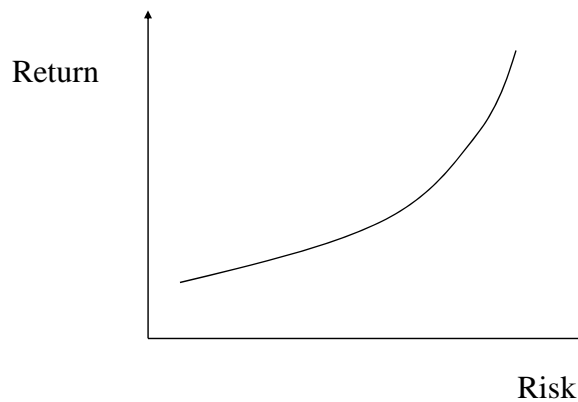
Making Profits	62%
Breaking Even	9%
Making losses	29%

Plans in India

Expand operations	78%
Maintain size	22%
Decrease operations	0%

- Annual FDI to India averages \$1.7 Billion from 1990-2000. In 2006, FDI to India is \$17 Billion – ten times higher (UNCTAD 2007)

Easy Money?



- With *higher returns* come *higher risks*

Risk: Low Growth Rates

- *Worst* 10-year average growth rate in the USA since 1950
 - 1.0%
- Percentage of countries in various regions with even *worse* 10-year average growth rate

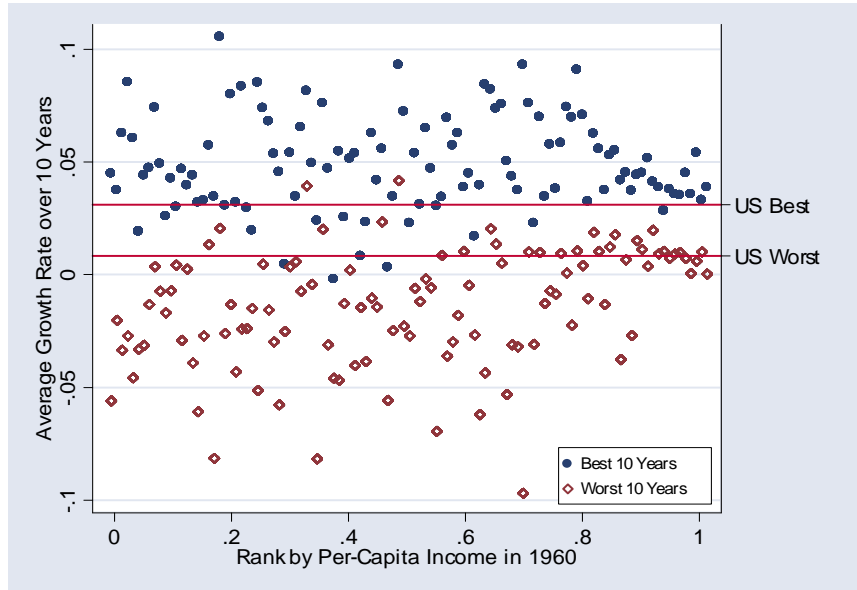
	Number of Countries		%
	Total	That have underperformed US worst	
Asia	21		
Sub-Saharan Africa	47		
Latin America	31		

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- *Worst* 10-year average growth rate in the USA since 1950
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- Percentage of countries in various regions with even *worse* 10-year average growth rate

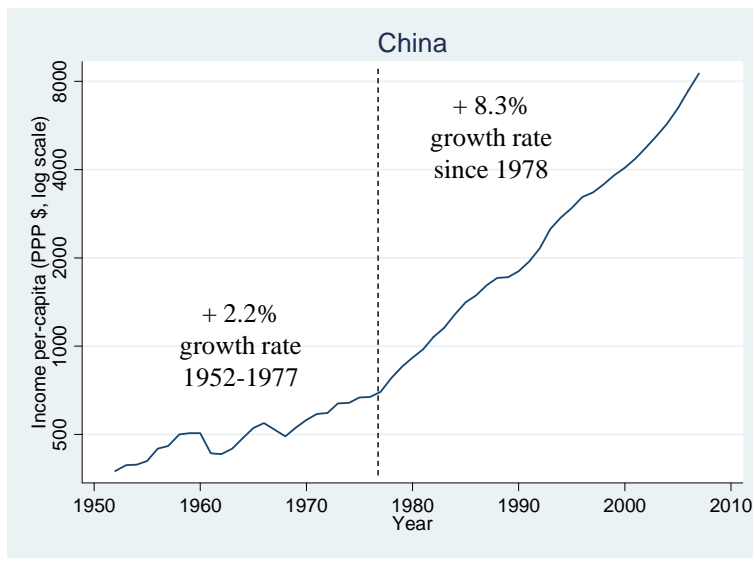
	Number of Countries		%
	Total	That have underperformed US worst	
Asia	21	9	43%
Sub-Saharan Africa	47	41	87%
Latin America	31	24	77%

Putting it Together: Opportunity and Risk



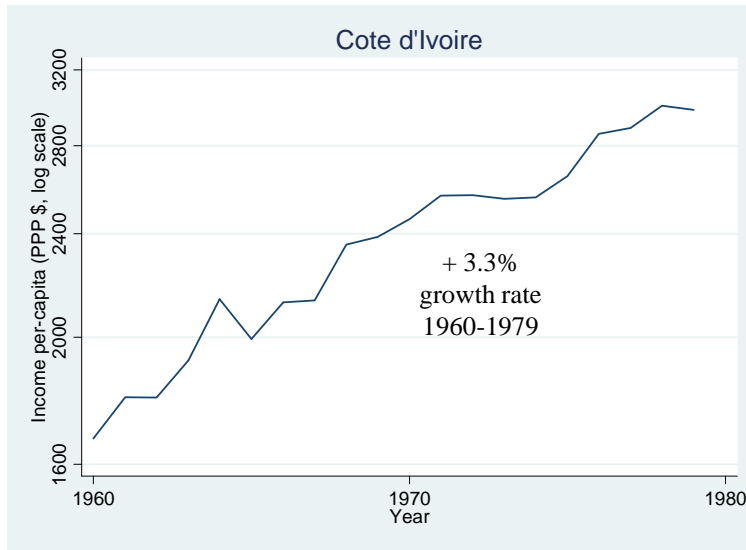
Example: China

- Chinese growth was ordinary before 1978



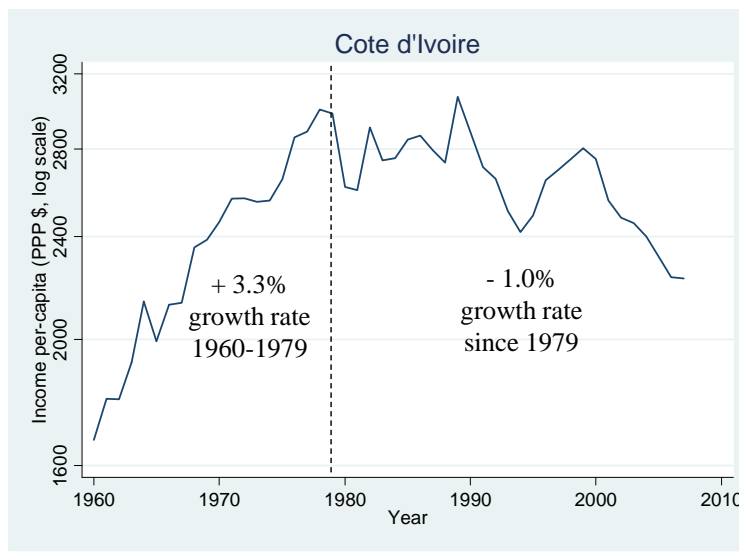
Example: Cote d'Ivoire

- The “Ivorian Miracle” (1960-1979)



Example: Cote d'Ivoire

- The Ivorian collapse (1979 to present)

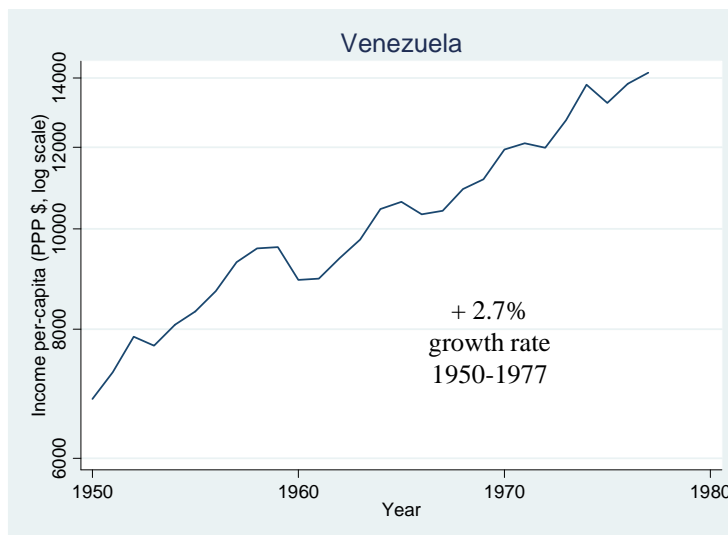


Cote d'Ivoire Today



Example: Venezuela

- Venezuela expanding normally after World War II



Example: Venezuela

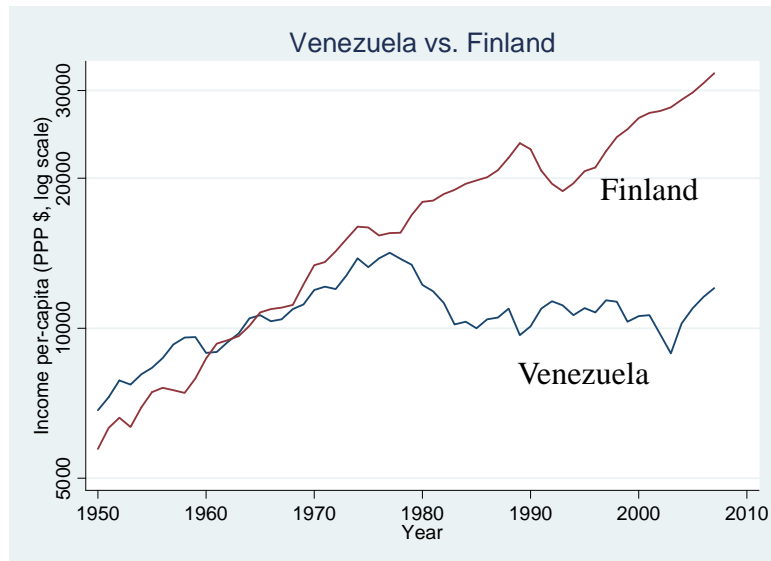
- Venezuela's collapse



Venezuela Today



Venezuela: What might have been?



- Today, per-capita income is 3 times higher in Finland

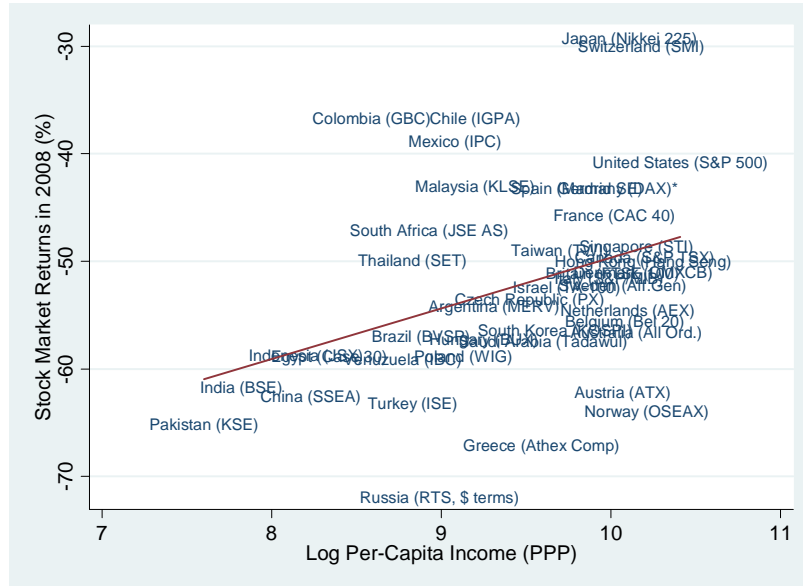
Focus: Risky Returns

- Portfolio Investment
 - 1976-1992 (Harvey 1995)

	Mean	2 Standard Deviations	
		Above	Below
Emerging Markets	20.4%	69.8%	-29.0%
World Portfolio	13.9%	42.6%	-14.8%

- And 1990s weren't good for investors in emerging markets
 - Peso Crisis, Asian Financial Crisis
 - LTCM, Barings Bank
 - Return is only 0.1% for 1990-2001 (Harvey 2003)

Focus: Stock Markets in 2008





Globalization & Firm Strategy

- Great opportunities, great risks, especially in emerging markets
- Why are emerging markets different?
 - the “rules of the game”
- What are the *specific issues* firms face?
- What *strategies* can firms undertake to manage the risks and seize the opportunities?

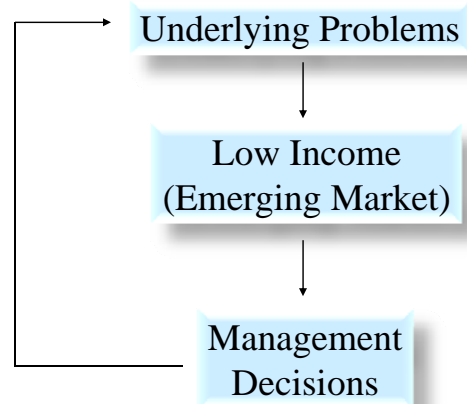
Learning from Success & Failure

- Successes
 - Manulife in Indonesia
 - Hermitage Capital in Russia
 - Mozal in Mozambique
- Failures
 - Kumagai Gumi in Thailand
 - Adesemi in Tanzania
 - Policy and macroeconomics in Argentina, Ukraine et cetera

Deeper Questions

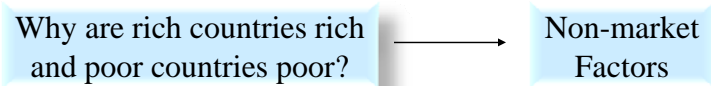
- Why are some countries more corrupt than others?
- Is democracy good for growth?
- Do leaders matter?
- Is free trade really a good thing?
- *Why are rich countries rich and poor countries poor?*

Ethical Responsibilities



Approach of Course

- Introduction (Sessions 1 & 2)

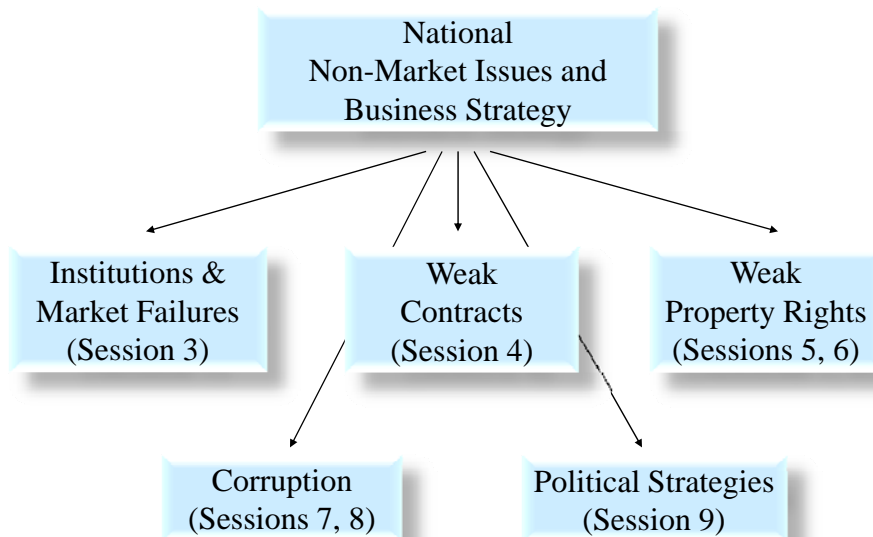


- Part I: National Non-market Issues & Business Strategy
- Part II: International Institutions & Business Strategy

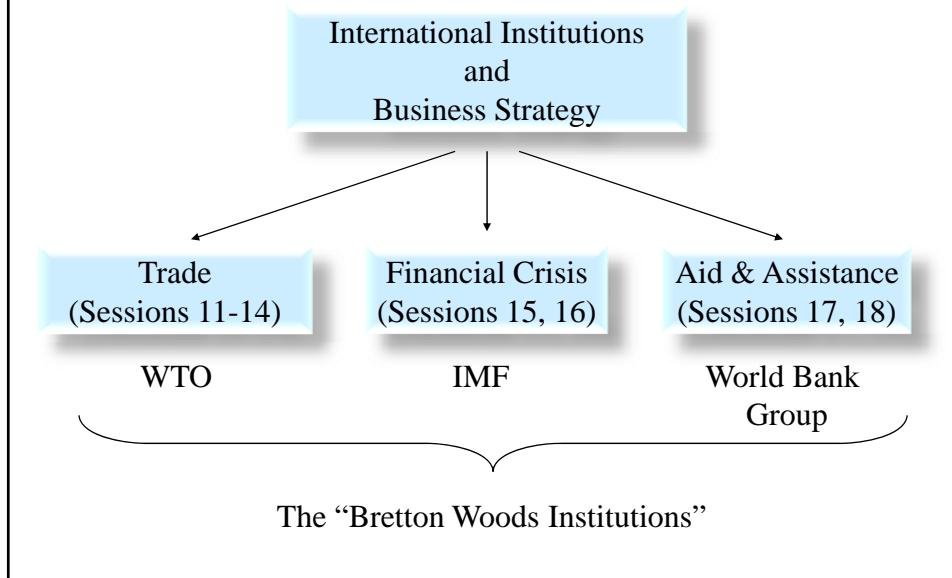
Approach to Each Session

- Typical Session
 - Focus on specific non-market issue
 - Develop analytical framework
 - Assess available evidence
 - Consider strategic responses
- Repeat
- Integrate

Part I (Sessions 3 – 9)



Part II (Sessions 11 – 18)



Preparation & Assessment

- Preparation
 - Readings
 - Homework (not graded)
- Assessment
 - Class Participation (10%)
 - Midterm Exam (25%)
 - Final Exam (25%)
 - Group Project (40%)
- See syllabus and course webpage for details

<http://www.kellogg.northwestern.edu/faculty/jones-ben/ftp/MainCoursePage.htm>

Group Project

- Opportunity to specialize
- Apply course material
 - Analyze specific strategic decision facing a firm (or NGO, government)
 - Produce integrated analysis of non-market issues and strategic options
- Quality, not quantity
 - 12 pages, not including appendices
- Due in 10th week, in final class

END