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The Emerging Markets Forum would like to thank the Government of Vietnam for their patronage and outstanding facilitation of the Forum's work.

After the opening statements by H.E. Vo Hong Phuc, Minister of Planning and Investment of Vietnam, and by the co-chairs, the focus of the 2-day discussion was on six areas. While the discussion was too rich to summarize briefly, the following were the main highlights or recommendations in each session.

Session 1: Implications of Recent Developments in Global Financial Markets for Emerging Market Economies

- While the fallout from the U.S. credit crisis has not significantly impacted emerging economies in Asia and Latin America, the financial crisis may not yet have peaked and additional losses from financial institutions may well occur. Second order effects from a pullback in bank lending could impact the external financing available to emerging economies.
- Growth in developed economies is slowing and it would be a mistake to believe emerging economies have decoupled from developed world markets. When coupled with high commodity price inflation, slowing economic growth will confront policymakers with significant near-term challenges. Balance of payments situation for commodity-importing emerging market economies will worsen.
- Income disparity is getting worse because of sharp increase in prices. The resentment of populations to food and oil price increases could lead to demonstrations that could spread across countries.
- Some governments have addressed inflation with subsidies or price controls. Real interest rates have been allowed to go negative which raises questions of how serious policymakers are about tackling inflation.
- On the positive side, emerging markets will continue to produce absolute and relative growth rates that will be higher than in OECD countries. The fiscal position and fundamentals in many emerging markets today is dramatically better than it was ten years ago.

Session 2: Cross-Border Trade and Investment in Asia, Africa and Latin America

- The aggregate trade data exaggerates the real integration in Asia as much of what appears to be intra-regional trade is actually intra-corporation trade in the region. Even China is not truly integrated: the rapidly developing coastal region is more integrated with the rest of the world than with the provinces in the interior. Asian trade will increasingly be impacted by China's shift in competitive advantage away from one of low-cost to one of high value production. Reliance on rapid Chinese growth may change as China raises production prices because of commodity and labor cost growth.
- Despite a large number of Latin American intra-regional free trade agreements, intra regional trade in that continent has not moved in 25 years. Only 20% of total trade in Latin America is within the region, and much of that is trade and investment between Mexico and Brazil, which accounts for nearly 70% of all economic activity in Latin America. While Mexico invests heavily in Brazil, Mexico exports very little to Brazil. In turn, Brazil exports much to Mexico, but invests almost nothing there.
- In Africa, only 10% of trade is intra-regional, due largely to the fact that so much of African trade is in commodities. Intra-Africa trade is hindered by the difficulty of travel and transport – it's cheaper to transport oil from the Middle East to South Africa than it is to get oil from Nigeria. Other impediments include existing barriers to starting new business, other “behind the border constraints” and the absence of a minimum level of stability in many African countries.
- Policymakers should focus on more micro-level, bottom up changes. For developing nations it's much more useful to focus on micro level reforms, such as customs reform, improving the business environment and such, than just trying to get sweeping new FTA arrangements.

Session 3: Reducing Income Disparities: What does Inclusive Growth Mean?

- Inclusive growth will in the future be the central theme of policymaking. The issue will no longer be growth with distribution but distribution with growth.
- Latin America spent almost the entire 20th century in the hands of dictators. It was only at the end of the century that the region embraced democracy and freedom. Market economies with social responsibilities work well. Latin American also learned that stability is an excellent engine for growth. Removing obstacles such as organized crime and drug trafficking are essential.
- In Asia, past rapid growth was accompanied by equity. But more recently (especially in India and China) growth has been accompanied by increasing inequality.
- Emerging market policymakers must focus more attention on small businesses and small entrepreneurs that generate income and opportunity for many families. Individuals working for themselves rather than for large corporations is the key to equitable development. Entrepreneurship and the micro-economy is highly dependent on micro-financing.

Session 4: Debate on the Role of Sovereign Wealth Funds

- In recent years, there has been a fundamental shift in the direction of capital flows from developing economies towards developed economies, a reversal of the historical pattern. Discussions of developing country debt have been replaced with discussions of developing country Sovereign Wealth Funds.
- The massive current account surpluses in some emerging markets may be transitory. A correction of global current account imbalances is likely over the next few years. Unwinding the huge imbalance between the US and the rest of the world is emerging as a key policy issue. The pace of accumulation and growth of Sovereign Wealth Funds may moderate going forward as the US current account balance declines.
- The debate on Sovereign Wealth Funds has so far been ill-informed, but lately is moving in a more reasonable direction. Sovereign Wealth Funds have emerged as a source of stability, bolstering troubled financial institutions in the US. The world is moving into a new phase of globalization which will bring to the fore the issue of ownership; the debate over Sovereign Wealth Funds is one manifestation of this new phase that will result in policy changes. The near term threat is a protectionist backlash.
- The growth of these funds highlights the inability of the private sector to develop appropriate investment instruments. China has huge foreign currency reserves, but the country's private sector does not. The growth of these funds raises the question of whether it is wise to concentrate so much of a country's large reserves.

Session 5: Developing Regional Financial Markets – Case of ASEAN Capital Markets

- ASEAN capital markets are much more integrated with global financial markets than with each other within the region. Policymakers must focus on greater integration and speed-up the process if ASEAN markets are not segmented or risks being marginalized. Good companies will migrate to mature exchanges. Global capital markets are integrating with cross-border linkages and ownership. These developments could see smaller exchange being “cherry picked” by the globalization of exchanges.
- Three plausible scenarios exist for Southeast Asian capital markets: 1) Dwindling relevance; 2) performers are “cherry picked” and integrated in the larger global market; or, 3) ASEAN emerge as vibrant sub-component of a new force in global financial markets.
- Individual countries must achieve global standards. Greater coordination among all the exchanges and capital markets is required and efforts must be properly synchronized and working with, rather than against, the private sector.
- Constraints on ASEAN equity markets include a low number of listings, high transaction costs and high equity premiums. Asian capital markets must invest in modern technologies that strengthen markets and create markets of scale.

- Central bankers and policymakers should facilitate capital market development by loosening exchange restrictions and securities regulators must work more closely with central bankers.
- There is a need for a more coherent and strategic approach on the regional level. Currently there are too many task forces examining the same issues for the ASEAN region.

Session 6: Implications of Climate Change for Emerging Market Economies

- To contain global warming below 2 degrees C by 2050, the expected cost of stabilizing emissions would be 1-5% of global GDP. The annual cost of 1% of global GDP will only be possible if we start to take strong action now. Action would need to be taken both on the energy efficiency side as well as moving to low carbon footprint with clean energy and renewables (through carbon taxes and cap-and-trade).
- Asia cannot afford to be complacent about climate change, nor should it be defensive. Currently 29% of emissions come from Asia and this would increase to over 42% over the next two decades on current trends.
- It is important to make the public in our countries aware of the local impact of climate change, not only discussing the subject in global, and sometimes vague, terms.
- Two climate change funds are being established (Clean Fund and Strategic Fund) to be executed by the World Bank, with partnership from other IFIs for total of US \$5~10 billion. This should be used as seed funding to leverage much larger funding from the private sector and other sources.
- Must look at the micro level and not only at macro level policy or intervention strategies. Must come up with new financial engineering to support innovation and best business practices, e.g. Bolivia has introduced tax incentives for hybrid cars.
- The US, as the world's largest economy and biggest political player, must play a crucial role in supporting global initiatives such as the Kyoto protocol.

Summary Prepared by: Mariko Gakiya and Greg Grant, with contributions from Jack Boorman and Ooi Sang Kuang.