INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A., Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)], Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 2840 Cities in 164 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF.**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/ Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

EMERGING MARKETS: THE STORY OF DISCOVERY AND DYNAMICS OF A NEW ASSET CLASS

DR. HARIP RASULSAB KHANAPURI
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
S S DEMPO COLLEGE OF COMMERCE & ECONOMICS
PANAJI

ABSTRACT

With developed economies exhausting their investment opportunities and in particular portfolio diversification opportunities, the emerging market economies came in limelight. Particularly, on account of their high growth rate and proven segmentation these economies have attracted a great deal of attention by international investors. This paper attempts to give an account of evolution of emerging markets as a distinct asset class for international investors. It further discusses the changing dynamics of emerging markets in current times from portfolio investment perspective and builds a research agenda to examine their efficacy in providing diversification benefits.

KEYWORDS

Emerging Markets, Portfolio Diversification.

INTRODUCTION

Since the 1980s investments in emerging markets have become increasingly important in international portfolio management. This attention is justified on account of rapid growth of emerging economies which has surpassed that of developed economies. The term emerging markets is used with reference to developing nations having potential to grow into developed nations. The nomenclature for this set of economies has evolved from negative connotation like 'Third World' to 'LDNs – Less Developed Nations' and finally to respectable categorization as 'Emerging Markets'. The later is credited to a Dutch banker Antoine W. Van Agtmael, who coined this term during an investor conference in Thailand in 1981. Up until now, however, no universally accepted definition of emerging market exists, nor does a consensus about which market merit the 'emerging' status. In general, the term emerging markets suggests a movement away from highly regulated markets and towards privatization and free markets. The term is basically used for markets of transitional economies that have already passed some initial developmental hurdles. The following definitions connote this meaning of the concept.

WORLD BANK

The world Bank defines emerging markets as those that have not reached the minimum 2012 Gross National Product (GNP) per capita of $12,616 associated with high – income (developed) economies. According to World Bank, therefore, all countries classified as low or middle income countries are categorized as emerging market economies.

S&P AND IFC

On the other hand S&P and IFC define an emerging market as a market in transition, growing in size (market capitalization), activity (liquidity), or level of sophistication (modernizing and building market capacity). According to S&P/IFC, emerging market is the one that meets one of at least two criteria: (i) it is located in a low or middle – income economy as defined by the World Bank, and (ii) its investible market capitalization is low relative to its most recent Gross Domestic Product (GDP). According to S&P/IFC, equity markets which impose restrictions such as foreign ownership limits, capital controls, extensive government interest in listed stocks and other legal and political restraints on trading activity, particularly for foreign investors, are generally considered as 'emerging markets'. S&P/IFC notes "pervasive restrictions on foreign portfolio investment should not exist in developed stock markets, and their presence is a sign that the market is not yet 'developed'." The IFC classification of emerging markets is shown in Table 1.

MORGAN STANLEY CAPITAL INTERNATIONAL (MSCI)

MSCI builds a complete spectrum of market types from 'frontier' markets to 'emerging' markets and then to 'developed' markets. According to MSCI a market accessible to international investors essentially starts as 'frontier' market and evolve over time to 'emerging' market status first and then to 'developed' market status. In this process of evolution from one market type to another, the market would need to comply with increasingly stricter standards in terms of the following:

- Market accessibility, i.e. openness to foreign investment, investability, robustness and efficiency of the operational framework.
- Company and security minimum size and liquidity, as well as minimum number of companies and aggregate size of eligible securities.
- Sustainable characteristics of advanced economies and levels of geo-political risk comparable to other existing developed markets, for achieving 'developed' market status.

Currently, the MSCI classification of emerging markets as shown in Table 2 is popular in the fund management industry worldwide.

TABLE 1: EMERGING MARKETS IN THE WORLD ACROSS VARIOUS GEOGRAPHICAL LOCATIONS (ACCORDING TO IFC CLASSIFICATION)

Africa	Asia	Europe	Latin America	Middle East
Botswana	Bangladesh	Armenia	Argentina	Iran
Cote d'Ivoire	Bhutan	Bulgaria	Barbados	Israel
Cyprus	China	Croatia	Bermuda	Jordan
Egypt	Fiji	Czech	Bolivia	Kuwait
Ghana	India	Estonia	Brazil	Lebanon
Kenya	Indonesia	Greece	Cayman Island	Morocco
Mauritius	Korea	Hungary	Chile	Oman
Namibia	Kyrgyz	Latria	Colombia	Palestine
Nigeria	Malaysia	Lithuania	Costa Rica	Saudi Arabia
South Africa	Mongolia	Poland	Dominion Rep.	
Swaziland	Nepal	Portugal	Ecuador	
Tunisia	Pakistan	Roamnia	El Salvador	
Zambia	Philippines	Russia	Guatemala	
Zimbabwe	Sri Lanka	Slovakia	Honduras	
	Taiwan	Slovenia	Jamaica	
	Thailand	Turkey	Mexico	
	Uzbekistan	Ukraine	Panama	
		Yugoslavia	Paraguay	
			Peru	
			Trinidad and Tobago	
			Uruguay	
			Venezuela	

TABLE 2: EMERGING MARKETS (ACCORDING TO MSCI CLASSIFICATION)

MSCI Emerging Markets Index		MSCI Frontier Markets		MSCI Arabian Markets
Argentina	Malaysia	Bahrain	Romania	Bahrain
Brazil	Mexico	Bulgaria	Slovenia	Egypt
Chile	Morocco	Croatia	Sri Lanka	Jordan
China	Pakistan	Estonia	Tunisia	Kuwait
Colombia	Peru	Kazakhstan	Ukraine	Lebanon
Czech Republic	Philippines	Kenya	UAE	Morocco
Egypt	Poland	Kuwait	Vietnam	Oman
Hungary	Russia	Lebanon		Qatar
India	South Africa	Mauritius		Saudi Arabia
Indonesia	Taiwan	Nigeria		Tunisia
Israel	Thailand	Oman		UAE
Jordan	Turkey	Qatar		
Korea				

The markets of emerging economies are generally characterized by small market capitalization, low liquidity, high volatility of returns, limited number of premium-grade and investment-grade securities, inflation or hyper-inflation, high budget/trade deficits as percentage of GDP and large number of well developed domestic institutional investor base (Pradhan, 2007). As Beim and Calomaris (2001) note, emerging market is a curious term. It suggests that the financial markets of the developing countries were underground, underwater or otherwise hidden from the world although they existed from long time. In the words of Agtmael et. al., over the next 25 years, emerging markets have the potential of making developed countries dependent on them. Emerging markets today own 75% of world's foreign exchange reserves. They currently account for 20% of world's economy[1]. Adjusted for purchasing power parity they actually represent more than 40% of global economic output[2]. Many emerging market countries are projected to become among the world's largest economies in the decades ahead, with China and India being the most prominent.

LITERATURE REVIEW

Emerging markets have traditionally been identified as markets with high growth rate (Malkeil and Mei, 1998; Henry and Kannan, 2006) and segmented from the influences of rest of the world and thus provide portfolio diversification benefits to international investors (Harvey, 1994; Shashikant, 1998; Phylaktis and Ravazzolo, 1998; Darrat, Elkahl and Hakim, 2000). However, the recent research is indicative of increasing linkages among emerging markets themselves (Narayan, Smyth and Nandha, 2004; Krishnasamy, Santhapparaj and Malarvizhi, 2006; Guntur and Khanapuri, 2009) as well as between emerging markets and developed economies (Dekker, Sen and Young, 1998; Guntur and Khanapuri, 2010). It is therefore important for investors to understand the evolutionary history of emerging markets and their path of transition into developed economies so as to decided appropriate asset allocation strategy.

ORGANISATION OF PAPER

After understanding the concept of emerging markets and highlighting the purpose of this research, the subsequent sections of the papers is so organized to give an account of rise of emerging markets as a profitable asset class and in specific discusses these markets in the context of international portfolio diversification. The concluding remarks highlight the research agenda with respect to portfolio diversification in emerging markets.

THE GROWING SIGNIFICANCE OF EMERGING MARKETS

It was in the early 1990's that investors began to perceive emerging markets as an asset class. Eastern Europe opened up with the fall of Berlin Wall, economic reforms began in China under the leadership of Deng Xioping, similarly in other countries such as India and Korea, monetary stability regimes began to unfold in the major economies of Latin America. Along with decline in developed world inflation and interest rates from the late 1980s onwards, these developments prompted increased equity flows into the emerging market asset class. Since then, total emerging market inflows as a share of the global economy (from which they are sourced) have averaged roughly 0.5%. Of those inflows, roughly 20% (i.e. $1 out of every $5) have come in the form of portfolio equity.[3] The increasing interest in emerging markets is on account of several fundamental changes in emerging market economies.

[1] Zhang Yuwei (2007),'Emerging Markets to Lead in World Economy – The World is Not Flat But Tilting Toward Emerging Markets', UN Chronicle Online Edition.
[2] Principal Global Investors Report (2007) on 'Trends in Global Emerging Markets Equities'.
[3] Insights and Outlooks from JP Morgan Asset Management, 2006.

SUPERIOR ECONOMIC GROWTH RATE

Emerging market economies have shown tremendous economic growth. Henry and Kannan (2006) observe that from 1975 to 2005 the emerging economies have grown at an average rate of 5.1 per cent per year, roughly twice the average growth rate of the US. The strength of economic fundamentals of emerging markets is also visible from the fact that in the year 2000, the difference between average output growth of advanced economies and the developing economies was about 2 per cent whereas in 2004 it rose to about 4 per cent. In terms of projected growth rate, Table 3 project a higher growth rate (5.3 per cent) in the decade 1996-06 for developing economies as compared to the earlier decade (3.9 per cent), in contrast to the decline of growth that was evident in respect of advanced economies (from 3 per cent in 1987-96 to 2.7 per cent in 1997-2006). Barring a modest slowdown in Asia (which has been consistently showing higher growth rates), all regions in the emerging world show higher growth in the current decade (1997-2006) than the earlier decade.

TABLE 3: OUTPUT GROWTH IN EMERGING MARKETS: TEN YEAR AVERAGE (%)

Emerging Market Region	1987-96	1997-2006
Africa	2.2	4.0
Central and Eastern Europe	0.9	3.6
CIS	-	5.2
Developing Asia	7.8	6.6
Middle East	3.4	4.5
Western Hemisphere	2.8	2.8

Source: 'Developing Economies – A Profile of Growth', www.bseindia.com

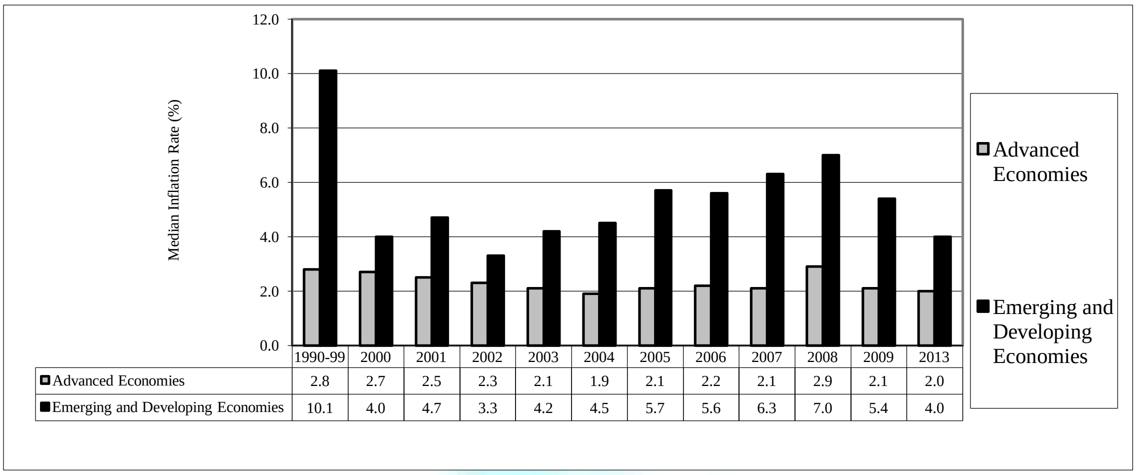
Table 4 gives the details of countrywise real GDP growth rate in respect of selective emerging markets. It is evident that emerging markets have shown real GDP growth rates which is superior to that of major advanced economies (G7 countries). However, some of the emerging economies such as Zimbabwe have consistently shown negative real GDP growth rate on account of persistence of high inflation and moreover hyper inflation in recent times. The median inflation rates in emerging economies has generally been higher than that in advanced economies (Chart A). If emerging economies are able to control their high inflation, the projected real GDP growth rate would still be higher.

TABLE 4: REAL GDP OF SELECTED EMERGING MARKETS AND MAJOR ADVANCED ECONOMIES (ANNUAL PERCENTAGE CHANGE)

	1990-99	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2013
Argentina	4.2	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	7.0	4.5	3.0
Brazil	1.7	4.3	1.3	2.7	1.1	5.7	3.2	3.8	5.4	4.8	3.7	4.0
Chile	6.4	4.5	3.5	2.2	4.0	6.0	5.7	4.0	5.0	4.5	4.5	5.0
China	9.9	8.4	8.3	9.1	10.0	10.1	10.4	11.1	11.4	9.3	9.5	10.0
Colombia	2.9	2.9	1.5	1.9	3.9	4.9	4.7	6.8	7.0	4.6	4.5	5.0
Czech	-0.3	3.6	2.5	1.9	3.6	4.5	6.4	6.4	6.5	4.2	4.6	4.0
Egypt	4.1	5.4	3.5	3.2	3.2	4.1	4.5	6.8	7.1	7.0	7.1	7.8
Hungary	0.1	5.2	4.1	4.4	4.2	4.8	4.1	3.9	1.3	1.8	2.5	4.3
India	5.6	5.4	3.9	4.6	6.9	7.9	9.1	9.7	9.2	7.9	8.0	8.0
Indonesia	4.1	5.4	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1	6.3	6.7
Israel	5.2	8.9	-0.4	-0.6	2.3	5.2	5.3	5.2	5.3	3.0	3.4	3.7
Jordan	4.2	4.3	5.3	5.8	4.2	8.6	7.1	6.3	5.7	5.5	5.8	6.0
Korea	6.1	8.5	3.8	7.0	3.1	4.7	4.2	5.1	5.0	4.2	4.4	4.6
Malaysia	7.1	8.7	0.5	5.4	5.8	6.8	5.0	5.9	6.3	5.0	5.3	6.0
Mexico	3.3	6.6	-	0.8	1.4	4.2	2.8	4.8	3.3	2.0	2.3	3.8
Morocco	2.6	1.8	7.6	3.3	6.1	5.2	2.4	8.0	2.2	6.5	5.7	5.9
Nigeria	2.6	5.3	8.2	21.2	10.3	10.6	5.4	6.2	6.4	9.1	8.3	6.5
Pakistan	4.0	4.3	2.0	3.2	4.8	7.4	7.7	6.9	6.4	6.0	6.7	7.2
Peru	3.1	3.0	0.2	5.0	4.0	5.1	6.7	7.6	9.0	7.0	6.0	5.5
Phillipines	2.8	6.0	1.8	4.4	4.9	6.4	4.9	5.4	7.3	5.8	5.8	6.2
Poland	2.6	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.5	4.9	4.5	4.9
Russia	...	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1	6.8	6.3	5.6
S. Africa	1.4	4.2	2.7	3.7	3.1	4.9	5.0	5.4	5.1	3.8	3.9	4.8
Saudi Arabia	3.1	4.9	0.5	0.1	7.7	5.3	6.1	4.3	4.1	4.8	5.6	5.8
Sri Lanka	5.2	6.0	-1.5	4.0	6.0	5.4	6.0	7.4	6.3	6.4	5.6	5.5
Taiwan	6.5	5.8	-2.2	4.6	3.5	6.2	4.2	4.9	5.7	3.4	4.1	5.0
Thailand	5.1	4.8	2.2	5.3	7.1	6.3	4.5	5.1	4.8	5.3	5.6	6.0
Turkey	3.9	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	5.0	4.0	4.3	5.0
Venezuela	2.4	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3	8.4	5.8	3.5	2.2
Zimbabwe	2.0	-7.3	-2.7	-4.4	-10.4	-3.6	-4.0	-5.4	-6.1	-6.6	-6.8	...
Major Advanced Economies (G7)	*2.5*	*3.6*	*1.0*	*1.2*	*1.8*	*3.0*	*2.3*	*2.7*	*2.2*	*0.9*	*0.9*	*2.6*

Source: Compiled from World Economic Outlook, April 2008.

CHART – A: MEDIAN INFLATION RATES IN ADVANCED AND EMERGING ECONOMIES (IN PERCENTAGE)



Source: Compiled from World Economic Outlook, 2007

POSITIVE CHANGES AND FUNDAMENTAL IMPROVEMENTS IN EMERGING MARKETS

Emerging markets have experienced some fundamental improvements and policy changes that are responsible for their improved economic performance in recent years. Some of these include:

RISING PRODUCTIVITY LEVELS

Several emerging markets have introduced and continued the economic reforms of liberalization, privatization and globalization that has brought about a high degree of labour productivity. There is a marked improvement in industrial capabilities in these countries and coupled with availability of low-cost labour pool, emerging economies have shown increased productivity levels. Several global companies have also established themselves in emerging economy countries on account of low-cost labour advantage. The entry of foreign players in these economies has further increased the level of competition in domestic markets thereby forcing the domestic players to improve their performance.

POPULATION DEMOGRAPHICS

Approximately 85% of world's population resides in emerging market nations. Therefore, there is no shortage of labour in these economies. For instance, India and China are the two big emerging economies that are currently reaping the advantage of skilled labour force in fueling their economic growth. Besides, the high population coupled with rising income levels constitute substantial current and future demand for goods and services produced in these economies giving boost to their economic growth.

TRADE SURPLUS AND FALLING INTEREST RATES

During 1997-98 (Asian financial crisis), many emerging market economies witnessed high levels of indebtedness and the trade balance had swung to nearly $80 billion deficit. Today these economies have experienced a trend reversal with similar amount of trade surplus. The improved trade surplus has further reduced the short-term interest rates in emerging economies.

IMPROVED ACCOUNTING STANDARD AND GREATER TRANSPARENCIES

Many emerging Asian and eastern European companies have already moved to or are moving towards adopting international accounting standards. This has attracted greater attention of global investors on account of improved transparencies.

THE GROWING SIZE OF EMERGING MARKETS

Over the years, the emerging market economies have grown substantially in size in terms their share in global output and market capitalization, the two significant parameters from viewpoint of international investors.

SIZE OF THE ECONOMY

Table 5 indicates that with around 85% of world population residing in emerging and developing economies, they account for approximately 44% of world GDP as at 2007. The share of Asian emerging market region in the world GDP is 20.1% which in fact is higher than the share of advanced Euro region (16.1%). Further, single emerging economy like China accounts for 10.8% of world GDP which is much more than that of developed economies like Japan (6.6%), and United Kingdom (3.3%).

MARKET CAPITALIZATION

In 1982 the thirty-two developing-country stock markets surveyed by the International Finance Corporation (IFC) had a market capitalization of $67 billion, for about 7,300 listed companies and representing about 2.5 percent of world market capitalization. At $13.9 billion, Malaysia had the single largest stock market in this group in terms of market capitalization followed by Brazil at $10.2 billion.

TABLE 5: SHARE OF ADVANCED AND EMERGING AND DEVELOPING ECONOMIES IN AGGREGATE GDP AND POPULATION, 2007 (*PERCENTAGE*)

Economy	GDP		Population	
	Advanced Economies	World	Advanced Economies	World
Advanced Economies	**100.0**	**56.4**	**100.0**	**15.3**
United States	37.9	21.4	30.7	4.7
Euro Area	28.6	16.1	32.3	4.9
Japan	11.7	6.6	13.0	2.0
United Kingdom	5.9	3.3	6.2	0.9
Emerging and Developing Economies	**100.0**	**43.6**	**100.0**	**84.7**
Africa	6.9	3.0	15.1	12.8
Central and Eastern Europe	9.3	4.1	3.3	2.8
CIS	10.2	4.5	5.1	4.3
Developing Asia	46.0	20.1	62.0	52.6
China	24.8	10.8	24.2	20.5
India	10.5	4.6	20.6	17.5
Middle East	8.7	3.8	4.4	3.7
Western Hemisphere	19.0	8.3	10.1	8.6

Source: Compiled from World Economic Outlook, 2007

Ten year later, by the end of 1992, as a group, the market capitalization increased to $770 billion for about 12000 listed companies, and nearly tripled their share of world equity market capitalization, from 2.5% to 7.0%. Trading volume increased 25 times from the 1980 level. By that time, the Mexican, Korean and

Taiwanese stock markets were among the 15 largest markets in the world. Further, by the end of 1999, the IFC had identified eighty-one emerging stock markets with total market capitalization exceeding $3 trillion, or 8.5 percent of world equity market capitalization. In 1999 the value of outstanding domestic debt securities trading in emerging markets exceeded $1.4 trillion, representing 4.7 percent of the global bond market and a several-fold increase over the total twenty years earlier.

Over a period from 1990 to 2006, the market capitalization of emerging markets has grown by 2091.21% and accounts for 18.83% of world market capitalization as at 2006 (Table 6). The increase in emerging markets capitalization is substantially higher than the corresponding increase observed in developed markets (331.75%) during the same period. Extraordinary growth in market capitalization is observed in emerging markets of China (119423.45%), Poland (103409.72%) and Russia (541634.84%). A further insight on growing size of market capitalization can be obtained from changing ratio of market capitalization to GDP which shows the portion of the stock market on the total national product of an economy and indicates the development stage of a financial market sector.

TABLE 6: GROWTH IN MARKET CAPITALIZATION OF SELECTED EMERGING MARKETS

	1990		2000		2006		% Change
	$ Millions	%GDP	$ Millions	%GDP	$ Millions	%GDP[a]	(1990-2006)
Argentina	3270	2.3	166068	58.4	79730	33.6	2338.23
Brazil	16400	3.6	226152	37.6	711100	59.6	4235.98
Chile	13600	44.9	60401	80.3	174556	118.4	1183.50
China	2030	0.5	580991	48.5	2426326	34.9	119423.45
Colombia	1420	3.5	9560	11.4	56204	37.6	3858.03
Czech	..	..	11002	19.4	48604	30.8	..
Egypt	1760	4.1	28741	28.8	93477	89.1	5211.19
Hungary	505	1.5	12021	25.6	41935	29.8	8203.96
India	38600	12.2	148064	32.2	818879	68.6	2021.45
Indonesia	8080	7.1	26834	16.3	138886	28.4	1618.89
Israel	3320	6.3	64081	55.5	173306	97.3	5120.06
Jordan	2000	49.7	4943	58.4	29729	296.1	1386.45
Korea	111000	42.1	171587	33.5	835188	91.2	652.42
Malaysia	48600	110.4	116935	129.5	235356	139.1	384.27
Mexico	32700	12.4	125204	21.5	348345	31.1	965.28
Morocco	966	3.7	10899	32.7	49360	52.7	5009.73
Nigeria	1370	4.8	4237	9.2	32819	19.6	2295.55
Pakistan	2850	7.1	6581	9	45518	41.5	1497.12
Peru	812	3.1	10562	19.8	59658	45.3	7247.04
Phillipines	5930	13.4	25957	34.4	68382	40.5	1053.15
Poland	144	0.2	31279	18.3	149054	31	103409.72
Russia	244	0	38922	15	1321833	71.8	541634.84
S. Africa	138000	123.2	204952	154.2	715025	236	418.13
Saudi Arabia	48200	36.7	67171	35.6	326869	208.6	578.15
Sri Lanka	917	11.4	1074	6.6	7769	24.4	747.22
Thailand	23900	28	29489	24	139564	69.9	483.95
Turkey	19100	12.7	69659	35	162399	44.6	750.26
Venezuela	8360	17.2	8128	6.9	8251	3.6	-1.30
Zimbabwe	2400	27.3	2432	32.9	26557	71.2	1006.54
World	**9403525**	**48**	**32187882**	**103**	**43642048**	**99.6**	**364.10**
All Emerging	**375065**	**18.8**	**2019125**	**35.8**	**8218463**	**50.1**	**2091.21**
Developed Markets	**9028460**	**51.6**	**30168757**	**117.9**	**38980586**	**112.9**	**331.75**

Source: World Development Indicators, 2005 and 2007.

[a]*Market Capitalization as percentage of GDP for 2005 for respective country and country group.*

This ratio for emerging markets has grown from 18.8% of aggregate GDP in the year 1990 to 50.1% of aggregate emerging economies GDP in the year 2006. This growth of market capitalization as percentage of aggregate GDP is more than the growth in market capitalization of developed economies during the same period, although in absolute terms developed economies still command sizeable share in world market capitalization. However, it is worth noting that even the most restrictive emerging market like China has increased its market capitalization phenomenally from mere 0.5% of GDP in 1990 to 34.9% of GDP in 2006. Further, countries like Czech Republic where stock market did not even exist in 1990, today has market capitalization representing 30.8% of its GDP. For some emerging markets like Chile, Jordan, Malaysia and Saudi Arabia, the market capitalization of their stock markets is well above their economic output.

The number of listed domestic companies on stock markets of emerging economies increased remarkably during the decade of 1990 from just 7691 in the year 1990 to 23462 in the year 2000 (Table 7). However, subsequently, there has been decline in the number of listed companies to 17263 in the year 2006. Overall, the entire period of 1990 to 2006 represents an increase in number of listed domestic companies in emerging markets by 124.46%. Similarly, the average size of listed stocks in emerging markets has shown a tenfold increase from $48.77 Mn in 1990 to $476.07 Mn in the year 2006.

TABLE 7: GROWTH OF LISTED DOMESTIC COMPANIES IN EMERGING MARKETS

	1990	2000	2006	% Change (1990-2006)	Avg. Size of Listed Stock ($Mn) (1990)	Avg. Size of Listed Stock ($Mn) (2006)
Argentina	179	127	103	-42.46	18.27	774.08
Brazil	581	459	392	-32.53	28.23	1814.03
Chile	215	258	244	13.49	63.26	715.39
China	14	1086	1440	10185.71	145.00	1684.95
Colombia	80	126	114	42.50	17.75	493.02
Czech	..	131	29	..	..	1676.00
Egypt	573	1076	603	5.24	3.07	155.02
Hungary	21	60	41	95.24	24.05	1022.80
India	2435	5937	4796	96.96	15.85	170.74
Indonesia	125	290	344	175.20	64.64	403.74
Israel	216	654	612	183.33	15.37	283.18
Jordan	105	163	227	116.19	19.05	130.96
Korea	669	1308	1694	153.21	165.92	493.03
Malaysia	282	795	1027	264.18	172.34	229.17
Mexico	199	179	131	-34.17	164.32	2659.12
Morocco	71	53	65	-8.45	13.61	759.38
Nigeria	131	195	202	54.20	10.46	162.47
Pakistan	487	762	652	33.88	5.85	69.81
Peru	294	230	193	-34.35	2.76	309.11
Phillipines	153	228	238	55.56	38.76	287.32
Poland	9	225	267	2866.67	16.00	558.25
Russia	13	249	309	2276.92	18.77	4277.78
S. Africa	732	616	401	-45.22	188.52	1783.10
Saudi Arabia	59	75	86	45.76	816.95	3800.80
Sri Lanka	175	239	237	35.43	5.24	32.78
Thailand	214	381	476	122.43	111.68	293.20
Turkey	110	315	314	185.45	173.64	517.19
Venezuela	76	85	53	-30.26	110.00	155.68
Zimbabwe	57	69	80	40.35	42.11	331.96
World	**25424**	**47884**	**49946**	**96.45**	**369.87**	**873.78**
All Emerging	**7691**	**23462**	**17263**	**124.46**	**48.77**	**476.07**
Developed Markets	**17733**	**24422**	**28733**	**62.03**	**509.13**	**1356.65**

Source: Compiled from World Development Indicators, 2005 and 2007.

EMERGING MARKETS IN THE CONTEXT OF INTERNATIONAL INVESTMENTS

Emerging market economies have achieved an important position in the context of international investments. The volumes of direct investment flows as well as portfolio flows signify that emerging market are being considered by global investors as vital channels for wealth creation.

DIRECT INVESTMENTS IN EMERGING MARKETS

Table 8 indicates that, The total FDI inflows to emerging markets have increased from $24580 Mn in 1990 to $280795 Mn in 2005 representing an increase of 1042.37% during the period. The net FDI inflows to emerging markets has increased from 0.8% of GDP in 1990 to 2.9% of GDP in 2005. The growing economy and availability of low-cost labour have made emerging economies a very attractive centre for direct investments. China (2169.20%), India (2683.97%), Israel (3598.68%), Jordan (3931.58%), Peru (6043.90%), Poland (10688.76%) have seen significant increase in the flow of FDI investments during the period from 1990 to 2005.

EMERGING MARKETS AND INTERNATIONAL PORTFOLIO DIVERSIFICATION

Ever since the Nobel Laureate, Dr. Harry Markowitz gave the mean-variance theory of portfolio diversification (1959), the international fund managers and investors have always been in search of an asset class that has distinct but negative correlation with their existing domestic asset portfolios. This will help them in effectively diversifying their portfolio to earn suitable risk-adjusted return.

TABLE 8: FDI AND NET PORTFOLIO INVESTMENTS IN EMERGING MARKETS (A COMPARISON OF NET FLOWS IN 1990 AND 2005)

	FDI			Net Portfolio Investments			
				Bonds		Equity	
	$ Million		% Change	$ Million			
Emerging Markets	**1990**	**2005**		**1990**	**2005**	**1990**	**2005**
Argentina	1836	4730	157.63	-857	1872	0	-48
Brazil	989	15193	1436.20	129	3580	103	6451
Chile	661	6667	908.62	-7	584	367	1635
China	3487	79127	2169.20	-48	2702	0	20346
Colombia	500	10375	1975.00	-4	496	0	86
Czech	0	..	..	..	-201	0	..
Egypt	734	5376	632.43	-1	1554	0	729
Hungary	623	6436	933.07	921	2987	0	-16
India	237	6598	2683.97	147	-3959	0	11968
Indonesia	1093	5260	381.24	26	3791	0	-165
Israel	151	5585	3598.68	..	..	..	..
Jordan	38	1532	3931.58	0	134	0	60
Korea	789	4339	449.94	..	..	..	..
Malaysia	2332	3966	70.07	-1239	492	0	-1200
Mexico	2549	18772	636.45	661	-839	1995	3353
Morocco	162	1552	858.02	0	-41	0	64
Nigeria	588	2013	242.35	0	0	0	..
Pakistan	245	2183	791.02	0	1092	0	451
Peru	41	2519	6043.90	0	2640	0	766
Phillipines	530	1132	113.58	395	1081	0	1461
Poland	89	9602	10688.76	0	11384	0	1341
Russia	..	15151	..	..	10033	..	-215
S. Africa	-76	6257	..	..	406	389	7230
Sri Lanka	43	272	532.56	0	0	0	-216
Thailand	2444	4527	85.23	-87	1156	440	5665
Turkey	684	9805	1333.48	597	3212	89	5669
Venezuela	451	2957	555.65	345	5365	0	91
Zimbabwe	-12	103	..	-30	0	0	..
World	203236	974283	379.39	..	..	..	..
All Emerging & Developing Economies	**24580**	**280795**	**1042.37**	**1082**	**55110**	**3390**	**66680**

Source: Compiled from World Development Indicators, 2007

In this context emerging markets have been found to be an ideal asset class. Emerging markets occupy centre place in the context of international portfolio investments on account of two important reasons. The first, high rates of economic growth in emerging markets provide great absolute investment opportunities. Because the rate of economic growth in most developing countries is expected to exceed the rate of growth in the developed world for many years to come, the typical discussion presumes that long-run stock returns in emerging markets will also exceed those of developed markets (Mobius, 1994; Malkiel and Mei, 1998). Secondly, the low correlation of emerging market stock returns with those of developed markets and their relative isolation provides diversification opportunities that enable investors in developed countries to increase the expected return on their portfolio while reducing the risk (Harvey, 1994; Cha, Yan-Leung, Cheung, 1998; Shashikant, U. 1998; Gunduz, O., 2001).

EMERGING MARKETS AND EXPECTATION OF SUPERIOR RETURNS

One of the most important argument with which the emerging markets are sold to international investors today is their ability to generate superior returns. Harvey (1995) for instance reports a 20.36 percent dollar return on the emerging market composite index as compared to 13.63 percent return on the US market. In terms of consistency in superior returns, Erb, Harvey and Viskanta (1997) suggest that growth is likely to be highest in relatively poor but stable countries and therefore these markets must generate high returns. Using the earnings yield and the dividend-price-ratio based measures, Henry and Kannan (2006) found that average expected returns over the period 1985-2005 were higher in Latin American and Asian emerging markets than in US. Emerging markets have consistently shown superior performance at short and long horizons in comparison to the developed markets (Table 9).

HETEROGENEITY CHARACTERISTIC OF EMERGING MARKETS

The main objective of selection of emerging markets as asset class in a global portfolio is to diversify the risk and earn superior returns. However, an important question that would arise is whether a global investor can simply select any of the emerging market to achieve this objective. An answer to this would be positive if all the emerging markets exhibit same characteristics in terms of market structures, growth patterns and returns. Research however, indicates that important disparities exist among emerging markets at the microstructure level as well as the activity volume level (Bekaert and Harvey, 2003). In fact Derrabi (2000) while examining evolution of emerging markets attribute such disparities to the four distinct stages of evolution: *the embryonic phase* characterised by primitive quotation system, lack of automation, low volumes and rudimentary regulations; *low activity phase* indicating the beginning of privatisation programme within the structural adjustment policy framework (usually suggested by IMF) which encourage economic activity from private sector and increases the number of participants; *active phase* following continuous genuine reforms and typified by computerised processing of quotations, increased openness of market and greater participation from foreign investors; *maturity phase marking the end of stream of regulatory reforms and transforming the emerging market into developed market which may be even integrated with the other developed markets. Different emerging markets or their groups will thus be in a different phase at a time which will obviously create a distinct risk-return matrix. Therefore it is clear that emerging markets cannot be considered as homogeneous asset class. And an investor focusing on these markets need to ascertain the profitability of investing in particular emerging market after examining all the relevant risk factors impacting that market.*

TABLE 9: EMERGING MARKETS VS. DEVELOPED MARKETS (COMPARATIVE RESULTS IN USD % RETURNS – PERIODS ENDING JUNE 30, 2007)

Stock Market Index	Three Months	One Year	Three Years	Five Years	Ten Years
MSCI Emerging Market Free Index[4]	15.0	45.4	38.7	30.6	9.4
MSCI EAFE Index[5]	6.4	27.0	22.2	17.7	7.7
S&P 500 Index	6.3	20.5	11.7	10.7	7.1

Source: Principal Global Investors Report (2007)- 'Trends in Global Emerging Markets Equities'.

STABILITY OF EMERGING MARKET RETURNS

Research and forecasts both have proved that emerging markets offer high returns and also have potential to offer such returns in future; mainly on account of shift in focus of economic policies from regulation to deregulation. However, this transition phase has brought about substantial volatility in emerging market returns. Table 10 for instance reports that though MSCI Emerging Markets index has given returns well above that of developed markets indices, the standard deviation of these returns is very high at 34.40 per cent which is well above that of Russell 3000 (17.13 per cent) and MSCI EAFE (18.91 per cent). Harvey (1994) reports the annualised standard deviations of over 75 per cent for Argentinean and Turkish markets and found that though emerging markets average returns are roughly 50 per cent higher than the Morgan Stanley Capital Index (MSCI) world composite index, the standard deviation too is about 80 per cent higher than the MSCI world index. In fact, the whole episode of Asian crisis in 1997 had put the entire emerging market asset class in question. The fragile market microstructures in these economies and weak risk management systems can wipe out entire or substantial amount of expected returns. The kind of policies and policy formulation process also inflicts volatility in emerging market returns. The frequent occurrence of economic crisis in emerging market regions (Mexican crisis, 1994, Asian crisis, 1997, Russian crisis, 1998, Brazilian crisis, 1999, Argentinean Peso crisis, 2002) is evidence of such policy related issues. Another major reason for high degree of volatility in emerging markets is the amount of international capital invested in them. Negative developments in an emerging market region can make investors wary about their investments in other emerging markets. For example, during the Asian crisis of 1997, international investors withdrew their investments even from Latin American and Easter European emerging markets, depressing those economies even when they did not share any economic ties with Asia. An interesting observation of Harvey (1994) however cannot be ignored that the main benefit to emerging market investment is not the increasing of returns but the lowering of portfolio volatility for minimum variance strategies. Harvey et. al. reports that when the 18 emerging market returns are added to the portfolio of 18 developed markets, the standard deviation of minimum variance portfolio is reduced from 14.5 per cent (including only developed markets) to 7.5 per cent (including both developed and emerging markets). Given the observed volatility in emerging market returns and research evidence it can be concluded that the merits of including this asset class need to be appropriately weighed with its limitations.

TABLE 10: ANNUAL AVERAGE RETURNS AND STANDARD DEVIATIONS OF RUSSELL 3000, MSCI EAFE AND MSCI EMERGING MARKETS, 1988-2005

	Russell 3000	MSCI EAFE	MSCI Emerging Markets
Compound Return	12.02%	06.61%	14.33%
Standard Deviation	17.13%	18.91%	34.40%
Arithmetic Return	13.33%	7.92%	18.99%

Source: Jacobo, R. (2007) 'Searching for Eldorado in Emerging Markets', Pension and Investments,

INTEGRATION OF EMERGING MARKETS WITH GLOBAL ECONOMY

An important measure to evaluate the benefits of portfolio diversification with inclusion of emerging market assets is by understanding the integration of emerging economies with the global economy. The following facts provide an insight into growing integration of emerging market economies with the global economy[6]:

- The growth in global activity in the past five years is dominated by the emerging and developing economies – China itself has accounted for about one-quarter of global growth; Brazil, Russia, China and India almost one-half; and all emerging and developing economies together for about two-thirds, compared with about one-half in the 1970s.[7]
- The ratio of merchandise trade to GDP of an economy is a useful measure in evaluating integration of that economy with the global economy since it directly reflects participation of an economy in global trade. The merchandise trade of emerging market economies has grown from 32.5% in 1990 to 59.2% in 2005. Within the emerging market set, East Asia and Pacific economies have increased their percentage share of merchandise trade to GDP from 47.1% to 74.6%, emerging Europe and Central Asia from 49.7% to 68.6%, Latin American and Carribean region from 23.2% to 44.2%, Middle East and North Africa from 43.5% to 57.6% and South Asia from mere 16.5% to 31.2%, during the period from 1990 to 2005. Emerging and developing economies now account for about one-third of global trade and more than one-half of the total increase in import volumes since 2000.
- The increasing trade openness across emerging markets is providing platform for integration of emerging markets with global economy. The aggregate exports of emerging and developing economies has increased significantly from $714951 mn in 1990 to $3596835 mn in 2005. Similarly, aggregate imports have increased from $689821 mn in 1990 to $3263799 mn in 2005.
- The aggregate private capital inflows to emerging markets have increased from 1997-99 average of $252.4 billion to $1633.8 billion in 2007, representing an increase of 547.31% during the period. Likewise, the outflows of private capital have also increased from $88.8 billion (average of 1997-99) to $1027 billion in 2007 representing an increase of 1056.53% at CAGR of 45%.
- There is also increasing evidence of growing regionalism (UNCTAD, 2007) and increasing economic linkages between emerging markets regions and emerging economies of the same region. Almost one-half of exports from emerging and developing economies is now directed towards other such economies, with rising intra-regional trade within Asia most notable.

CONCLUSION

Emerging market economies have thus evolved significantly since they were discovered. With strong internal growth dynamics and suitable macroeconomic policies, these economies will continue to create an enabling investment climate and attract sustainable capital flows both direct as well as portfolio flows. One major reason why emerging markets have gained significance in international portfolios is their segmentation from the other markets particularly developed markets in the world. The major factors contributing to this property of international assets were lesser degree of international trade, greater restrictions on foreign currency movements and less advanced communication systems which discouraged information transmission across markets. In current business environment however, the policy restrictions do not sustain for long and even emerging markets tend to expand their economic activities across the borders. The above facts on integration of emerging markets with global economy highlights two significant evolving properties of emerging markets – firstly, the increasing trade ties between emerging economies and developed and other emerging economies; and secondly gradual movement towards freer financial markets that encourage foreign investor participation. As these emerging economies establish stronger trade ties with other emerging or developed economies, international factors become more, and more influential in determining their stock market returns. For emerging markets such freer stock markets represents an opportunity to attract foreign capital to finance economic growth. However, one negative aspect of stock market opening is the influx of so-called hot money which is highly sensitive to the future expectation of economic growth in emerging markets and expectation of returns from holding securities. Given the

[4] MSCI Emerging Market Free Index is a group of securities from emerging markets tracked by Morgan Stanley Capital International. A 'Free' index represents investible opportunities for global investors, taking into account the local market restrictions on share ownership by foreign investors.
[5] MSCI Europe, Australasia and the Far East Index is group of securities tracked by Morgan Stanley Capital International
[6] Statistics and computations based on World Development Indicators, 2007.
[7] World Development Indicators Report on Global Prospects and Policies (2007).

sensitivity of these investments, even a small shock to the economy can lead to volatile change in flow of funds which may instill considerable volatility in domestic markets.

Emerging markets are increasingly integrating with global financial markets even informationally. The continuing reforms by emerging market economies in the areas of market microstructure by introducing transparent electronic trading mechanisms, corporate disclosure practices and corporate governance, improved accounting standards and movement towards international disclosure practices is increasing the foreign influences in emerging stock markets. The developments in communication technology, spread of internet service, etc. is enabling the market participants to trade with global information in hand.

Under these circumstances, the study of impact of this transformation of emerging markets on correlations between emerging markets and developed and other high risk emerging markets therefore becomes vital for asset allocation decisions. In other words it remains to be examined whether emerging markets still provides portfolio diversification benefits.

REFERENCES

1. Beim, D. and Calomiris, C. (2001), “Emerging Financial Markets”, McGraw Hill/Irwin.
2. Bekaert, G., Harvey, C. (2003), “Emerging Market Finance”, Journal of Empirical Finance, Vol.10, pp.3-56.
3. Darrat, A., Elkhal, K., Hakim, S. (2000), “On the Integration of Emerging Stock Markets in the Middle East”, Journal of Economic Development, Vol. 25, No.2, pp. 119-129.
4. Dekker, A., Sen, K., Young, M. (2000), ”Equity Market Linkages in the Asia Pacific Region: A Comparison of the Orthogonalized and Generalised VAR Approaches”. Global Finance Journal, Vol. 12, pp.1-33.
5. Derrabi, M. (2000), “Tradeoff Risk Return in Emerging Markets”, Working Paper, SBA, Al-Akhawayn University.
6. Erb, C., Harvey, C., Viskanta, T. (1997), “The Making of an Emerging Market”, Emerging Markets Quarterly, Spring, pp.14-19.
7. Gunduz, L., Omran, M. (2001), “Stochastic Trends and Stock Prices in Emerging Markets: The Case of Middle East and North Africa Region”. ISE Quarterly Economics and Finance Review, Vol. 5, No.17, pp.1-21.
8. Guntur, A. and Khanapuri, H. (2009). “Regional Integration of Emerging Stock Markets in Asia: Implications for International Investors”, The Journal of Investing, Vol. 18, No. 3, pp. 31-39.
9. Guntur, A. and Khanapuri, H. (2010). “Is the West’s Money Really Diversified in the East? A Closer Look at Portfolio Diversification Benefits in Asia”, The Journal of Wealth Management, Vol. 13, No. 3, pp. 25-37.
10. Harvey, C. (1994), “Conditional Asset Allocation in Emerging Markets”. NBER Working Paper No. W4623.
11. Harvey, C. (1995), “Predictable Risk and Return in Emerging Markets”. The Review of Financial Studies, Vol.8, No.3, pp.773-816.
12. Henry, P. B., Kannan, P. (2007), “Growth and Returns in Emerging Markets”, in: Takatoshi I., Andrew R. (Eds.), International Financial Issues in the Pacific Rim: Global Imbalances, Financial Liberalization, and Exchange Rate Policy, University of Chicago Press.
13. Krishnasamy, G., Santhapparaj, A., Malarvizhi, C. (2006), “Financial Market Integration in Asia: Empirical Analysis on Selected Asian Stock Index Futures Markets”, Journal of Applied Sciences, Vol. 6, No. 12, pp. 2611-2616.
14. Malkiel, B., Mei, J. (1998), “Global Bargain Hunting: The Investor’s Guide to Profits in Emerging Markets”, Simon and Schuster, New York.
15. Mobius, M. (1994), “The Investor’s Guide to Emerging Markets”, McGraw-Hill.
16. Narayan, P., Smyth, R., Nandha, M. (2004), “Interdependence and Dynamic Linkages Between the Emerging Stock Markets of South Asia”, Journal of Accounting and Finance, Vol. 44, pp.419–439.
17. Phylaktis, K. Ravazzolo, F. (2004), “Stock Market Linkages in Emerging Markets: Implications for International Portfolio Diversification”, City University Business School Working Paper.
18. Pradhan, B. (2007). “Financial Reporting in Emerging Capital Market”, Indian Journal of Accounting, Vol XXXVII, No. 2, pp. 18-26.
19. Shashikant, U. (1998), “Portfolio Investments in Emerging Markets” An Empirical Analysis of Diversification Benefits”, Ph.D. Thesis, Goa University, Goa.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, Economics and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail **info@ijrcm.org.in** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals