SKOLKOVO
Moscow School of Management

THE RAPID ASCENDENCY OF THE EMERGING WORLD'S FINANCIAL MARKETS. A SNAPSHOT OF THEIR DEVELOPMENT

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SIEMS EMERGING MARKET BRIEF

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I.
INTRODUCTION

It is clear that the global financial markets have already entered a new era. For most of the past thirty years, their rapid growth was driven by today's developed world. In the course of less than a decade, however, a new set a players, the emerging market economies, are driving much of the new growth in global financial activity. While the consequences of the global financial crisis will take many years to play themselves out, it is clear that the crisis has greatly quickened the relative ascendency of the emerging world's financial markets.

In this month's Emerging Market Brief, we examine a large swath of financial market indicators to assess just how far the emerging economies have increased their financial development and strength over the past decade. Whenever possible, we compare their gains in financial development relative to those in the developed world. The brief will pay particular attention to how much emerging market financial activity has evolved in the pre- and post-crisis period.

In short, we find there has been a rapid shift in the financial center of gravity toward the emerging markets in recent years. Some of our more notable findings include:

- Emerging markets' share of world stock market capitalization is now 30%, equal to its share of world GDP.
- The share of IPOs listings outside of New York and London have increased from 46% of global total value in 2000 to 78% in 2010.
- Almost non-existent five years ago, emerging market corporate bond issuance is increasing rapidly and has surpassed total sovereign issuance each year since 2003, reaching a record $211 billion in 2010.
- Emerging market economies now hold two-thirds of the world's foreign exchange reserves.
- Approximately 60% of emerging market countries' sovereign debts are currently rated investment grade, up from just 2% in 1993.
- Global investors now view many emerging market securities as having equal risk profiles of those in the developed world.
- Despite the many advances in emerging markets' financial strength, we still find clear evidence that in terms of financial risk, they have not "decoupled" from the broader global economy during periods of global turbulence.

II. THE GREAT RISK COMPRESSION

By far the most important development in the emerging financial markets over the past decade has been the massive compression in perceived risk. Emerging markets (EMs) have traditionally been characterized by having much higher levels of financial risk relative to developed economies. Nothing illustrates this better than the spread differentials on national sovereign debts. Figure 1 presents JPMorgan's emerging market bond index (EMBI), which gives the interest rate spread of emerging market sovereign debt over comparable maturity US Treasuries bonds. After running at double digit levels at the beginning of last decade (which had been the historical norm), the risk premium applied to emerging market sovereign bonds began a long and precipitous decline and actually fell below 200 basis points in 2007.

By far the most important development in the emerging financial markets over the past decade has been the massive compression in perceived risk

The global crisis, however, taught EM[1] investors an important but brutal lesson. EM securities are still more sensitive to global turbulence than their counterparts in the developed world. In late 2008, during the height of the crisis, the risk premium soared to 865 basis points. After the crisis though, the spreads quickly came roaring back down and by mid-2011 were running around 300 basis points, greatly subduing the cost of borrowing for developing countries.

For the first time, some EM market countries are now judged to be less risky borrowers than several western European countries. For example, In-

FIGURE 1 The Great Compression JPMorgan Emerging Market Bond Index (spread of US Treasuries)

Source: Bloomberg

[1] In this report the emerging market economies are considered all the non-OECD countries.

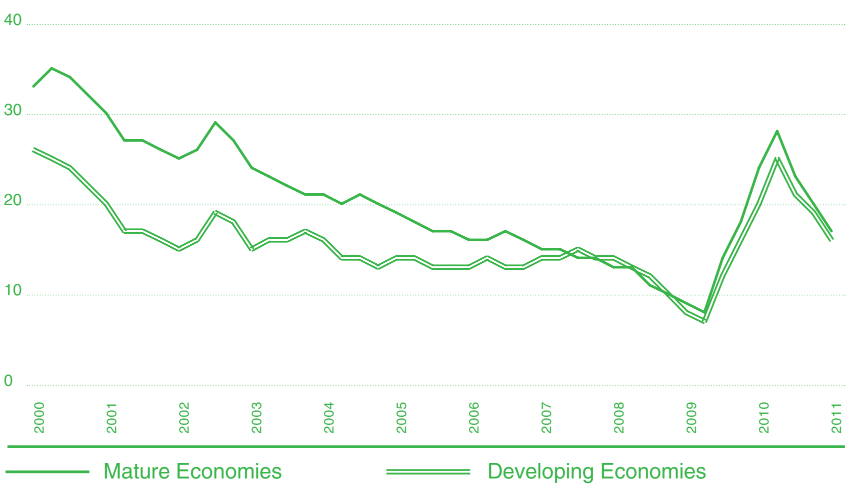
donesia's recent $2.5 billion bond issuance yielded 4.7 percent, less than similar maturity euro-denominated debt of Italy and Spain.

Brazilian and Mexican government bonds are also currently trading on similar or lower yields than equivalent Belgian and South Korean sovereign debt issues. Local currency denominated bonds, in particular, have proved especially attractive as fund managers have sought additional returns through the appreciation of emerging market currencies (see Figure 18).

Some analysts have voiced concern over the scale of the inflows into EM debt securities since the end of the global crisis, viewing the risk premiums as entirely too narrow for economies that are still "emerging". Others, however, believe that fundamentally, EMs are just a lot less leveraged now and simply have the financial strength to repay their loans.

The exact trend in risk compression has been prevalent among EM equities. Historically, EM equities have always sold at a significant discount relative to developed market equities. That is, global investors have generally demanded a lower relative price in relation to a dollar of earnings because EM equities were viewed as more risky, or volatile. During the past decade, however, the once enormous price-earnings ratio gap between the two has all but dissipated, implying that the equity risk premium associated with EM economies has declined dramatically (along with the risk free real discount rate).

FIGURE 2 Price/Earnings Ratios



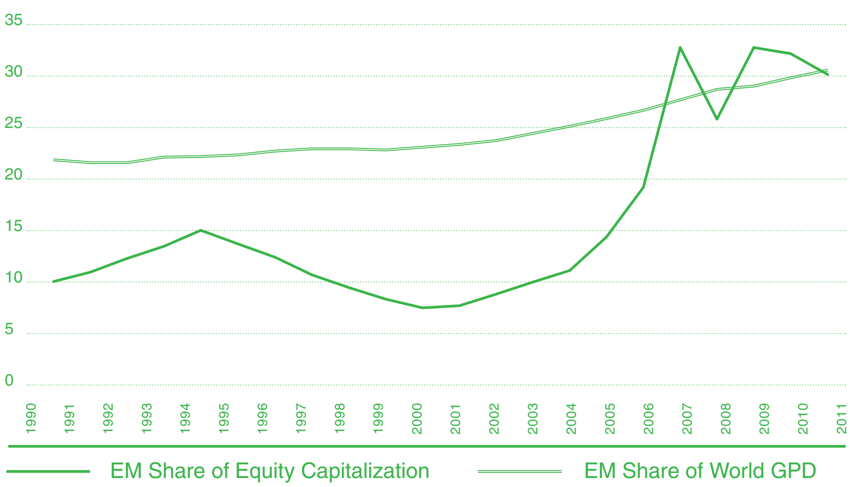
Source: Bloomberg

III.
EM EQUITY MARKET DEVELOPMENT

For the first better part of the past twenty years, the equity markets in the emerging world were punching well below their economic weight. For example, the EM's stock market capitalization world share was only 10%, 7.5% and 11% in 1990, 2000 and 2004, respectively, while its corresponding share of world GDP during those same years were 22%, 23% and 25%, respectively.

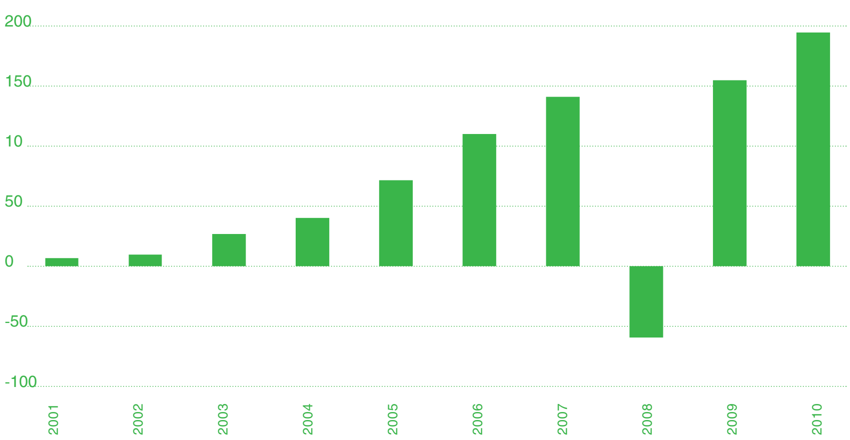
But the latter half of last decade changed all that as EM equities surged. By 2007, their global equity share had exceeded their global share of output

FIGURE 3 The Great Equity Catch-up. Emerging Market Share of World GDP and Stock Market Capitalization (Real GDP, US $)



Source: Bloomberg, EIU

FIGURE 4 Net equity inflows to developing countries, 2001–10 (billions $)



Source: Bloomberg

for the first time in history. This year the EM economies are expected to account for 30% of world GDP (at current exchange rates), which is now approximately equal to its share of total global equity capitalization.

Much of the deepening in emerging equity markets can be attributed to developed market investors, seeking both higher returns and portfolio diversification. Net equity inflows to EMs rose from just $6 billion in 2001 to $135 billion by 2007. The financial crisis and the ensuing flight to quality caused a big net sell off in 2008 but net inflows resumed shortly after the worse of the crisis had passed. Net inflows to EMs reached almost $200 billion in 2010, a historic high.

GLOBAL EQUITY MARKET CAPITALIZATION SHARES

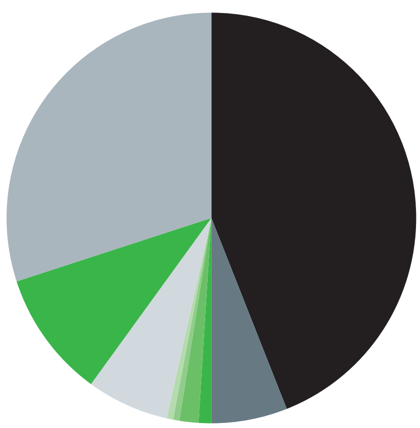
In 2003, when equities began rallying in many EM countries, the world's total equity market capitalization stood at approximately $31 trillion. Today (7/2011) it stands at $53 trillion, close to its recent high in late 2007 before the financial crisis. The change in equity market shares over the past decade has been significant. The US, EU and Japanese share declines of 14%, 10%, and 3%, respectively, were offset by sharp increases in the EMs'

This year the EM economies are expected to account for 30% of world GDP (at current exchange rates), which is now approximately equal to its share of total global equity capitalization

China, despite having a bear market in equities since 2007, has the most impressive percentage gain, with its global equity share growing from 1.5% to 7%

FIGURE 5 Global Equity Shares by country and region, 2000

US	44
Asia*	6
India	1
China	1,5
Russia	0,5
Brazil	0,5
ROW**	6,5
Japan	10
EU	30

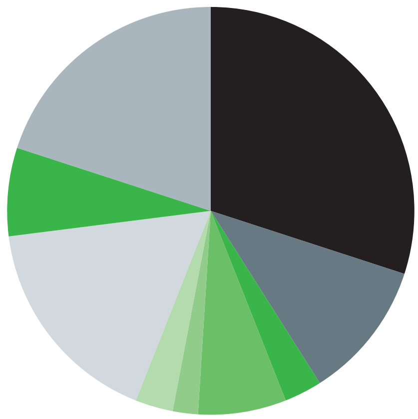


*Except China, India and Japan.**Rest of World

Source: Bloomberg

FIGURE 6 Global Equity Shares by country and region, 2011

US	30
Asia*	11
India	3
China	7
Russia	2
Brazil	3
ROW**	17
Japan	7
EU	20



*Except China, India and Japan.**Rest of World

Source: Bloomberg

shares. China, despite having a bear market in equities since 2007, has the most impressive percentage gain, with its global equity share growing from 1.5% to 7%. India tripled its share (1% to 3%) while Russian's and Brazil's shares rose to 2% and 3%, respectively.

Many financial economists consider a nation's *equity capitalization ratio* (stock market capitalization as a share of GDP) as the best broad-based measure of the financial development of a country. If so, many emerging markets seem to have obtained developed market status over the past decade. As recently as 2003 many EMs – including all four BRICs – had capitalization ratios below 50%. Now India, China, Brazil, South Africa and Saudi Arabia have seen their capitalization ratios rise above 75%.

In an ironic reversal of fortune, it is now the slower growing developed economies that generally have low capitalization ratios. Germany, which produces real GDP per capita of approximately $38,000, possesses a capitalization ratio of 49%, whereas China, with a per capita GDP of just $6,000, sports a ratio of 100%. Likewise, Japan is now less "equitized" (66% on GDP per capita of $34,000) than India (85% on GDP per capita of only $1,000). Malaysia and Chile both have capitalization ratios hovering around a supercharged 130%.

Do these EM capitalization ratios look a bit lofty? From a historic perspective they most certainly do. Even in a highly equitized economy like the United States, this ratio remained below 80% from 1930 to 1996 (the year of Alan Greenspan's famous "irrational exuberance" speech). Historically it has been the norm for developing countries to have relatively low equity capitalization ratios. Developing economies simply lack a large stock of financial assets and typically have poorer transparency and higher risk

FIGURE 7 Stock Market Capitalization Ratio (as a share of GDP) - 2000

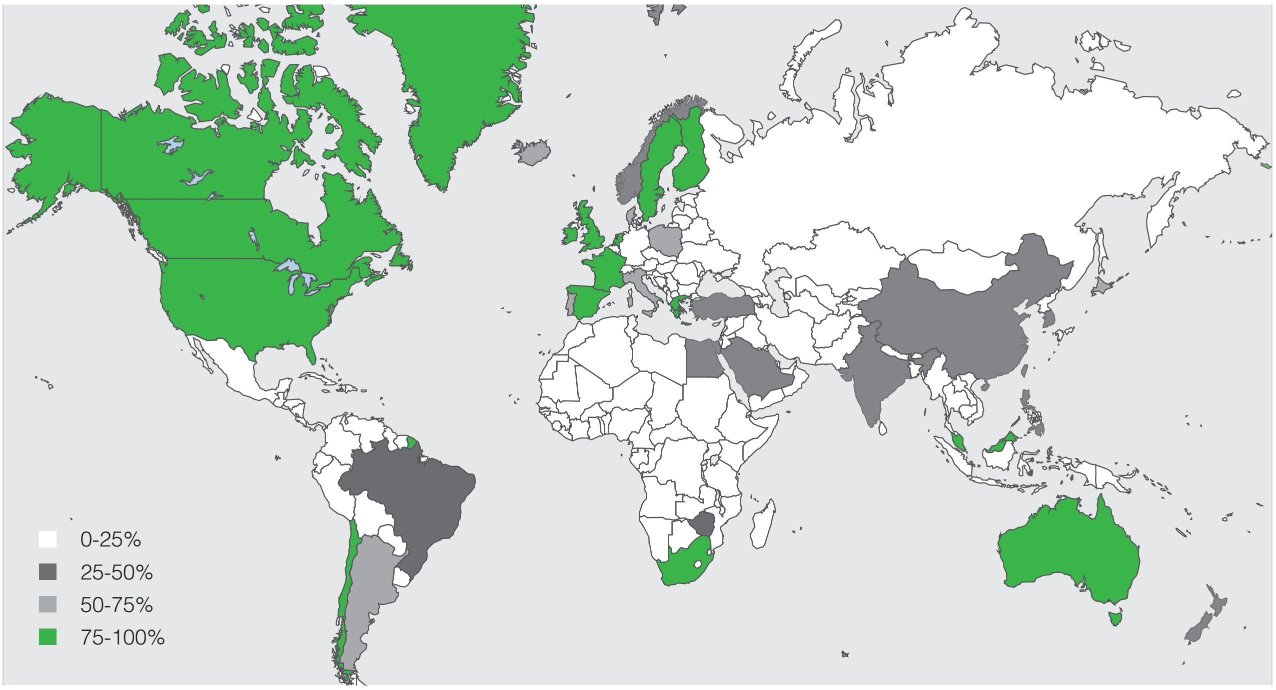
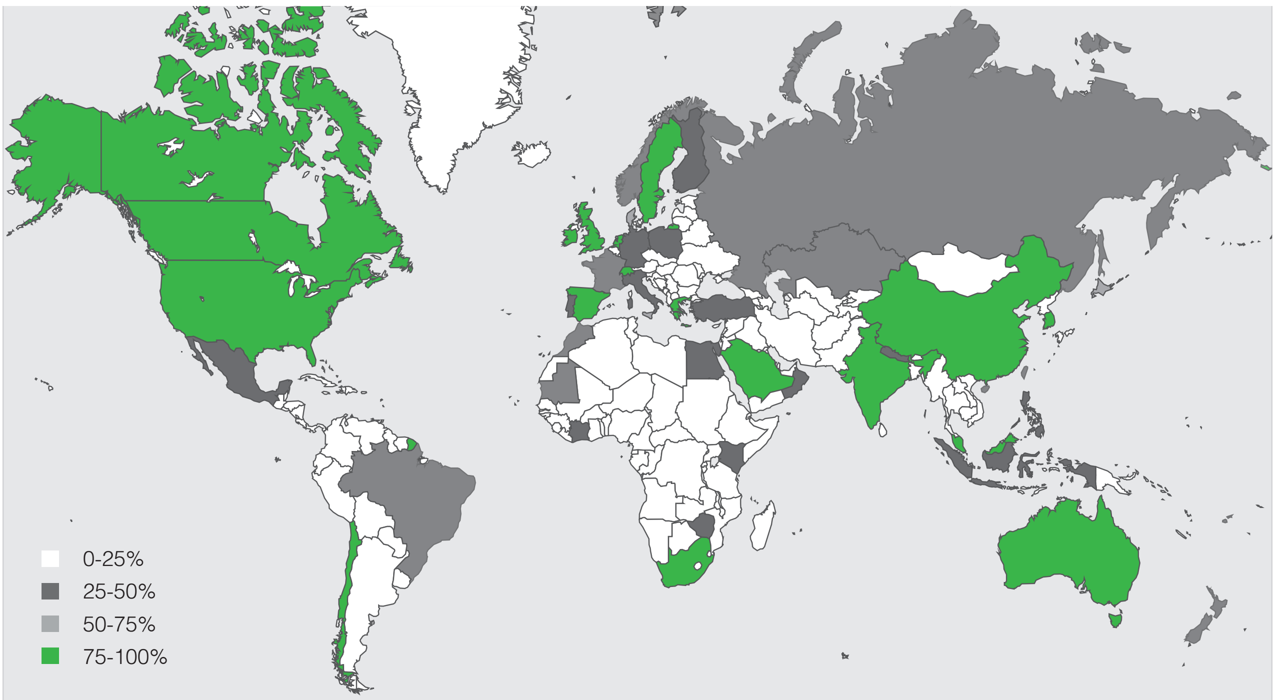


FIGURE 8 Stock Market Capitalization Ratio (as a share of GDP) - 2010



Source: Bloomberg

premiums (at least until recently). The banking sector also tends to dominate the financial sector throughout many of these economies. On the other hand, however, equity markets are probably one of the more “forward” looking of economic indicators, and they are sending an unambiguous signal that the EM economies are in for a long period of economic expansion and corporate profitability.

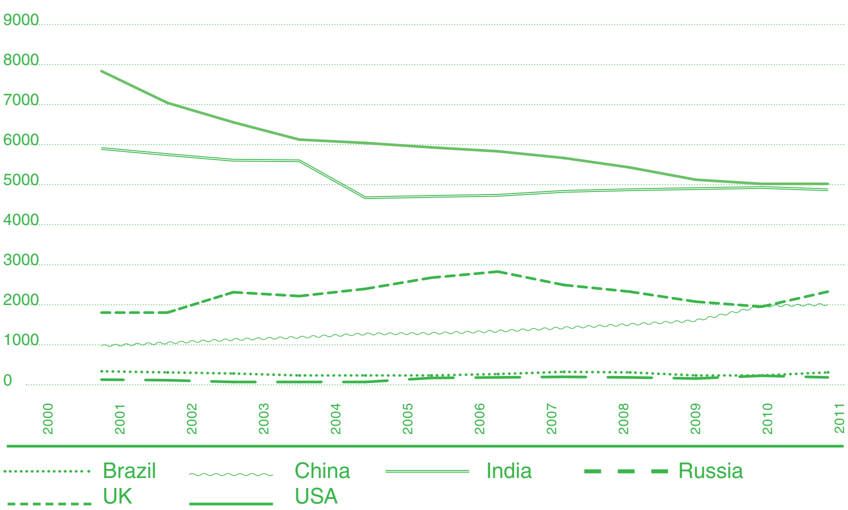
IV.
STOCK LISTINGS

If the number of stock listings is indicative of shifting strength of a country's financial markets and the activeness of the financing and investing behavior of the corporate sector in a country, then the US is quickly fading. The number of US stock listings has fallen by 43% since its peak in 1997. During this same period, the number of listings outside the US has more than doubled. The result is some 3,800 fewer companies trade on the US exchanges today than in 1997. At 314, Russia has the fewest listed companies among the larger emerging market economies. With almost 5,000, India has almost as many listed companies as the US although the number of listings surprisingly has not grown the past decade. China's number of listed companies doubled last decade, and it now has more than 2,000 public companies. Many analysts expect the number of Chinese listed companies to grow by at least 5,000 over the next 10 to 15 years.

One of the leading reasons for US exchanges' difficulty in gaining more listings is a prolonged slump in US initial public offerings (IPOs). The annual supply of US IPOs has averaged just 156, down 70% from the pace in the 1990s. The share of IPO listings outside of New York and London (which have dominated IPO listings for the last half century) have increased from 46% of total value in 2000 to 78% in 2010. In 2010 New York and London were actually handling as much or more activity – as measured by the total dollar value

The share of IPO listings outside of New York and London (which have dominated IPO listings for the last half century) have increased from 46% of total value in 2000 to 78% in 2010

FIGURE 9 Number of Listed Companies



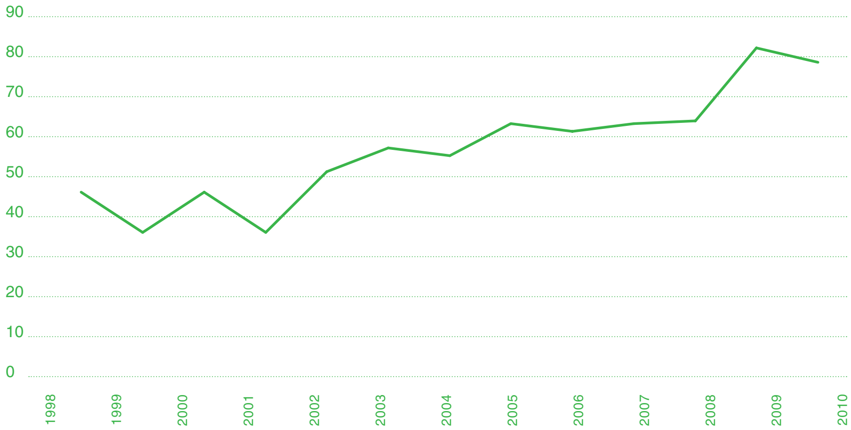
Source: Bloomberg, EIU

of IPOs - as they were during the middle of last decade (but less than the 2006-07 peak years). Their quickly vanishing share of activity, however, has been the result of a 7-fold increase in IPO activity outside of New York and London.

Of the 20 largest IPOs in 2010, just 2 were located in New York and London (GM was being taken public again after US government ownership). In marked contrast, in 2002, 10 of the 20 biggest IPOs were listed in New York or London. Not surprisingly, EM nations are accounting for much of the new activity. Last year they accounted for 11 of the 20 largest listings, up from just 2 in 2002.

EMs had a bumper year 2010 in which IPO issuers in Brazil, China (including Hong Kong), India, and Russia raised a combined $154 billion - or more than twice the $74 billion raised in 2009.

FIGURE 10 Share of IPO listings outside of New York and London (by total value)



Source: Bloomberg

TABLE 1 – THE TWENTY LARGEST IPOS IN 2010			
Rank	Name	Nationality of issuer	Exchange
1	AIA Group Ltd	Hong Kong	Hong Kong
2	General Motors Co	United States	New York
3	Dai-ichi Life Insurance Co Ltd/The	Japan	Tokyo
4	Agricultural Bank of China Ltd	China	Hong Kong
5	Agricultural Bank of China Ltd	China	Shanghai
6	Samsung Life Insurance Co Ltd	South Korea	Korea SE
7	Petronas Chemicals Group Bhd	Malaysia	Kuala Lumpur
8	QR National Ltd	Australia	ASE
9	Coal India Ltd	India	Natl India
10	Enel Green Power SpA	Italy	Brasaltaliana
11	China Everbright Bank Co Ltd	China	Shanghai
12	Powszechny Zaklad Ubezpieczen SA	Poland	Warsaw
13	Global Logistic Properties Ltd	Singapore	Singapore
14	Huatai Securities Co Ltd	China	Shanghai
15	Otsuka Holdings Co Ltd	Japan	Tokyo
16	United Co RUSAL PLC	Russia	Hong Kong
17	Essar Energy PLC	Britain	London
18	Pandora A/S	Denmark	Copenhagen
19	China Rongsheng Heavy Industry Group Co Ltd	China	Hong Kong
20	Gjensidige Forsikring ASA	Norway	Oslo
Source: Bloomberg			

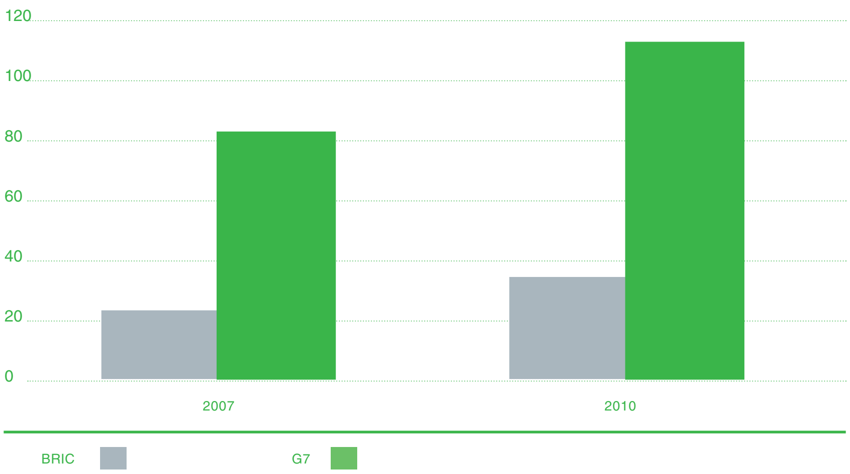
V.
EMERGING CORPORATE AND SOVEREIGN DEBT MARKETS

The overall credit quality of EM countries has improved dramatically over the past decade. One of the primary reasons has been the improvement in sovereign credit quality. EM countries have decreased their need for borrowing, shrinking the overall supply of sovereign bonds globally. Approximately 60% of EM countries are currently rated investment grade, up from just 2% in 1993. In 2010 there were a total of 50 sovereign rating upgrades and only 11 rating downgrades in the EM economies. In contrast, 18 developed countries received ratings downgrades in 2010, with zero rating upgrades.[2] The four largest EM economies (the BRICs), currently all possess investment grade credit ratings for the first time in history.

Approximately 60% of EM countries are currently rated investment grade, up from just 2% in 1993

The financial crisis and its aftermath are significantly altering the relatively sovereign debt structures between the emerging and developed world. Both the emerging and developed economies used large fiscal stimulus packages during the recent financial crisis. Central government debt as a share of GDP, however, was much smaller to start with in the emerging economies. In 2007, the year before the crisis, the BRICs accumulative central government debt (as a share of their collective GDPs), was only 23% while the corresponding figure for the rich G-7 club was an already lofty 82%. By 2010, these ratios had risen to 34% and 112%. The economic crisis had increased the rich club's debt burden by 30% while the

FIGURE 11 Central Government Debt as a share of GDP (consolidated debts divided by consolidated GDPs)



Source: Bloomberg, EIU

[2] Prudential Fixed Income Report. *"Emerging Markets Corporate Debt: Opportunities in a Large and Maturing Asset Class."* February 2011. P. 9.

FIGURE 12 Emerging Markets Debt – New Issuance Sovereign and Corporate Debt (in US$) – (2000-2010)

Source: JP Morgan. As of December 31, 2010

corresponding figure for the emerging nations was about one-third smaller (11%).[3] The next few years are expected to witness an even further widening in relative debt structures.

Until fairly recently, the corporate bond market in the EMs had almost been nonexistent. This, however, is rapidly beginning to change. EM companies are increasingly tapping the public credit markets to finance growth and these corporate bonds are now becoming a major part of the broader emerging market investment universe. EM corporate debt denominated in US dollars stood at $709 billion at year-end 2010, more than half the size of the total emerging market sovereign debt universe, valued at $1.3 trillion (according to JPMorgan). Corporate issuance has steadily grown (except during the financial crisis in 2008) and has surpassed total sovereign issuance each year since 2003, reaching a record $211 billion in 2010. In 2010, the size of the emerging corporate bond market, including quasi-sovereign bonds, was more than half the size of the US high-yield bond market and five times larger than the European high yield market.[4]

EM companies are increasingly tapping the public credit markets to finance growth and these corporate bonds are now becoming a major part of the broader emerging market investment universe

Corporate debt issuance has been growing so fast in the EM econo-

³ The emerging market debt figures do not include the huge potential liabilities the Chinese central authorities may have to assume if local governments are unable to finance their heavy borrowings in recent years.

⁴ Prudential Fixed Income Report. *"Emerging Markets Corporate Debt: Opportunities in a Large and Maturing Asset Class."* February 2011. P. 5.

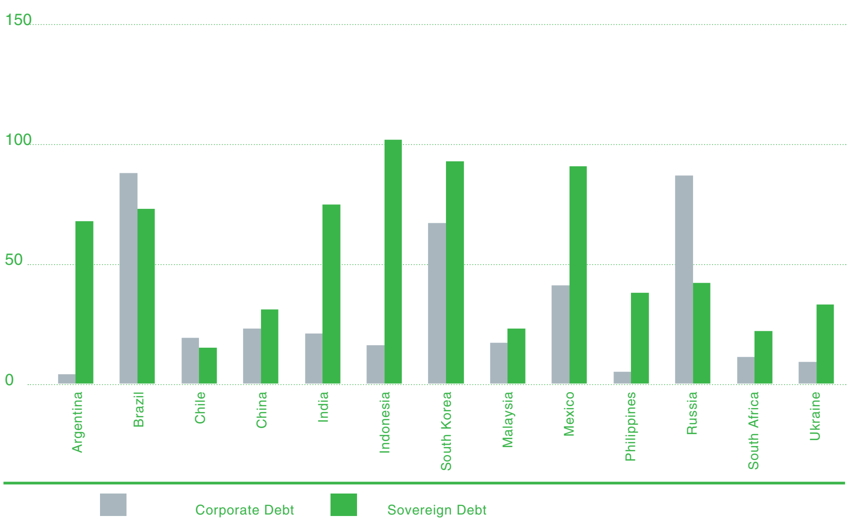
TABLE 2 EMERGING MARKET DEBT AND US CORPORATE DEBT (VALUE OUTSTANDING)	
Type of Corporate Debt	$ Face Value
Emerging Markets Corporate [5]	$709 billion
US High Yield Corporate	$1.2 trillion
US Investment Grade Corporate	$3.8 trillion
Euro High Yield Bonds	$140 billion
Source: JPMorgan and Bond Radar	

mies recently that the stock of corporate debt outstanding has already surpassed sovereign debt outstanding in Russia, Brazil, and Chile (Figure 15). Over the next few years, emerging markets corporate debt is expected to surpass sovereign debt levels in China and Malaysia.

The corporate bond issuance is more than an Asian play and EM corporate debt is well diversified globally across regions, with Emerging Europe and Latin American issuance close to that of Asia's. And the credit quality of the corporate debt, relatively poor just five years ago, parallels that of its sovereign debt. Currently, the majority of emerging market corporate bonds – nearly 70% – are rated investment grade (BBB or higher) by

Corporate debt issuance has been growing so fast in the EM economies recently that the stock of corporate debt outstanding has already surpassed sovereign debt outstanding in Russia, Brazil, and Chile

FIGURE 13 Emerging Markets Debt – Outstanding Debt
Sovereign and Corporate Debt by Country (US$) (Year-end 2010)



Source: JP Morgan. As of December 31, 2010

[5] Some of the EM corporate bonds are quasi-sovereign securities.

the major credit rating agencies, while 30% are high-yield, non-investment grade companies. Asia, which has historically had a high percentage of investment grade issuers, also has the highest percentage of investment grade corporate issuers.[6]

FIGURE 14 Emerging Market Corporate Debt Market Capitalization by Region and Quality (2010, billions $)

Source: JPMorgan CEMBI Broad Diversification Index

[6] Prudential Fixed Income Report. *"Emerging Markets Corporate Debt: Opportunities in a Large and Maturing Asset Class."* February 2011. P. 6.

VI. FOREIGN EXCHANGE RESERVES

While the developed world still accounts for the bulk of FX turnover, it is the EM economies that now account for the lion's share of FX reserves. Perhaps no other financial measure better illustrates the shifting center of financial power. According to the Bank for International Settlement, net capital flows to 23 large EM economies amounted to only about $1 billion a year in the 1980s, helping their foreign exchange reserves to rise by about $11 billion. In the 1990s, capital flows strengthened, and their reserves grew by $62 billion a year. These trends continued in the 2000s, so that in 2007 alone, total capital inflows amounted to $1.4 trillion, net capital inflows of $439 billion, and FX reserves grew by nearly $1 trillion.

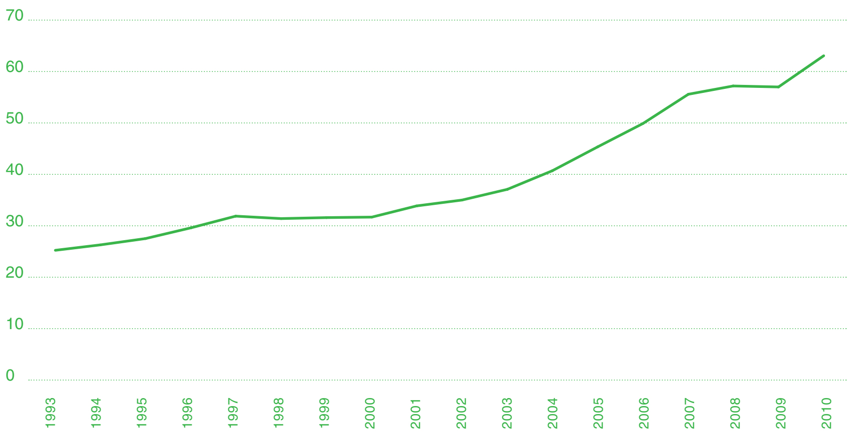
Total global foreign exchange reserves increased from $2 trillion in 2000 to $9.7 trillion (according to the IMF) at the end of Q1 2011. Over this same period of time, EM's share of global FX reserves more than doubled, rising from 32% to 67%.

Virtually all of the increase in global reserves over the past decade was accounted for by 18 countries (16 of them EMs): China, Hong Kong, Taiwan, South Korea, Singapore, Indonesia, Malaysia and Thailand, India, Brazil, Argentina and Mexico, Russia, Poland and Turkey, and Algeria, Libya and Nigeria.

The BRICs' reserves rose from $331 billion to $4.4 trillion or from 13% to 43% of world reserves from 2000 until mid-year 2011. Of this, China's reserves increased from $168 billion in 2000 to a little over $3.2 trillion by June 2011 (approximately 50% of China's GDP). China's reserves account for approximately one-half of EM reserves. According to the US Treasury, China has approximately $1.5 trillion in dollar denominated assets.

From 2000 to 2011, the EM's share of global FX reserves more than doubled, rising from 32% to 67%

FIGURE 15 EM Share of Global FX Reserves

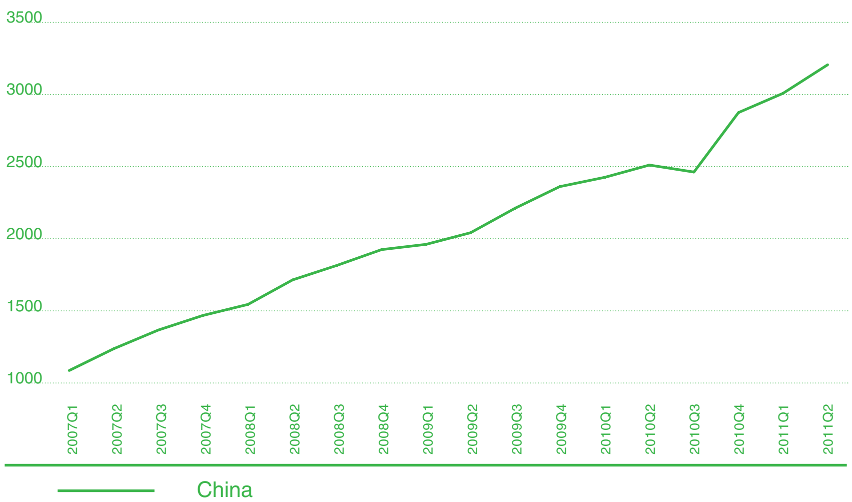


Source: Bloomberg

Russia's FX reserves have passed the half trillion mark for the first time (surpassing its previous 2007 peak of $467 billion at the height of the oil price boom), up from a paltry $32 billion in 2000. Brazil's reserves have increased from $32 billion to $330 billion and India's rose from $38 billion to $310 billion (from 2000 through 2011). Among the advanced economies, only Japan saw a material rise in reserves, increasing from $354 billion to around $1 trillion before the 2011 earthquake and tsunami.

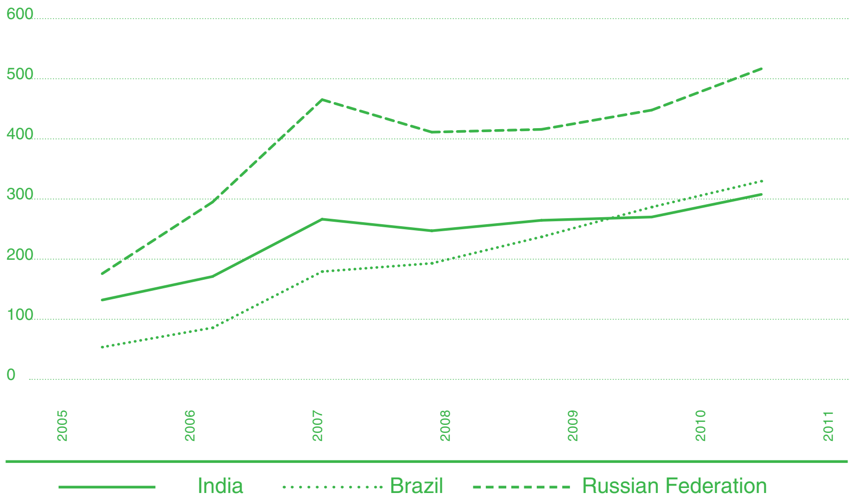
Russia's FX reserves have passed the half trillion mark for the first time up from a paltry $32 billion in 2000

FIGURE 16 China's Enormous Collection of FX Reserves (billions $, minus gold)



Source: Bloomberg

FIGURE 17 Foreign Exchange Reserves (Billions $, minus gold)

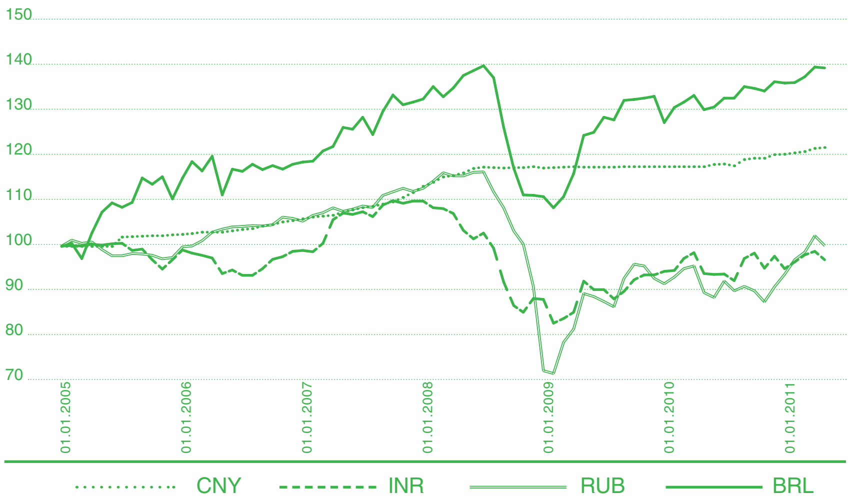


Source: Bloomberg

VII. EMERGING MARKET EXCHANGE RATES

As relative financial strength shifts between nations, so should the relative strength of their respective currencies. Emerging market currencies are generally expected to appreciate over time as their real GDPs approach purchasing power parity. The currency appreciations are an important element over time because it gives EM nations greater purchasing power over global assets and goods. Figure 18 shows the individual BRIC exchange rates, vis-à-vis the US dollar (a rise indicates an appreciation of the respective currency against the US dollar), since the middle of last decade.

FIGURE 18 The Appreciation of EM currencies (vis-à-vis the US $, rebased 2005=100)



Source: Bloomberg

There are two noteworthy things here. First, with the exception of the Chinese yuan, which is pegged against the US dollar but has been allowed to slowly appreciate at times since 2005, the global financial crisis caused a massive flight toward the US dollar, wiping out the currency gains of the other BRIC currencies from 2005. Once again, this illustrates that EM financial assets are still very suspect to "flights to quality (or safety)" during periods of financial turbulence. Second, since January 2009, when the worse of the financial crisis had passed, the BRICs' currencies have resumed their appreciation against the dollar, rising 4%, 10%, 38%, and 26% (through June 2011), for the Chinese yuan, Indian rupee, Russian ruble, and Brazilian real, respectively.

SPECIAL FOCUS: THE CHINESE RENMINBI ON ITS WAY TO RESERVE CURRENCY STATUS?

China's rapid financial development has brought much speculation about how quickly its currency, the Renminbi, could obtain major reserve currency status. Achieving "reserve" status for the currency would give China enormously more financial leverage globally, akin to what the US dollar has done for the United States over the past half century.

With the Renminbi pegged to the US dollar the Chinese authorities are clearly concerned about their dependence on the dollar's international purchasing power. Every week, however, seems to bring new reports about the "internationalization" of the Renminbi. There is evidence that Beijing is reducing its reliance on the dollar for current account transactions. Approximately 7% of China's foreign trade in the first quarter of 2011 was conducted in yuan, up from 0.5% a year earlier. That's still small but represents a very significant increase.

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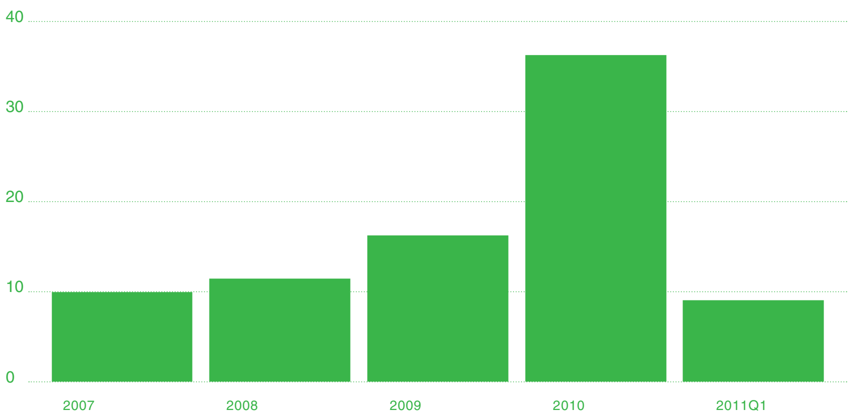
There have also been more capital account transactions in Renminbi recently. Last year, issuers ranging from McDonald's corporation to the Asian Development Bank sold yuan-denominated "dim-sum bonds" in Hong Kong, raising 36 billion yuan, more than double the amount raised

FIGURE 19 Dim Sum Delight
Yuan-denominated corporate bond issuance in Hong Kong (billions of yuan)



Source: WSJ

in 2009. The first Renminbi dominated stock was also listed on the Hong Kong Stock Exchange in 2011. Since taking steps allowing the yuan to be freely traded in Hong Kong and allowing trade settlement in yuan, Renminbi deposits in Hong Kong have recently ballooned to 407 billion yuan.

Despite these recent changes, China maintains very tight control of its capital account out of concern that excessive trade in the yuan outside China would allow speculators to destabilize the domestic monetary system. Chinese officials have to approve bringing any sizeable amount of currency — foreign and domestic — into the country. Currently companies that issued offshore yuan debt have great difficulty getting the money they raised into China because China has no set rules allowing foreign investment in Renminbi. Today it is done on a case-by-case basis. As a consequence most analysts believe that full convertibility, the only measure that could *eventually* make the yuan a major reserve currency some day, is still a long way off.

VIII. EMERGING MARKET BANKING

The banking sector is a critical part of the financial system in the EM countries. It is the major financing source for both the private and public sectors thus serve as the crucial engine for economic growth in these countries. The banking sector has become increasingly the major funding source for firm investments in these countries. According to a World Bank study, only 11% of EM firms relied on banks for their investment in 2002, while the figure rose to 31% in 2009.

While most of the developed world is still struggling to recover from the global banking crisis, the banking sector in the BRIC countries was relatively less affected by the global financial crisis. There have been fewer cases of major bank failure in the BRIC countries whose economies were either not much affected by the crisis (such as China) or recovered much faster than their developed counterparts (such as Brazil). This not only contributed to the recovery of the global economy from the recession, but also has resulted in the increasing importance of the EM banks in the global banking market. The number of EM banks ranked in the top global 100 (by market capitalization) now numbers 44, while their corresponding numbers were 21 and 30 in 2002 and 2007, respectively, according to Bloomberg data. The rise of the Chinese financial banks the past decade has been nothing short of spectacular. There were none in 2004 but today four of the top six banks in the world are Chinese.

The number of EM banks ranked in the top global 100 (by market capitalization) now numbers 44, while their corresponding numbers were 21 and 30 in 2002 and 2007

TABLE 3 TOP10 BANKS IN THE WORLD (BY MARKET CAP., US$ BILLION, JUNE 2011)

Rank	Bank Name	Country	Market Cap.
1	INDUSTRIAL & COMMERCIAL BANK OF CHINA	China	248.6
2	CHINA CONSTRUCTION BANK	China	225.5
3	HSBC HLDGS PLC	UK	182.3
4	JPMORGAN CHASE	US	161.1
5	AGRICULTURAL BANK OF CHINA	China	144.3
6	BANK OF CHINA	China	143.3
7	WELLS FARGO & CO	US	138.9
8	CITIGROUP INC	US	111.2
9	BANK OF AMERICA	US	109.7
10	BANCO SANTANDER	Spain	97.8

Source: Bloomberg

CONCLUSION

The financial crisis and Great Recession of 2008 abruptly and brutally ended a three-decade long expansion in the global financial markets. While the worse of the crisis has past, as of this publication (August 2011), much of the world's rich developed economies and financial markets remain precariously weak. Financial activity and development in the emerging world, however, has picked up where it left off before the crisis and is surging forward. EM equity markets now account for a third of global equity capitalization. The private bond markets, tiny and invisible just five years ago, are now critical sources of funding for EM corporations. Initial public offerings today are more likely to occur in EM cities than New York and London. The largest financial institutions in the world are no longer in Tokyo, London or New York but in China and most of the world's foreign exchange reserves are possessed by the developing world. And perhaps most interesting, global investors are no longer treating emerging markets like emerging markets. The risk premium associated with EM financial securities has shriveled away to almost nothing.

Going forward, the EMs will need to continue deepening their financial markets if they want to reach the next stage of economic development. That will require further financial liberalization and a regulatory structure that encourages innovation but not moral hazard. They should take the recent events in the developed world as a lesson in not what to do.

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