Globalization of the Capital Markets

Samuel R. Coleman – Tuck ‘83
Personal Background

- Chemical Bank – 1977 to 1981
- Tuck ’83
- First Boston – 1983 to 1996
  – M&A
  – Head of Diversified Financials
  – Head of FIG Europe
- Salomon / Citigroup – 1996 to 2006
  – US Depository Institutions
  – Co-Head of FIG Asia
  – Head of FIG Latin America
What are the “Capital Markets”?  

- “Securitization” broadly defined  
- Derivatives & Structured Products  
- Mergers and Acquisitions  
- Venture Capital/Private Equity/Hedge Funds
Preconditions to Successful Capital Markets

- Disclosure
- Property Rights
- Fiscal/Monetary Policy
- Benign Political and Regulatory Regime
- Tax Policy
- Payment System
- LT Capital Formation
Benefits

• Transparency
• Scalability & Cost Efficiency
• Liquidity
• Speed
• Risk Management
How Did the U.S. Develop?

Personal Wealth
(excludes Home Equity)

Collapse of Bretton Woods

ERISA

Year

Percentage of GDP
0.0% 20.0% 40.0% 60.0% 80.0% 100.0% 120.0%

Savings Deposits
Pensions
Mutual Funds
New Issues – U.S.

New Issuance of Stocks and Bonds in the U.S.
U.S. Mergers & Acquisitions

U.S. M&A Volume to GDP

Year


% GDP

0.0% 5.0% 10.0% 15.0% 20.0% 25.0% 30.0%
Collateral Damage

- ’82 – Latin America
- ’85 – US S&L’s
- ’87 – New Zealand
- ’93 – Scandinavia
- ’94 – Mexico
- ’97 – Japan
- ’98 – Russia
- ’98 – Asia
- ’03 – Argentina
2006

A Worldwide Web
How financial assets link different corners of the globe

*Includes stock, debt, lending and foreign direct investment
## How Global?

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Financial Assets</th>
<th>GDP/Capita $ 000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5%</td>
<td>39%</td>
<td>$41.5</td>
</tr>
<tr>
<td>Greater Europe</td>
<td>13%</td>
<td>37%</td>
<td>$20.1</td>
</tr>
<tr>
<td>Japan</td>
<td>2%</td>
<td>14%</td>
<td>$30.5</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>49%</td>
<td>8%</td>
<td>$5.6</td>
</tr>
<tr>
<td>Latin America</td>
<td>9%</td>
<td>2%</td>
<td>$8.0</td>
</tr>
<tr>
<td>Rest of World</td>
<td>23%</td>
<td>0%</td>
<td>$3.4</td>
</tr>
</tbody>
</table>
Drivers of EM Growth

• **Demand**
  – Exports (early stage development)
  – Domestic consumption (later)

• **Technology** (widely available)

• **Investment**
  – Public Sector Investment (constrained)
  – Foreign Direct Investment (volatile)
  – Internal Savings (KEY)
Hot Money?

Emerging Market Countries: Equity Market Developments

- Emerging Market Equity Mutual Funds (billions of U.S. dollars)
  - Total assets (right scale)
  - Quarterly net flows (left scale)

2001 02 03 04 05 06 Q2

35
28
21
14
7
0
-7
-14
Volatility

Nominal GDP Growth in $
Gap in GDP per Capita

Same Growth Rate Over Time

Wider Gap in Purchasing Power
The Promise from Pension Reform

Latam Pension Market

Year

% GDP

Argentina
Colombia
Chile
Mexico
Peru
Asia’s High Savings Rate

**Chinese IPOs**

Volume of initial public offerings of stock, in billions

- World-wide
- A shares*

* A shares are issued by Chinese companies to domestic investors and listed on the Shanghai or Shenzhen stock exchanges.

Source: Dealogic
Challenges & Controversies

• Fairness v. Freedom
• Corruption
• The Dark Side of Debt
• Concentration Effect
Fundamental Progress

- Multiple Money Centers
- Mature regulatory framework
- New paradigms for international aid
- Rapid growth in Russia, China, India
- Fiscal/Political moderation
- Growth of consumer, micro-finance, mortgages

“The prospects for developing countries are more favorable now than they have been since WWII” - Michael Spence, 2001 Nobel Laureate
Implications for Tuck Students

• U.S. market leadership
• Independent money centers
• Principal investing
• Opportunity on the frontier
Thank You