Emerging market countries such as China, India, Russia, and Brazil are expected to be major sources of global economic growth in the coming decades. This seminar focuses on critical financial policy issues that will challenge the governments in the most important emerging market countries and have a major impact on their relative performance. These issues will also affect economic and political relations with the United States and other industrial countries, with internationally active businesses, and with NGOs concerned with global challenges such as poverty, terrorism, post-conflict reconstruction, loss of biodiversity, and global warming.

The seminar looks at the world through the eyes of finance ministers in the leading emerging market countries as they make choices in five areas of “internal” policy and six areas of “external” policy. The internal areas are the role of the central bank, the budget, privatization, banking sector reform, and capital market development. The external areas are the exchange rate regime and capital account liberalization, private equity flows, private debt flows, multilateral official financing, bilateral official financing, and debt restructuring. In each area, the seminar will examine the factors that push countries to adopt policies that deviate from the “ideal” policies indicated by theory and precedent.

A core concept in the seminar is the “country risk premium,” measured by the difference in the market yield between a country’s sovereign bonds and equivalent-maturity U.S. Treasury bonds. Students are expected to develop a sophisticated understanding of why this premium is important, how internal policy choices and external factors affect the premium.

The realm of emerging markets finance is in a period of transition, however. The country risk premium has become less important as international fund managers and asset managers have become increasingly willing to invest in emerging market debt instruments denominated in local currencies. Over the past couple of years, emerging market bonds have moved out of the junk bond category and are perceived to be a less
risky asset class. Another new phenomenon is the creation of “sovereign wealth funds” by emerging market countries that are accumulating “excess” foreign exchange reserves and want to earn higher returns on these reserves than they can get from investing them in “risk-free” U.S. Treasury bonds. This phenomenon underscores how far emerging market countries, as a group, have “flipped” from being debtors to creditors vis-à-vis the USA and other high-income countries.

Each student is required to select a systemically significant emerging market country at the beginning of the semester and to track how the finance minister in that country is dealing with the topic of the week. In advance of each class, students will be given a set of Class Notes on the topic to be discussed and no more than four relatively short readings. Students will write two short Policy Memos to the finance minister of the country they have selected for special study, each one recommending a specific policy measure. Students will also make a class presentation on a policy issue related to the topic of the week.

**Course Instructor**

The seminar is offered by Lex Rieffel. Rieffel is a Non-Resident Senior Fellow at the Brookings Institution, with 25 years of experience working on financial policy issues at the U.S. Treasury Department and the Institute of International Finance (an association representing the global financial industry).

His years with the Treasury included postings on the staff of the U.S. Ambassador to the OECD in Paris (1984-86), and the staff of the U.S. Executive Director in the International Monetary Fund (1988-89). His last assignment was directing the office responsible for issues related to the transition countries in Eastern Europe and the former Soviet Union (1990-1992). He is the author of *Sovereign Debt Restructuring: The Case for Ad Hoc Machinery* (Brookings Press, 2003), “Indonesia’s Quiet Revolution” (*Foreign Affairs*, September-October 2004), and Policy Briefs on the Peace Corps (2003), the Millennium Challenge Corporation (2005), Nigeria’s Paris Club Debt Deal (2005), and International Volunteering (2006). His latest publication (co-authored) is: “Out of Business and On Budget: the Challenge of Military Financing in Indonesia”. He has taught previously at Johns Hopkins U. (SAIS) and Syracuse U. (Maxwell School).

**Course Objectives**

The students taking this course will soon be in jobs with an international dimension. Their success will depend in part on the insights and tools they acquire during their graduate studies. This course focuses on the leading emerging market countries, the most important group of players in the world economy after the industrial powers. As a group, these rising economic powers are gaining ground on the United States, Europe, and Japan, and they are expected to be the major engines of global growth over the coming decades. The course is designed to provide students with a good grasp of the financial dimension of economic growth and development in these countries.
Within the group of leading emerging market countries, their relative performance in the years ahead will be determined by their different starting points, the policies they choose to maintain or accelerate their growth, their skill in implementing these policies, and their reaction to unpredictable shocks. For example, consider the differences between the four most important members of this group: China, India, Russia, and Brazil. They have similar goals but quite diverse historical experiences and institutional frameworks. Finance Ministers in these countries face similar issues but operate with unique constraints. Financial policies may not be the most important determinant of their country’s economic performance, but they are generally a major factor.

In an increasingly integrated global economy, the financial policy choices made by the leading emerging market countries have an impact beyond their borders. This impact provides a compelling reason for understanding why specific policies have been adopted, and the implications of changes in these policies. The ability to analyze alternative policies and make the case for adopting one of them is a related skill with wide application. Students who take this course should be well prepared to make valuable contributions in their places of employment, inside a finance ministry, elsewhere in government, in a private company, in an NGO, or in academia.

Course Schedule and Location

The course is scheduled to meet [in a room to be determined] from 7:10pm to 9:00 p.m. on Tuesday evenings beginning on January 15, 2008, and ending on Tuesday, April 22, except on March 18, the week of Spring Break. In addition there will be a final exam.

Prerequisite and Class Limit

Unless a waiver is granted, students must have completed Economics 284 or an equivalent course in intermediate macroeconomics or international macroeconomics. The number of students in the seminar will be limited to 20.

Course Requirements and Student Assessment

Preparation and active participation in class are essential. Students are expected to attend all 15 sessions. In case of a family, medical, or other emergency, students should notify the instructor of their absence in advance.

Students are expected to become familiar with basic terminology used in discussing the policy issues covered in the course, such as “country risk premium,” “bank recapitalization,” and “IMF conditionality.” They are expected to analyze complex policy issues with economic, political, and social dimensions. They are expected to communicate the results of their analysis clearly, concisely, and persuasively, both orally and in writing. Original thinking and constructive critiques are strongly encouraged.
Grades will be based broadly on how well students meet these objectives by the end of the course. More specifically, final grades will reflect performance in the three categories described below.

1. **Policy Memos (45 percent)**

Students are required to write two short (2-page) memos to the finance minister in the country they have selected for special study analyzing a policy choice and recommending a specific policy. A sample Policy Memo will be provided at the beginning of the course.

2. **Class Participation (25 percent)**

Satisfactory class participation will require preparing in advance of each session, contributing relevant points, asking good questions, and reacting constructively to points made by other students. At the first class, students will be asked to declare the emerging market country they have selected for special study. The selection of countries will be discussed and agreed in class to ensure broad coverage and avoid excessive duplication. Students are expected to have some knowledge of the position of the finance minister in the country they have selected on the policy area under discussion in each class. Students are expected to review the materials on the list of Recommended Readings in advance of each session. Outstanding class participation will require consistently making points of interest to other students, asking questions that elicit useful information from the instructor or other students, and probing/challenging comments made by other students in a constructive manner.

3. **Class Presentation (15 percent)**

Each student will also make a short presentation on an issue related to the topic of the week. Students will be paired for making presentations if more than twelve are enrolled. The best presentations will be well organized and convey information of value to the other students. A one-page handout with key points can be a useful device.

4. **Final Examination (15 percent)**

The final examination will be for one hour and will consist mostly of short-answer questions about basic concepts discussed in the course.

**Office Hours**

I will generally be available for consultations with students on Tuesdays at the Brookings Institution. Appointments can be scheduled by email to Rieffel@gwu.edu.

**Basic References**
Two textbooks will be on reserve at the library at the beginning of the semester. Students interested in a second opinion or a more theoretical treatment of the issues covered in the course are encouraged to consult these sources.


Copies of my book on *Sovereign Debt Restructuring* will also be on reserve in the library.

Two superb books were recently published that offer insider perspectives on emerging markets finance. John Taylor was the Treasury Under Secretary for International Affairs in the first six years of the Bush Administration. Antoine van Agtmael coined the term “emerging markets” when he was working at the International Finance Corporation in the 1980s. Both will be put on reserve in the library and students who read them will be in a position to contribute more to class discussions.


**Course Outline and Recommended Reading**

*The readings listed below complement the Class Notes by adding depth or offering different perspectives. Students who read thoroughly at least one of these readings each week and draw on it in the class are more likely to get higher grades.*

**Part I: Introduction**

**Week 1: The Financial Dimension of Economic Development (January 15)**

*Students are encouraged to read at least two of the following three sources before the first class.*


IMF. *World Economic Outlook—September 2005*. Only Chapter III on “Building Institutions”.  

Lant Pritchett. “The Quest Continues”. Finance and Development 
http://imf.org/external/pubs/ft/fandd/2006/03/pritchet.htm

*The following three sources are recommended reading for the course but not for Week One.* Updated IMF reports are expected in April. Updates of the IIF report are expected in January and April/May.

IMF. *World Economic Outlook—October 2007*. **Only the Executive Summary and relevant parts of Chapters 2 and 3.** 

IMF. *Global Financial Stability Report*. September 2007. **Only the Executive Summary and the emerging market portions of Chapter 1.** 

http://iif.com/press/press+44.php [follow link to full document]

**Part II: Internal Financial Issues**

**Week 2: The Role of the Central Bank (January 22)**


http://www.stanford.edu/~johntayl/Papers/Bank%20of%20Mexico%20Paper2.pdf

Week 3: The Budget (January 29)


*Reading one of the following two items will be sufficient.*


Week 4: Privatization (February 5)

OECD. OECD Guidelines on Corporate Governance of State-Owned Enterprises. 2005


Week 5: Banking Sector Reform (February 12)

pp. 13-49. (Posted on the Blackboard)

and Factual Update, 20 October 2005

(firsthand account of the restructuring and privatization of Seoul Bank)

Week 6: Domestic Capital Market Development (February 19)

*** FIRST POLICY MEMO DUE


- Read Chapter 2 on “Trends in Developing-Country Capital Markets Around the World” by Hausler et al., pp. 21-45. It is dated now, which shows how fast the ground is changing in this area.

- Skim Chapter 13 on “Identifying Vulnerabilities, Promoting Financial Stability, and Other Challenges” by Conroy and Petersen, pp. 347-364, which focuses on the performance of EMC equity markets against the standards of the International Organization of Securities Commissions (IOSCO).

- **Scanned copies of these three chapters are on the Blackboard.**


Part III: The Country Risk Premium

Week 7: The Country Risk Premium (February 26)


This report is 301 pages long. It can be found via the following link:
http://iif.com/emp/ir/
Part IV: External Financial Issues

Week 8: Exchange Rate Regimes and Capital Account Liberalization (March 4)


The following reading is optional, except for students who have picked China as their country for special study. This is an excellent introduction to the “hot” topic of China’s exchange regime, even though it was published before the August 2005 move to a “flexible” regime.


Week 9: Private Capital Flows I—Equity Flows (March 11)


IMF. World Economic Outlook--April 2005. Read only Chapter II on “remittances”.

**SPRING BREAK (March 18)**

**Week 10: Private Capital Flows II—Debt Flows (March 25)**

IMF. *Global Fin Stability Report*, April 2004. **Chapter 4 only** ("Institutional Investors in Emerging Markets")


**Week 11: Official Flows I—Multilateral Sources (April 1)**


*Note: The Annual Reports listed below can be found in the Reference section of the GWU Library.*

Explore the following report to find information about the country you have selected for special study, including its quota, its use of fund resources, its Governor, and its Executive Director.


Explore the following reports to find out what role these parts of the World Bank Group are playing in the country you have selected:

  http://web.worldbank.org/WEBSITE/EXTERNAL/EXABOUTUS/EXTANNREP
Explore one of these reports to find out what role the relevant regional development bank is playing in the country you have selected:

  http://www.ifc.org/ifcext/annualreport.nsf/content/Home
  http://www.miga.org/index.cfm?aid=746

Week 12: Official Flows II—Bilateral Sources (April 8)

*** SECOND POLICY MEMO DUE


OECD. Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results, and Mutual Accountability. 2 March 2005.  


Week 13: Debt Restructuring (April 15)


- Look at the operations involving your country, if there were any.


Week 14: Sovereign Debt Funds (April 22)


Part V: Conclusion

Week 14: The Architecture of the International Financial System (April 29)


The following reading is included on the syllabus, but it is a bit outdated now. For students who have a special interest in this area, it may be worth reading because the author is probably the most highly regarded academic focusing on the “architecture” issue.
Barry Eichengreen. “Strengthening the International Financial Architecture.” Address to Annual PECC Finance Conference, Santiago, Chile, June 2004

**Week 14: Final Examination (May 6--tentative)**