SCIPOD

////Title: A Framework Challenging Conventional Wisdom for Investing in Emerging Economies

////Standfirst:

Since the 2008 global financial crisis, the US and other Western powerhouses have performed a U-turn in investing in globalisation, returning to the perceived comfort of protectionism, which involves imposing tariffs on imports to prioritise domestic industries. This has had a significant effect on developing and emerging countries, suppressing their economic growth by decreasing investment in the name of caution and reduced risk. Dr Bertrand Guillotin (GEE-oh-ten) has recently challenged the conventional wisdom behind this approach in an effort to demonstrate that investment in these developing markets is not only advisable, but necessary for the growth and resilience of the global economy.

////Main Text:

From an investment perspective, or more accurately a Wall Street perspective, interest in the economies of developing countries took a big step in its growth when Jim O'Neil, an economist at Goldman Sachs, began the BRIC fund based on his 2001 paper – the same year China joined the World Trade Organization. This was a fund centred around investment in the emerging economies of Brazil, Russia, India and China.

For a short period between its incarnation and 2007, investment in these countries seemingly showed that the reward outweighed the associated risks. In fact, even in 2008, the year of the global financial crisis, while Ford recorded losses of over 14 billion US dollars, investment in the Indian company Tata Motors and Chinese automotive company Geely continued – showing the value that companies from emerging economies can have in an investment portfolio.

Despite this, by 2015, one year after the retirement of Jim O'Neil, Goldman Sachs closed its BRIC fund due to several years of losses and a decline in value of assets. So, what happened?

Well, in the post-financial crisis era, developed countries such as the US and the UK turned away from major investment in emerging economies, effectively changing course from semi-globalisation to protectionism. This is an approach that remains to this day.

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In a new paper published in the *Journal of Risk and Financial Management*, Dr Bertrand Guillotin of the Fox School of Business at Temple University in Philadelphia states that this is mainly driven by five pieces of conventional wisdom for investment.

The first piece of supposed wisdom assumes that in the current financial landscape, a protectionist, domestic mindset is the way to go. The second piece believes that developed countries will always lead the way financially, and so their practices should be replicated in developing economies, while the third one states that developed countries have better institutions, and therefore their scholars and leaders are more knowledgeable than those in developing countries. The fourth assumes that it is unlikely that emerging economies will produce world-leading companies. As businesses have not taken advice from universities and business schools previously in developing economies, the fifth piece of conventional wisdom believes that it isn't necessary to start now.

In his paper, Dr Guillotin challenges these assumptions, questioning their integrity and demonstrating their outdatedness. In doing so, he has produced an economic and analytical framework to further globalisation and bring back investment in developing countries, substantiated with reference to numerous significant mistakes made by developed economies using the conventional wisdom.

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To begin, the researcher notes that in recent years, a protectionist mindset can often lead to what would be considered an anti-protectionist outcome when the economy is already semi-globalised. For example, when the US decided to impose tariffs on steel and aluminium in an effort to protect their own industries, China simply retaliated by imposing its own tariffs, leading to financial losses for US-based companies and considerable job losses for US citizens.

Furthermore, in addressing the assumption that developing countries will always lead the way and so other countries should imitate their practices, Dr Guillotin simply notes that the economies of China and India were once dominant, and that this dominance is demonstrably not permanent.

The notion that universities and other institutions in developed countries are more knowledgeable is also easily refuted by considering that scholars in any given university tend to be from a variety of cultures all over the world. Moreover, universities and business schools are pivotal in launching new businesses, as well as finding valuable solutions to long-standing economic and societal problems. They also point to the fact that past growth in emerging economies can, in some capacity, be attributed to an increase in education.

Finally, perhaps the most flawed piece of alleged conventional wisdom is that developing countries cannot produce world-leading companies. One look at a list of the largest companies in the world shows China's dominance, with Huawei recently outselling Apple smartphones and Lenovo becoming the biggest seller of personal computers in the world.

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Being able to perform this analysis using Dr Guillotin's framework and identify dangers in the current approach taken by developed economies is paramount. The result is what Dr Guillotin refers to as the Holistic Risk and Opportunity Analytical Framework. In a predominantly quantitative field, the introduction of this qualitative analysis as a support mechanism provides strategists with a wider perspective of the markets, which spans both the macro and micro scales – showing not only current behaviours but trends and shifts as well.

It is suggested that this framework, combined with greater acceptance of the advice of scholars and business schools, can give strategists the ability to better analyse risks and volatility in markets. Moreover, Dr Guillotin hopes that this framework will lead to greater globalisation, reinvestment in emerging economies such as those that were in the BRIC fund, while removing many of the biases that plague poor investment decision-making. In an information-centric age where fake news is often passed on as truth to voters and the general public, this framework offers an open-minded and logical approach to challenging this danger.

Dr Guillotin suggests that the next steps are for networks of strategists, supported by their teams, to use this framework for tackling many other common assumptions that can often have drastic implications for society.

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This SciPod is a summary of the open-access paper 'Using Unconventional Wisdom to Re-Assess and Rebuild the BRICS', from the *Journal of Financial Risk and Management.*
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