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'Imagineering' Asian emerging markets: Financial knowledge networks in the fund management industry

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Abstract

This paper examines knowledge production networks in the fund management industry. Focusing on Asian emerging markets (EMs), I explore how fund managers, brokers and research analysts utilise a combination of texts, analytical structures, codified procedures, and social networks to generate interpretations and perspectives on Asian EMs. Utilising a process-based approach, I investigate how 'EMs' as an investment category is imagined and practiced by those in the fund management industry through knowledge networks and how such networks are produced and maintained. Discussions are drawn from interviews conducted with 22 EMs specialists in Singapore and London. I argue that Asian EMs have distinct characteristics that are acted upon and reproduced by finance workers in particular ways and that the acquisition and transfer of tacit knowledge takes on increased significance when codified knowledge structures are lacking. Actors in Singapore and London are also embedded in different knowledge networks, which offer different strategic advantages but, when taken together, form a complex and multi-layered knowledge production network of 'imagineering' Asian EMs from both within and outside of Asia.
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1. Introduction: constructing 'emerging markets'

1.1. Aims and approach

The geopolitics and geoeconomics of money, and financial products and institutions such as the Bretton Woods agreement, the Gold standard, financial rating agencies, retail and investment banking, and pension funds, have been examined by a number of researchers (for example, Swyngedouw, 1996; Clark and O'Connor, 1997; Clark, 1998; Leyshon, 1996, 2000; Sinclair, 2000). However, it is only in recent years that some interesting work has emerged on the intriguing geographical 'imagineering' that goes into the construction and maintenance of 'emerging markets' (EMs) as a category, and the roles played by fund managers, brokers and analysts in these processes

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(see Ó Tuathail, 1997; Lavelle, 2000; Sidaway and Pryke, 2000; Sidaway and Bryson, 2002). Given the significant flows of foreign capital into EM regions and companies, especially with the rise of pension funds in developed countries and increased financial liberalisation in many EMs, there is a need to better understand the mechanisms and knowledge networks that connect these actors based in various financial nodes such as London, New York, Tokyo, Singapore and Hong Kong. This paper examines processes and actors involved in the construction, circulation and maintenance of EMs as an investment category within the unit trust (or mutual funds) industry.

As a point of departure, I concur with Sidaway and Pryke (2000) that the (re)designation of former 'Second' and 'Third' World countries into 'EMs' is not a neutral exercise but reflects particular agendas, knowledge structures, and strategic visualisation of global space produced amongst particular groups of actors or participants. In his critical analysis of the economic and political transition

of Eastern-Central European economies, Smith (2002) also notes that the incorporation of these EMs into Standard and Poor's (S&P) Emerging Markets Database and the European Union adds to the naturalism of market transition trajectories. The categorisation of 'Frontier' and 'Emerging' Markets thus involves the rhetorical civilising of these 'disorderly spaces' for capitalist expansion, a linear process of incorporation towards achieving 'developed market' (DM) status. Lee (2003), for example, argues that the formal construction of EMs as an investment category and the financial knowledge industries that have grown up around them are themselves reflections of the codification of knowledge in the packaging of uneven development in order to enable its incorporation into a strategy of globally diversified portfolio construction. While acknowledging these underlying geopolitical tensions and other issues of risk, neo-liberalism, development, and new geographies of accumulation and spatial relations, my analysis of EM investments focuses on the *knowledge creation* and *network* aspects of financial flows and processes. This paper is concerned with the process of incorporation through the experience and practices of workers in the fund management industry. In this instance, I examine how fund managers, brokers and research analysts utilise various texts, analytical structures, codified procedures, and social networks to generate various interpretations and discourses on the investment category of 'EMs'.

In this paper, I refer to discourse as a series of regularised representations, practices and performances through which meanings are produced and legitimised. Discourses reproduce social and institutionalised values or ideologies at the same time as being a domain in which they are constructed. As situated knowledges, they are characterised by particular configurations of power and knowledge and are always open to contestation and negotiation. The discursive strategies and representations employed in texts, speeches and images are involved in the creation of the very social phenomenon they purport to define and describe (Barnes and Duncan, 1992; Schoenberger, 1998; Lai and Yeung, 2003). The *images and perceptions* of EMs held by fund managers and brokers, (in)formed through networks of knowledge exchange and socialisation, have significant impacts on their investment process and behaviour, and affect how they *engineer* transnational flows of capital and investments. The 'imagineering' of EMs thus takes place and takes shape from the processes of information gathering and dissemination, assessment and evaluation of data, companies and economies, and actual investment and transaction, as conducted through networks of finance workers in the fund management industry. These processes have important material consequences in terms of global capital allocation and the development of cities as financial nodes and centres of advanced producer services (see Sassen, 2001, 2002). I am primarily interested in the latter part of this 'imagineering' process, i.e. how EMs themselves 'work', the types of knowledge deemed important in the investment process, and how such knowledge transfers and networks

are constructed and maintained. This paper thus aim to contribute to the study of the sociologies and spatialities of monetary networks called for by recent critical works on the geographies of money and finance (see Leyshon, 2000).

1.2. Context

S&P, which took over the influential EMs indices and databases compiled by the International Financial Corporation in 2000, defines an EM as having:

> a stock market that is in transition, increasing in size, activity, or level of sophistication. Most often the term is defined by a number of parameters that attempt to assess a stock market's relative level of development and/or an economy's level of development. (Standard & Poor's, 2000, p. 2)

A stock market is also classified as "emerging" if it meets at least one of two general criteria: (i) it is located in a low- or middle-income economy as defined by the World Bank, and (ii) its investable market capitalization is low relative to its most recent GDP figures. Other criteria include the presence of investment restrictions such as foreign limits, capital controls, extensive government involvement with listed companies, legislated restraints on market activity (particularly on foreign investors), operational efficiency of stock markets, quality of market regulation, supervision and enforcement, corporate governance practices, minority shareholder rights, transparency, and level of accounting standards. These EMs are, in turn, classified into regions by Morgan Stanley Capital International (MSCI) as Asia, Latin America, and EMEA (Europe, Middle East and Africa) (Table 1). Apart from the above seemingly negative aspects of EMs, their characterisation as economies of high growth, signalling high rates of returns on investments, and as attractive options to 'spice up' one's portfolio are also prominent. EMs currently occupy a niche but significant portion of world equity investments (Fig. 1), with an estimated inflow of US$26.8 billion in portfolio investment in 2004 (World Bank, 2005, p. 19). The astounding economic performance of the Asian 'tiger economies', such as Singa-

Table 1
MSCI classification of 'emerging markets'

Asia	Latin America	Europe, Middle East and Africa
China	Argentina	Czech Republic
India	Brazil	Egypt
Indonesia	Chile	Hungary
Korea	Colombia	Israel
Malaysia	Mexico	Jordan
Pakistan	Peru	Morocco
Philippines	Venezuela	Poland
Sri Lanka		Russia
Taiwan		South Africa
Thailand		Turkey

Source: MSCI website, http://www.msci.com/equity/index2.html.