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# The Coming Flood of Capital

By [The Moscow Times]

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A flood of capital is headed toward Russia, and the water is already rising fast.

This may seem a funny time to be predicting booms in borrowing, given that the West is teetering (yet again) on the edge of the abyss. At time of writing, Italy was due to vote on expelling Silvio Berlusconi and possibly precipitating a European-wide meltdown thanks to the country's gigantic sovereign debt of well over $1 trillion.

But the fund managers we talk to are getting excited. Clearly there is still a lot of rubbish to deal with in the short term, and a major meltdown in the EU would hurt everyone, but at the same time, the East is looking well prepared to deal with this possibility: Debt is low, reserves have recovered to $525 billion as of Nov. 1, and in Russia, the consumer spending that drives growth is recovering faster than anyone expected, which is the most stable form of growth that Russia has.

Fund managers are saying this crisis will convince investors in the West that they no longer have a choice: Allocations to emerging markets in general, and Russia in particular, will have to increase.

"We've been arguing for a while now that emerging markets would attract a flood of cash as investors despaired of developed markets ... eurobond issuance by region and type of issuer confirms this," Charles Robertson, chief economist at Renaissance Captial, wrote in a note this morning. "International securities issued by emerging market banks, corporates and sovereigns have been running at a total of around $80 billion per quarter since the third quarter of 2009. ... We have never seen such huge ability to borrow by emerging markets via eurobonds."

Indeed, we have already seen the vanguard arrive. Over the summer, several strategic retail investors committed themselves to expanding in Russia. Just the deals and pledges in the last year from PepsiCo, Coca-Cola, Unilever, KFC, Burger King, Wendy's and Dunkin' Donuts add up to about $9 billion. Add Siemens, Auchan, Jones Lang LeSalle, BP, Kraft Foods, Tele2, Danone and Disney, and that amount doubles.

Why is all this investment coming now if things are so unstable? The world has been turned upside down by this crisis. Western debt and deficit figures and nearly all of the "developed" markets have emerging market-like problems, while "emerging" markets for the most part have very robust fundamentals.

A more explicit illustration: The new IMF head Christine Lagarde was in Moscow this week to drum up support for a rescue package, and the rest of the world is hoping against hope that Russia and especially China will step in to bail them out. That means the United States and Europe, with per capita incomes on the order of 30,000 euros per year, are hoping that countries with per capita incomes of between 3,000 euros and 14,000 euros will rescue them.

Russia's strong position is thanks to former Finance Minister Alexei "Mr. Prudence" Kudrin, and despite all this new money on offer, the Russians have remained prudent: From the major emerging markets, Russian companies are borrowing the least.

It was the "bonanza borrowing" in the run-up to the 2008 crisis that caused so much damage in the worst of the meltdown (a classic cause of financial crises, as described by Carmen Reinhart and Kenneth Rogoff in their recent book "This Time Is Different"). Russia's hesitance to borrow only improves the country's position should it come to another Italy-inspired crunch. It seems that Russians are suffering from the "once bitten, twice shy" syndrome.

*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*