

Frontier Markets – Smallest Markets Represent Promising but Overlooked Investment Opportunities

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The general public may not be familiar with the term “frontier market,” but frontier markets represent the vast majority of the fastest-growing economies in the world. The term “frontier market” generally refers to the smaller emerging markets, including those that have been excluded from the emerging markets indices, such as the MSCI Emerging Markets Index. Frontier markets represent extremely promising investment opportunities as a result of this potential for growth. However, investing in these markets can come with additional risks and background work when compared to investing in more developed markets.

When investing in frontier markets, it is important to understand the situation on the ground in the target market, since the potential risks and opportunities may not be adequately reported in news stories or in investment analyst reports. Having friends, family members, or business associates in the target country or who travel frequently to the target country and can report back to you (or, even better, invite you to visit) can be an invaluable resource. Given the number of international visitors from around the world, the strong ties many in Miami have to friends and relatives in smaller emerging markets and the fact that Miami serves as a second home to so many international business people (including from certain frontier markets), Miami is uniquely situated to serve as a hub for frontier markets investing. This is a natural extension of Miami’s status as a hub for inbound U.S. investment by foreign nationals, including many from emerging and frontier market countries.

Risks that may (or, depending upon the location, may not) be magnified when investing in frontier markets, as compared to more developed markets, include risks of corruption (such as bribery and fraud), lack of infrastructure, foreign sanctions that a country or a company may become subject to, undeveloped corporate laws, political instability, lesser ability to deal with natural disasters, terrorism risks, currency fluctuations, high inflation, and less available information. Operational and practical challenges that investors may face when investing in frontier markets include the need to set up custody accounts (in the case of investments in publicly traded securities), currency repatriation restrictions, the need to perform enhanced due diligence for potential corruption, understanding brokerage and settlements practices, and effort and expenditures that may need to be committed to ensuring the health and safety of the team traveling to certain target regions. It is important to remember that each market is different and these issues and risks can typically be addressed with some effort and in consultation with experts here and on the ground in the target market where necessary.

National Law Review, Volume VII, Number 118

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