Analysis of Risk Factors for Investors in Emerging Markets

Jethro Godi 1,
1 Department of Finance, Risk Management and Banking, University of South Africa, Pretoria (0001), South Africa

* Correspondence: godinj@unisa.ac.za; Tel.: +27124294641

Received: April 21, 2024; Received in revised form: May 18, 2024; Accepted: May 21, 2024; Available online: June 30, 2024

Abstract: Risk management is becoming more and more dependent on the identification of risk variables for investors who wish to make investments in emerging economies. Finding risk factors for investors in emerging markets and identifying the top five risk factors in emerging markets were the two objectives of this study. To gather information from South African asset managers, this study used an online survey method, a quantitative research strategy, and online questionnaires. To analyse the data, descriptive statistics were employed. The findings indicated that the most crucial risk factors to consider when making investments in developing markets were currency, economic stability, liquidity, inflation, investment cost, hazards, and taxation. Additionally, it was shown that the top five risk factors in developing markets include inflation, currency fluctuations, hazards, liquidity, and economic stability. This study added to the body of knowledge and its significance and contribution to existing literature is that it gave investors in emerging markets fresh perspectives on risk factors to consider when investing in emerging market. The practical implication for investors is that they must consider factors identified in this study when investing in developing markets, it is advised that investors who choose to do so take into account the top five risk factors. Policymakers in emerging markets can help ensure that investors are well-informed about the risks associated with investing in emerging markets, ultimately fostering a more stable and attractive investment environment.

Keywords: Risk Factors; Emerging Markets; Investors; Investment

1. Introduction

Since risk factors have an impact on investors’ decisions to make investments in emerging countries, such as South Africa, they have recently gained more significance. Research on how investors make decisions in behavioural finance is more contentious than in traditional finance [1]. While investing in emerging countries is possible, there are risk factors and exposures that may not exist in developed markets, therefore the reality of doing so can occasionally differ greatly from perceptions. Research on risk variables that investors should take into account has been done in developed markets; however, developing or emerging markets are not keeping up with this research. To make wise investment decisions, developing market investors require thorough and reliable information on risk concerns [2]. Previous losses for investors in emerging markets have resulted in the bankruptcy of several significant investors and the job losses that have caused chaos for numerous enterprises and families [3]. Utilising emerging markets to safeguard and protect assets carries some
risk, thus it might not be a good idea to invest your entire portfolio in these countries [4]. According to [5] well-liked investment locations with a reputation for providing safe havens include the Isle of Man, the Bahamas, Bermuda, the Cayman Islands, Jersey, and Guernsey. But the failure of Singer and Friedlander's Isle of Man subsidiary, Kaupthing, Singer and Friedlander (KSF IOM), has raised concerns about the security of investment products and services for emerging countries [4].

Although investing in emerging countries carries some risk, it can also be a way to reduce taxes, increase flexibility, increase possible profits, and diversify your portfolio more than you could with other options [6]. As a result, it is imperative that investors perform thorough study to avoid losing more money than they could have saved by knowing when to sell or switch to other market classes [7]. Therefore, it is essential that specific risk exposures and emerging market risk factors be identified and included in the investment risk analysis. This can be achieved by applying a risk analysis methodology to analyse hazards and risk factors for investors in emerging markets [8]. Thus, the current study aimed to identify the key risk factors in emerging markets as well as the risk aspects that investors should be aware of. Descriptive statistics were used to identify risk factors as well as top five risk factors to consider when investing in emerging markets. The findings indicated that the most crucial risk factors to consider when making investments in developing markets were currency, economic stability, liquidity, inflation, investment cost, hazards, and taxation. Additionally, it was shown that the top five risk factors in developing markets include inflation, currency fluctuations, hazards, liquidity, and economic stability. The practical implication for investors is that they must consider factors identified in this study when investing in developing markets. Policymakers in emerging markets can help ensure that investors are well-informed about the risks associated with investing in emerging markets, ultimately fostering a more stable and attractive investment environment.

This is how the rest of the article is organised: Section 2 offers an overview of the literature. The research and methodology of the study are examined in Section 3. Results and explanations of the results are covered in Section 4. Section 5: Study results and recommendations.

2. Literature Review

2.1. Emerging Markets

According to [9] an emerging market is sufficiently open to the world economy to support free commerce between nations while also granting access to its bond and stock markets for foreign investors. Not every emerging market makes for a profitable investment, claims [10]. Some emerging markets have used the increase in commodity prices during the 2008 financial crisis to boost their economies. Certain developing nations chose to use their excess cash for government employment and subsidies rather than infrastructure investment [11]. Their people bought a lot of imported goods as a result, which caused their economies to grow swiftly and inflation to become an issue. Following the 2008 financial crisis, emerging market equities have significantly outperformed US stocks, even though inflation has begun to rise. Should the dollar continue to fall, some market analysts predict that US stocks will outperform emerging market equities even more [12]. If investors begin to rally behind emerging market currencies, [12] cautions that developing markets will probably continue to outperform the US. Consequently, this might be a good moment to invest in emerging markets. Strong US dollar compared to other currencies is generally viewed negatively for emerging markets.
since it lowers the value of their goods and increases debt denominated in US dollars [13]. The features of emerging markets are the subject of the following section.

The [14] state that rising markets share five common traits. They are poorer than average in terms of per capita income. Since it encourages the second crucial characteristic—rapid growth—low income is the first important characteristic. High volatility is the third attribute that results from rapid expansion. Natural disasters, external price shocks, and unstable domestic policies are the three main causes of high volatility [15]. The need for significant investment capital is an emerging market’s fourth attribute. The fifth feature—a high return on investment for investors—can also result from an emerging market’s quick growth if an investment there is effective [1].

2.2. The Difference Between Developed, Emerging, and Frontier Markets

For an investor, the distinctions are important since it can be difficult to determine what precisely sets developed, emerging, and frontier economies apart. [16] asserts that established markets, which are typically associated with the most economically developed nations, are the easiest to define. Furthermore, established economies feature highly developed capital markets with significant regulatory oversight, high levels of liquidity, market capitalization, and per capita income [16]. Developed markets, which include countries like the United States, Canada, Germany, the United Kingdom, and Australia, are mostly located in North America, Western Europe, and Australasia [17]. Investors should be aware that the definition of a developed market varies throughout authorities, which can lead to some confusion on the subject [18].

As a result, depending on how an agency decides to define the notion, several countries may be categorised as developed or undeveloped markets. For instance, the FTSE classifies South Korea as a developed economy, whereas MSCI has classified it as an emerging market since 2010 [17]. [18] claims that because a frontier market is a subclass of the developing market category, distinguishing between them becomes more difficult. To put it another way, not all developing markets are frontier markets, but frontier markets are emerging markets. According to [16] a frontier market is defined as an emerging market that lacks market liquidity, has moderately established capital markets, and has lower per capita incomes than highly developed emerging markets like the BRICS nations. However, high-risk investors find frontier economies intriguing due to their potential for quick growth and disproportionate profits because they have not yet experienced significant economic development [1].

The CIVET (Colombia, Indonesia, Vietnam, Egypt, and Turkey) and nations like Nigeria, Bangladesh, and Botswana are examples of frontier markets. The distinction between a frontier market and a standard emerging market can vary depending on the source, much like it can with established and emerging markets [16]. Colombia, for instance, is regarded as a frontier market by some and an emerging market by others [19].

In general, developed markets are thought to be more secure than frontier markets, and developed developing markets are thought to be safer than emerging markets. But according to [17], this is not a hard-and-fast rule that applies in every situation. Developed markets are not always safer than emerging ones when countries like Greece and Portugal are classified as developed markets while Singapore, Taiwan, and South Korea are referred to as emerging markets by some authorities. The [20] asserts that to more fully comprehend the risk, liquidity, and growth potential of a particular
nation, it is crucial to understand the distinctions between mature, emerging, and frontier markets while making investments overseas.

2.3. Risks and Risk Exposure in Emerging Markets

The [21] defines risk as a situation where there is a chance that the outcome will differ from what is anticipated. According to [22] a risk is an occurrence that could significantly deviate from the anticipated results or have a detrimental effect on an organisation. [23] defines a risk as the degree of harm that can be anticipated to happen because of a particular event within a defined time frame.

Investors should evaluate an investment’s level of risk exposure to manage risk effectively [22]. Investors are susceptible to unfavourable fluctuations in their profits due to unforeseen fluctuations in exchange rates, regardless of whether they are conducting business domestically or abroad [2]. Foreign exchange exposure and risk are a result of exchange rate fluctuations. An investor is subject to foreign exchange risk when they make investments in overseas markets. According to [23], the term “exposure” in this context refers to how sensitively a corporation is impacted by fluctuations in exchange rates.

The [24] define exchange rate risk as the volatility of a firm’s value brought on by unforeseen fluctuations in the exchange rate, which is determined by variance or standard deviation. Risk exposures that put investors’ money at risk are a concern for them.

The [25] asserts that risk exposure is a component of each investing endeavour, however [23] suggests that risk exposure is a computation that assigns a numerical value to a risk, allowing for the comparison of various risks. According to [25], the computation lets investors assess various risk categories, exposure levels, and potential losses in the event of a risk occurrence.

However, no single investment can satisfy all investor’s needs, as stated by [24]. Furthermore, it is improbable that a single investment can satisfy every desire of a single investor. Liquidity exposure is one risk factor that investors should take into consideration before taking significant risks in order to maximise capital growth [26]. To reduce liquidity risk in the event that an investor needs money for emergencies or other investment opportunities, it is advised to have a healthy mix of investments across a variety of asset classes [27]. As a result, investors should maintain a well-diversified portfolio of assets, as the diversification across various asset classes with varying degrees of risk and exposure to risk may determine the effectiveness of an investor’s strategy [24]. Compared to developed markets, investment in emerging markets carries a greater number of dangers, hence prospective emerging market investors should carefully analyse their risk exposure, according to [28]. Investment volatility and level of risk exposure should be considered when making investments in emerging economies [24]. After that, it is possible to identify an investment vehicle that supports the investor’s goals. Emerging market investors are required to adhere to the policies, processes, rules, and regulations of foreign investment while contemplating appropriate investment vehicles. In conclusion, a prospective investor ought to evaluate each investment’s risk profile. An informed choice on the investment to make can be made once the risk exposure has been measured. The characteristic volatility of emerging markets amplifies the various risks investors face, requiring careful risk management strategies and a thorough understanding of local market conditions and dynamics. Diversification, thorough due diligence, and active risk monitoring are essential for investors looking to navigate and capitalize on opportunities in emerging markets.
2.4. Risk Factors for Investors

Compared to investors who purchase and sell assets domestically, investors who purchase and sell assets abroad are increasingly likely to experience exchange rate risk [29]. Changes in the value of the South African rand in relation to the US dollar, for instance, will have an impact on the overall gain or loss on the investment when the money is converted back to South African rand. This is especially true if money needs to be converted from the South African rand into another currency, like the US dollar, to make a specific investment. This risk typically impacts multinational corporations, but it can also have an impact on individual investors who make foreign investments [30].

2.4.1. Exchange Rate

Exchange rate fluctuations may have an impact on cash flows, contract settlement, and firm valuation [31]. [32] lists at least four strategies that investors might use to reduce currency rate risk. First, by paying for the transaction right once at the rate of exchange in effect at the time the agreement is concluded, an investor can prevent needless losses brought on by an increase in exchange rates. Second, a deal involving futures can be finalised. Thirdly, you can invest the relevant amount of South African rand that was borrowed at the time of the transaction in American interest-bearing stock that has the same term as the debt associated with the transaction. Fourth, for a set fee, an investor can get insurance against changes in exchange rates from a certain financial institution [33].

Given that different nations have varying investment regulations, politics is a significant risk factor in shaping the overall structure of financial markets and the regulatory framework, according to [34]. In order to reduce this risk of uncertainty, prospective investors in emerging markets with politically unstable economic systems ought to take into account a nation risk premium when figuring out the necessary rate of return.

2.4.2. Market Risk

Market risk is present throughout a whole class of assets and/or liabilities, according to [35]. This implies that market risk is a component of all risks. All other hazards contain the market risk component. For instance, a shift in oil prices could have an impact on credit risk, currency rate risk, and country risk—the possibility that some nations won’t be able to pay their debts [36]. Thus, market risk could be specific to a nation, a sector of the economy, or the world economy as a whole [35]). Although it is impossible to eliminate market risk elements related to the global economy, one can lessen other types of market risk by investing in diverse industries or types of securities [37].

Investors dread inflation because it lowers the value of their investments, according to [38]. For instance, R100.00 now is not equivalent to R100.00 a decade ago. For this reason, while estimating the projected return on investments, investors must take measurements of inflation. [32] asserts that in an inflationary environment, the cost of real estate or automobiles may simply rise at a similar rate, protecting them from price erosion. That cannot be true, though, of a 10-year bond. Because of this, some investors look for ways to hedge against inflation, and certain investment options do just that, such as treasury inflation-protected securities, or TIPS. These investments have similarities to bonds, but they are protected against inflation [32].
2.4.3. Interest Rate

Interest rate fluctuations affect the value of investors' stocks, cash, and shares, according to [39]. Consequently, an investment's risk may rise in tandem with an increase in interest rates. Stock prices drop when risk rises, and investors run the danger of losing money [40]. Nonetheless, the opposite is advantageous. For instance, stock prices will inevitably rise in response to a reduction in interest rates. Since an increase in interest rates will raise the cost of capital, investors may profit by selling stock at a higher price [41].

Financial risk, according to [40], is the exposure to uncertainty that may result in a potential financial loss. Measuring it is crucial, nevertheless, in order to control the dangers. For example, a typical bank's business is taking risks and making money by extending those risks. A bank's ethos should support actions pertaining to the wise management of risk exposures since risk activities ought to align with the overarching objectives. [42] defines financial risk management as the process of generating economic value for a company by using financial instruments to control risk exposure, especially credit and market risk.

2.4.4. Credit Risk

When making an investment in an emerging market, credit risk is a crucial factor to take into account. According to [41], credit risk is the financial loss incurred because of a counterparty's or borrower's default. Credit risk is defined by banking companies as the possibility that clients would not fulfil their debt-service commitments, or default. Investors in emerging markets must therefore take every precaution to reduce credit risk. Purchasing credit risk insurance, which is accessible to both local and foreign investors in many nations, can help reduce credit risk. An investor will not be exposed to liquidity risk or legal risk if credit risk is properly controlled.

According to [39] the inability of an asset to be sold and still receive a reasonable price is known as liquidity risk. It is the connection between an investment asset's time dimension—how long it will take to sell—and price dimension—the amount it will deviate from the fair market price. Investing in liquid assets has two benefits. First off, if investors experience a cash flow issue, banks are more inclined to grant a credit line because they favour liquid assets. Second, investors have the option to sell the assets themselves, regardless of the bank's opinion [43].

2.4.5. Legal Risk

The [44] defines legal risk as the possibility of breaking the law or failing to comply with established norms, guidelines, rules, and moral principles. This risk also occurs when laws or regulations pertaining to specific goods or activities of an organization's clients are ambiguous or have not been thoroughly examined. Investors that manage their legal risk well can benefit from strong returns, a positive reputation, and a competitive advantage in new markets. The constant revision of trading rules and regulations by emerging market countries makes legal risk management a continuous exercise. Thus, risk mitigation strategies must be in place in case legal risks materialise.

2.4.6. Technological Risk

In recent times, investors in emerging markets have grown increasingly concerned about technological risk, which is the result of malfunctions in current technology or breakdowns in back-office support systems [30]. Inadequate technology may force investors in emerging markets to
remove their foreign holdings due to their incapacity to compete, resulting in losses and frustration [45]. Investors in emerging markets want modern technology to maximise opportunities and minimise risks associated with technology.

3. Methodology

This investigation used an end-of-study research design. There are two categories of decisive research, according to [46] causal and descriptive. The study research kind is the most decisive of them, with the primary goal being the description of something (typically qualities or functions). Design types used in descriptive research include cross-sectional and longitudinal studies. This study used a cross-sectional research design, which is characterised by the gathering of data from a sample of population elements only once. Since the researcher was attempting to obtain impartiality through the use of a structured questionnaire to collect data from the participants, quantitative research was thought to be the appropriate research strategy for this study [46]. It was decided that the survey approach was most suited for the current investigation. Surveys, according to [47], entail gathering data on one or more groups of individuals, possibly regarding their traits, beliefs, attitudes, or prior experiences, then tallying their responses. Because it is one of the nations with an emerging economy that draws the bulk of investors to the African continent, South Africa was chosen as the study region. Accordingly, a questionnaire was determined to be the best means of data collection given the goals of this investigation. The optimal data collection technique was determined to be a web-based questionnaire based on the pros and cons of the different survey delivery methods.

The method that was deemed most pertinent to this investigation was a purposeful non-probability sampling strategy. This choice was made because the study’s data set comes from a particular target population. This group is limited to a particular class of asset managers and/or investors who can provide the necessary information. Asset managers were the respondents best positioned to supply the information required. As to the 2019 report by the Financial Sector Conduct Authority (FSCA), a total of forty-four Collective Investment Schemes (CIS) were authorised to transact in developing economies. The best people to give information on the dangers they identified for investors in emerging markets were the asset managers overseeing these programmes. Consequently, these asset managers received an invitation letter inviting them to take part in the study. These asset managers are important players in the global investing scene and have been at the forefront of investments. As a result, the desired sample size will include all 44 asset managers in South Africa who hold FCSA-issued trading licences for emerging markets.

In this study, validity and reliability were also regarded as crucial concerns. In collaboration with a statistician, asset managers, and senior scholars from the University of South Africa who are specialists in the fields of finance, investments, and risk management, a draft questionnaire was pre-tested for validity, reliability, objectivity, and generality. The content validity of the study was examined. The degree to which a measurement accurately represents the intended domain of content is the foundation for content validity [48]. Since the suggested questionnaire measured investors’ attitudes and beliefs towards a predetermined set of emerging market risks, content validity was the most acceptable validity type for this study. The experts have affirmed that the study’s questionnaire complies with academic research guidelines and is valid in terms of content. Cronbach’s alpha was used in a reliability test to determine the questionnaire’s level of dependability.
Thirty-three out of the forty-four questionnaires that were sent to asset managers in South Africa were returned, indicating a 75% response rate. Every questionnaire that was returned was appropriate for examination. To analyse the data, descriptive statistics were employed. To analyse data imported from a Lime Survey, utilise SPSS software.

4. Results and Discussion

4.1. Reliability and Validity

To assess the questionnaire's internal consistency and reliability, a reliability test was conducted. As a result, the coefficients for every risk factor found in emerging markets were calculated. Table 1 presents Cronbach’s alpha coefficients.

Table 1. Descriptive statistics and internal consistency reliabilities.

<table>
<thead>
<tr>
<th>Average inter-item covariance:</th>
<th>0.034456</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of items in the scale:</td>
<td>46</td>
</tr>
<tr>
<td>Scale reliability coefficient:</td>
<td>0.761</td>
</tr>
</tbody>
</table>

Table 1 shows that the scales have an alpha coefficient of 0.761, indicating strong reliability given that 0.6 is the acceptable score. This is supported by [49], who caution that in statistical analysis, any coefficient alpha value of 0.6 is deemed appropriate.

4.2. Descriptive Statistics

Finding the risk factors for investors in emerging markets was the initial goal of this study. The second goal is to identify the top five developing market risk indicators. Risk variables found in the literature were included in the questionnaire and graded by respondents in accordance with their significance in achieving these objectives. The respondents were South African assets managers. Thus, the results are limited to their views and cannot be apportioned to other areas. The identified risk
factors which were identified through literature review as the possible risk factors in emerging markets were included in the questionnaire for respondents to select the appropriate risk factor, they deem important to be considered in emerging markets like South Africa.

**Objective 1: To determine the risk factors for investors in emerging markets.**

Figure 1 indicates the results of risk factors for investors in emerging markets.

Numerous risk indicators in emerging markets were discovered, as seen in figure 1. These findings are covered in more detail below.

4.2.1. Currency

When it came to the degree to which respondents believed that currency was a significant risk factor to consider when investing in developing countries, 52% of them agreed fully, 39% agreed to some extent, and 9% agreed partially.

Currency is a significant risk factor to consider when investing in emerging markets, all respondents agreed. This aligns with the body of research that emphasises the relative significance of different currencies. Currency exchange risk arises when purchasing foreign currency or making investments in foreign currencies. The risk associated with currency exchange is that an investment or asset denominated in a foreign currency may lose value due to adverse swings in exchange rates [10]. Thus, it follows that while making investments in emerging markets, currency is a risk factor to be considered.

4.2.2. Economic Stability

The section aimed to find out if investing in an emerging market requires careful consideration of risk factors, including economic stability. As seen in Figure 1, most respondents (73%) fully agreed that economic stability was a crucial factor to take into account when evaluating an emerging market. Of those surveyed, 27% agreed to some extent and 6% agreed to some extent that economic stability was a factor to be considered in an emerging market.

It follows that further macroeconomic objectives, including stable prices and sustained growth, may be made possible by economic stability. Additionally, it can establish the ideal conditions for the growth of jobs and a balance of payments. According to the ratings given by the respondents, maintaining economic stability involves several measures, including averting financial and economic crises, sharp fluctuations in the economy, high rates of inflation, and undue volatility in the foreign exchange and financial markets [50]. Thus, economic stability is an important consideration while making investments in emerging markets.

4.2.3. Liquidity

Compared to developed markets, emerging markets typically have lower levels of liquidity [51]. When trying to sell equities in an illiquid market, investors run a significant risk of having their orders filled at a price lower than what is currently available, and that the transaction would only proceed at a negative level. As shown graphically in Figure 1 above, 61% of respondents rated liquidity as a risk factor in emerging markets, 27% agreed to a degree, and 12% agreed to a partial degree.

The literature underlined that many investors overlook or misunderstand the idea of liquidity, which puts their financial plans at risk when they need cash for emergencies [52]. It should be noted, nevertheless, that more financial issues could arise from a lack of liquidity than from nearly any other
facet of finance. It can be assumed that investors who make poor investments could either lose the money that they require in the short term or end up with insufficient funds when they retire from years of making short-term investments for long-term objectives. To sum up, when making investments in emerging markets, one should take liquidity into account as a risk factor.

4.2.4. Inflation

Reduced investment returns are often the result of uncertainty and confusion brought on by high inflation rates [32]. Increased inflation reduces one’s ability to compete globally, which in turn reduces exports and worsens the current account balance of payments. 49% of respondents thought that it is very important to take inflation into account as a risk factor in emerging economies, 45% agreed that it is somewhat important, and 6% agreed that it is just partially important.

Because inflation causes price increases and economic difficulties, it is considered a negative phenomenon. From the responses, it can be inferred that most respondents share the strong opposition to inflation held by the SARB and many other central banks across the globe, and that they utilise monetary policy to fight inflation. Consequently, it can be said that while making investments in emerging markets, inflation is an important consideration.

4.2.5. Investment Cost

The [53] claims that many local investors were unaware of the fees they were paying until recently. Insurance and financial firms have come under fire for allegedly exploiting claims such as endowments and annuities are terrible investments as a justification for underwhelming results. It appears that many respondents (61%) fully agree that cost is a risk factor that can affect an investment’s outcome when making investments in emerging countries. Of the participants, 31% acknowledged having a degree, while 9% acknowledged having a partial degree. Consequently, it may be said that before making an investment decision, the investment cost as a risk factor needs to be precisely defined and considered. As a result, it is advised that a risk analysis methodology for offshore investments incorporate this risk factor.

4.2.6. Risk

Risk was defined as the possibility of losing something valuable uncontrollably. Risk-taking can result in the acquisition or loss of values (such as physical health, social status, emotional well-being, or financial riches), depending on whether the action is anticipated or unanticipated (planned or not planned). An additional definition of risk was the deliberate interaction with uncertainty. Risk is the element of acting despite uncertainty, while uncertainty is the unpredictable and uncontrollable result.

61% and 39% of the respondents, respectively, agreed that risk should be considered when deciding whether to invest in developing countries. As a result, every respondent acknowledged that risk must be considered when deciding whether to invest in emerging economies. Unexpected and detrimental events are a risk for any organisation or investment. Thus, by reducing the possible impact of risk exposures, a risk analysis framework could help investors be ready for the unexpected. A risk analysis framework could also help in developing protocols to ward against dangers and lessen their effects.
4.2.7. Taxation

Imposing taxes or levies, usually by the government, is the act of taxation. All forms of involuntary levies, including inheritance, capital gains, and income taxes, are together referred to as taxes. The tax systems of different countries and eras have been very different. Most contemporary systems impose taxes on both discrete events, like a sales transaction, and tangible assets, like real estate. One of the most important and divisive topics in contemporary politics is the creation of tax laws [5]. Investors must be aware of the tax direction a nation is taking in order to protect themselves from rising taxes that could lower investment returns, as developing market systems and tax structures are constantly modernising.

When it comes to investing in emerging markets, 49% of respondents agreed to some extent, 6% agreed to a partial degree, and 45% of respondents agreed to a full degree. It is evident from the response that taxation plays a significant role in the risk analysis framework that investors in emerging markets should consider.

Objective 2: Top five risk factors in emerging markets.

The top five risk factors in emerging economies were determined by ranking the detected risk factors based on their percentages, as illustrated in Figure 1. The top five risk variables that should be taken into account when investing in a developing market are shown in Table 2 and should thus be taken into consideration when making investment decisions.

Table 2. Top five risk factors in emerging markets.

<table>
<thead>
<tr>
<th>Risk factors in emerging markets</th>
<th>Average response (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic stability</td>
<td>73%</td>
</tr>
<tr>
<td>Risks</td>
<td>61%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>61%</td>
</tr>
<tr>
<td>Currency</td>
<td>52%</td>
</tr>
<tr>
<td>Inflation</td>
<td>49%</td>
</tr>
</tbody>
</table>

The main risk factors in emerging markets that an investor should take into account and manage are listed in Table 2. The respondents ranked economic stability as the most important risk.

5. Conclusion and Recommendations

Finding risk factors for investors in emerging markets and identifying the top five risk factors in emerging markets were the two objectives of this study. To analyse the data, descriptive statistics were employed. The findings indicated that the most crucial risk elements to take into account when making investments in developing markets were currency, economic stability, liquidity, inflation, investment cost, hazards, and taxation. Additionally, it was shown that the top five risk factors in developing markets include inflation, currency fluctuations, hazards, liquidity, and economic stability. Consequently, the significance of the risk variables that were found to be essential to consider while making investments in emerging markets. When making investment selections in emerging economies, most respondents affirmed the significance of risk concerns. It is therefore acceptable that a risk analysis methodology for investing decisions in emerging markets should incorporate these risk factors. As a result, an investment's perceived profitability depends on the underlying risk factors of the emerging market. Thus, it may be concluded that investors have the
potential to incur enormous losses, perhaps because of their ignorance of the risk factors connected to emerging markets. It is evident that each risk factor needs to be thoroughly examined to empower a prospective investor to make a risk-based choice when investing in developing markets, even though some of these risk factors may be connected to many risk types. Consequently, it follows that a risk factor’s analysis could work as a guide for investors, ensuring that the analysis is done to guarantee sufficient risk mitigation and control methods. Therefore, it is crucial that a risk analysis framework for investments in emerging economies include the investigation and evaluation of risk factors. This study added to the body of knowledge and gave investors in emerging markets fresh perspectives on risk factors. To ensure a structured approach when investing in developing markets, it is recommended that investors who choose to do so take into account the risk factors found in this study in addition to the top five risk factors. The practical implication for investors is that they must consider factors identified in this study when investing in developing markets. Policymakers in emerging markets can help ensure that investors are well-informed about the risks associated with investing in emerging markets, ultimately fostering a more stable and attractive investment environment.

6. Limitations of the Study

The primary constraint of the research is that the study’s population consisted solely of asset managers located in South Africa. It was acknowledged, meanwhile, that asset managers with headquarters in South Africa would serve as a suitable proxy for asset managers in other developing economies, given the body of research confirming the similarities in risks, difficulties, and investment climates among the BRICS nations. Second, because all of the data was collected at a single moment in time, the responses, variables, and conclusions can be restricted to that particular period. Thus, it is recommended that future studies may consider including other emerging markets to understand risk factors better. These studies can also use other statistical analyses methods, than descriptive statistics.

Contributions: The author wrote the entire manuscript.

Acknowledgments: The author would like to thank Dr Adam Ndou for excellent technical support.

Funding: This research received no external funding.

Conflicts of Interest: The author declares no conflict of interest.

References


DOI: https://doi.org/10.54560/jracr.v14i2.469
[12] Gundlach, J. (2017). Emerging markets will likely continue to outperform the U.S.; Active managers will also likely outperform along with Ems. USA: Double Line Capital.

DOI: https://doi.org/10.54560/jracr.v14i2.469

Copyright © 2024 by the authors. This is an open access article distributed under the CC BY-NC 4.0 license (http://creativecommons.org/licenses/by-nc/4.0/).

(Executive Editor: Wang-Jing Xu)