

# **Strange New World**

*“I pass with relief from the tossing sea of Cause and Theory  
to the firm ground of  
Result and Fact.”*

*– Winston Churchill (The Story of the Malakand Field Force,  
1898 – near the Swat Valley, Pakistan)*

***Lawrence Speidell***

**Chief Investment Officer, CEO  
Frontier Market Asset Management  
[larry@frontiermkt.com](mailto:larry@frontiermkt.com)**

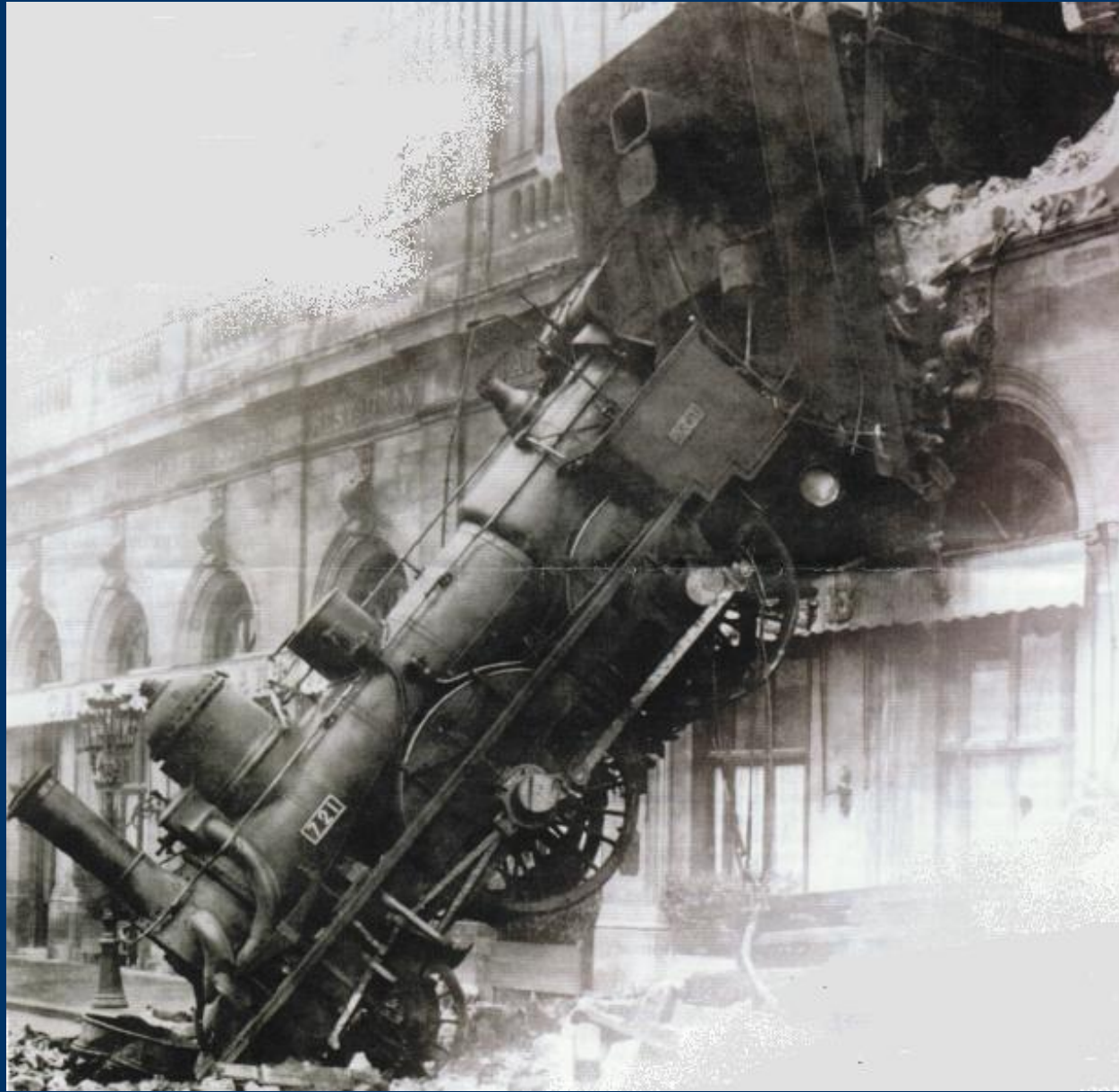
**12 May 2010**

## Strange New World





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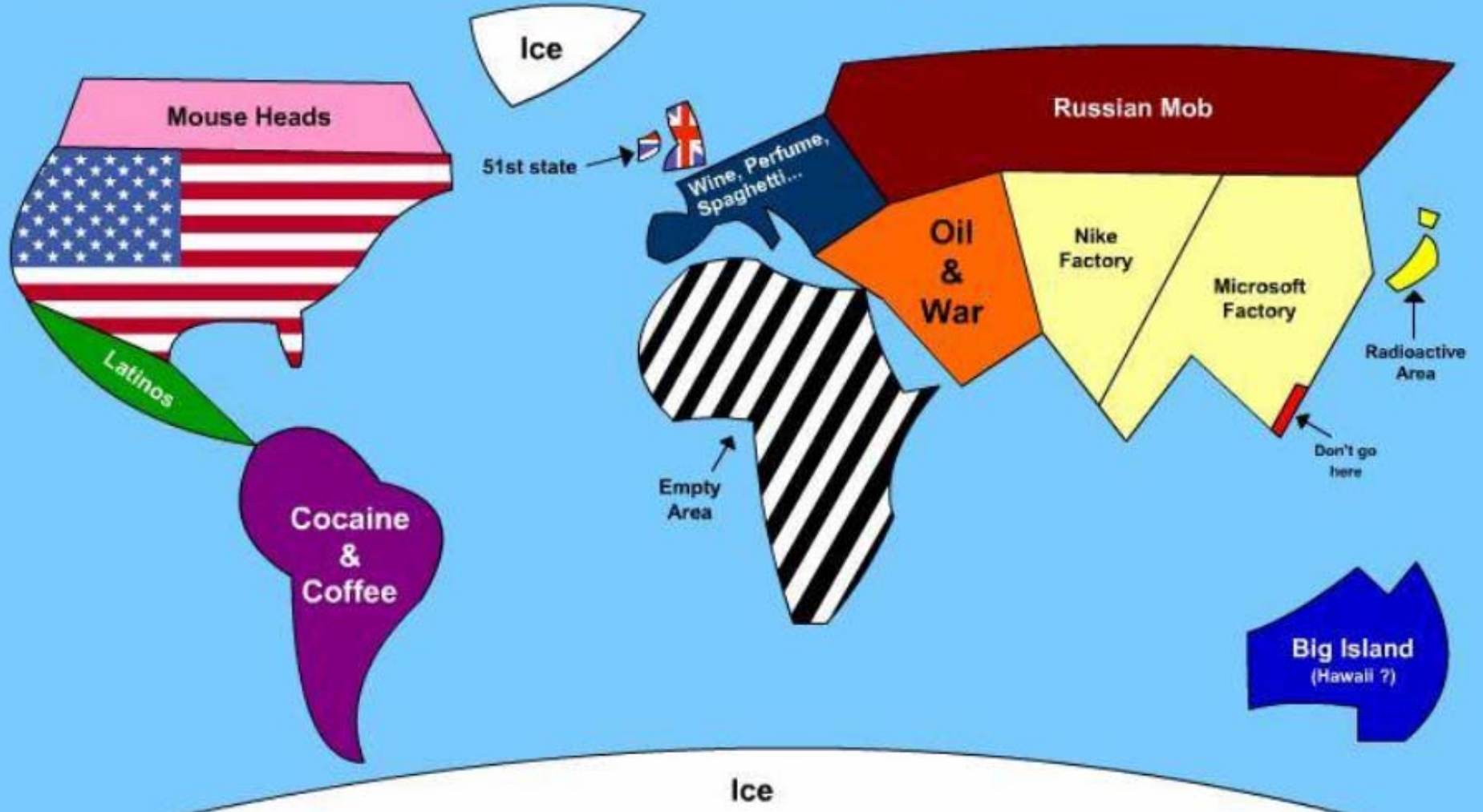


## Forecast 2040 – My Friend the Bear

- Half the world will be Hungry
- Sea Level rises 1 Meter - flooding Bangladesh etc.
- Rising Temperatures reduce Productivity in Equatorial Countries
- Longevity up due to Science, creating more Unproductive Old People
- “One Man – One Vote” leads to Populism and Socialism throughout the Developed World
- Unions exploit opportunities in the Public Sector, raising Tax Burdens, lowering Productivity and lowering Education Quality
- Law & Order rise above Freedom and Liberty - gated communities, armed guards, firearms

# Strange New World

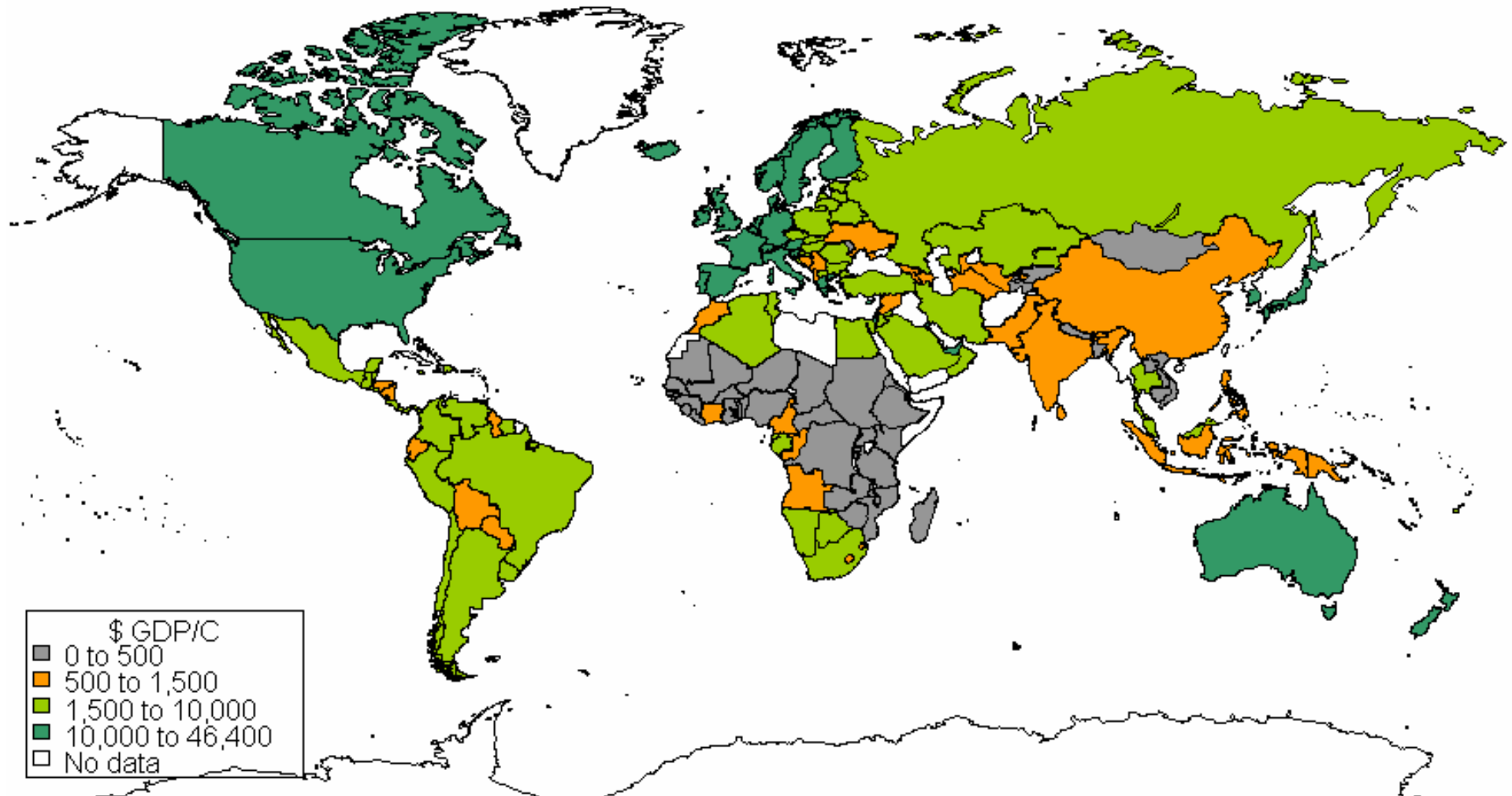
## The American World



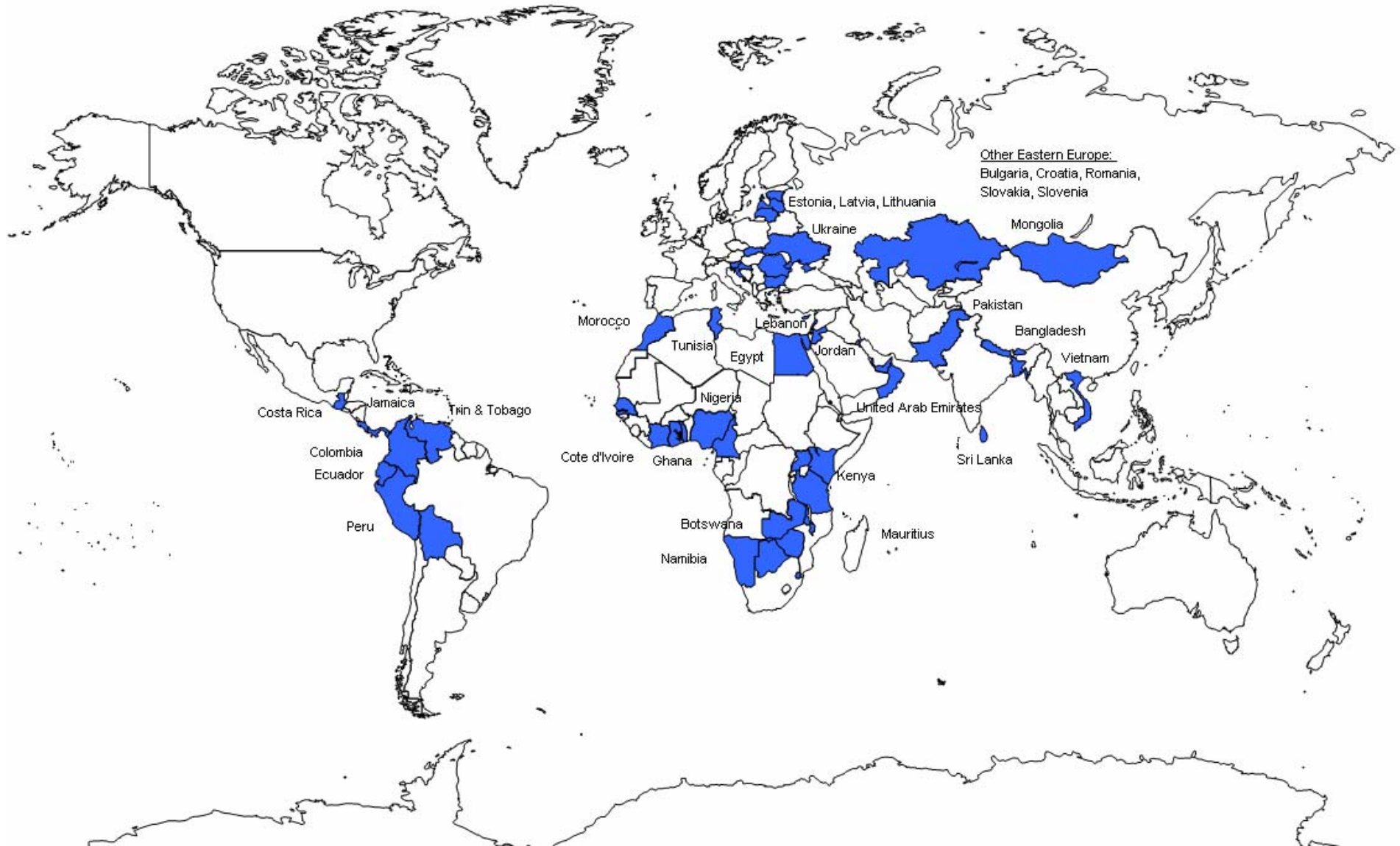


## Emerging/Frontier Countries: Under \$10,000 GDP/capita

World Income (GDP/Capita)

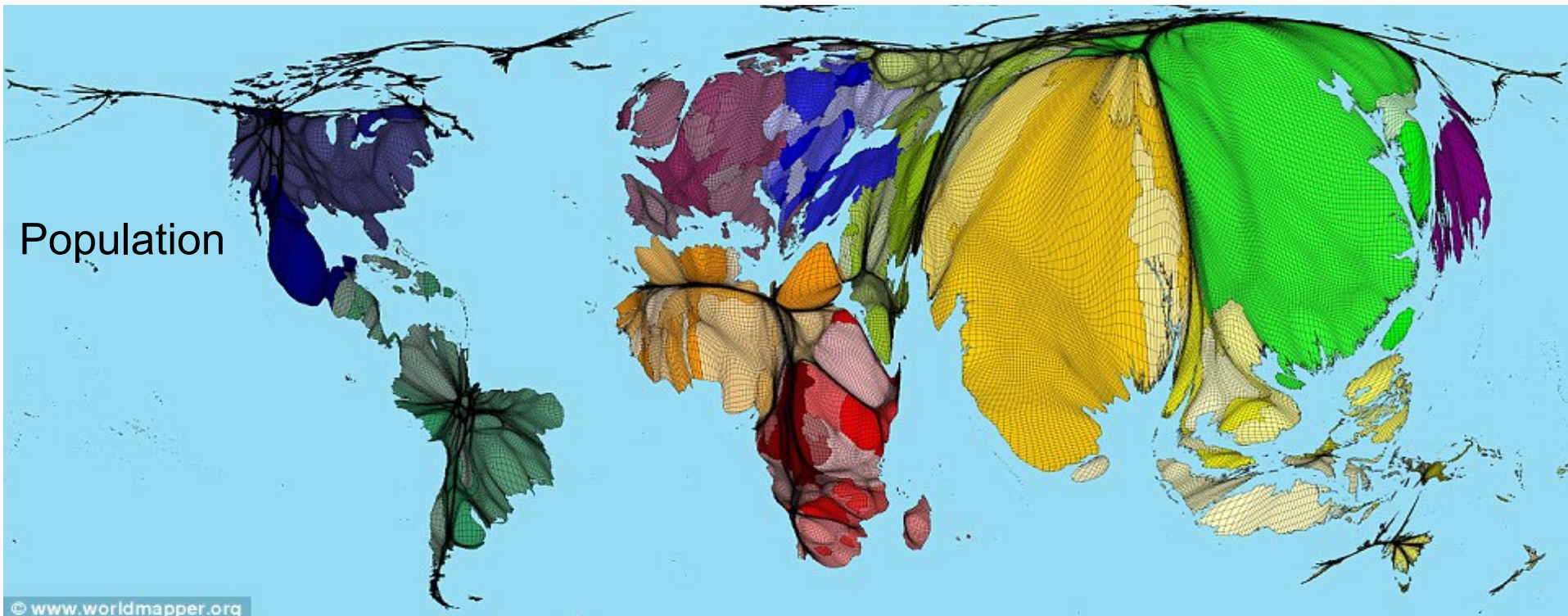


## Frontier Countries: Not in MSCI Emerging Markets Index



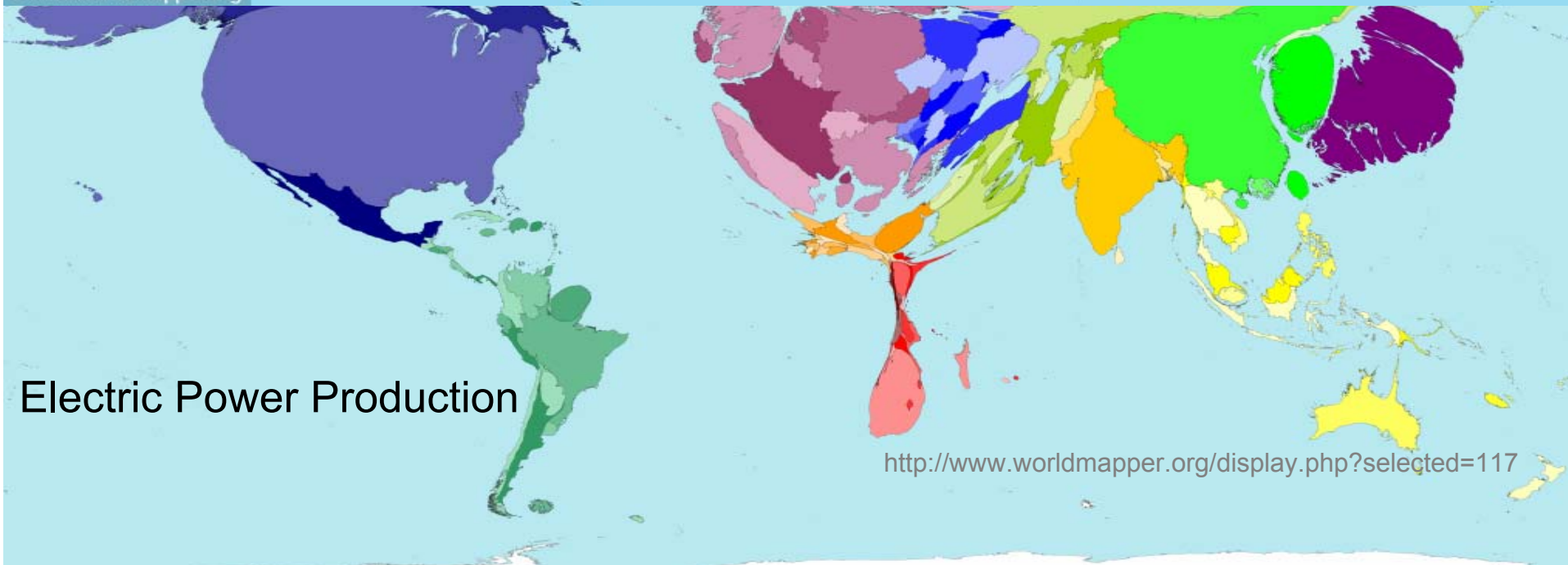


Population



© www.worldmapper.org

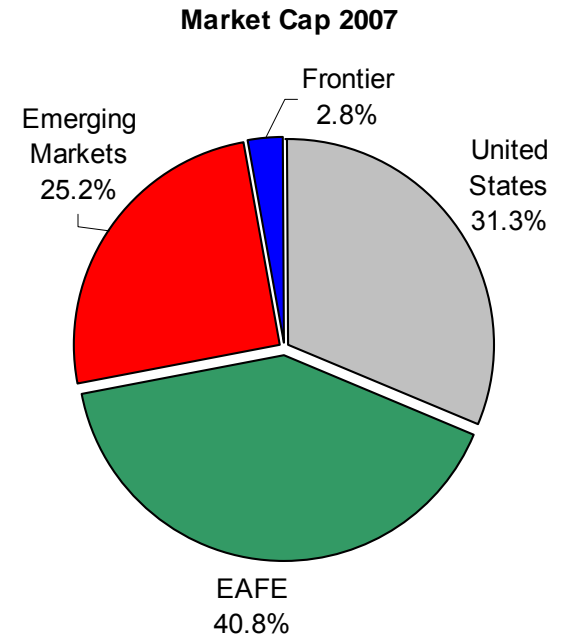
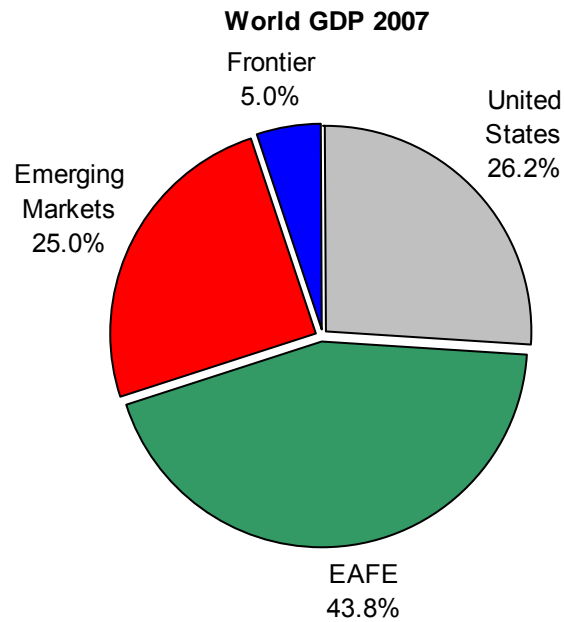
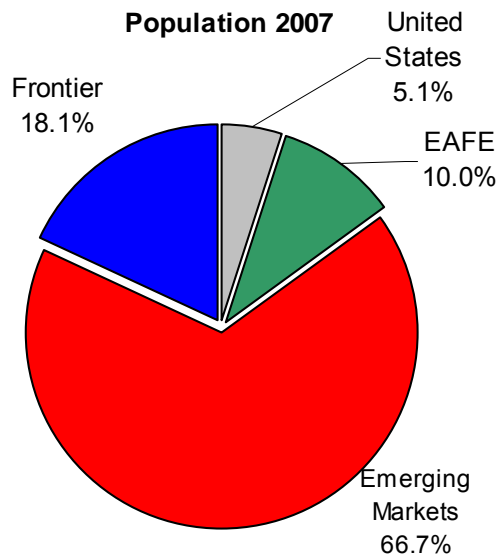
Electric Power Production



<http://www.worldmapper.org/display.php?selected=117>

# Rich World versus Poor World

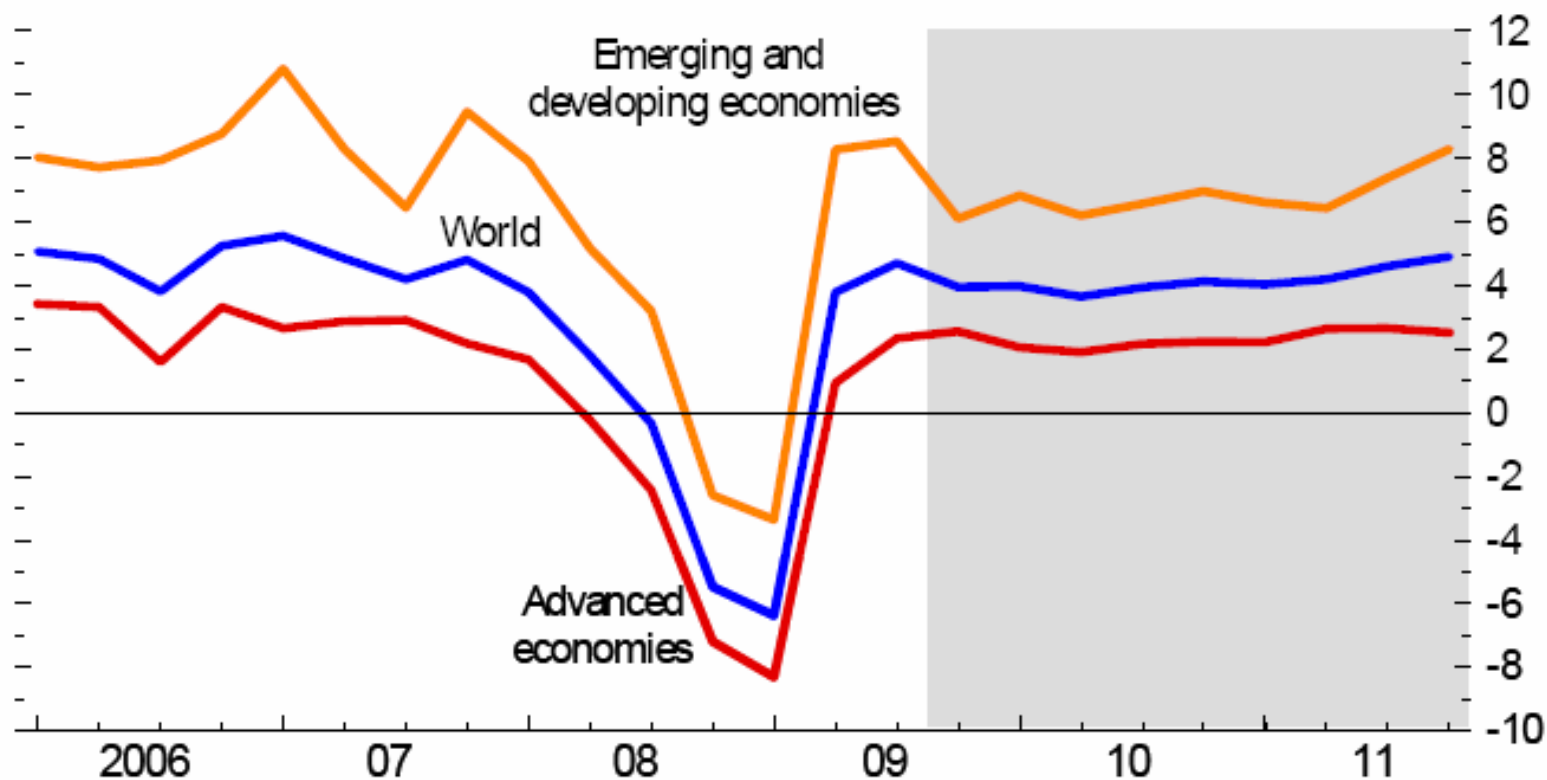
## Human Capital and Financial Opportunity



## Rich World versus Poor World

### Global GDP Growth

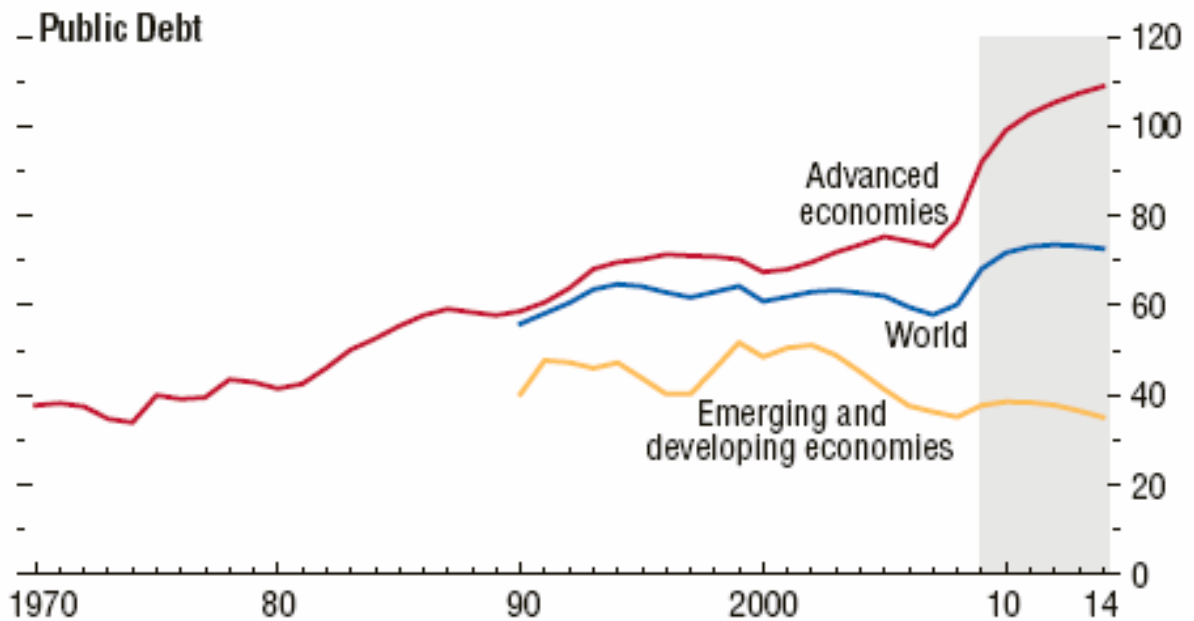
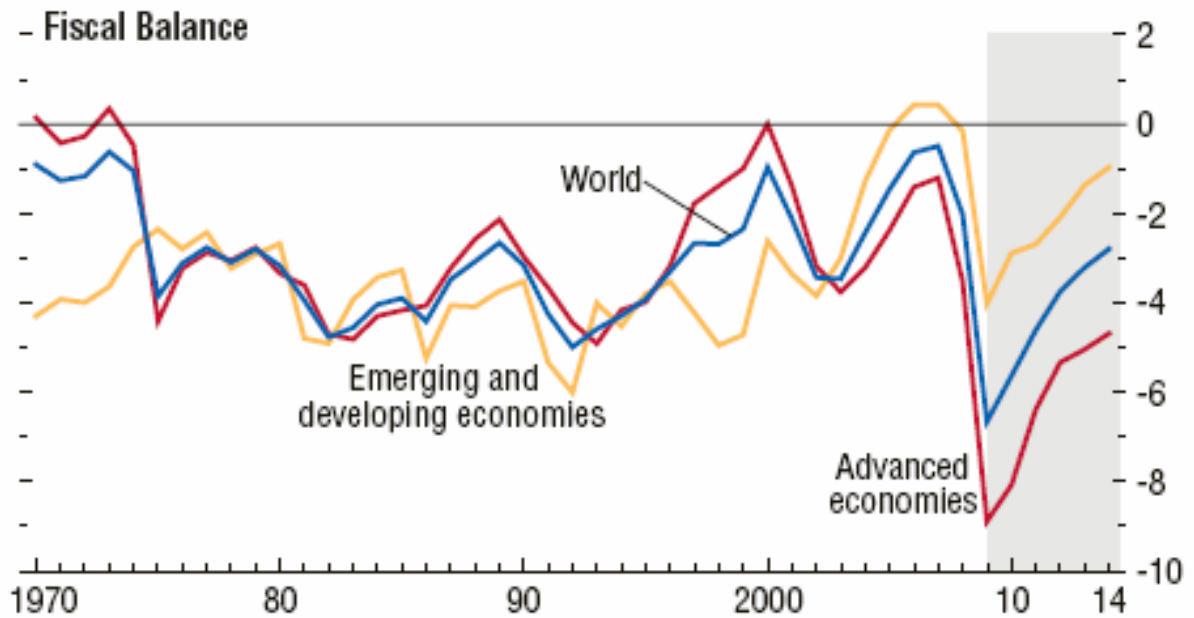
(Percent; quarter-over-quarter, annualized)



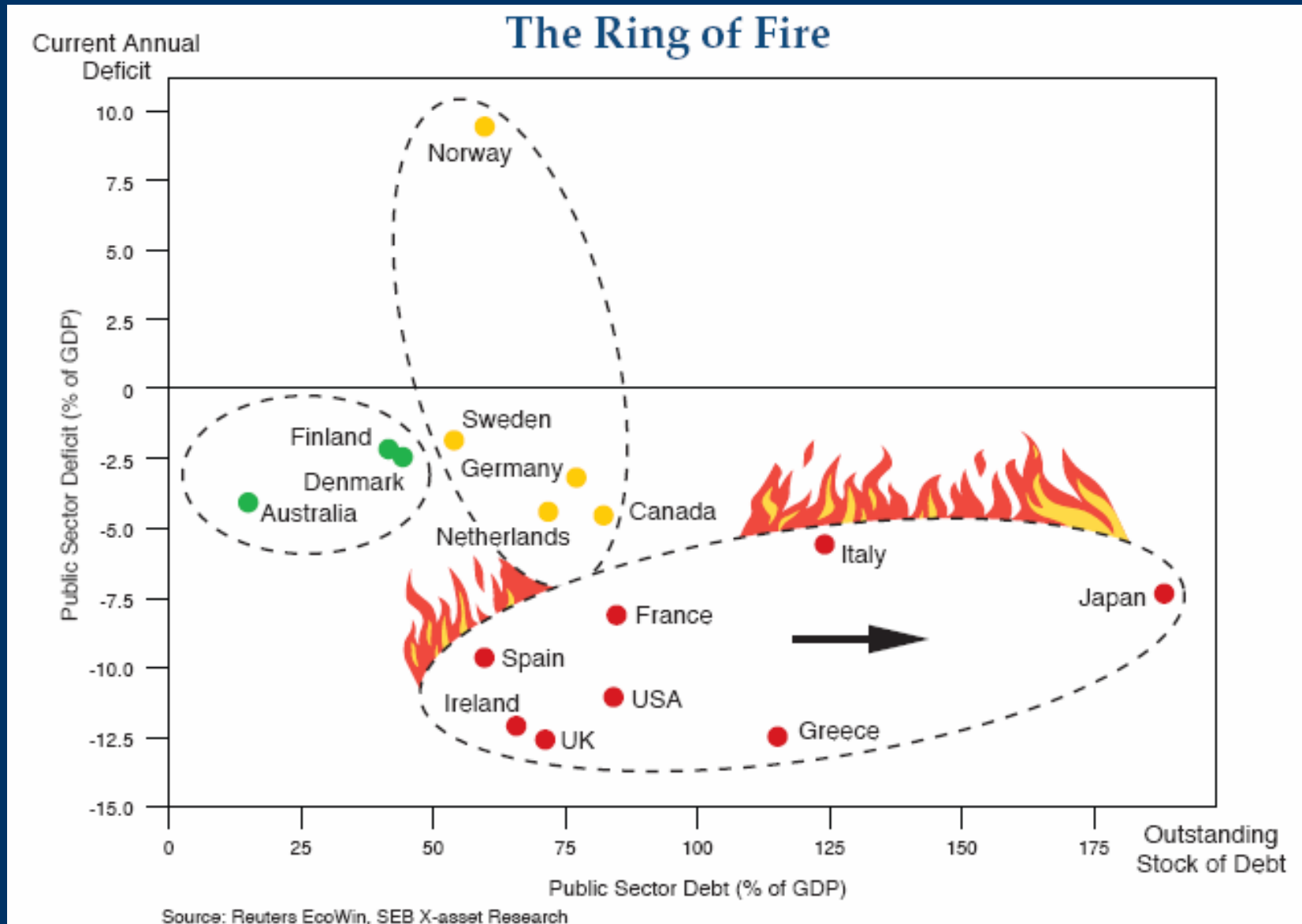
Source: IMF staff estimates.



# Rich World versus Poor World



## Rich World versus Poor World



Source: PIMCO, February 2010

## Poor World





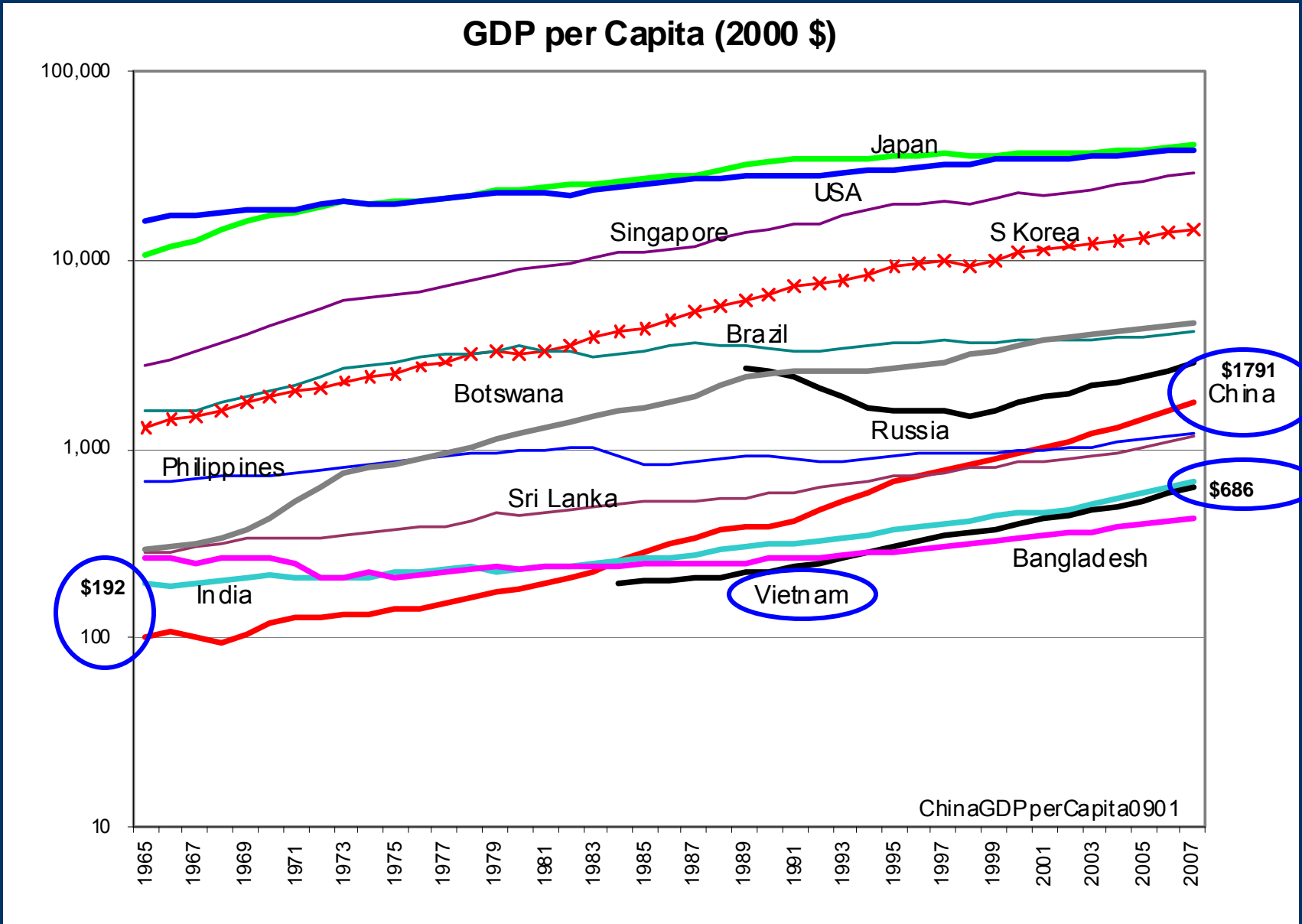
## Poor World



## Poor World?



# Rich World versus Poor World





# History

The GUM Department Store 1991...



and 2002





# Nanjing Road, Shanghai

In the late 1980s



Today!!



Night Life

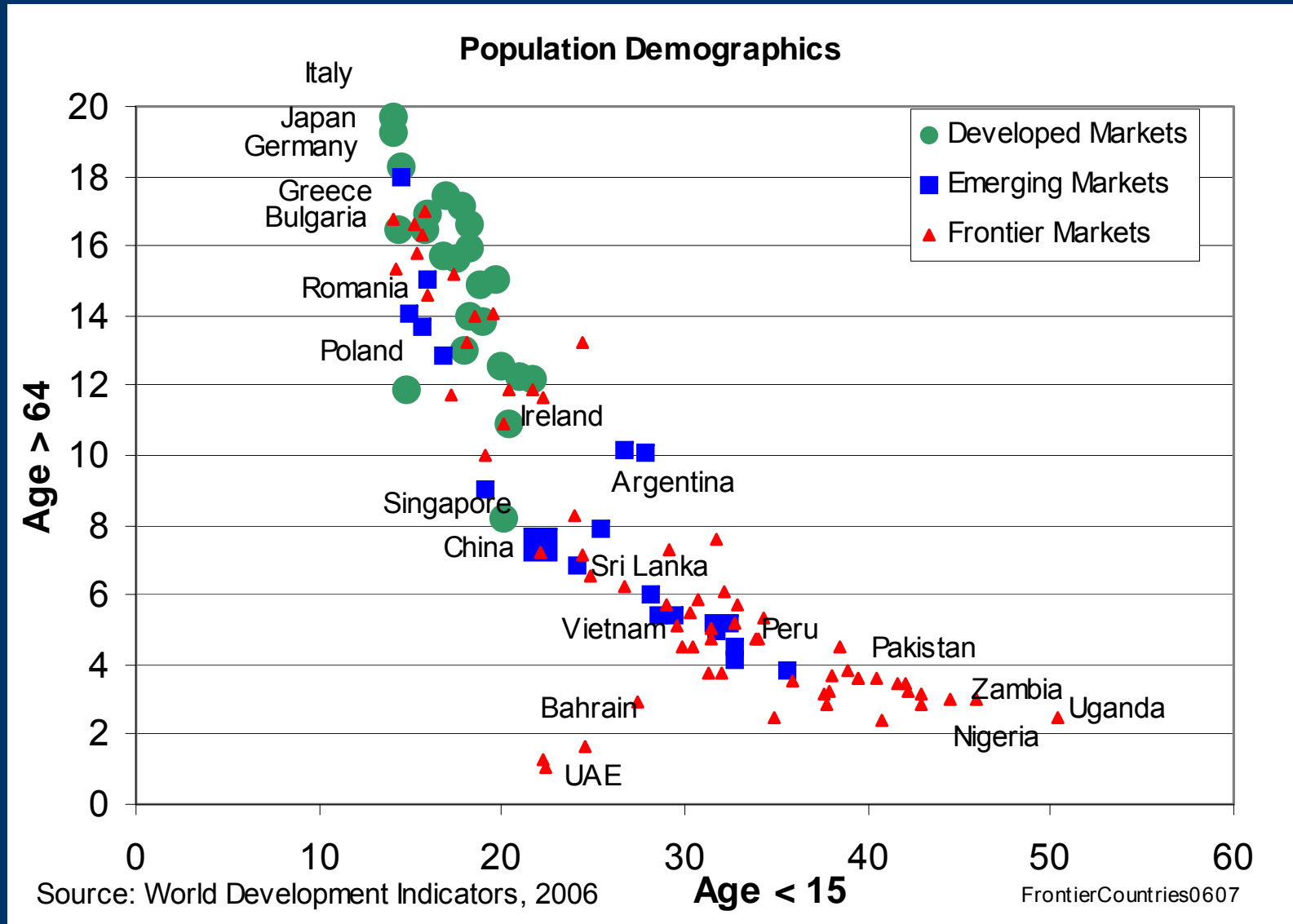




China – 1988  
Frontier – Today?

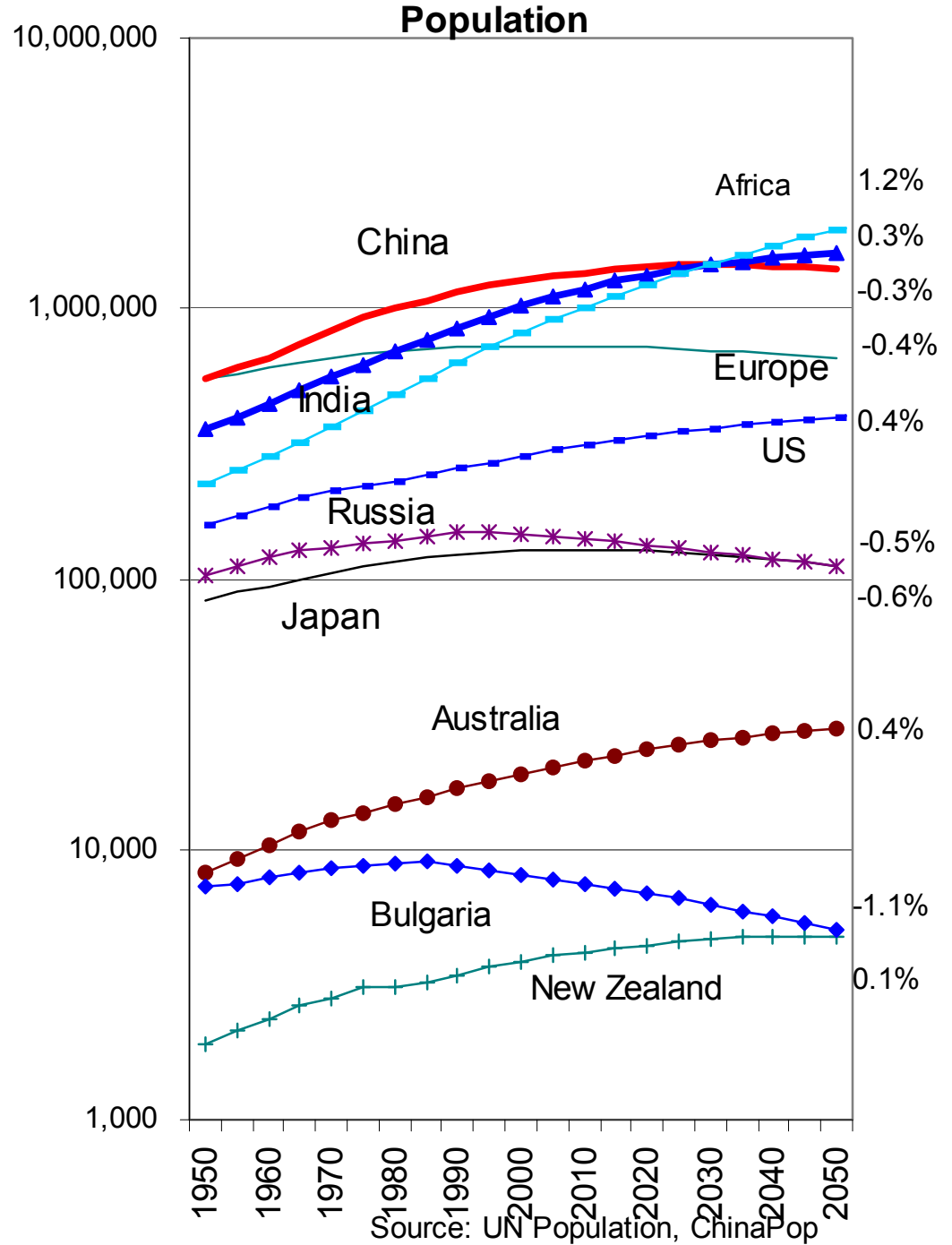


# Demographics Favor the Poor Countries



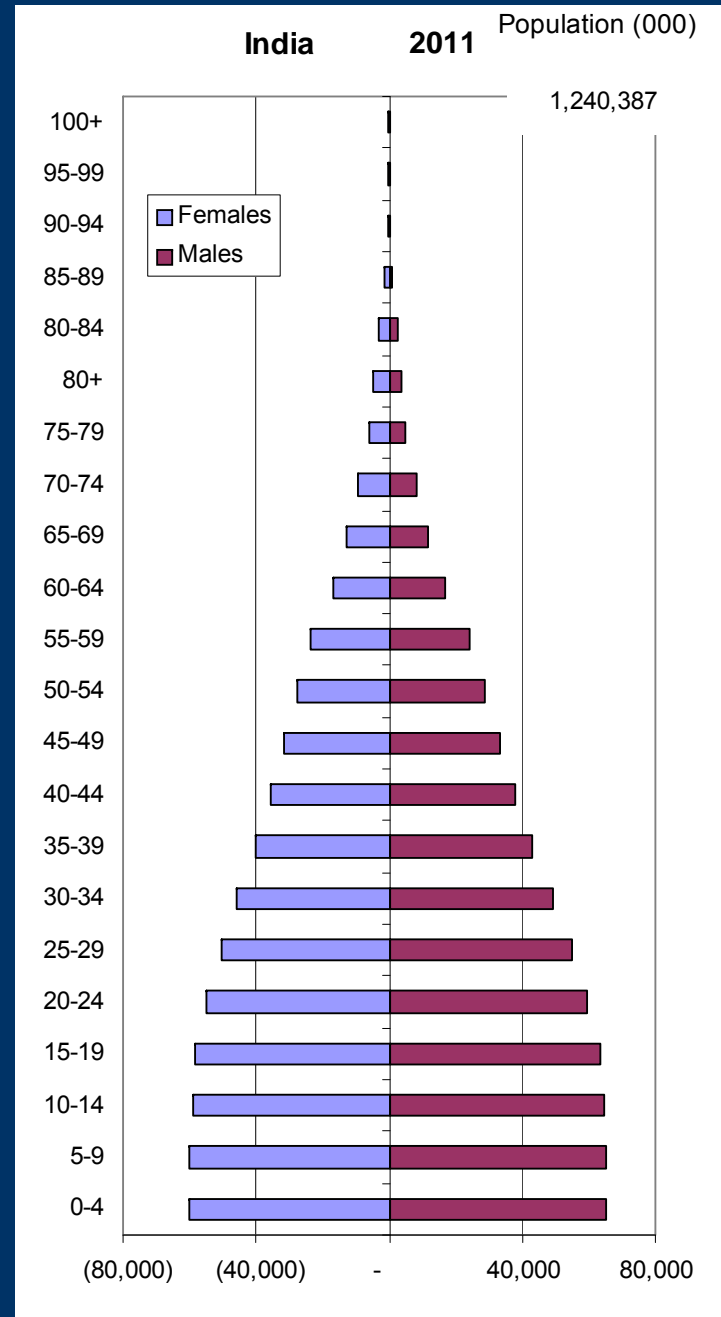
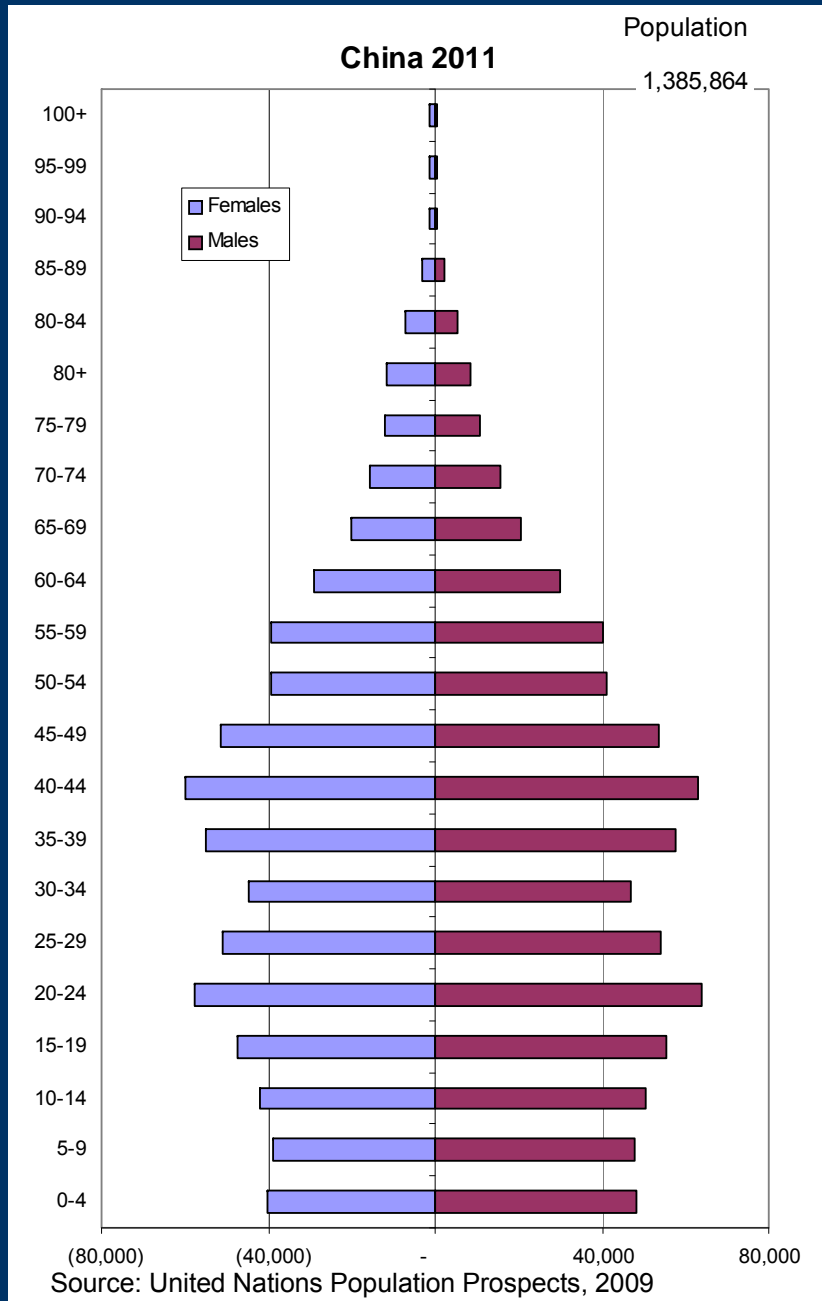
# Demographics

	2011	2025	Population Growth Rate
Bulgaria	7.7	7.1	-0.6%
Ukraine	46.7	43.2	-0.6%
Belarus	9.8	9.1	-0.5%
Moldova	3.6	3.4	-0.5%
Georgia	4.3	4.0	-0.5%
Lithuania	3.4	3.1	-0.5%
Russia	144.1	136.5	-0.4%
Malawi	16.2	23.3	2.6%
Occupied Palestine	4.6	6.6	2.7%
Somalia	9.6	14.0	2.7%
Benin	9.5	13.8	2.7%
Tanzania	46.6	67.7	2.7%
Burkina Faso	16.8	24.9	2.8%
Afghanistan	30.2	45.1	2.9%
Uganda	35.0	53.6	3.1%
Niger	16.5	27.4	3.7%

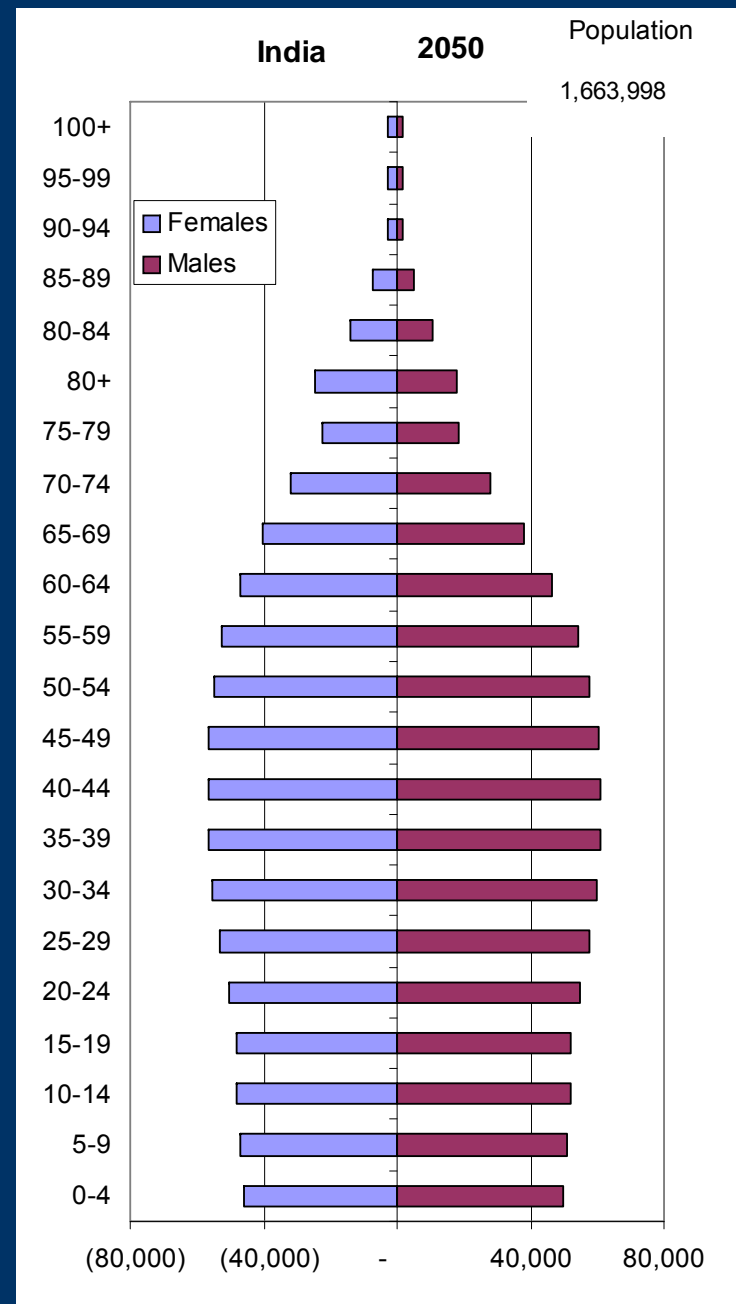
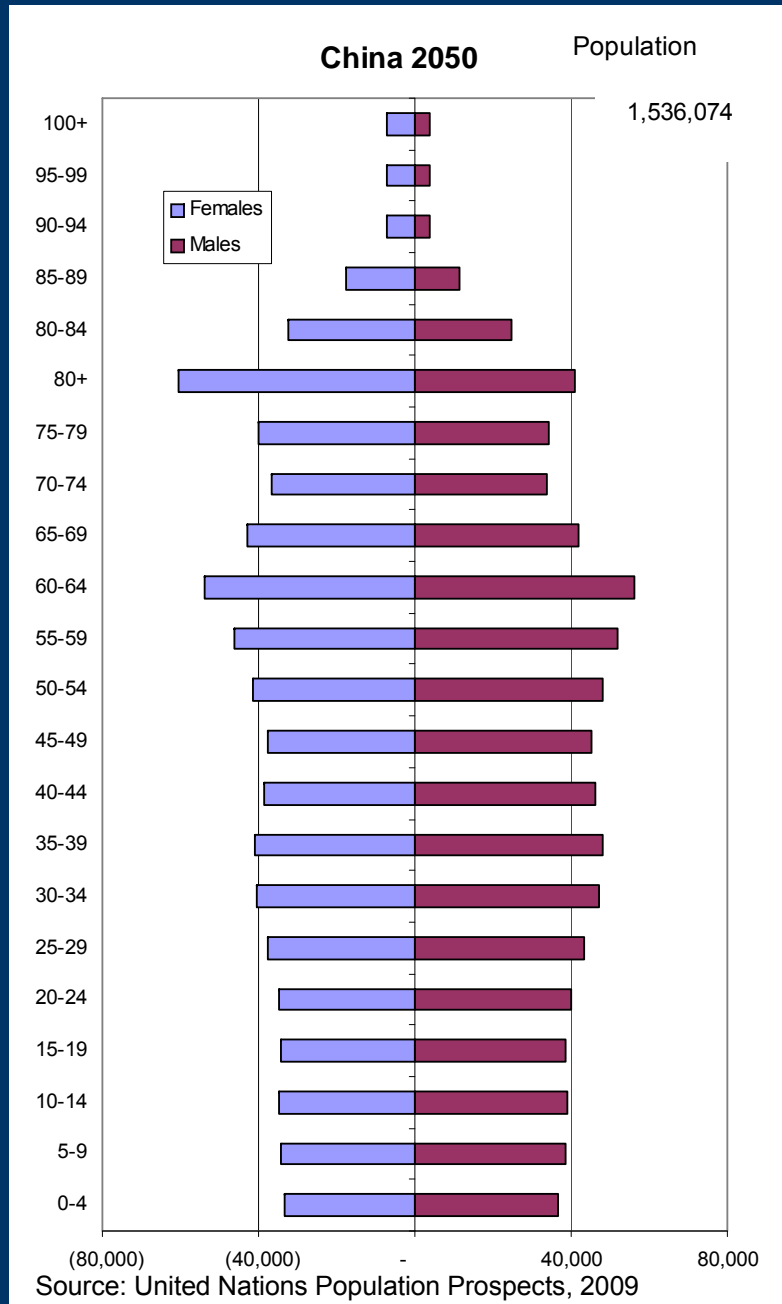




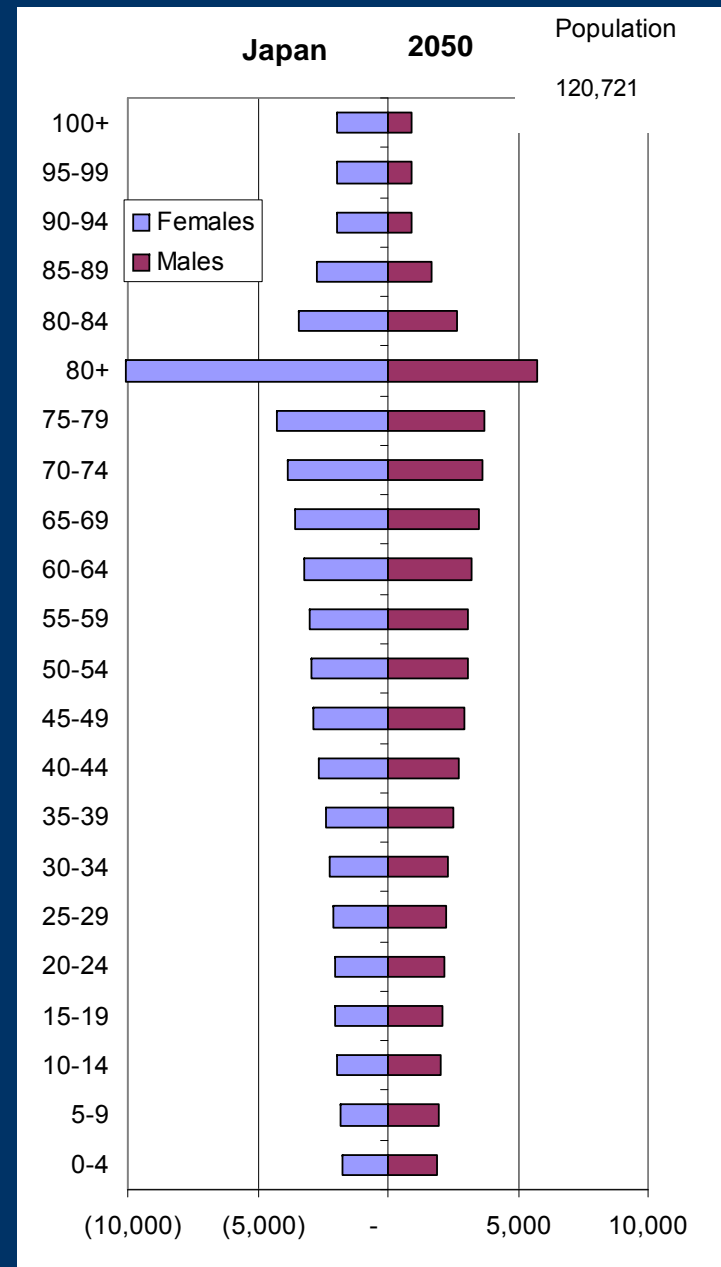
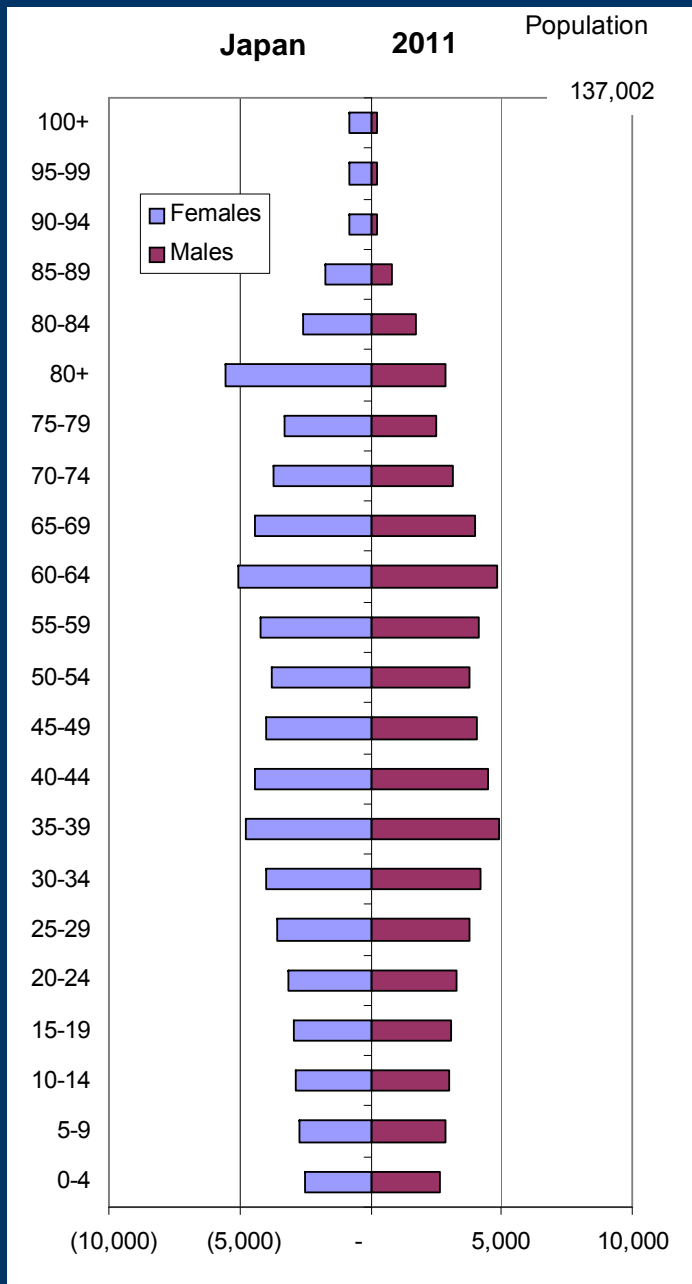
# Demographics – China versus India Today



# Demographics – China versus India in 2050

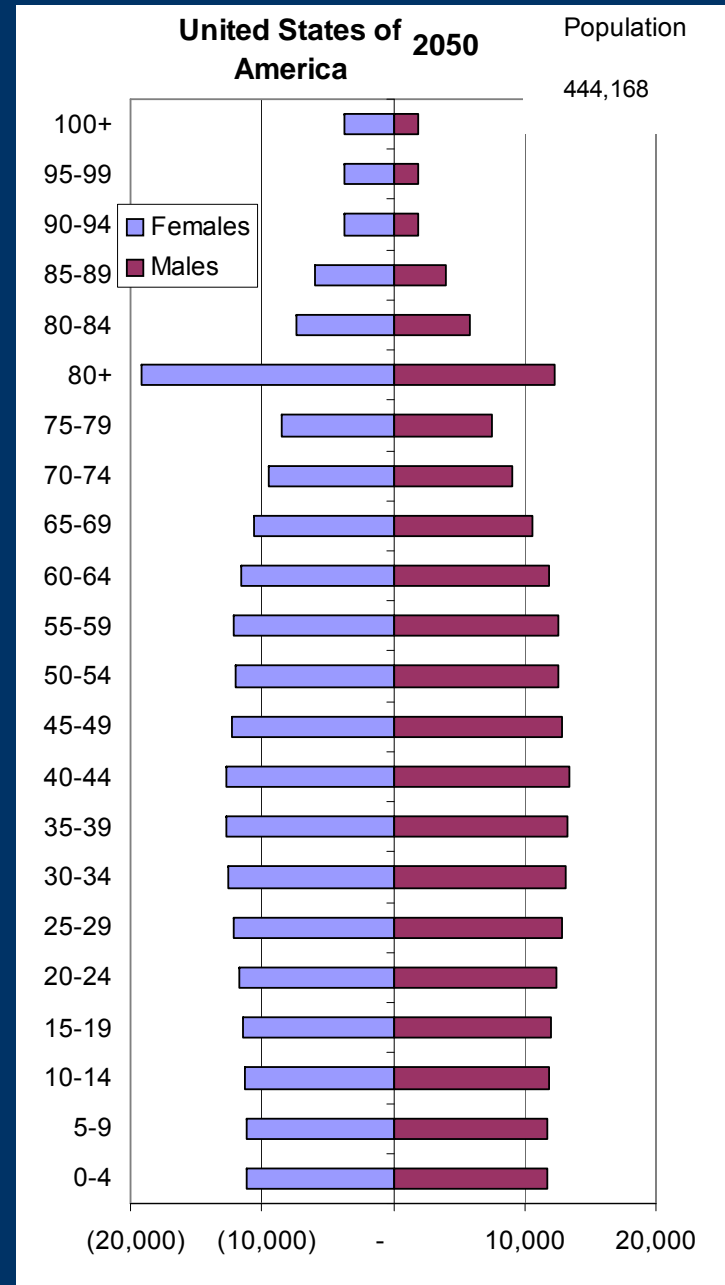
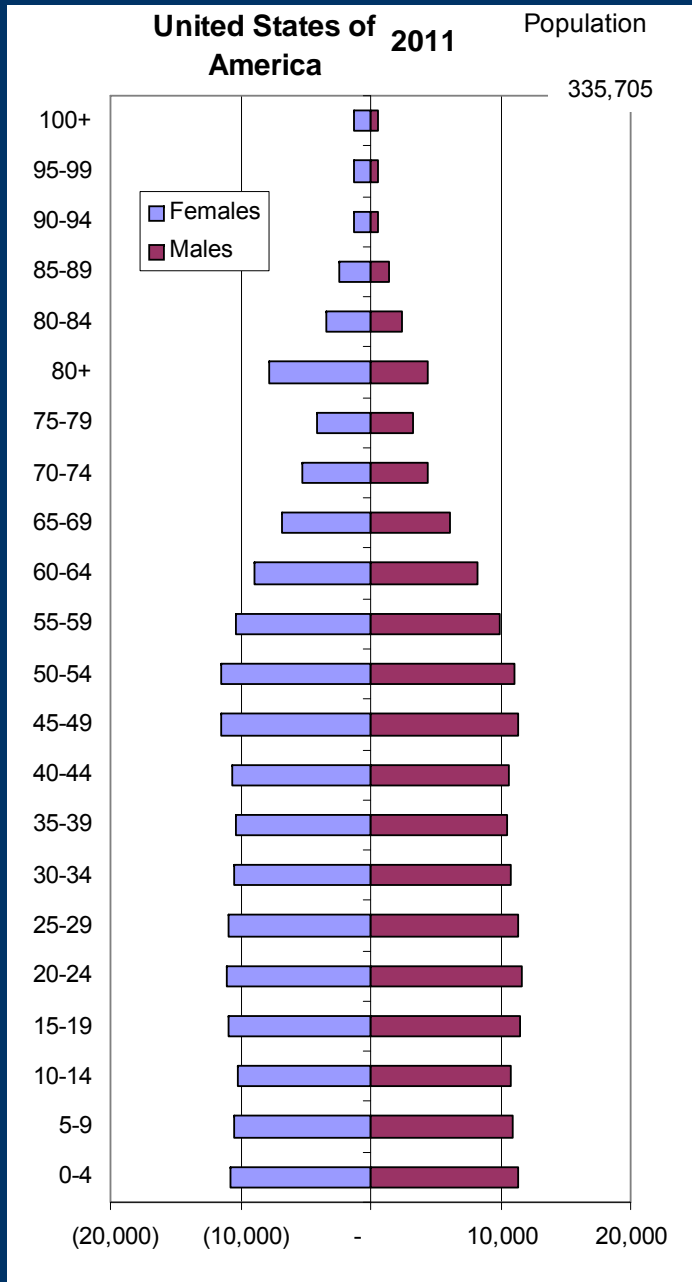


# Demographics: Japan – Now & 2050

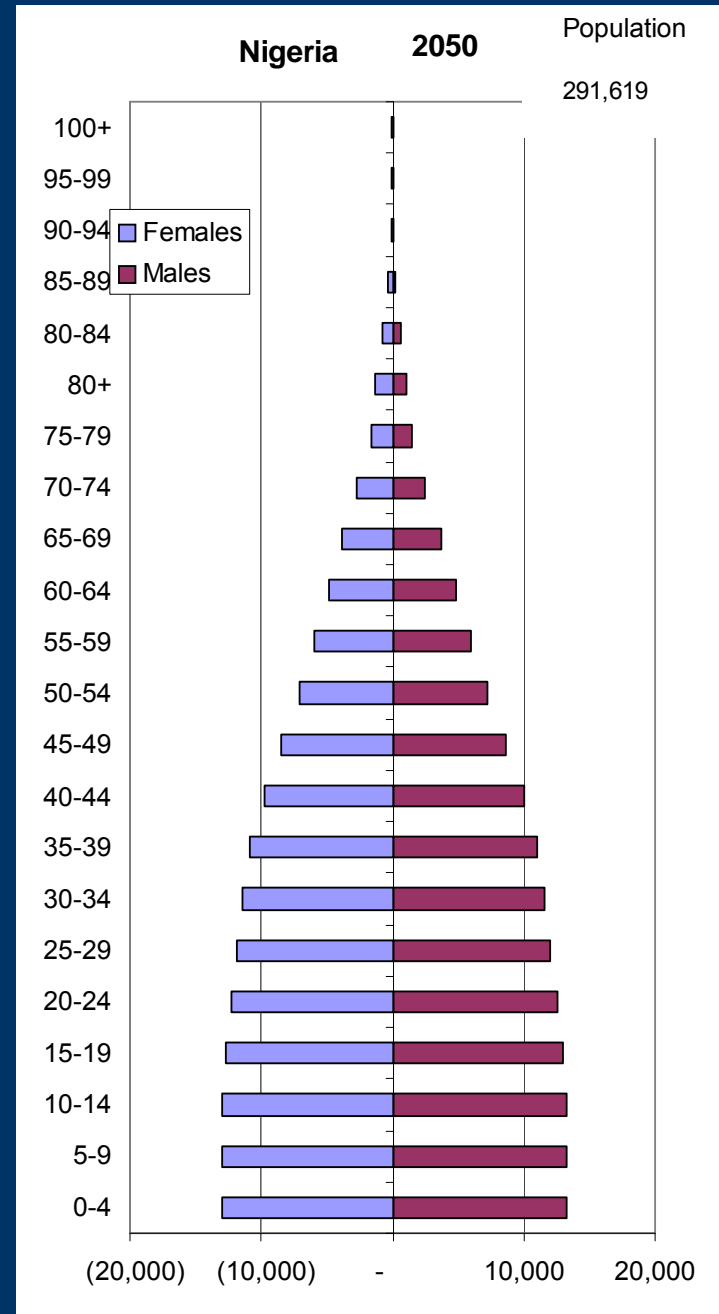
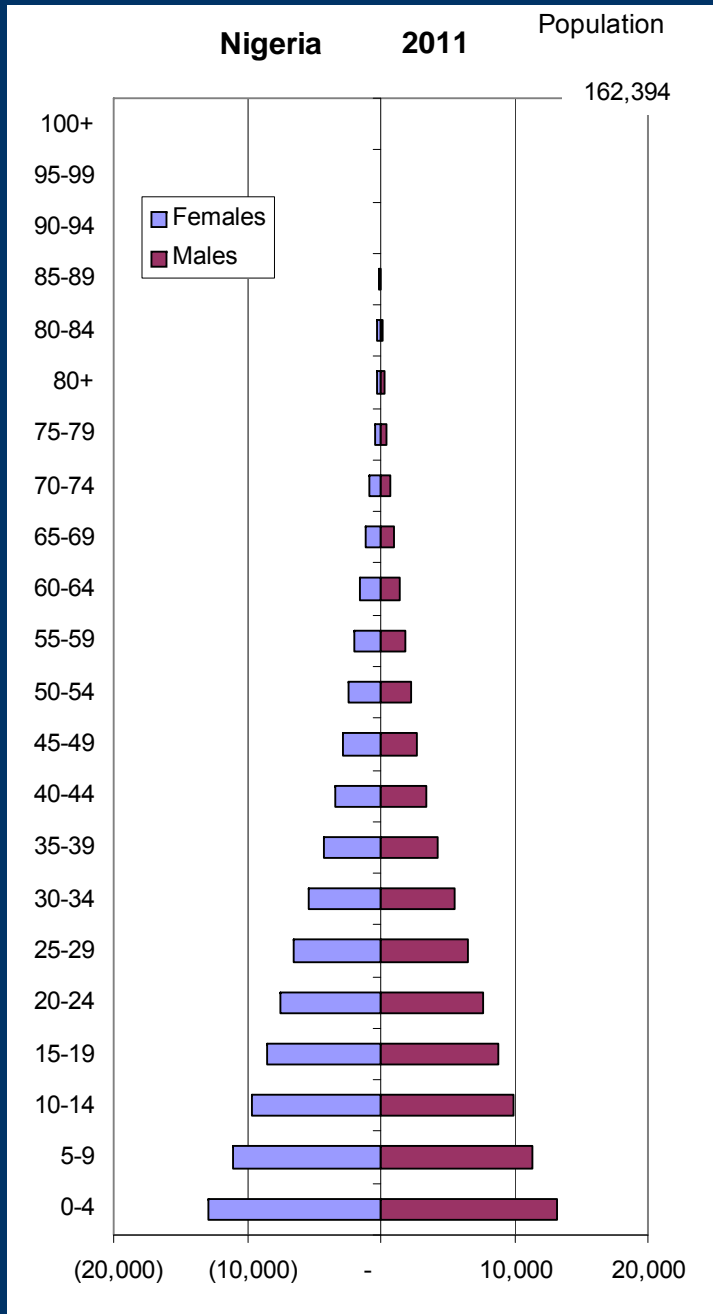




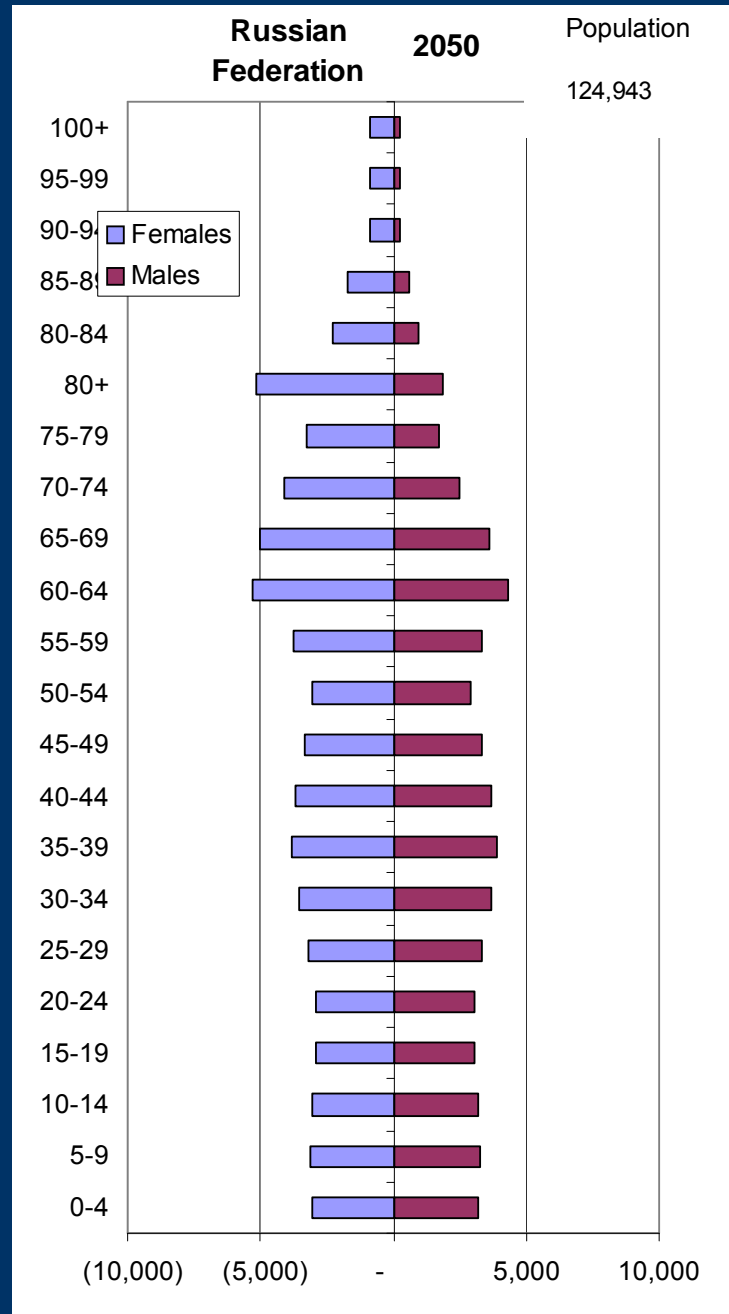
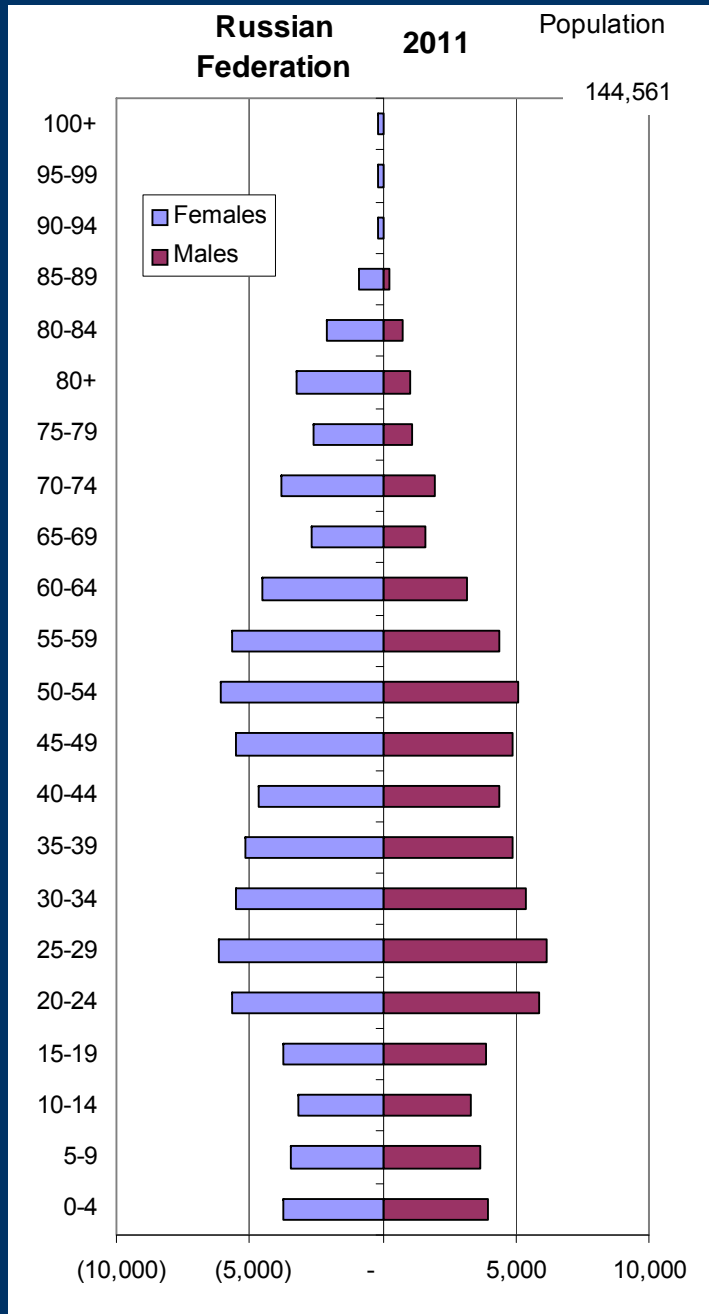
# Demographics: U.S. – Now & 2050



# Demographics: Nigeria – Now & 2050



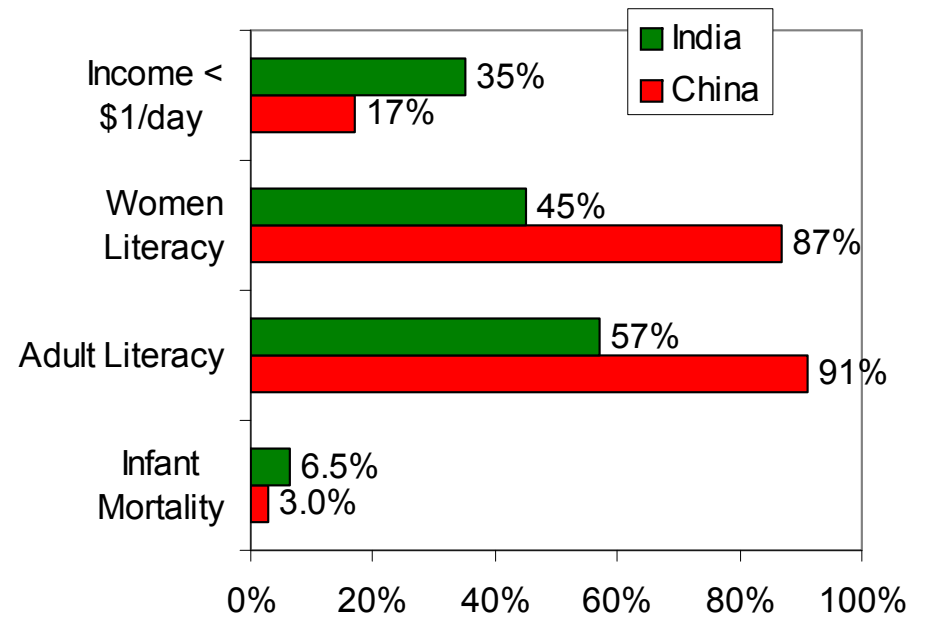
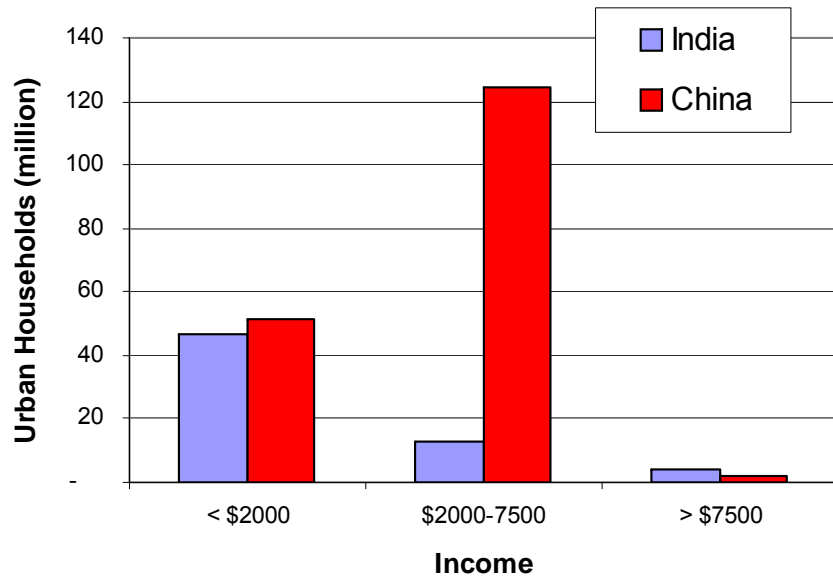
# Demographics: Russia – Now & 2050





# The Middle-Class: China versus India

**China vs India**  
**Urban Households by Income**



企业精神：勤奋、务实、高效、创新。

Spirit of Company: Diligent, pragmatic, efficient and innovative

管理要则：制度化、标准化、目标化。

Management of Company: Systemization, standardization and targetization

人本观：企业以员工为本，员工以消费者为本。

Value of Human Being: Company takes staffs as the fundamental; Staffs take consumers as the fundamental

价值观：以行动书写人生，以绩效体现价值。

Concept of Value: Actions and performances are of the greatest value

激励理念：让绩效优秀者名利双收，让滥竽充数者难以自容。

Concept of Incentive: Let supreme staff be well treated; let inferiors feel shameful

用人原则：不唯学历，不唯资历，注重德才，注重业绩。

Principle of Employment: Morality and performance are more important to school degree

能者上，平者让，劣者汰。

Let capable people takes leading post; Let mediocre people give way;

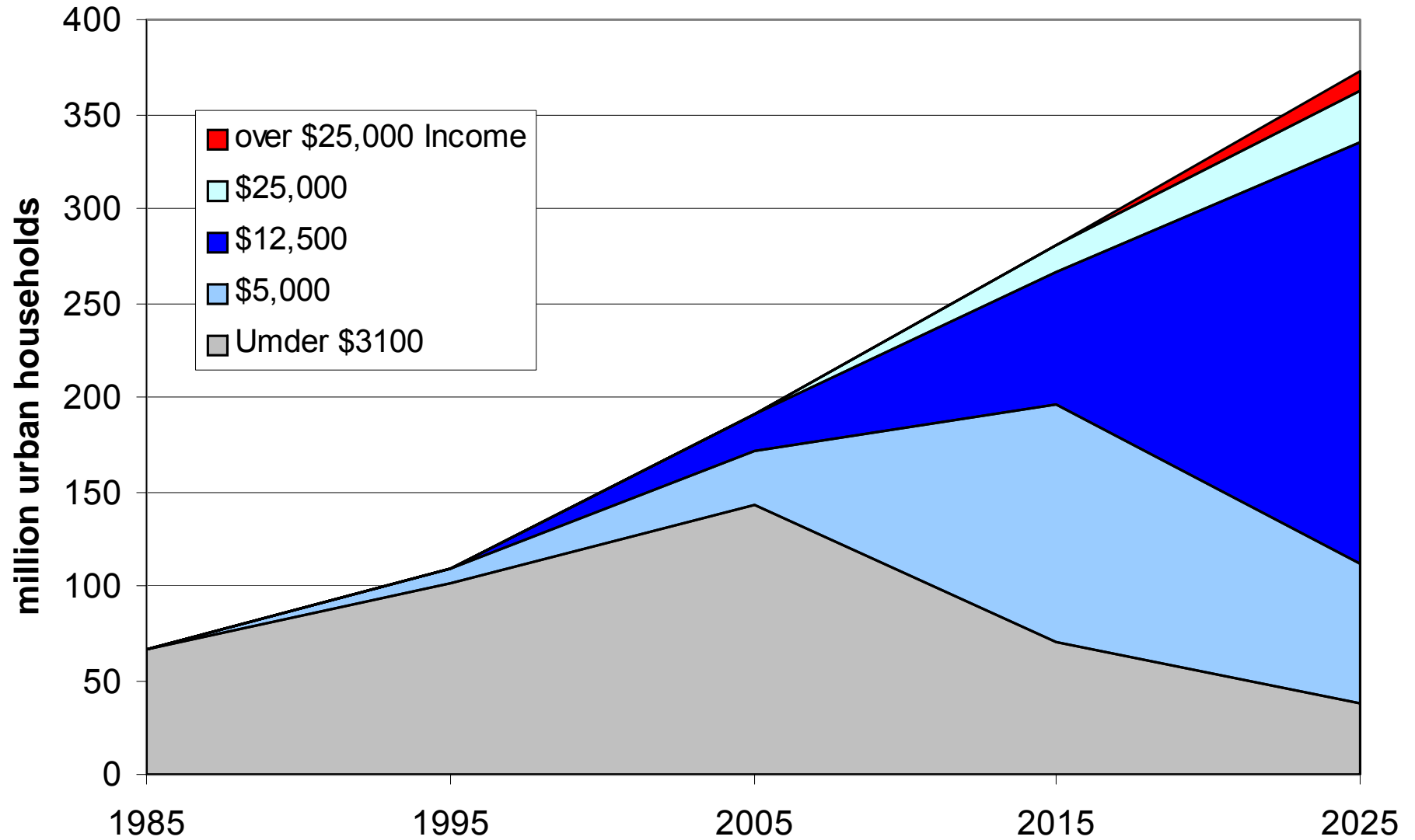
育人观：培养下属就是提拔自己。

Concept of Training: To train the underling is to elevate oneself

质量观：质量就是生命，责任重于泰山。

Concept of Quality: Quality is the lifeline; Responsibility is the essentiality.

## Middle Class Urban Households



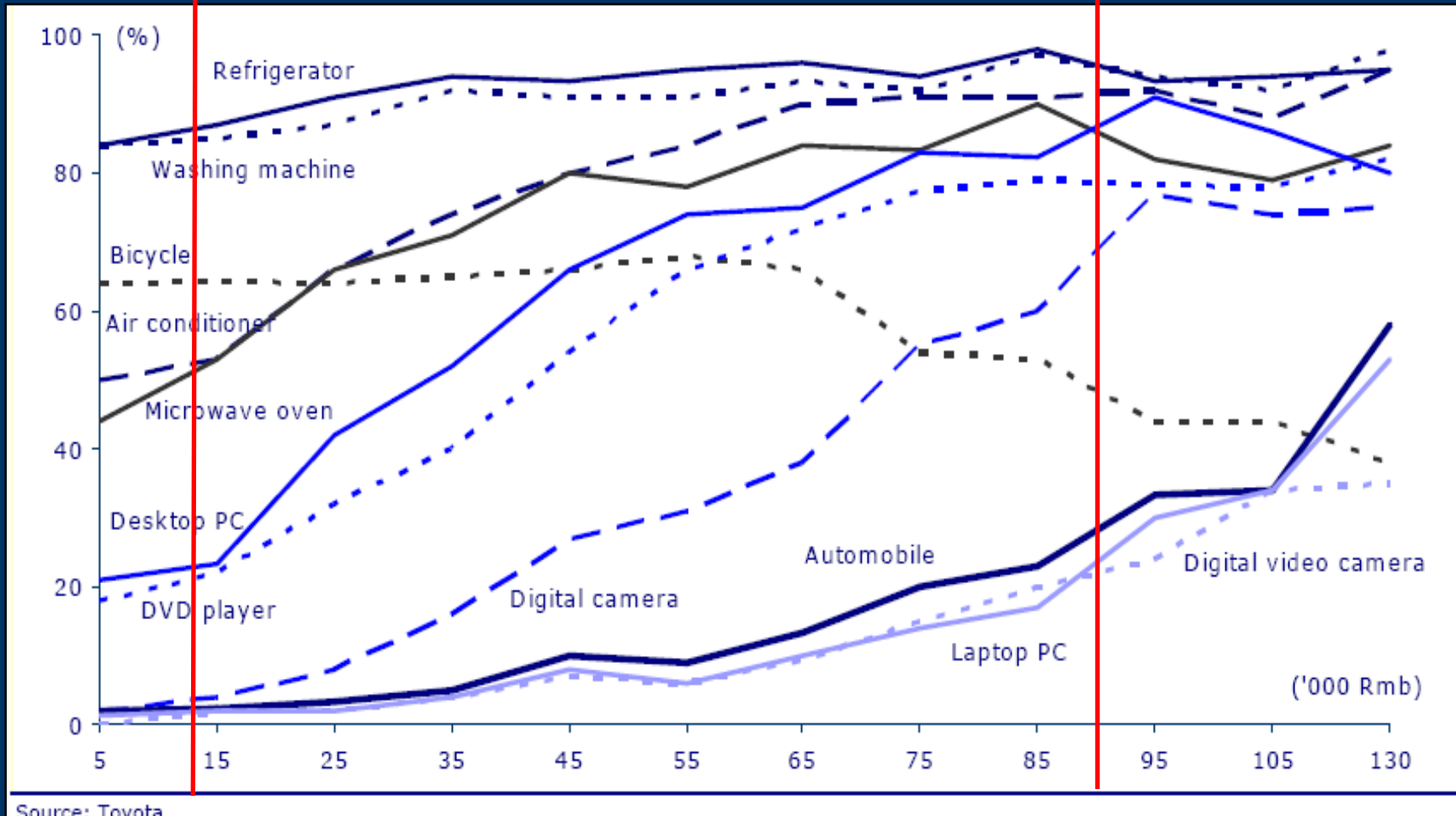
Source: The Economist, McKinsey, 8/5/06



**\$2,000 to \$12,000 is the sweet spot for consumption  
(Penetration of durable goods relative to annual income)**

**\$2,000 = 15,000 RMB**

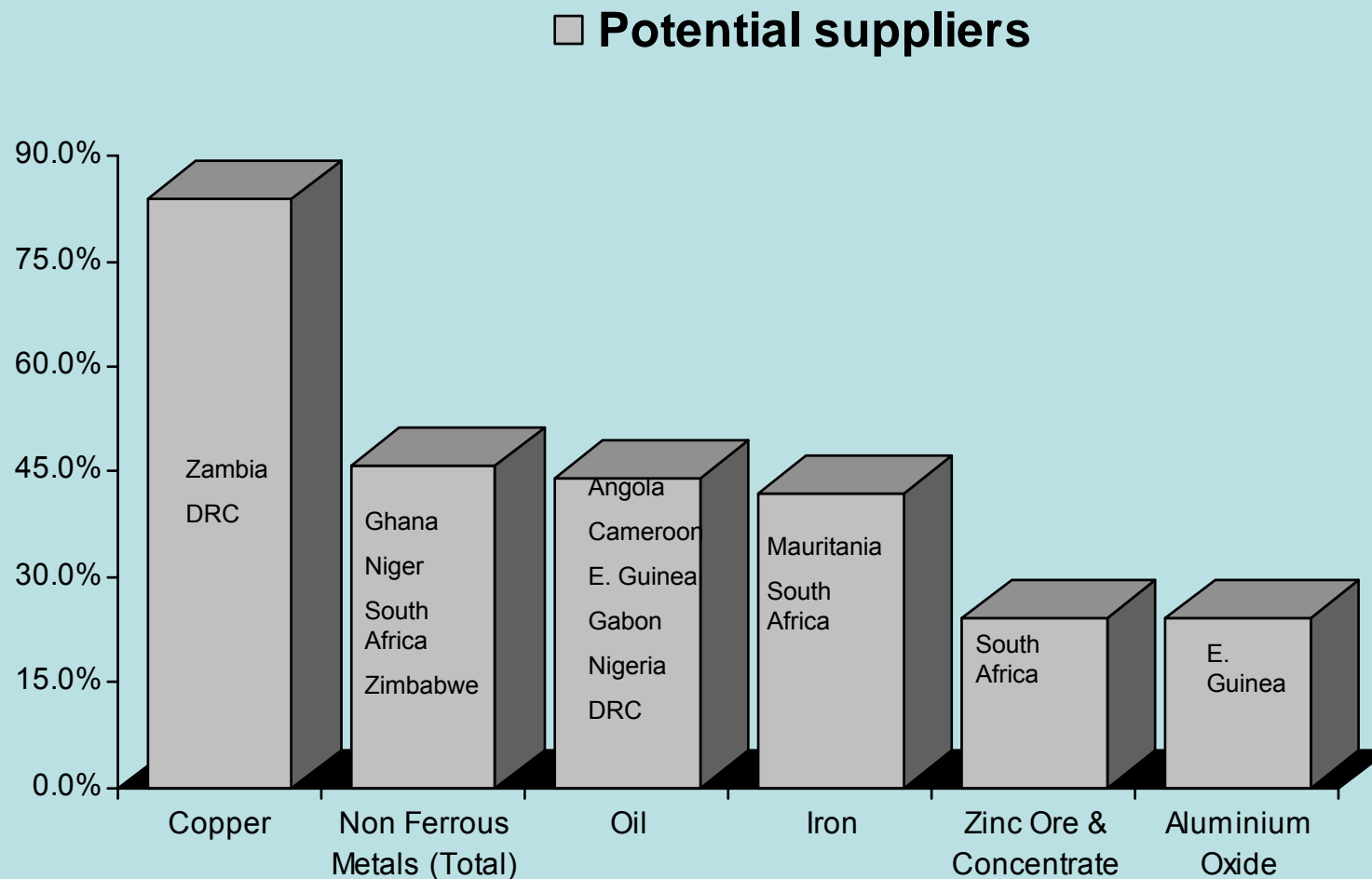
**\$12,000 = 90,000 RMB**



Source: Toyota

## A Virtuous Circle of Frontier/Emerging Market Trade

China needs... Africa has to sell



# Raw Minerals & Energy

....The Frontier is Rich

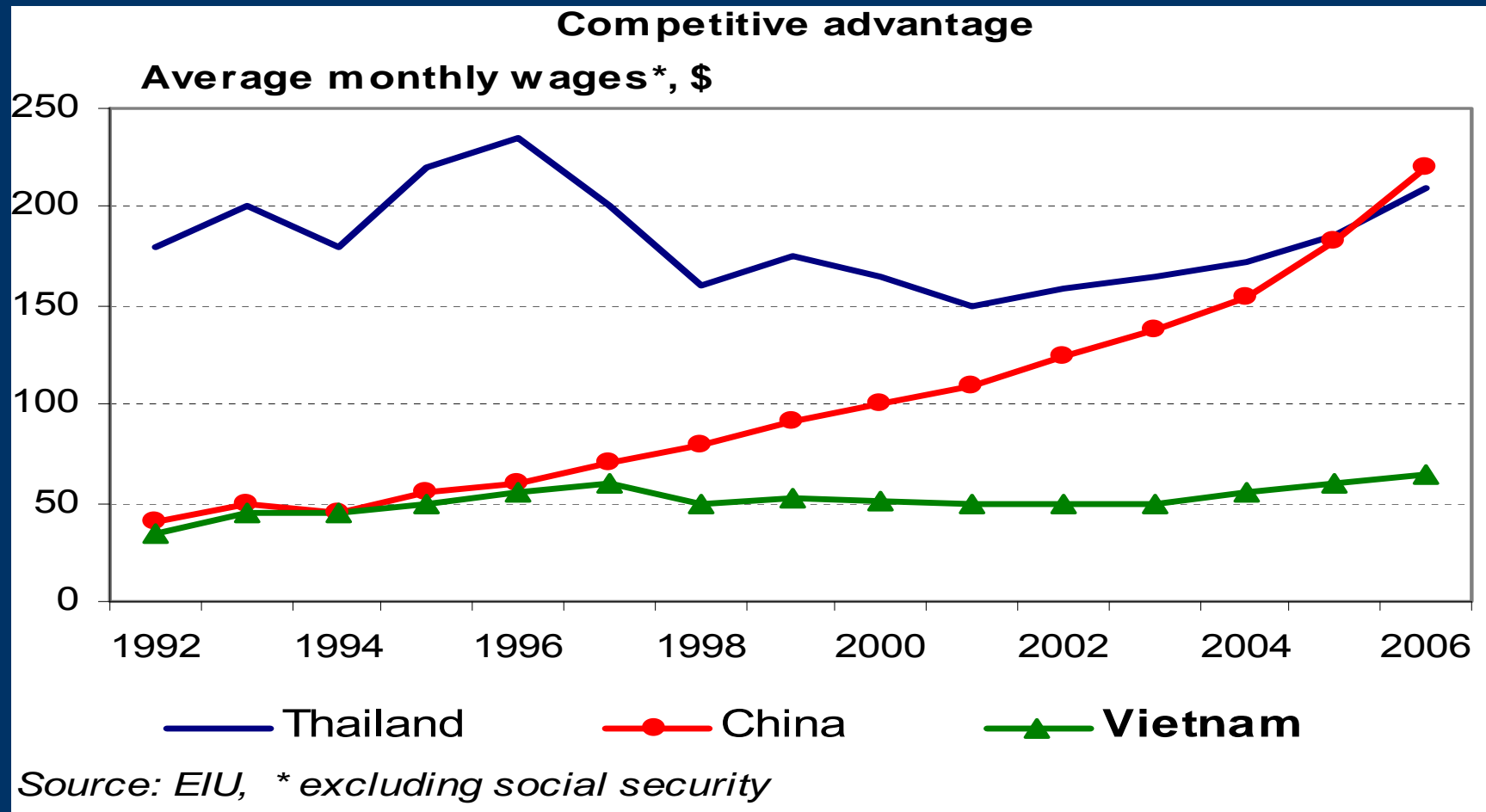
Resource	World Rank	Country	Resource	World Rank	Country
Barite	6	Algeria	Lead	1	Algeria
Barite	14	Bulgaria	Lead	4	Macedonia
Barite	18	Vietnam	Lead	7	Namibia
Bauxite	1	Guyana	Lead	12	Zambia
Bauxite	8	Guyana	Lead	14	Serbia
Bauxite	11	Kazakhstan	Lead	17	Turnisa
Bismuth	8	Kazakhstan	Molybdenum	6	Armenia
Boron	9	Kazakhstan	Molybdenum	8	Kazakhstan
Cadmium	6	Kazakhstan	Molybdenum	13	Mongolia
Cesium	2	Namibia	Nickel	15	Botswana
Cesium	3	Zimbabwe	Nickel	17	Zimbabwe
Chromite	2	Kazakhstan	Niobium	7	Namibia
Cobalt	4	Zambia	Niobium	8	Nigeria
Copper	2	Zambia	Niobium	11	Uganda
Copper	5	Namibia	Phosphate	15	Senegal
Copper	7	Uganda	Rhenium	2	Armenia
Copper	8	Botswana	Soda	6	Uganda
Copper	9	Zimbabwe	Soda	2	Botswana
Diamonds	2	Botswana	Soda	7	Kenya
Diatomite	12	Romania	Vermiculite	6	Zimbabwe
Fluorspar	5	Mongolia	Zinc	1	Algeria
Fluorspar	8	Namibia	Zinc	3	Namibia
Fluorspar	9	Kenya	Zinc	5	Zambia
Ilmenite	12	Vietnam			

Proven reserves:	Oil:		Natural Gas:	
	Thousand million barrels	World Rank	Trillion cubic metres	World Rank
Africa Algeria	12.2	17	4.5	10
Africa Angola	13.5	15		
Africa Chad	0.9	42		
Africa Gabon	3.2	31		
Africa Libya	43.7	8	1.5	22
Africa Nigeria	36.2	10	5.2	8
Africa Rep. of Congo	1.9	35		
Africa Sudan	6.7	21		
Africa Tunisia	0.6	46		
Asia Azerbaijan	7.0	20	1.2	24
Asia Bangladesh			0.4	39
Asia Kazakhstan	39.8	9	1.8	18
Asia Pakistan			0.9	28
Asia Turkmenistan	0.6	47	7.9	4
Asia Uzbekistan	0.6	48	1.6	21
Asia Vietnam	4.7	25	0.6	31
Eastern Eur Romania	0.5	49	0.6	30
Eastern Eur Ukraine			0.9	27
Latin Am Bolivia			0.7	29
Latin Am Colombia	1.4	38	0.1	48
Latin Am Ecuador	3.8	28		
Latin Am Trinidad & Tobago	0.8	44	0.5	35
MidEast Bahrain			0.1	50
MidEast Iran	137.6	2	29.6	2
MidEast Iraq	115.0	3	3.2	12
MidEast Kuwait	101.5	4	1.8	19
MidEast Oman	5.6	23	1.0	26
MidEast Qatar	27.3	13	25.5	3
MidEast Saudi Arabia	264.1	1	7.6	5
MidEast Syria	2.5	34	0.3	45
MidEast United Arab Emirates	97.8	6	6.4	7
MidEast Yemen	2.7	32	0.5	34

Source: British Petroleum, 2009



# Wages

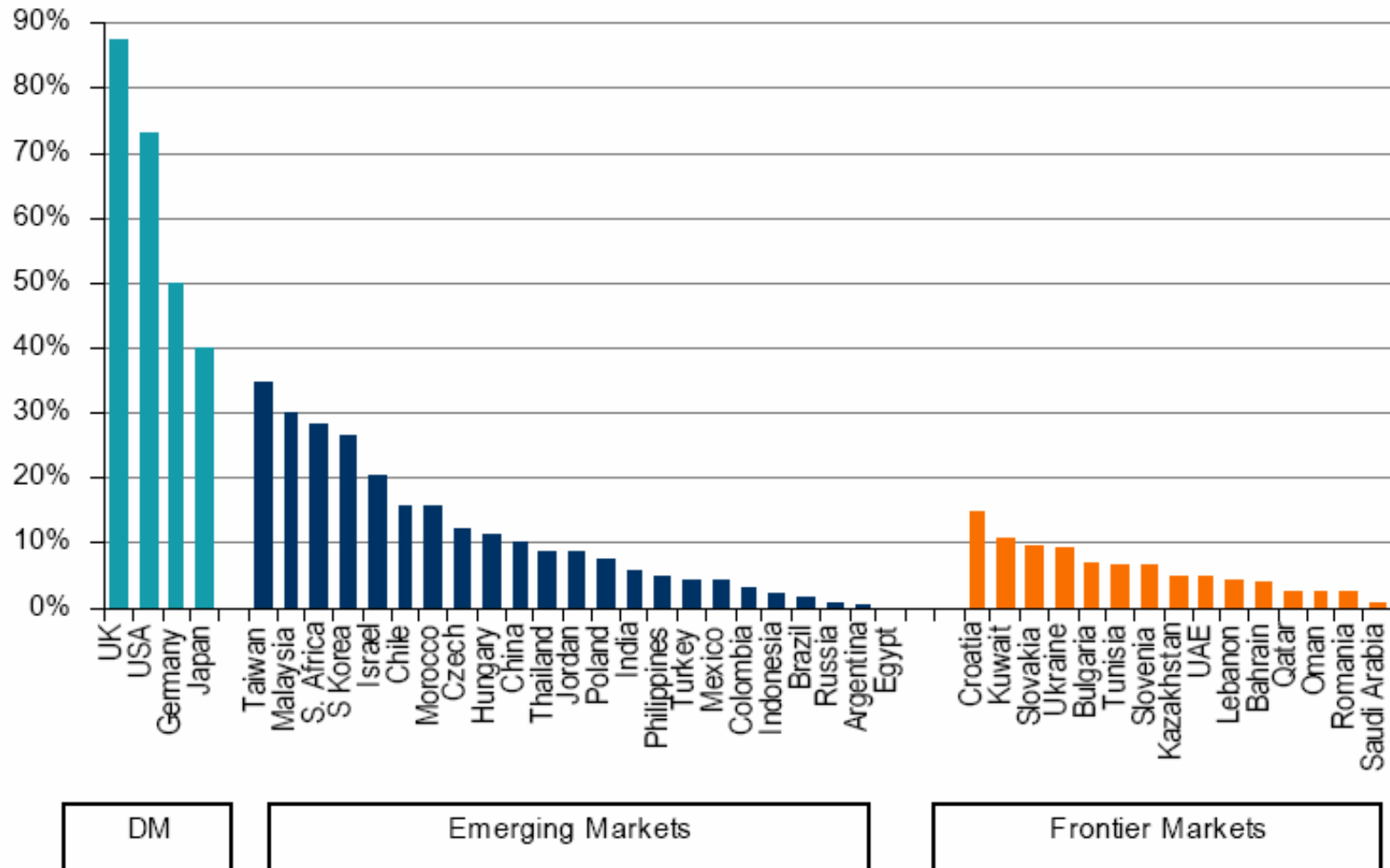


## Wages



## No Sub-prime Problems in Emerging/Frontier

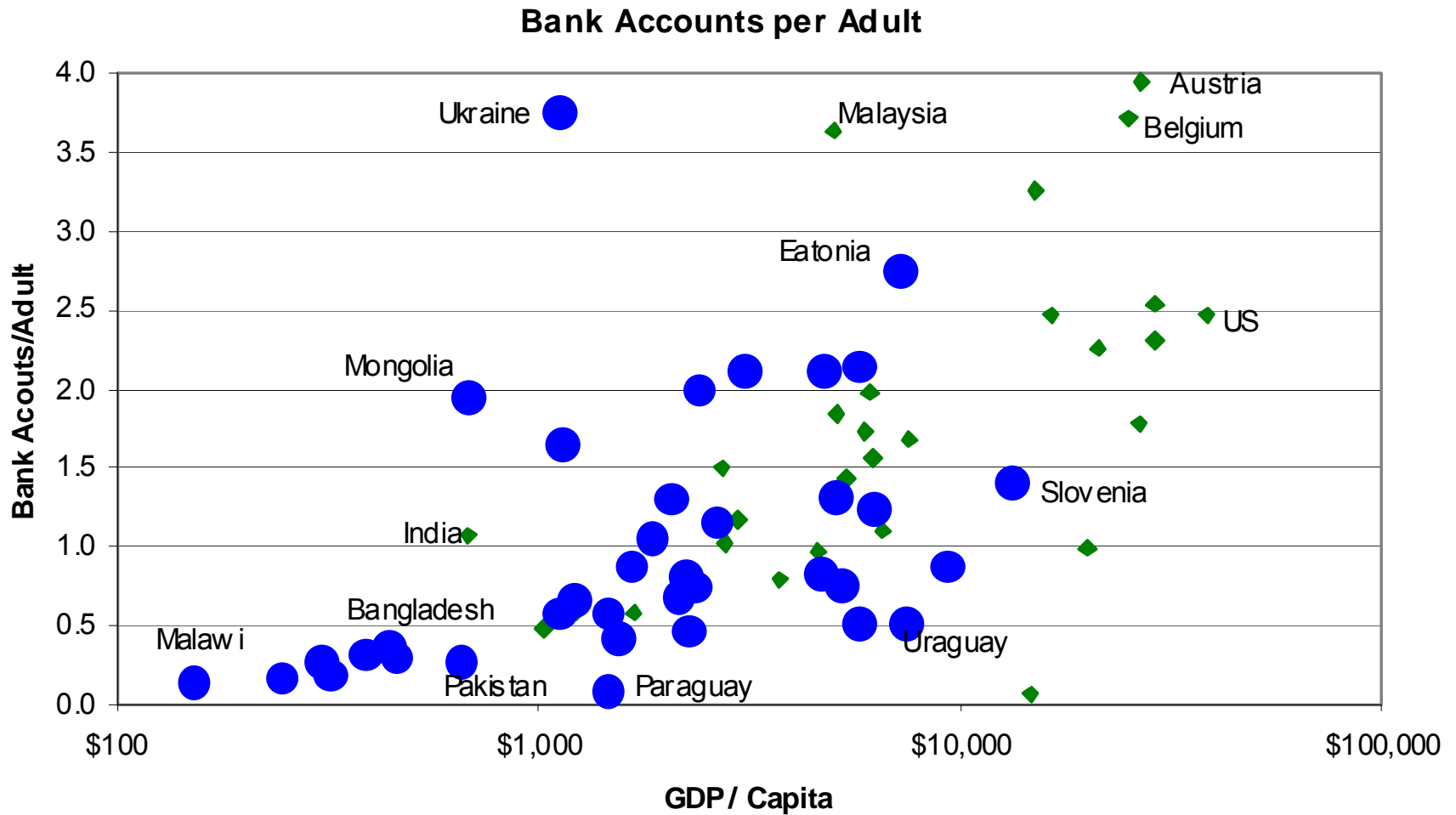
Mortgage Penetration: Mortgage Loans as a Percentage of GDP (%)



Source: ML Research and official sources



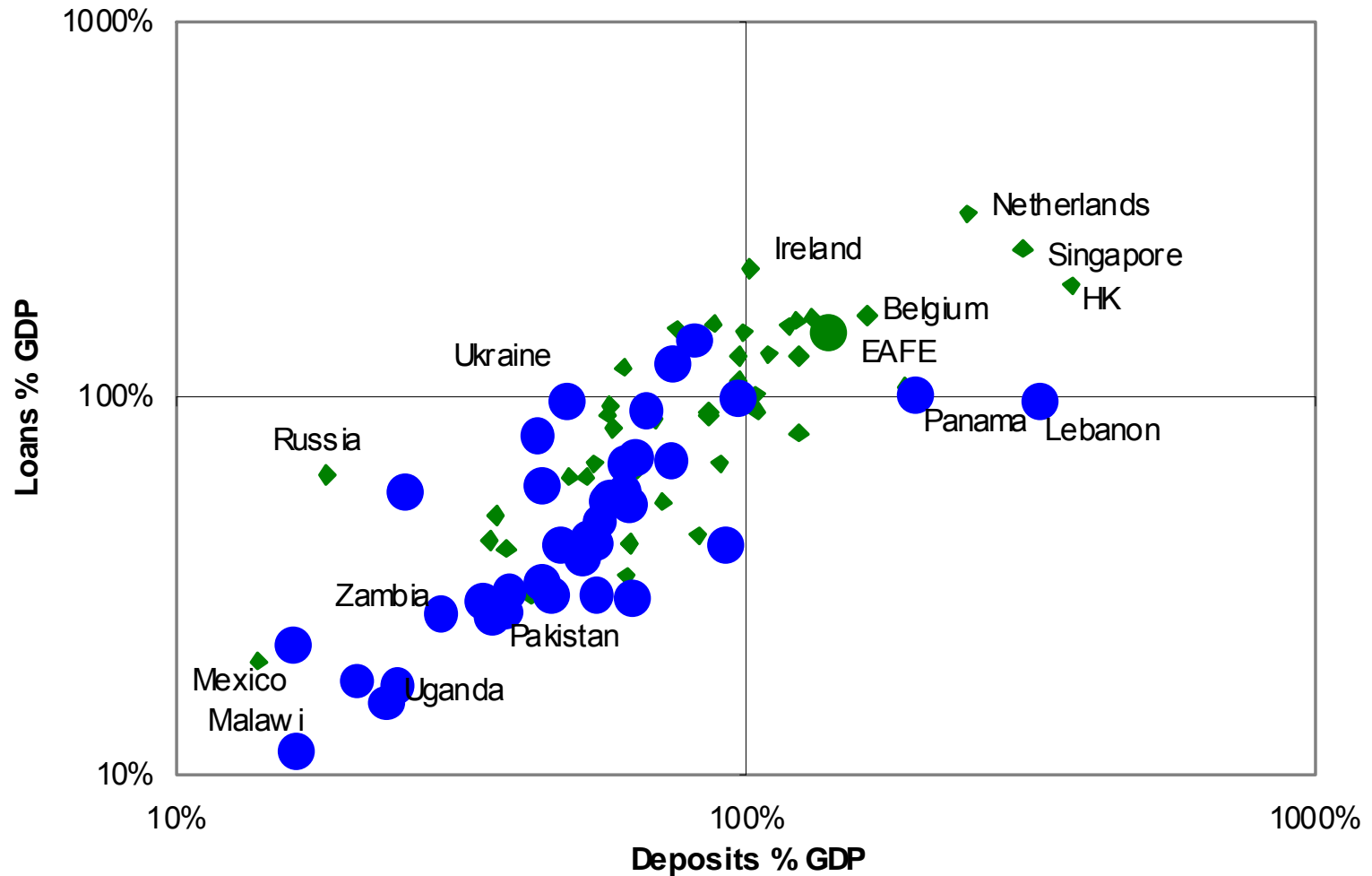
# Banking



Source: Consultative Group to Assist the Poor, World Bank, 2009

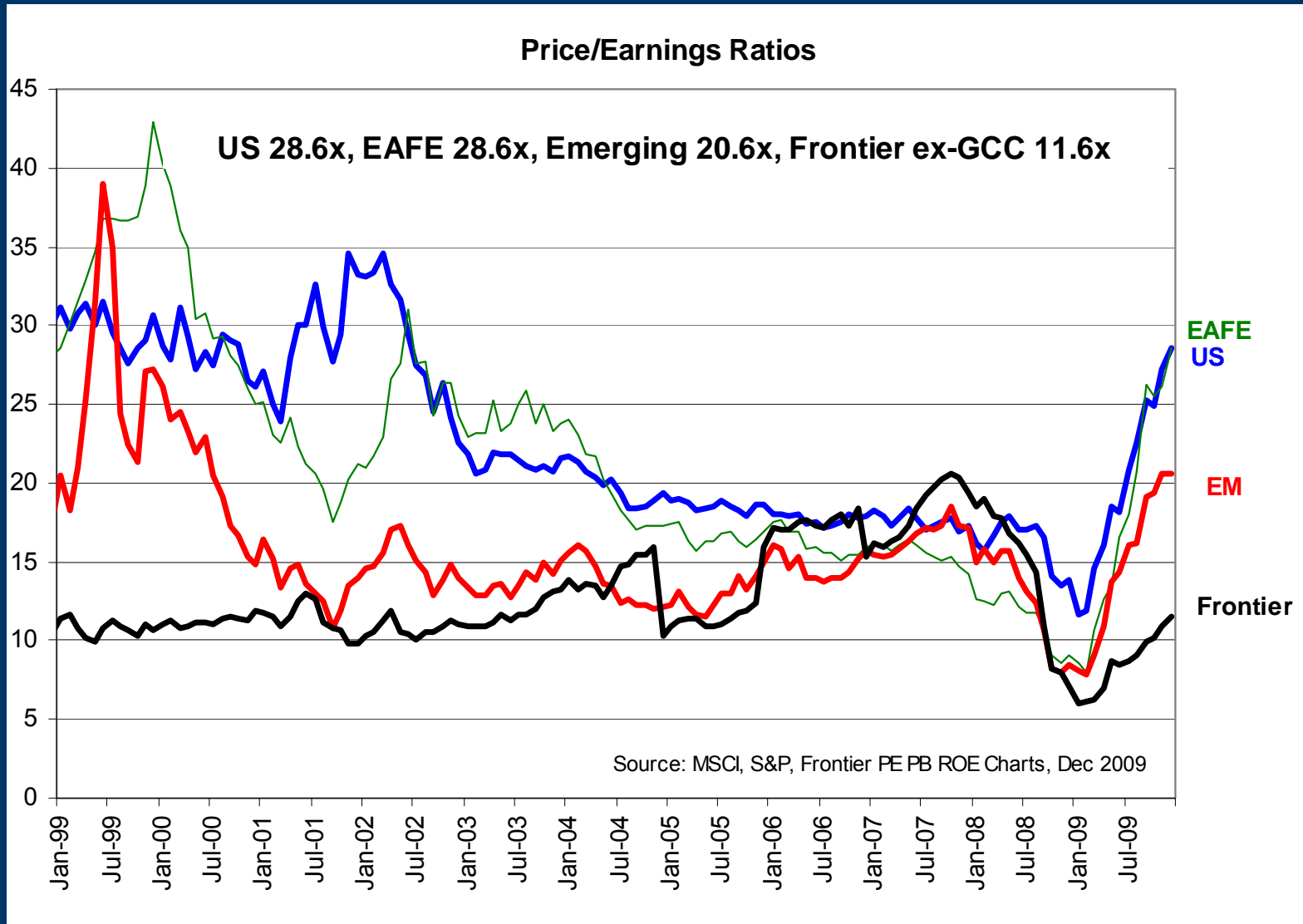
# Banking

## Deposits & Loans versus GDP

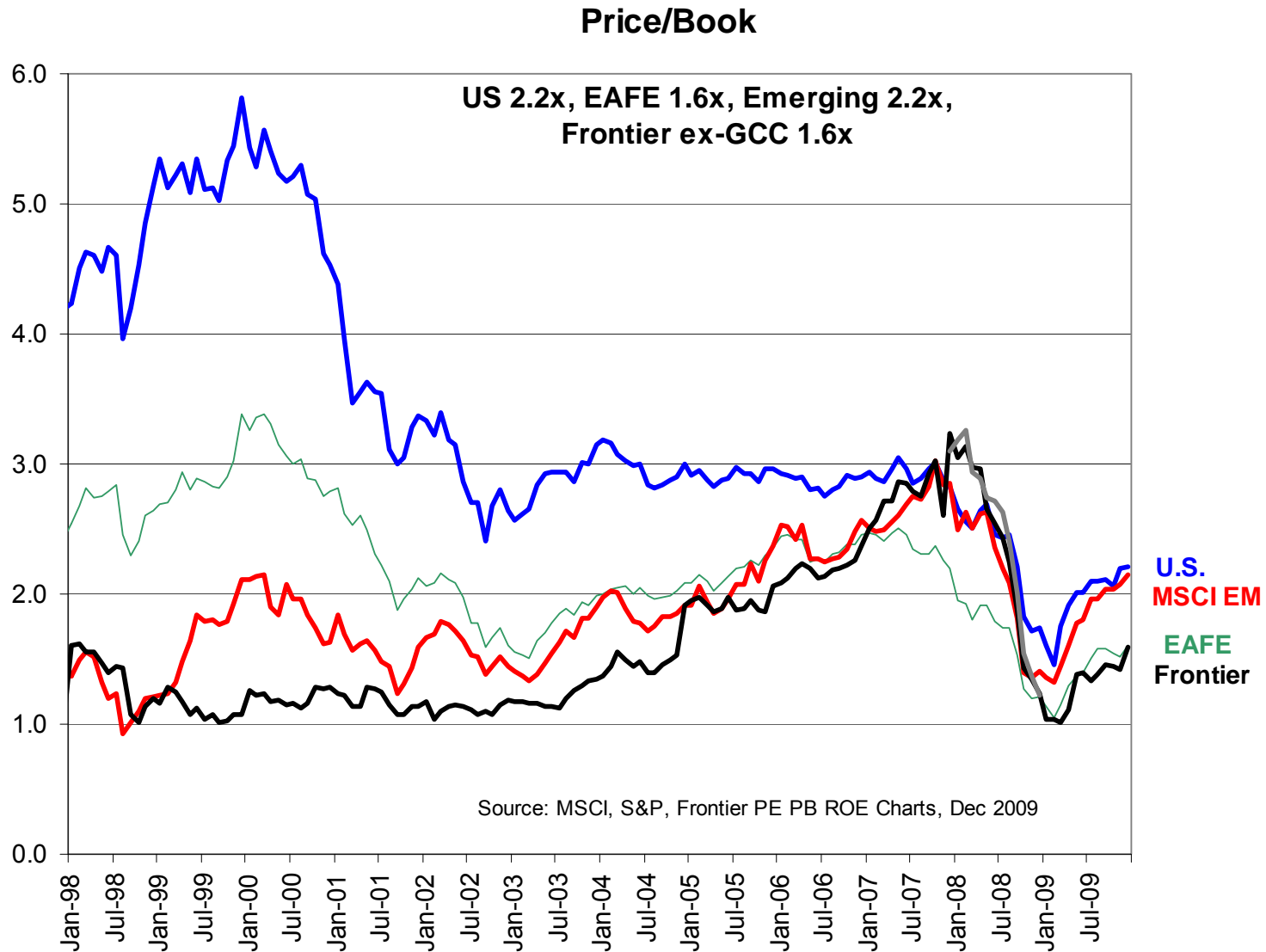


Source: Consultative Group to Assist the Poor, World Bank, 2009

## Valuations: Frontier & Emerging Markets are Attractive

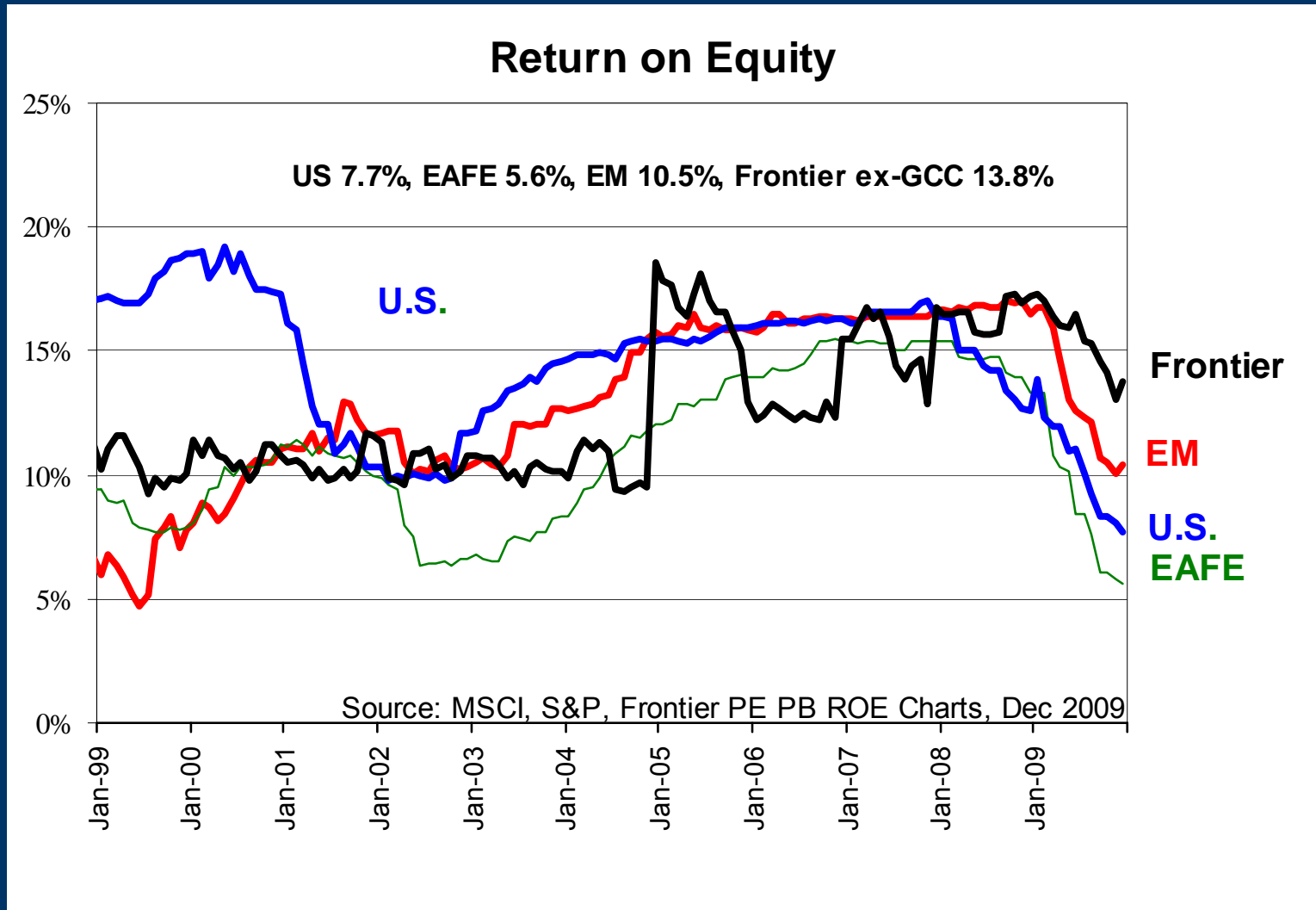


## Valuations: Frontier & Emerging Markets are Attractive





## Valuations: Frontier & Emerging Markets are Attractive



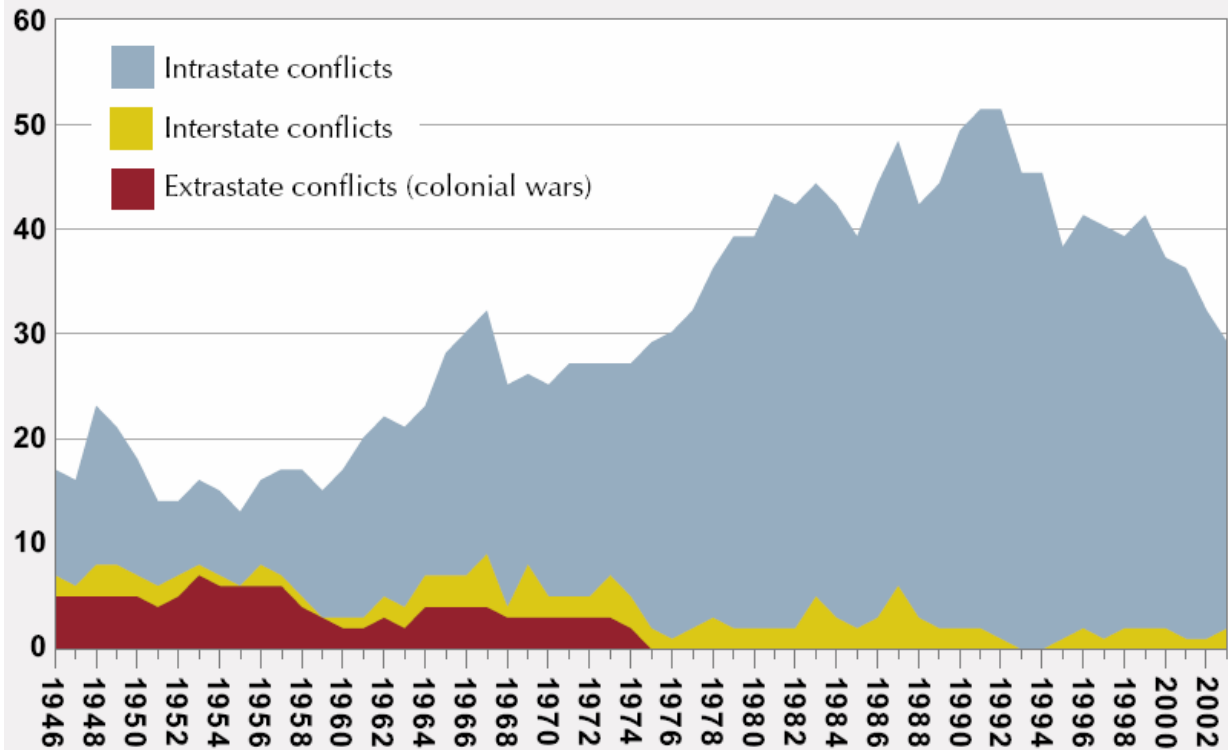
# Risk



David Rose / Panos Pictures

Source: Human Security Centre, UBC

# Risk



**Figure 1.1 A less violent world:  
Numbers of conflicts, 1946–2003**

Since World War II, the number of interstate wars has remained relatively low. Colonial (extrastate) wars had disappeared by the mid-1970s, but civil (intrastate) conflicts rose steadily until 1992, after which they declined steeply.

*Source: Uppsala/PRIO, 2004<sup>10</sup>*

The conflicts shown in Figure 1.1 resulted in at least 25 battle-related deaths a year. They are of three types: interstate (fought between states), extrastate (colonial wars) and intrastate (civil wars). In all cases one of the warring parties was a state. The graph does not include ethnic or other conflicts where neither warring party was a state, nor does it include cases of 'one-sided' violence such as genocide.

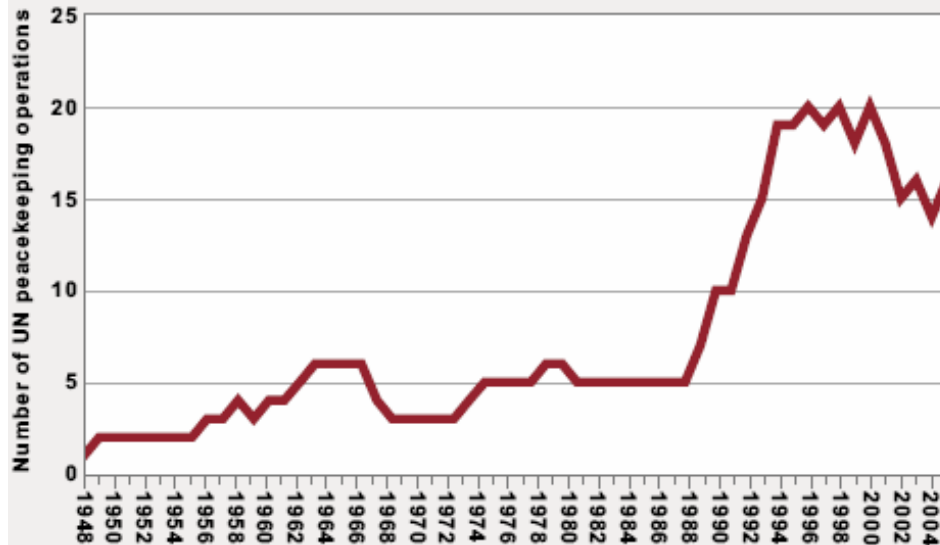
Figure 1.1 is a 'stacked graph', meaning that the number of conflicts in each category is indicated by the depth of the band of colour. The top line indicates the total of number of conflicts of all types in each year. Thus in 1946 there were 5 extrastate conflicts, 2 interstate conflicts, 10 intrastate conflicts and 17 conflicts in total.

**Source: Human Security Centre, UBC**

## Risk

## More Peacekeepers and Tribunals

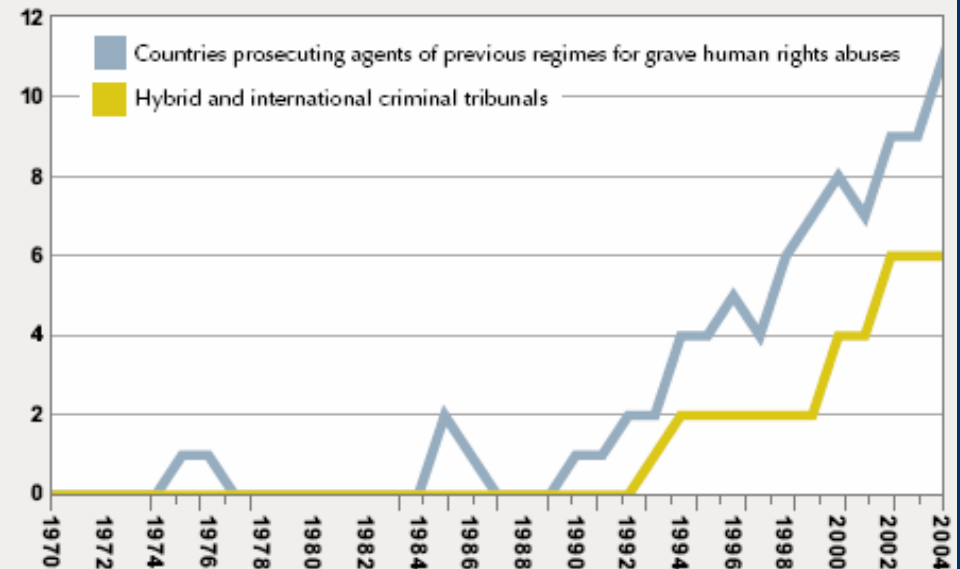
Figure 5.6 UN peacekeeping operations, 1948–2004



Source: Human Security Centre, 2005<sup>38</sup>

The end of the Cold War led to a steep increase in UN peacekeeping operations. Peace operations now play a critical role in rebuilding war-shattered societies and in preventing peace agreements from breaking down.

Figure 5.7 Numbers of international tribunals and countries prosecuting grave human rights abuses, 1970–2004

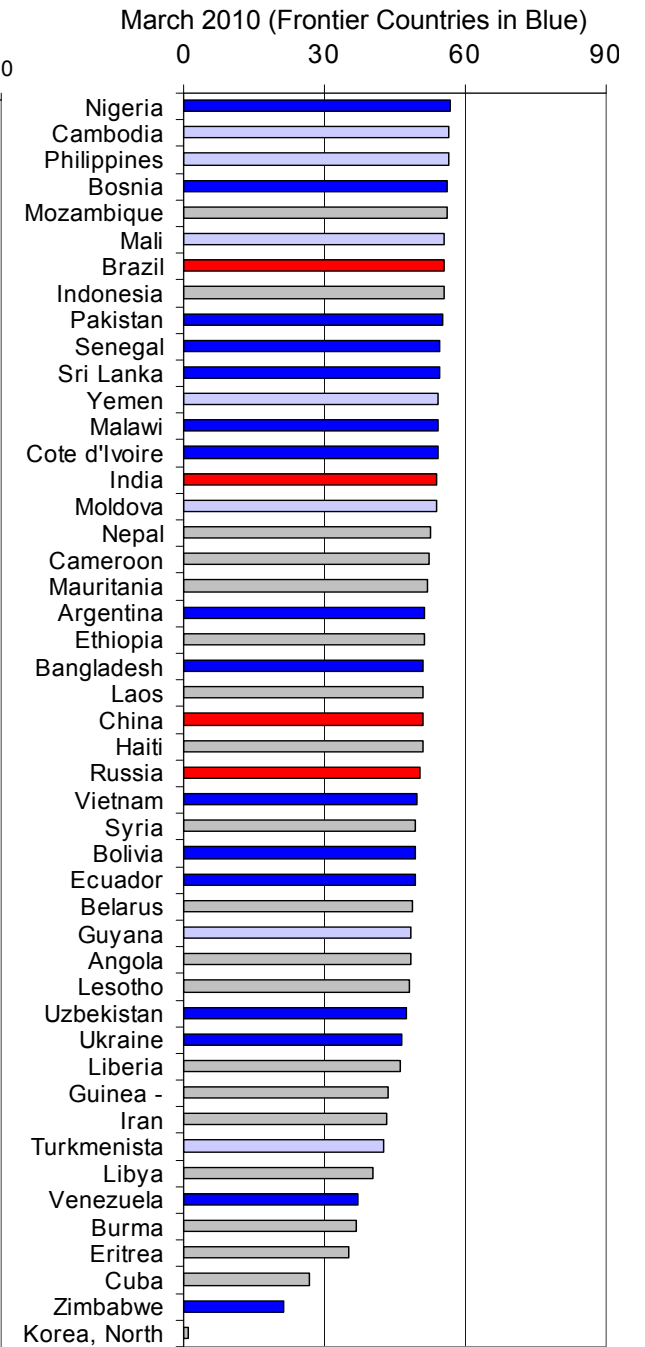
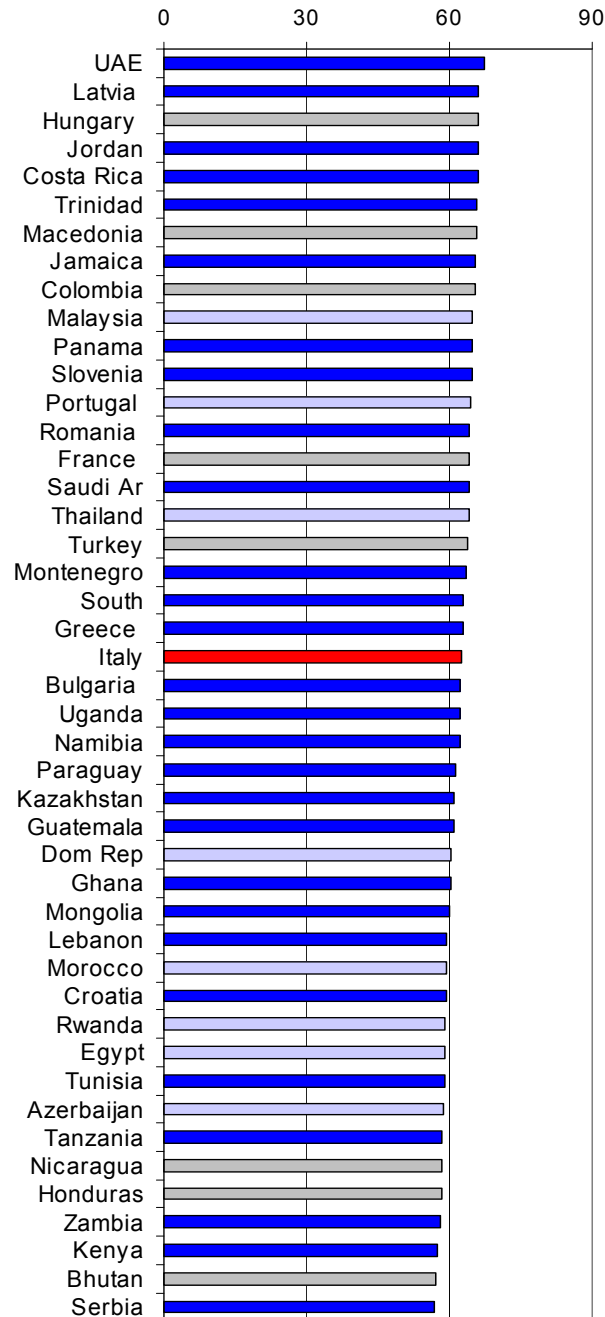
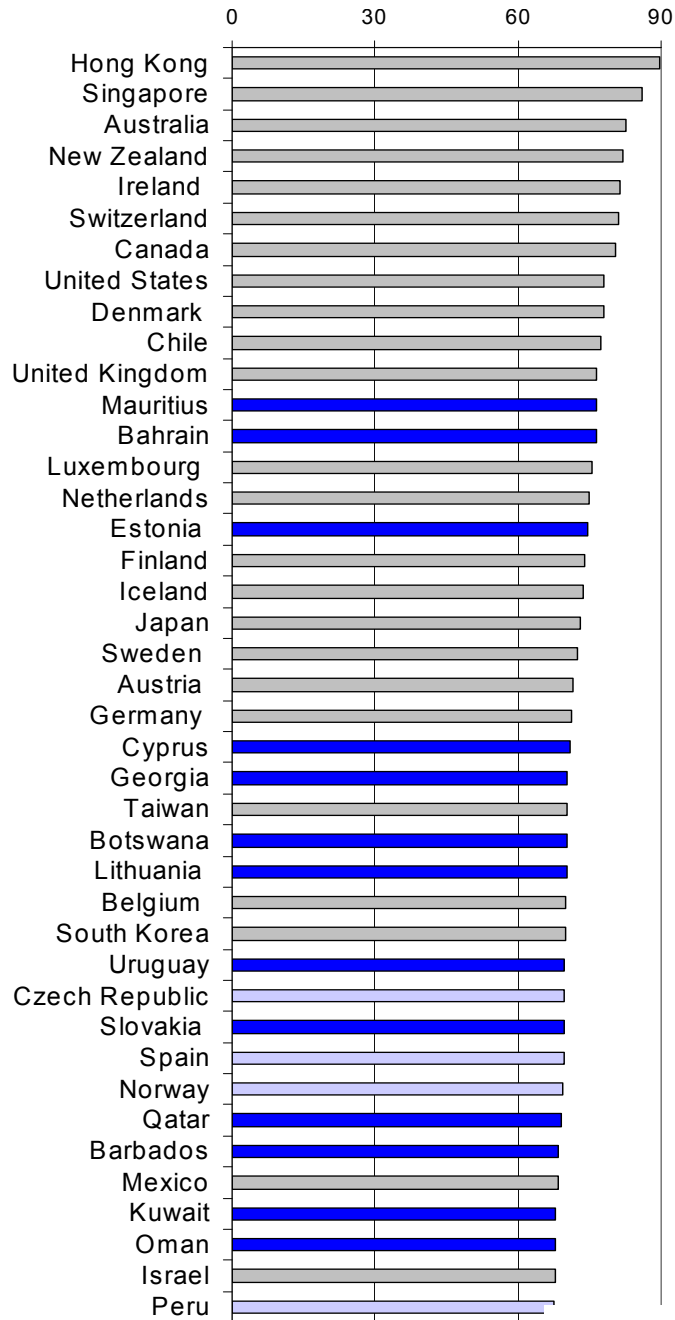


Source: Human Security Centre, 2005<sup>42</sup>

The ending of the Cold War was associated with an increase in national and international prosecutions of perpetrators of grave human rights abuses.



# Economic Freedom is High in Frontier Countries



Source: The Heritage Foundation, 2010

## Investors' Risk - Loss Aversion & Utility Function

- Coin toss: lose \$100.... Win ??

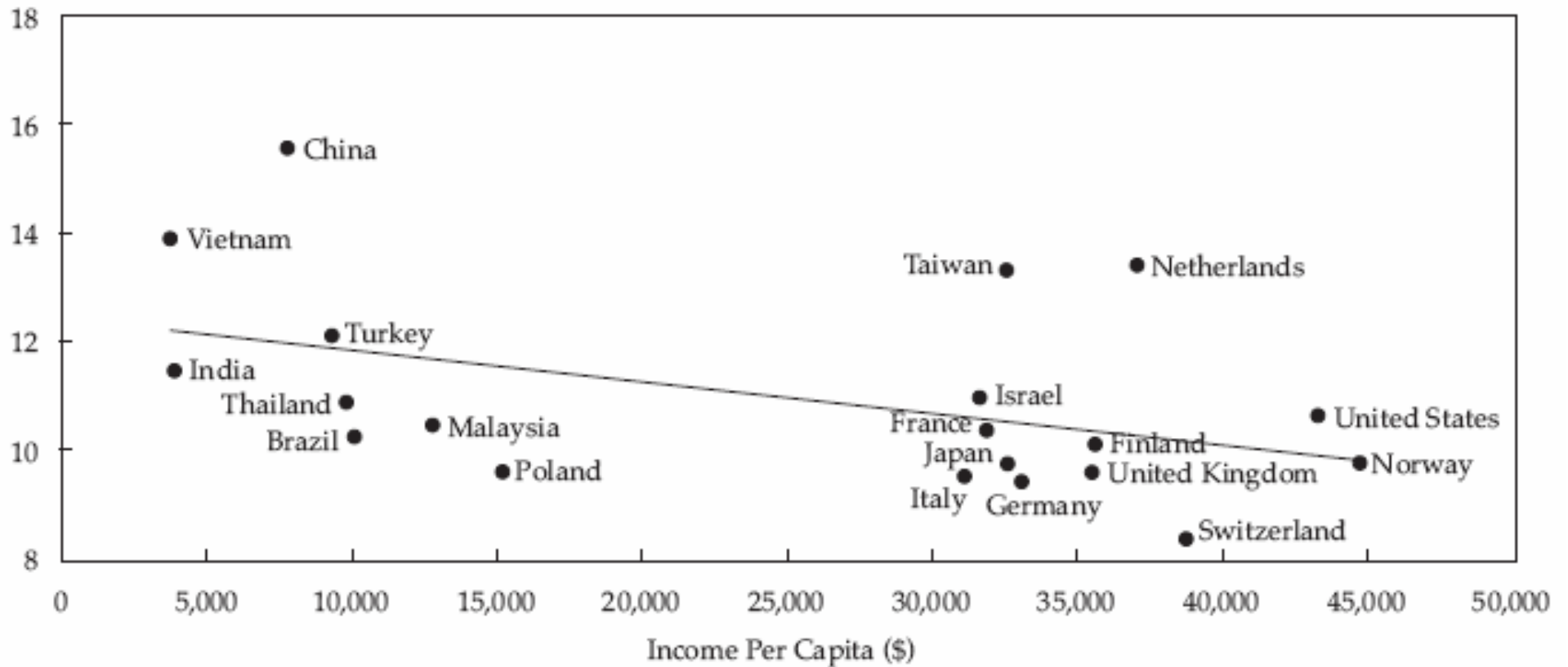
Myopic Loss Aversion and the Equity Premium Puzzle, Shlomo Benartzi and Richard Taylor, Quarterly Journal of Economics 1998

## Investors' Risk - Loss Aversion & Utility Function

- Coin toss: lose \$100.... Win ??
- Paul Samuelson's wager:
  - Coin toss: win \$200, lose \$100
  - Colleague's response: "no" for one toss, "yes" for 100 x
- Loss Aversion Factor ~ 2.5x
- 1 toss Utility =  $50\% * 1 * 200 + 50\% * 2.5 * (-100) = \underline{-25}$
- 2 toss Utility =  
 $25\% * \text{win both} + 50\% * \text{split} + 25\% * \text{lose both} =$   
 $.25 * 400 + .5 * 100 + .25 * 2.5 * (-200) = \underline{+25}$

# Investors' Risk

Propensity for Risk

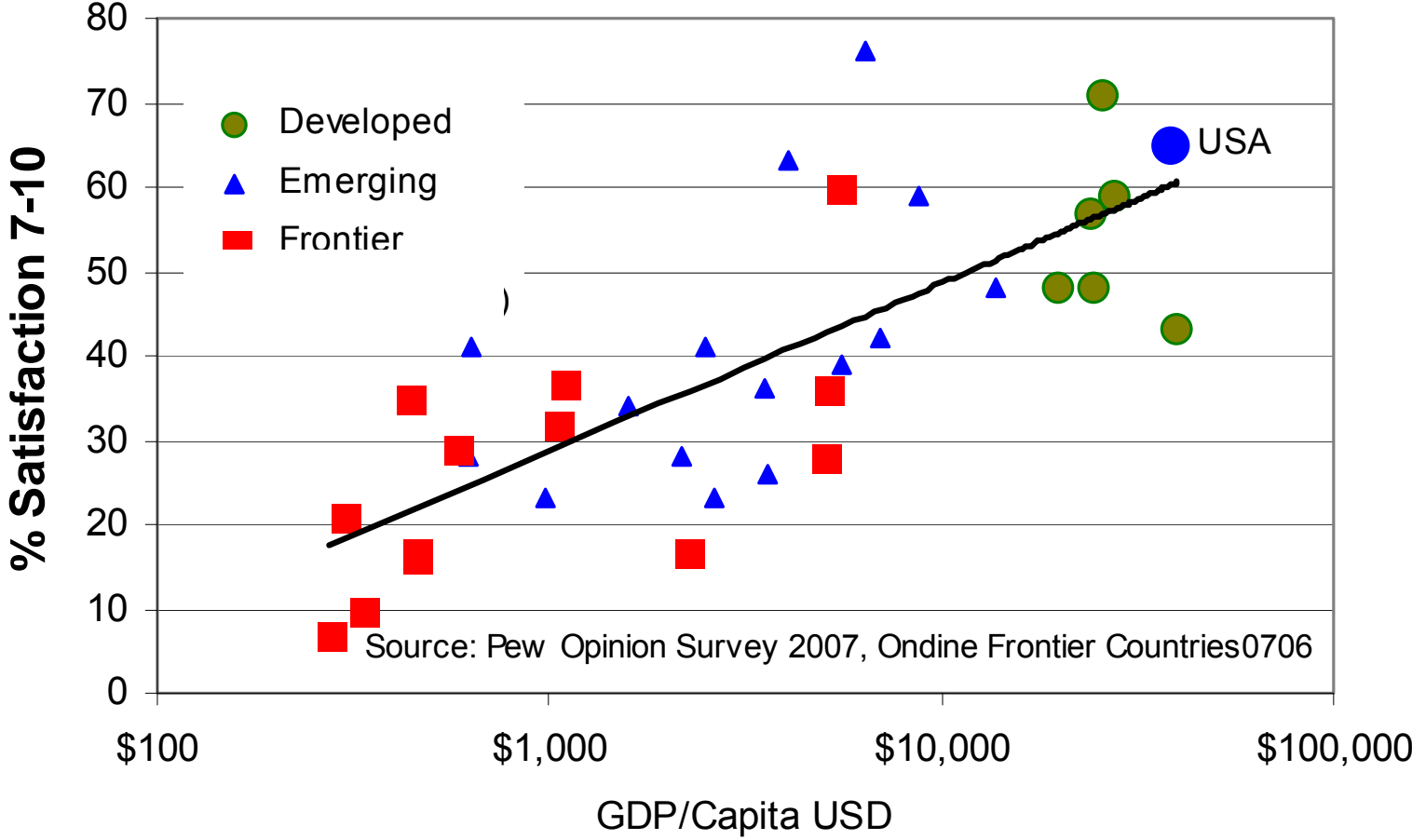


Source: Meir Statman, Countries and Culture in Behavioral Finance, CFApubs.org, Sept 2008

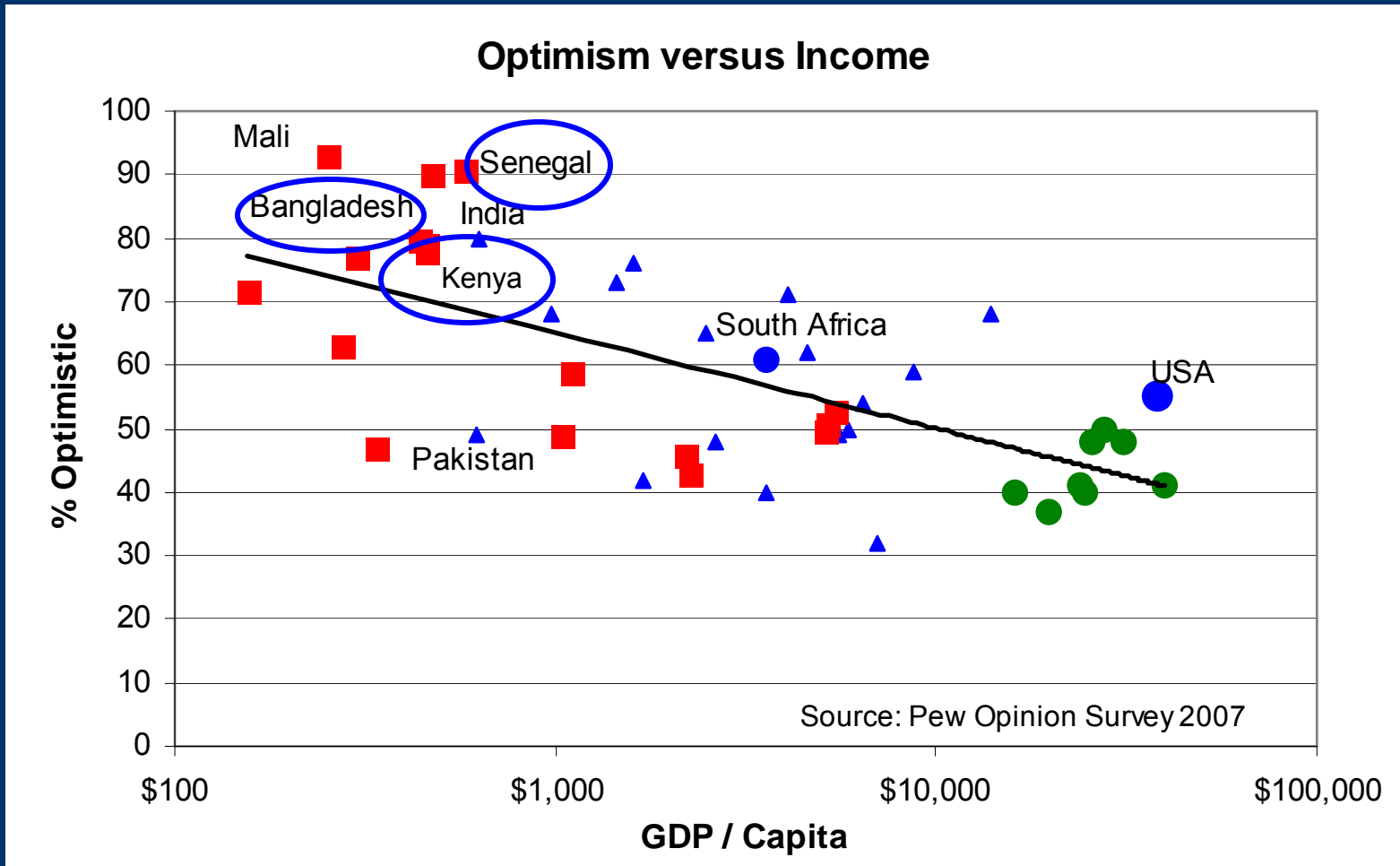


# Optimism – Pew Survey

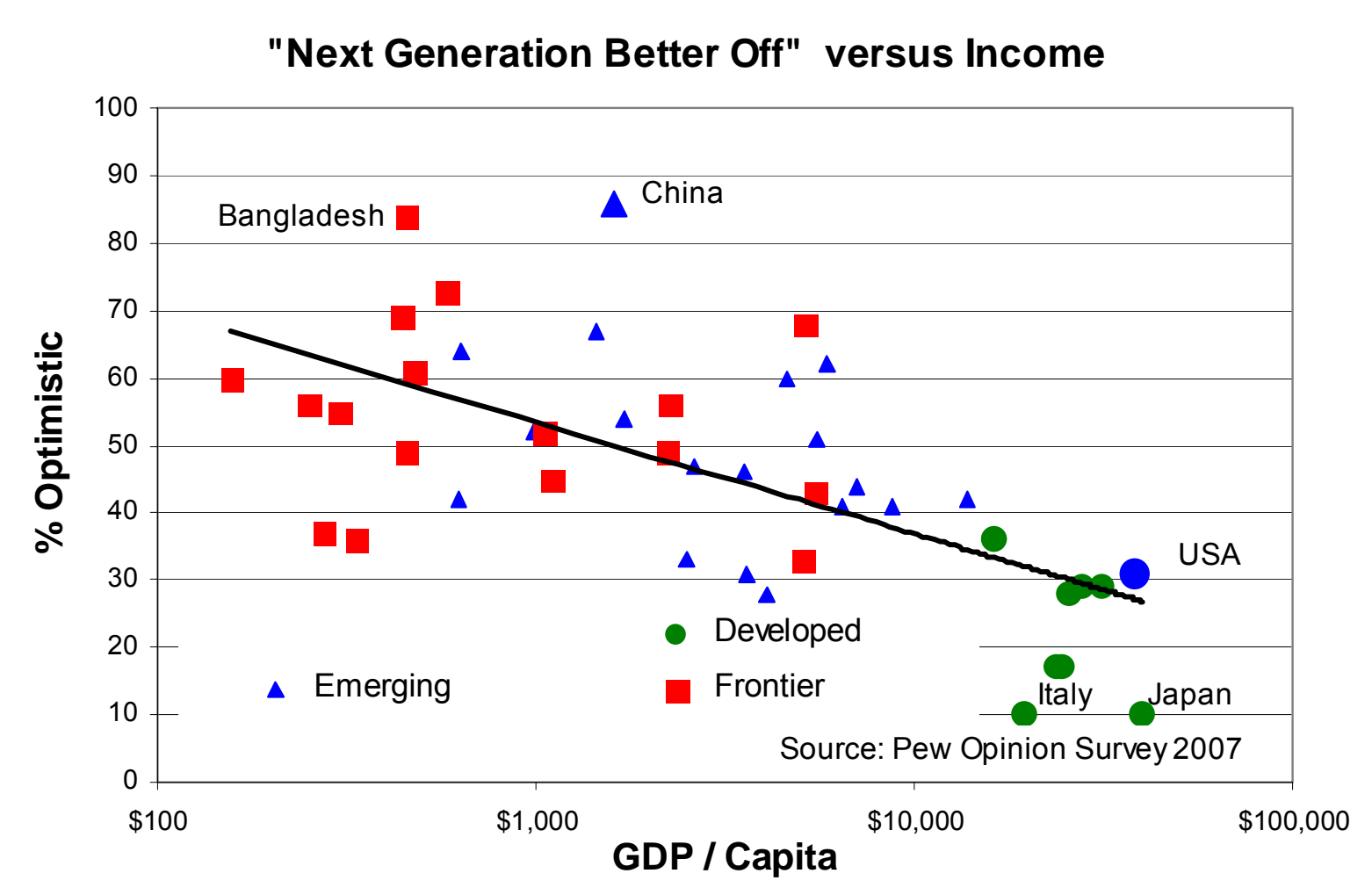
## Life Satisfaction versus Income



# Optimism – Pew Survey



# Optimism – Pew Survey



Optimism:

Determination





Optimism: Determination



Optimism:

Determination





SERVE

TOLERATE

LOVE

RESPECT

3

B2