



## UNSTOPPABLE FORCES

When one reads the news these days, it seems harder to distinguish the truth from fabrication and there is far more discord today than I can remember. Many troublesome issues are reported with no obvious solutions offered beyond the not so discrete (usually political) views of the writers. I would suggest we live in a world that is itching for change, with deepening inequality and discontent. More people take to the streets, with a spectrum of valid reasons to protest - they are clearly demanding change. Even the financial markets are in a situation never seen before in history - more debt than ever before, lowest interest rates for generations, US equities near all time highs, the USD is being challenged on many fronts. These are not normal times and it does feel the pressures for change are building.

In this article, I describe three 'unstoppable forces' that are major contributors to the changes that are in play in today's world. These forces will touch many aspects of most of our lives - they will drive profound changes in every level of society, to many aspects of business and also to the way we will live the rest of our lives. We do not know exactly how these forces will play out, but it is clear that these 3 forces are very present today and will create great changes to the world we know today.

The first unstoppable force is the most obvious and has probably been in play the longest. This is the incredible rise of China to take its position as a world super power, a position that China believes is fully vindicated and deserved. China is now challenging the world dominated by the US for the last 70 years. China gain in stature will of course come with all the trappings and influence that a world super power would expect. The rest of Asia is already learning to adapt to the new world order with this new superpower in their back yard.

The second unstoppable force is not so obvious and is actually a theory forwarded by Paul McCully of PIMCO fame. This force is the dynamic between democracy and capitalism. The extremes of capitalism that are on clear display today will swing towards greater democracy - a society with more equality and less discontent.



To me, the third unstoppable force is the extensive and expanding online world with tentacles that reach to nearly every organisation, group and individual in every part of the world. These tentacles can bring business enablement, a voice, money transfer, great efficiency, data, communication and multiple other features to a humble person carrying a basic mobile phone. There is a very long list of totally positive things that can and will happen in this online world. However, being attached to this online world brings the unwelcome potential for intrusive exploitation of our personal data by an assortment of actors.

Of course these are not the only forces in play, but I do believe these three will have a great bearing on the way the world will look in a few years time.

### 1. ASCENT OF THE MIDDLE KINGDOM

China's ascendancy has been gradually happening over the last decades. China has become a member of numerous global organisations, one step at a time. The unease of China's position today, and that China's strength and influence will continue to grow, is shared by many in the world today. China is certainly strong enough to be able to push back against the US on many fronts.

I like the analogy that the Chinese dragon and uncle Sam are partners in the same bed. When you are in this position, you appreciate that you can definitely hurt your partner and you are also very aware of your own vulnerabilities because your partner can also cause you great pain. So both of these partners are now trying to position themselves so they can strike out at their partner, but limit the amount of pain the other can cause. A dangerous and unstable situation. US and China are dangerous bedfellows.

circulating that it seems very likely that China will develop its own domestic and international payment system in the near future, that others would, of course, be welcome to use. Other stories relate that China will introduce an e-currency in the near future. The huge payment infrastructure that Chinese tech companies have already built would be a tremendous aid with this grand ambition. (Ant financial aims to raise USD35 billion which will value the company at USD250 billion).

## 2. CAPITALISM SWINGS TO DEMOCRACY

Paul McCully is a high profile economist and market thought leader and was on the Board of PIMCO. He believes we are unambiguously on the verge of a profound change in the global economy. This will involve a move away from capitalism and towards democracy, which he argues is inherently socialist. McCully considers it is the time when the pendulum will swing back towards more democracy led values.

At first sight, it seems unnatural to pair capitalism and democracy - they could almost be considered opposing concepts. McCully considers these two values as symbiotic - they both need the other to prevail in the longer term. Capitalism needs the laws developed from democracies to prevent the excesses of capitalism: Democracy needs the efficiency of capitalism to stop democracy building bloated quangos.

The box below shows some traits of each value:

Democracy	Capitalism
Labour views strengthen	More money means more power
Inflationary bias	Deflationary bias
More equality	Uneven wealth distribution
Lower corporate power	Corporate avarice
Lower unemployment	

Figure 2: Democracy VS Capitalism

McCully makes the case that the world started to embrace more capitalist led ideals in the 80s - the Reagan/Thatcher era. The electorate broadly supported a move away from the power of mass labour and unions. This period of dominant capitalism has continued - the world enjoyed stability with wealth spreading to more citizens as globalisation increased trade. This period also brought low inflation and relatively low unemployment. Prosperous times indeed. However, over the last few years, inequalities have become uncomfortably obvious and many stories of a fight back against discrimination, of all types, is being played through the mainstream media. We are in a world where extreme capitalism is no longer accepted by the populations of the world.

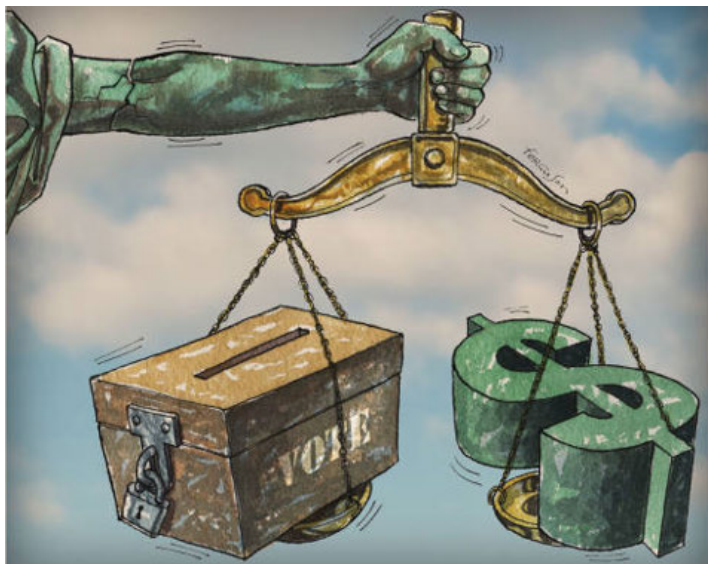


On a geopolitical front, there is a case to be made that Asia, is now considered China's own backyard. China has certainly become more assertive with its neighbours. A lot of this is not necessarily welcome, but many Asian countries are not able to resist the numerous pressures brought to bear. The US has also allowed some of its Asian alliances to weaken. A global commercial point of view is that Asia is the place to be in the next few decades because a huge percentage of the worlds developing middle classes (that will present the biggest economic growth opportunities) are living in Asia. These considerations are currently playing out very much in China's favour, which probably leaves many US CEO's rather perplexed given their president is busy unwinding globalisation.

China tech companies, with their huge platforms, are great enablers in developing services for the poor and middle class populations. These people are generally considered unbankable. These companies are busy building in most countries throughout Asia. It is not so hard to foresee Asian tech companies dominating Asia (as the US tech companies dominate online business in the US).

The US uses its control of the major payment systems (dollar based) to extend its influence by sanctioning countries, companies & individuals. This is particularly difficult for world powers like China and Russia. There are many stories

It is not difficult today to see some of the less attractive attributes of capitalism (unequal wealth distribution, share buy backs without any value considerations, launching IPO's for business that have not generated a dollar in revenue, corporates paying minimal tax, parabolic rise in US tech shares). The US has certainly led the charge, but these activities are becoming more prevalent in other parts the world.



Capitalist values promotes more profitable trade and business – so advocates globalisation. In this context, China has been the enabler for global capitalism as China was a lower cost producer of many items. The frailties of this system have been cruelly exposed - complex global supply chains were built for profitability, not resilience - thus the chaos when the US imposed tariffs on China goods.

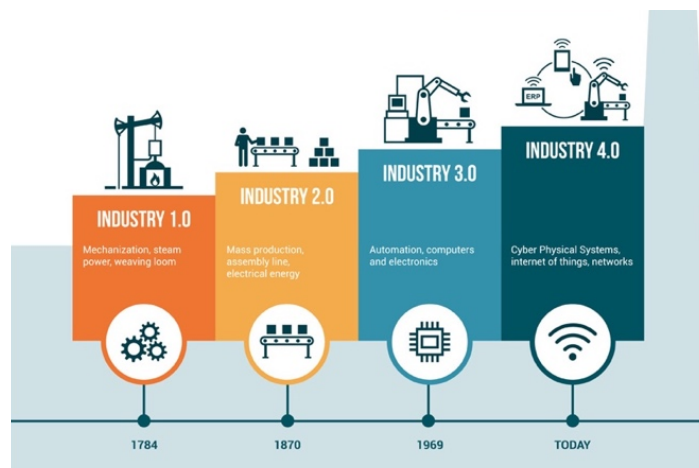
McCully makes the point that the world is now in a transitional period and the pendulum will swing towards a more equal (democratic) society. There are many economists calling the end of globalisation - and while their reasoning may differ, in some ways it feels the 4 decades of dominant capitalism is coming to an end.

### 3. FOURTH INDUSTRIAL REVOLUTION

The third unstoppable force are the many tech companies that are reshaping the world at a breath-taking pace, and the pace only seems to be accelerating. 'Tech' covers an almost unbelievable array of platforms, information, data, communications, transfers, etc. In my youth, many of these capabilities of today were described as science fiction - big data, internet of things, 3D printing, etc. Many new tech breakthroughs are happening here and now! On wikipedia, this third unstoppable force is described as the fourth industrial revolution.

Much of the tech dominance can be attributed to the smart way these companies use the vast amounts of data that they collect about anyone (and anything) they interact with. The world is starting to wake up to the value of the personal data that is collected about themselves. Governments in the East and West have sat back while these tech companies have flourished and become powerful in their own right. The governments turn a blind eye to tech companies aggressive acquisitions, their low tax rates or them unfairly undermining companies that threaten their interests. The authorities relaxed approach is not a surprise given that these tech companies have shared their vast data banks (surreptitiously) with governments.

As an investment, the US techs current valuations are in nosebleed territory. There is little doubt that their capability to dis-intermediate almost any consumer facing business is very compelling. They generate huge revenue growth along the way. Take a few steps further and consider payments, online accounts and the general movement of money (that has been so far strongly defended by the banks) then these companies could remain serious disruptors for some years to come. They are destined to extend their power and influence in the western world and become even more powerful in the future. I stress the term western world - these US tech companies are dominant in the Americas and Europe, but definitely not in Asia.



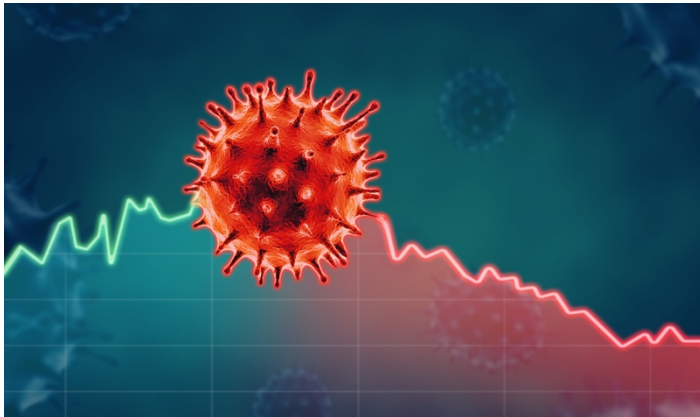
The development of local tech companies in Asia has developed along a different path. Tencent and Alibaba are as interesting as many US tech companies. They have both built huge online 'cultures' that offer a vast array of services - messaging, news, money transfers, videos, payments, games, etc. The growth was relatively easy given the lack of powerful incumbents in many of the spaces they now occupy. Their co-operation with government along their journey has resulted in the broad array of services and the dominance they enjoy today.

There is a massive opportunity for the owners of these platforms in China. They have built a platform in a populous

country and it is relatively easy to extend this platform, or parts of this platform, to other countries in Asia. They are pursuing this strategy.

There are domestic challengers in several Asian countries that are also growing at phenomenal rates. Their shares are not yet listed, but if you can find a way into private early financing rounds, **Gojek** and **Grab** in Indonesia are very interesting. Arete has recently invested in another Asian tech company, **Coupang** - a Korean version of Amazon. The opportunity is huge because these platforms are very well positioned to benefit from the expected massive middle class growth in Asia.

The Asian tech companies are presently better investment ideas than their US counterparts. We believe names like **Tencent**, **Alibaba**, **SEA**, **Kweichow Moutai** could be long term positions in any growth portfolio..... even with their significant gains this year. There are also many companies in Asia that are not listed and have a strong investment case if you can get into their private capital raisings.



## COVID

Covid is influential in the world today - This is not considered fourth force since it is not driven by many people striving and contributing to the outcome. Covid is more like a hurdle that the world needs to overcome. After 6 months since this virus was really recognized, it is still not clear which countries have adopted the better approach to protect their populations. The pandemic has influenced two of the three forces. Covid has certainly accelerated the adoption of tech on many fronts. China is maintaining its strong position and narrative about the initial spread of the virus and the successful short sharp lockdown used to end the outbreak in China.

The investment implications for a post-covid world are uncertain since it is impossible, at this stage, to know what this world will look like. Most forecasts are for a strong economic bounce back next year, but still some way off the highs of end 2019.



## CHANGING WORLD, CHANGING OUTLOOK

An old adage - the only constant in the world is change. As these forces play out, the changes to the world will present a myriad of investment opportunities. By having some insight into the changes that are coming, you should also consider the impact that these changes will have on your life.

A few thoughts from a distance to start ..... The safety of real assets will probably become stronger and buildings are likely to get repriced in the coming year. Like bricks and mortar retailing, the whole retail industry is likely to look entirely different in a few years. The world needs to probably retrench and redesign the global tourist industry.

I do hope this article is the catalyst that makes you rigorously review your life desires and ambitions - your family and close friends, your investments, businesses, assets and wealth - and plan to be in a position to not only survive, but to thrive and hopefully gain from the changing time.

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