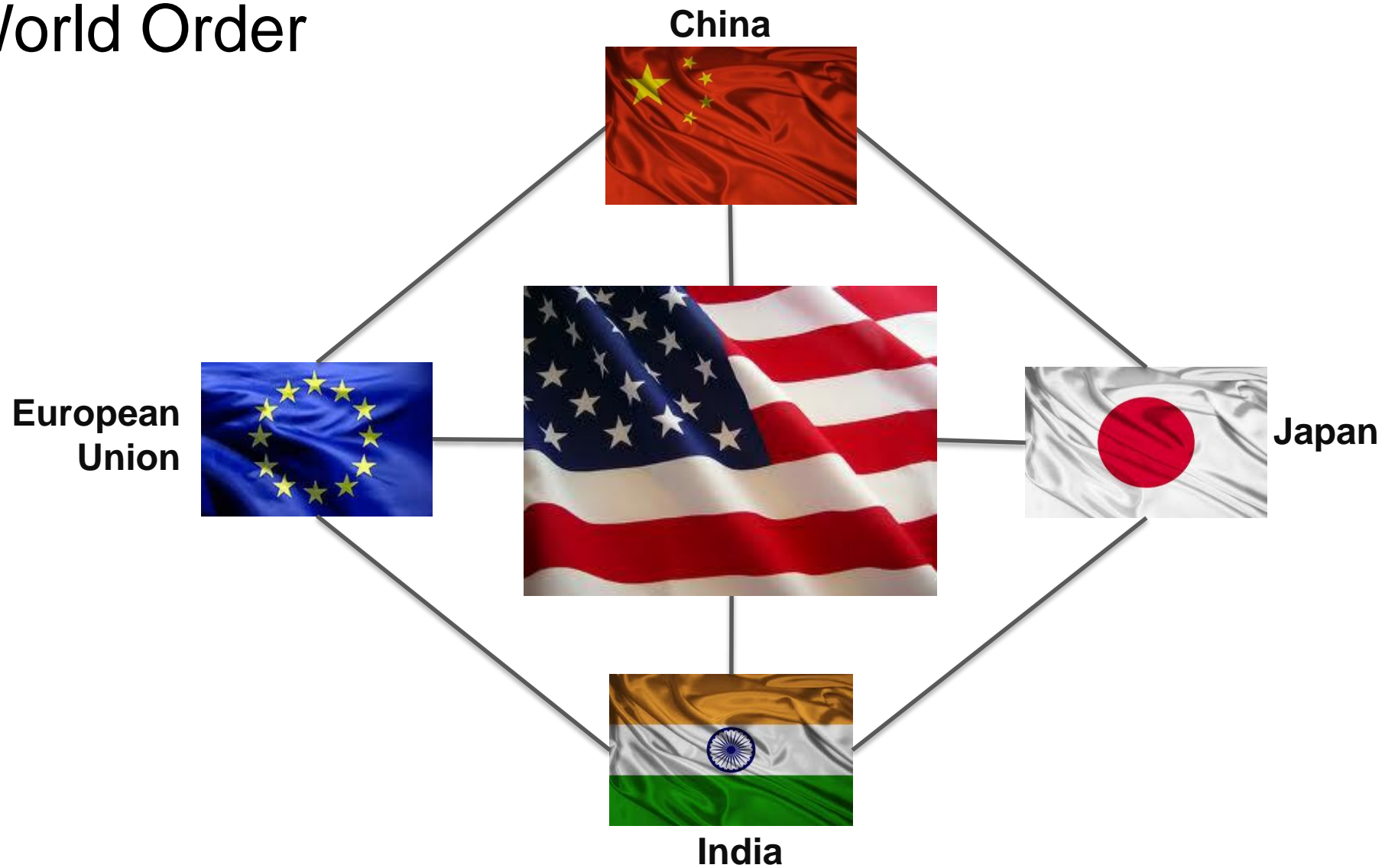


Emerging Markets: Changing world order and the revolutions within

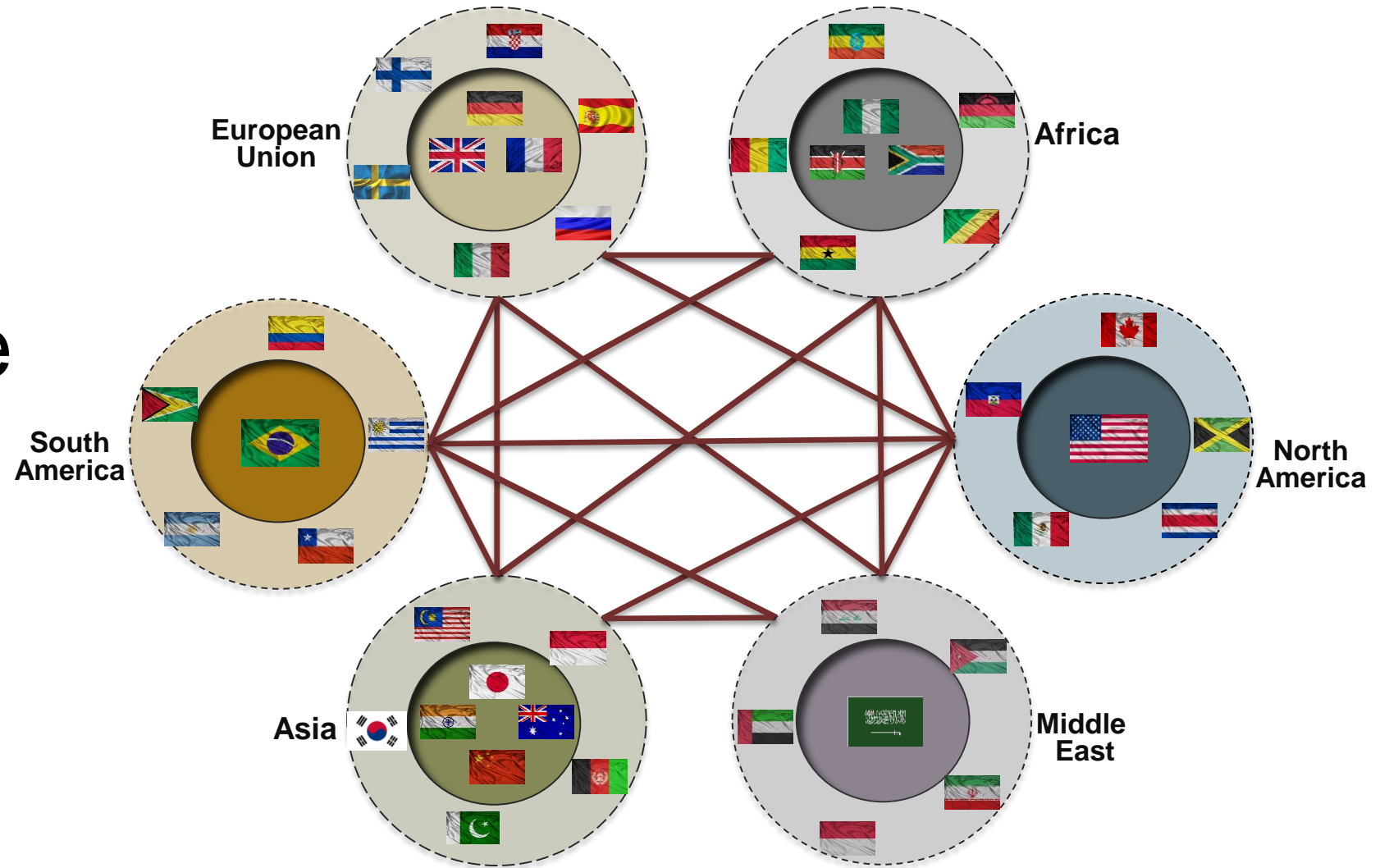
Dr. Parag Khanna
Sanlam | Johannesburg | 29 July 2015



The Old World Order



The new geopolitical marketplace



Growth markets still global drivers

China: No Problem too Big?

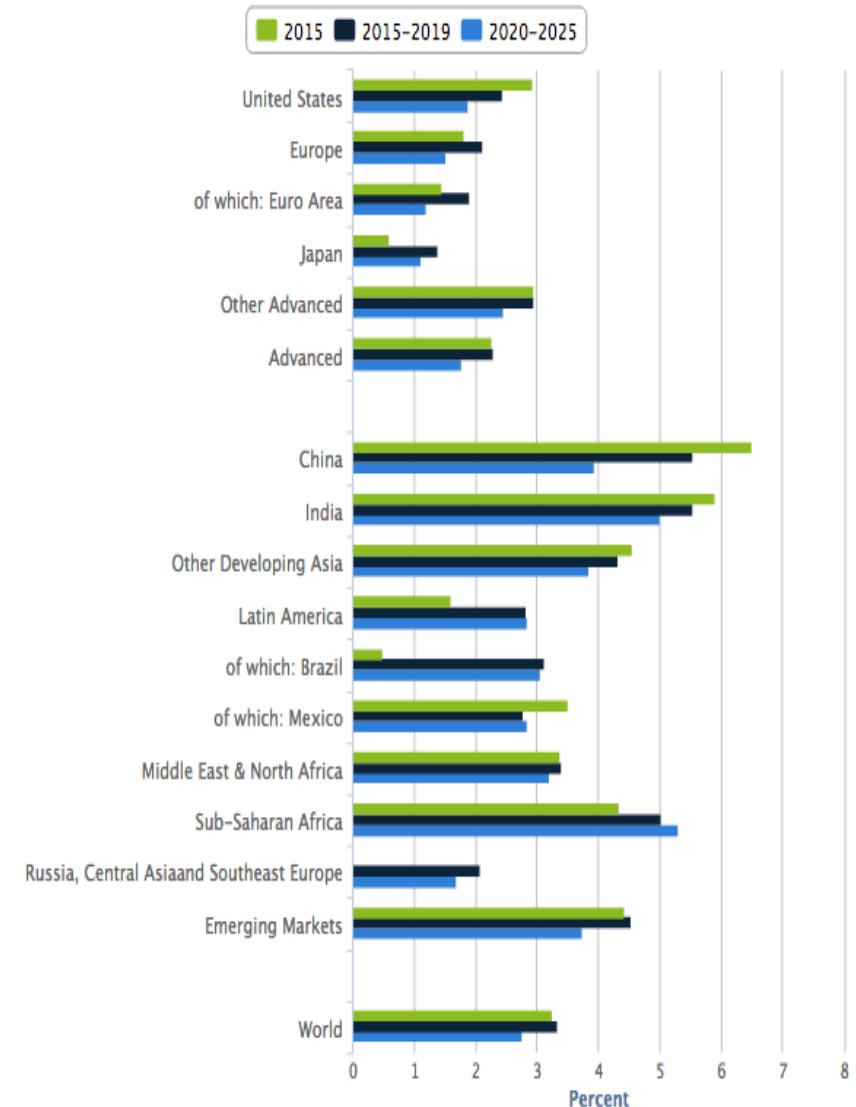
- 7% growth on \$18 trillion GDP
- Current account surplus ~\$450 billion
- PBOC has \$4 trillion of levers: Capitalizing banks and cutting rates
- Reducing excess capacity but not consumption
- E-commerce surging (400% per annum), also tech, finance/insurance, luxury goods

India: Lift-off Phase

- Inflation under control
- Reduced current account deficit
- \$15 bn new capital inflow (2015)
- \$137bn in rail spending
- 100 new cities

Lat-Am ex-Brazil

- Mexico: Robust growth in manufacturing and construction; 100-year Euro-bond
- Pacific Alliance poised to reap TPP gains



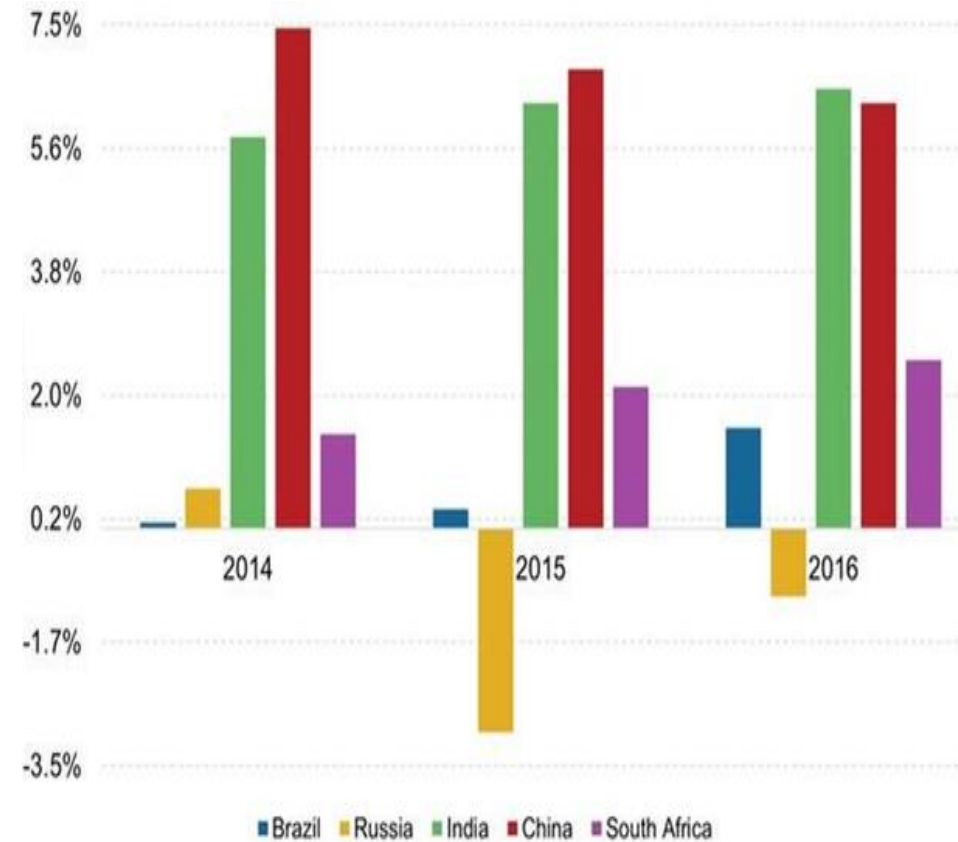
Breaking down the BRICS

Brazil: Falling Behind

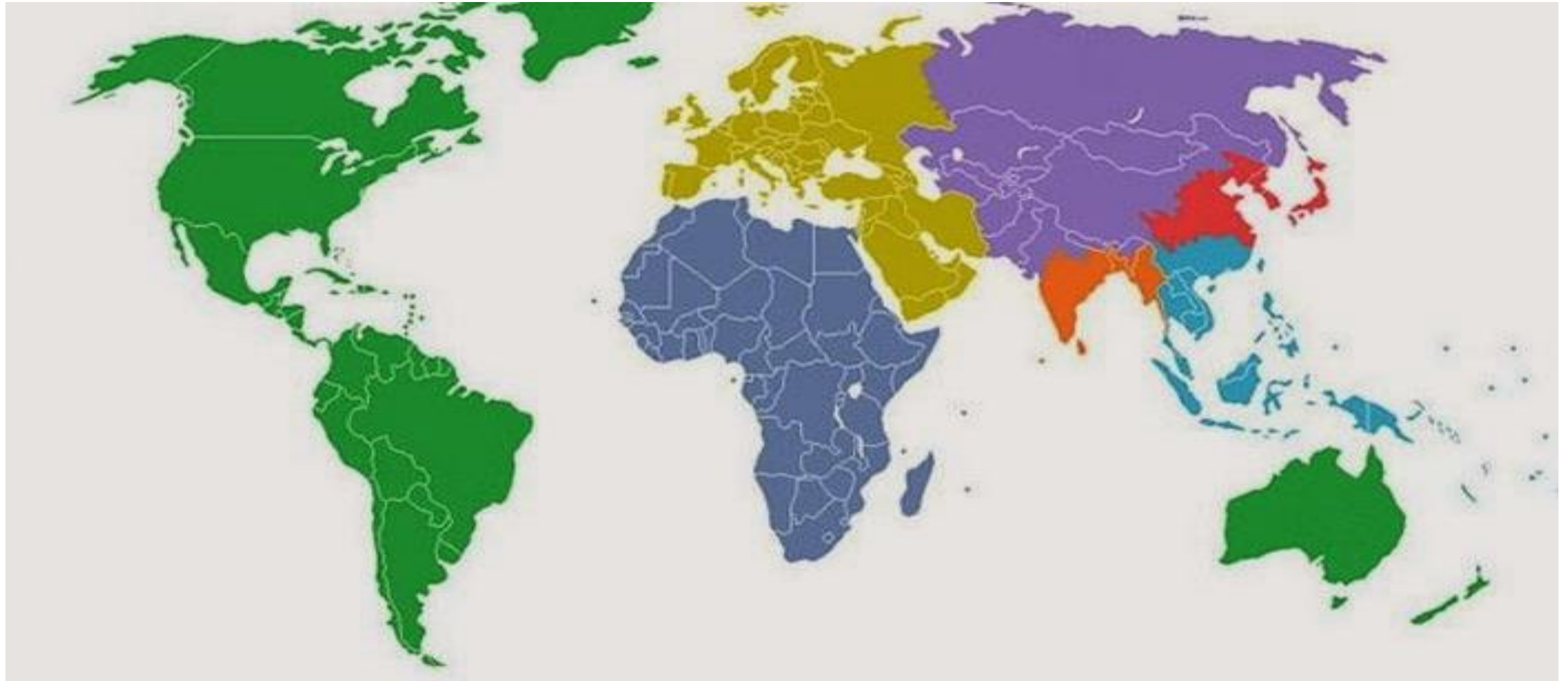
- Commodities collapse
- Looming recession
- Rising unemployment
- Government corruption
- Corporate scandals
- Weak counter-cyclical investment
- Public debt > \$200 billion

Russia: Seeking a Savior

- Deep recession
- Western sanctions biting leading state-owned and private companies
- Crude-oil down; Europe diversifies gas
- S&P downgrades debt to junk status
- Selling out to China?



1B Americas + 2B EMEA < 4B Asia-Pacific

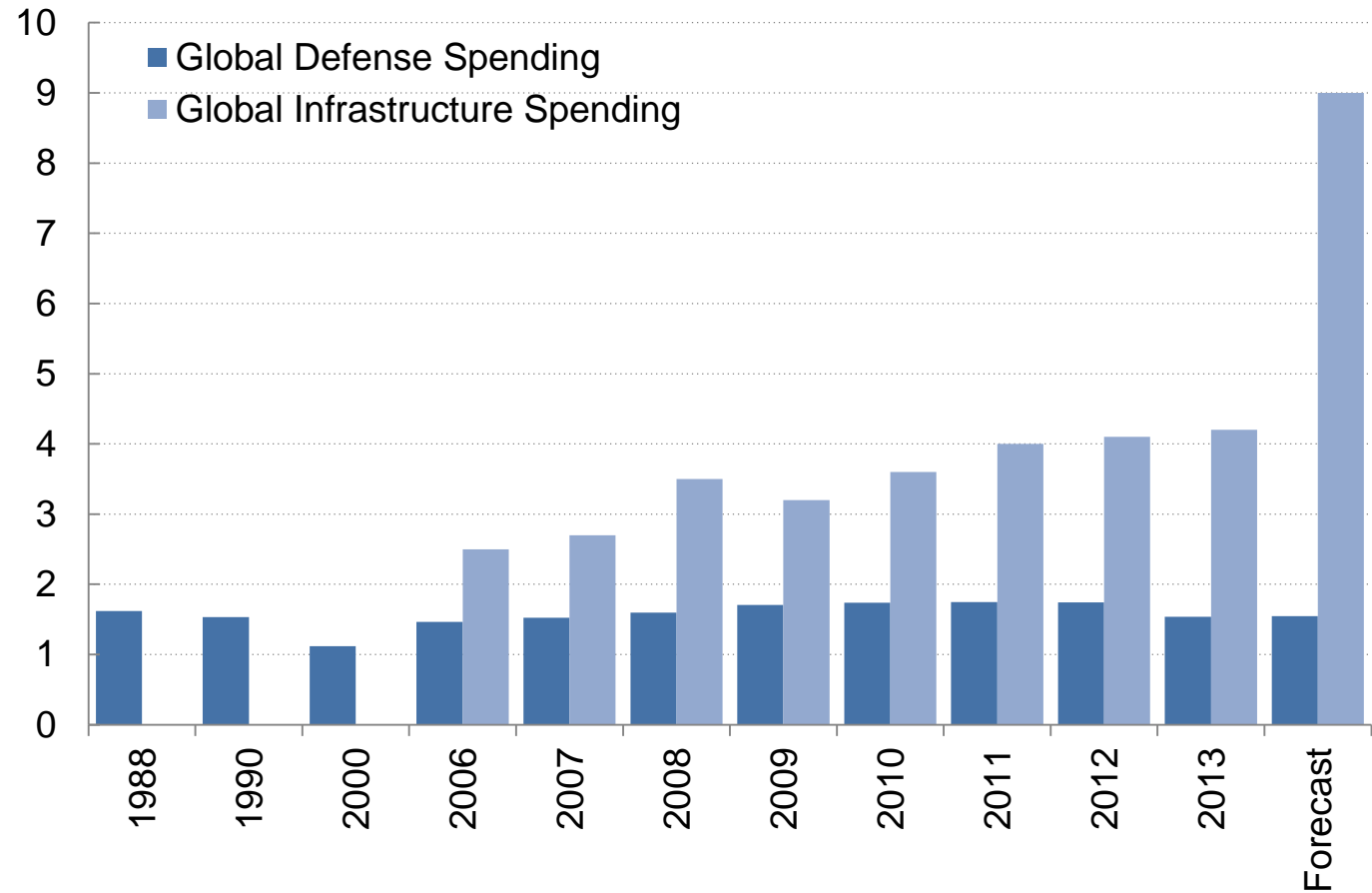


The Asian Center of Gravity



Connectivity: The Asset Class of the 21st Century

- Unprecedented investment in GFCF
- Best long-term correlation to sustained growth
- Components: Transport, energy, water, utilities, telecoms, etc.
- Post-colonial crisis
- Foundation for digital economy and e-commerce

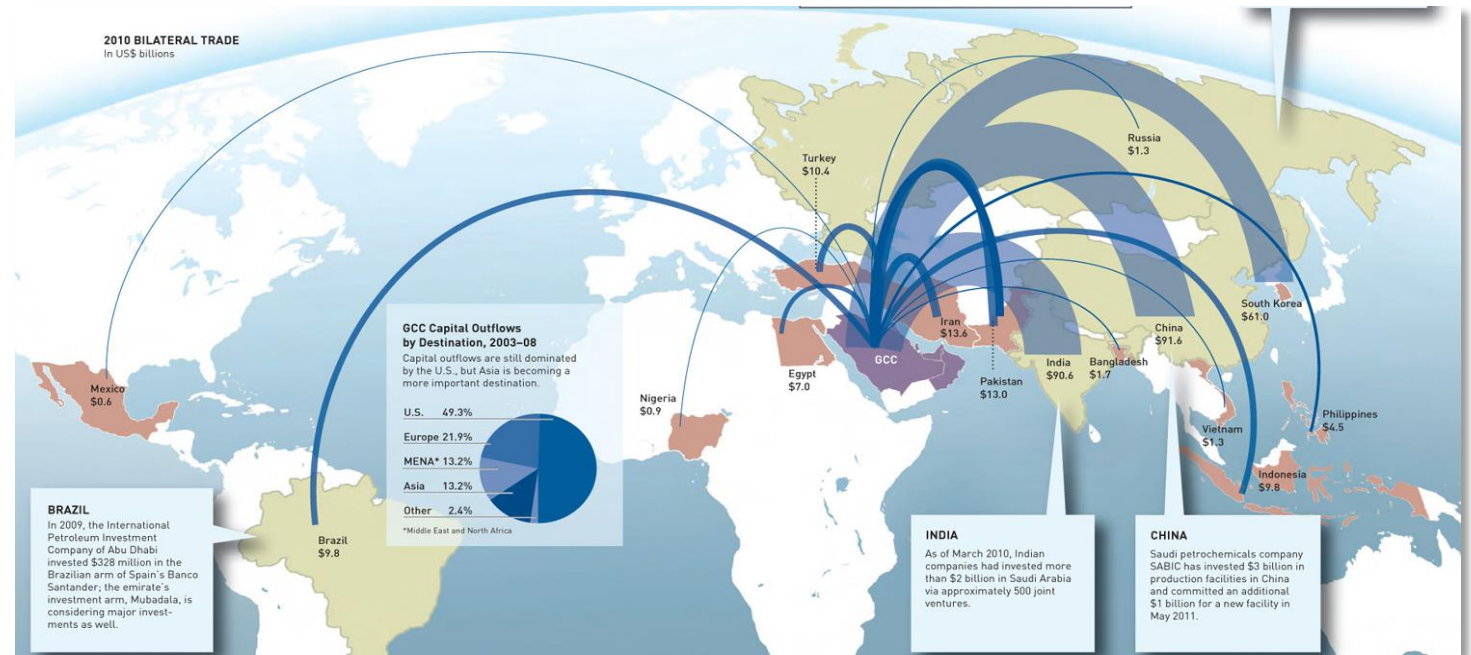


Asia's New Iron "Silk Roads"



Beyond the BRICS, a Post-Western World?

- The next supercycle:
Structurally low commodities prices driving consumption of cars, cement, steel, etc. around Indian Ocean rim
- CHIMEA/New Maritime Silk Road: China trade/FDI with Africa / GCC > US (but < EU)
- Surging cross-EM trade/FDI patterns: Asia outbound FDI up to \$200 billion by 2020
- New post-Western institutions propelled by stronger RMB: BRICS Bank, AIIB



Dubai-China Export Relations

By 2020, **China** will be the biggest export market for the GCC

Source: The Economist Intelligent Unit



By 2020, China will be the biggest export market for the GCC, at around

\$160bn

Chinese imports to the GCC are expected to double in value by 2020, to about

\$135bn

8%

The GCC comprises 8% of China's worldwide contract wins between 2005 and 2014

x3

GCC export growth to China **tripled** since 2001 to reach 12% in 2013

The view from Dubai

Source: Falcon and Associates



China-Dubai trade has reached

\$36.5 billion in 2013

On average, Chinese nationals represent **29%** of the **Burj Al Arab's** annual guest list

Emirates Airline alone provides 35 flights per week to China's eastern hub cities

275,000

Chinese visitors in 2013 (up 11% from 2012)



1.3m passengers carried on **Emirates Airline's** China flights in 2013/14



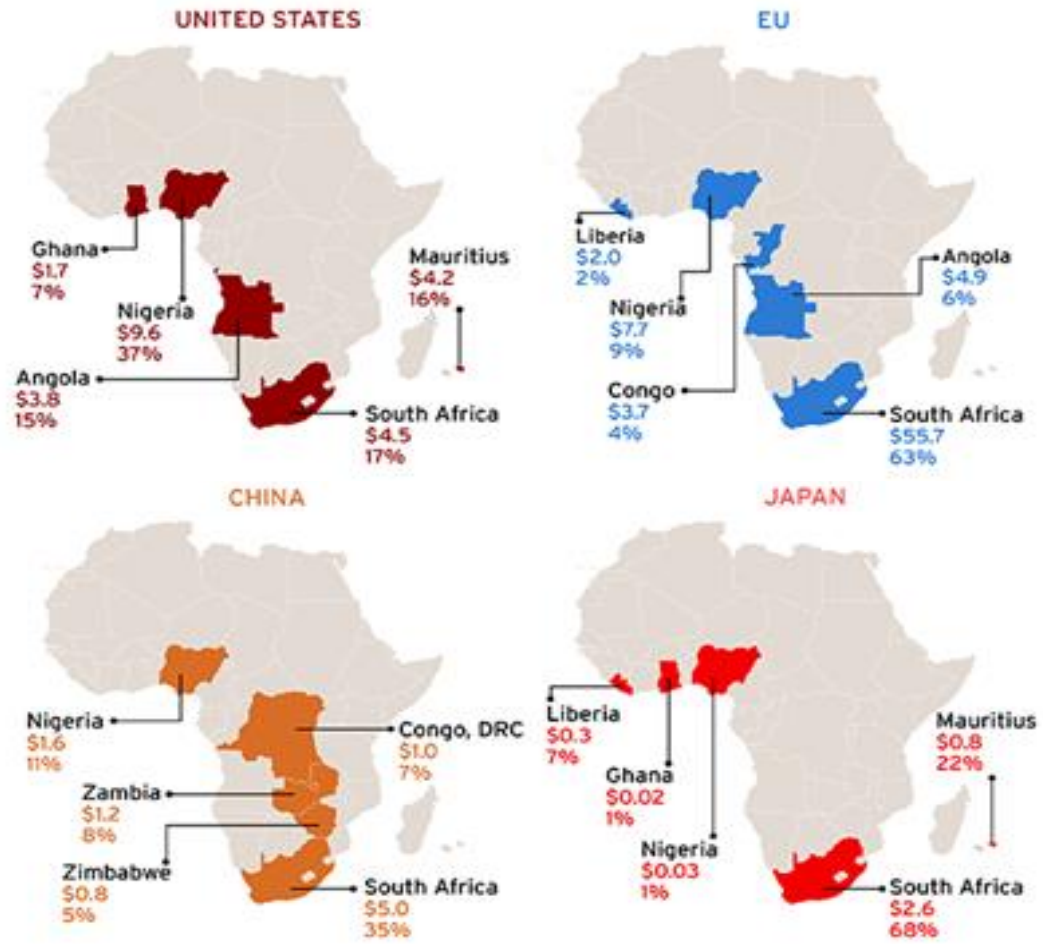
In 2013, traffic from China generated **12%** of sales at Dubai Duty Free outlets

200,000+ Chinese expatriates living in Dubai representing **10%** of its residents

There are around **3,000** Chinese companies in Dubai

Up from just **18** in 2005

Top 5 Recipients of Foreign Direct Investment



\$ VOLUME (IN \$US BILLION)

% FDI (OF TOTAL FDI TO \$SA)

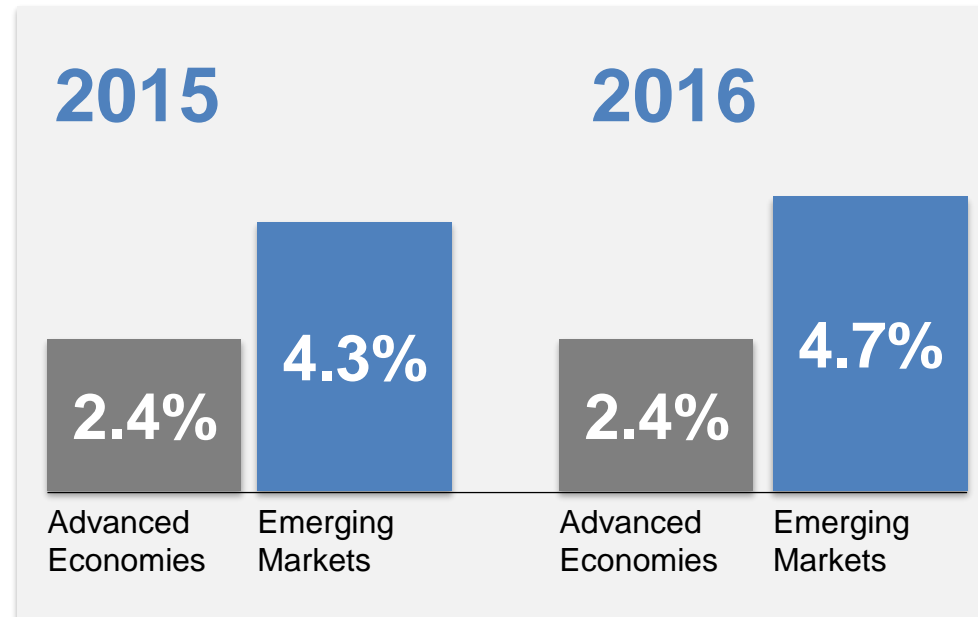
(TOTALS from 2001-2012)

Synchronized Growth ... or the Next Crisis?

Recovery: Real but Unstable

Can the “new normal” of policy-driven growth be sustained?

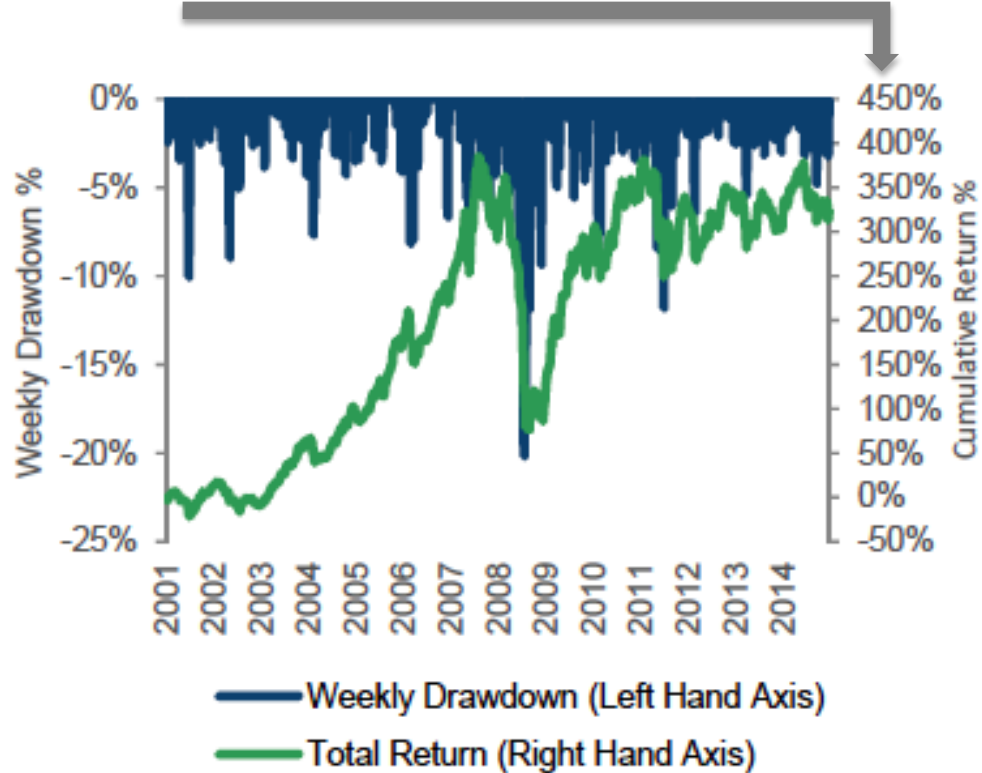
- “Big Four” QEs: US (patience without guidance), EU (bond-buying underway), Japan (Abenomics), China (bank lending binge)
- “Japanification of the world”: Debt/GDP > 200% (Big Four now largest holders of own debt)
- Equities strong, but otherwise anemic growth and deflationary risk



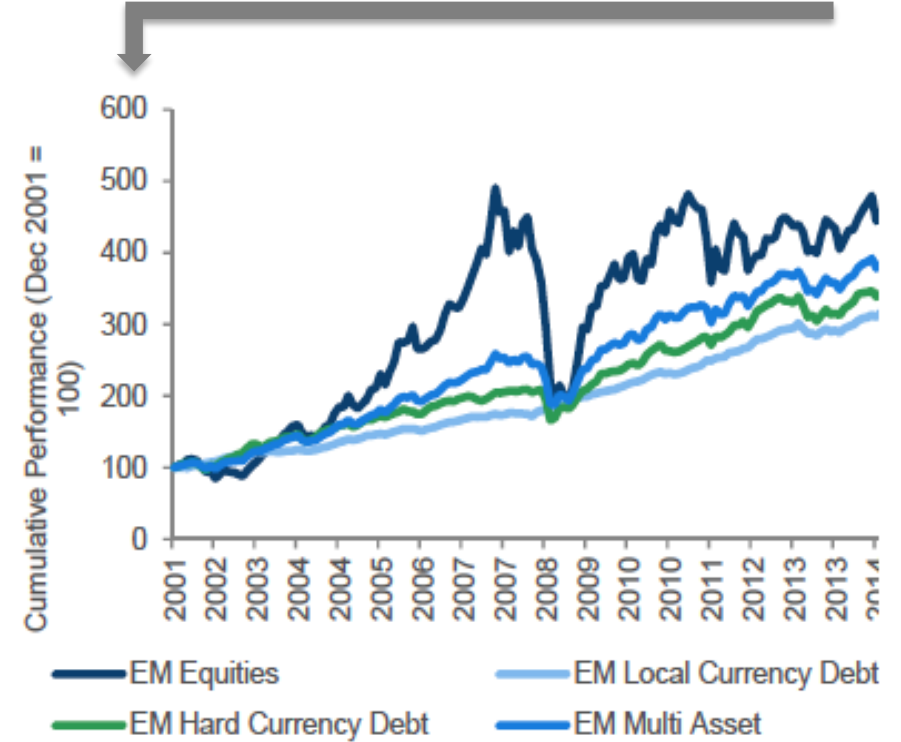
Devaluations + carry trade + interest rate divergence + hot money = “volatile volatility”

- EM assets doubled since 2008 (public and private debt)
- Taper tantrum: “Fragile 5” (or 8) esp. Lat-Am, EE, Turkey, Indonesia exposed to high USD bank debt amidst currencies sliding 20%
- High deficits, weak demand, monetary tightening → banking crisis

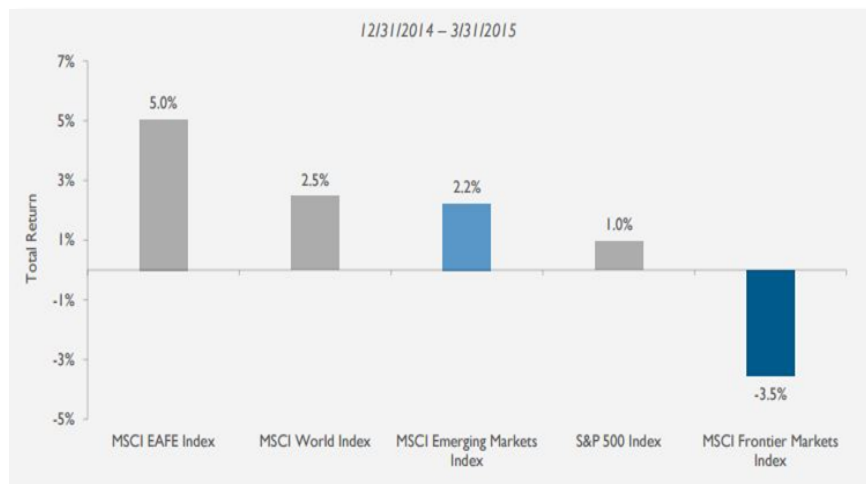
Net drawdowns from EM funds less than prior lows while returns higher



Relatively strong performance of EM multi-asset funds

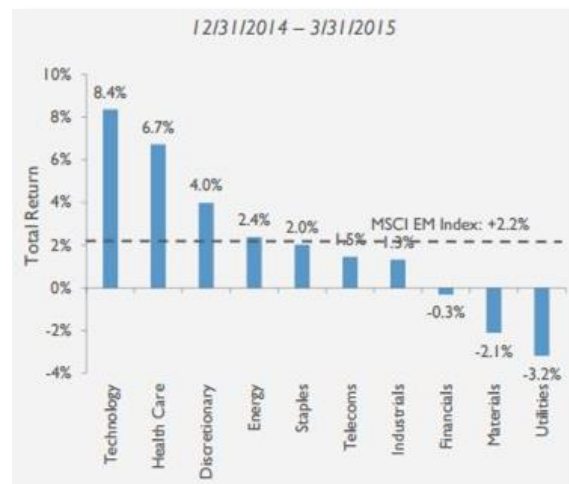


MSCI: Weak Performance but High Potential



Headwinds

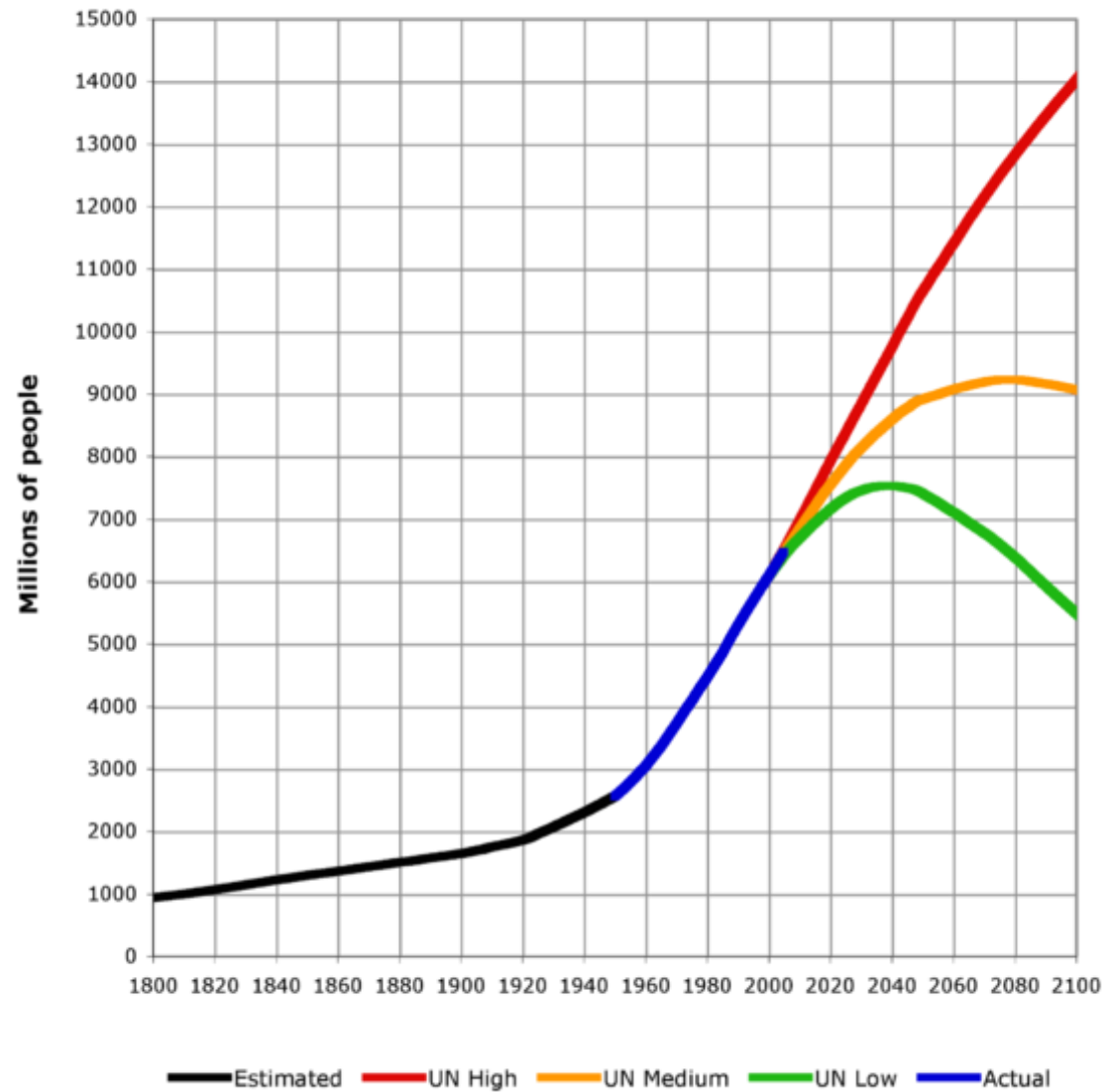
- EMs down but steady at 2.2%
- Exposed: Weak balance sheets, high debt, poor cash flow, bad management, etc.
- Stronger USD challenges financing
- Costs/wages rising faster than growth
- Overall EM corporate debt > 75% of GDP
- MNCs with EM exposure safer



Tailwinds

- Sectors with stronger fundamentals: Technology, healthcare, consumer goods
- M&A expansion across EMs, esp. Asia to Africa and LatAm
- Corporate credit priorities: productivity, capital-intensive exports, construction, power/utilities, retail
- Higher local currency liquidity for long-term priorities: housing, lending/mortgages
- DMs seeking yield: Western plus EM IIs and AMs increasing EM allocations

Malthusian Over-Population...?





2014

50% Urban | **23** megacities (population of 10 million+)

600 urban centers = 60 % of GDP

2025

60% Urban | **37** megacities

100 of top 600 cities in China



Urban Archipelagos: Countries Unto Themselves



Urban/Domestic Inequality: The Next Backlash?



Triumph of Transparency (I): Governments

Public diplomacy → Diplomacy of the Deed

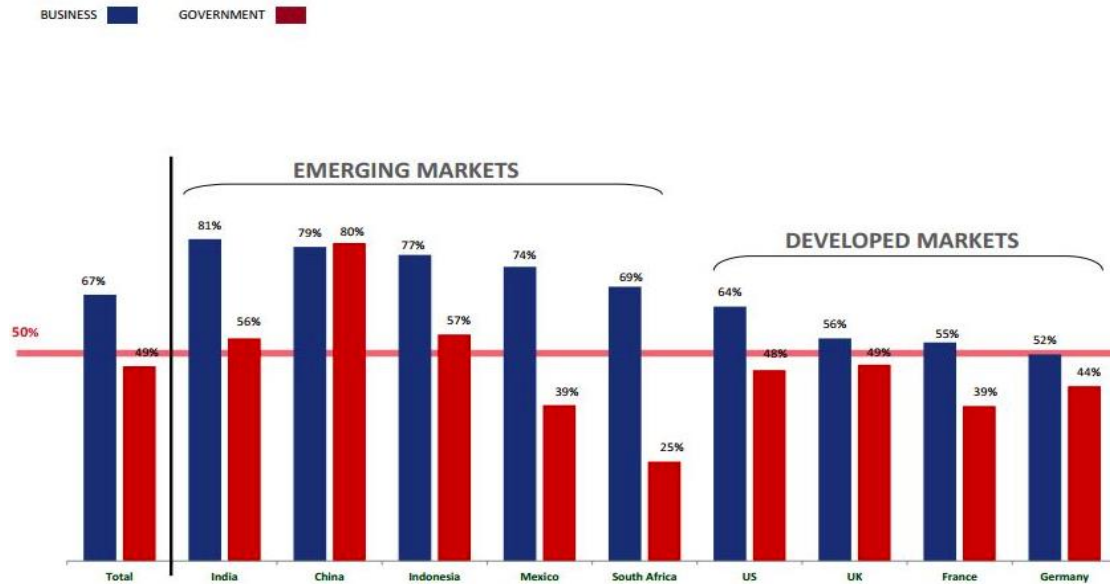
Democracy → Devolution

Triumph of Transparency (II): Companies

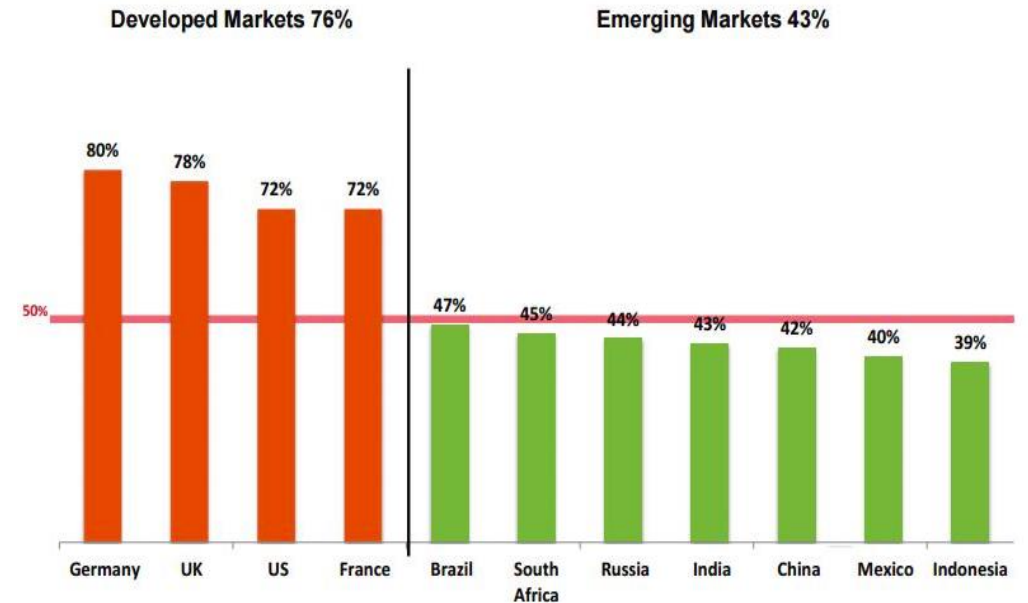
CSR → Supply chain governance

Marketing → Content

Western MNCs Must Build Global Trust



- Worldwide rebound in trust in business over government
- EM citizens more trusting of both business and government



- MNCs from developed countries enjoy far higher trust worldwide
- EM citizens trust own firms and MNCs – but as markets open trust Western MNCs more

21st Century Medicis: Rol + Peer Values

Disrupting the Wealth Management Model

Millennial mindset

- Educated, independent, entrepreneurial, socially conscious, motivated
- 40% of HNW focused on growth

A competitive buyer's market

- Single firm, independent advisors/asset managers, multi-family
- Automated investment platforms (e.g. Wealthfront)
- Vetted digital retail opportunities (e.g. P2P lending clubs)

“The CRM is dead! Long live the CRM!”

Offer scale and talent

- Cross-EM coverage and reliable lending
- From traditional assets to alternatives
- Tech: Algorithmic portfolio modeling

Personalized and trusted opportunities

- Multi-jurisdictional offshore arbitrage
- Investor tours + investment clubs/pools
- Private bond issuance and matchmaking
- Succession planning
- Network expansion (VCs, PE) to “get in early”



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Thank you

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Summit

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Independent Investment Intelligence