

Who is the largest, most successful emerging market? – Part II

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In [part I](#) we identified the 7 crucial drivers: these being:

- Demographic momentum across a variety of factors
- Knowledge and technology superiority
- Business 'friendly' regime
- Strong corporate governance
- Ability to adapt and transition
- Superior capital access
- Significant Megatrend exposures



In part 1 we looked at demographics and gaining an appreciation for the next 4 drivers is crucial to understanding why we have this nation in pole position. We reveal who in Part III. You may recall from Part I that Insync views all markets now as *emerging*. A challenging thought for very good reasons! There is a profound shift occurring in how value is being created in industries and companies globally.

It's driven by the emergence of the Fourth Industrial Revolution. A century of how businesses operated and behaved financially is, as a consequence, also being altered. Some nations are better positioned for this than others. This creates a decoupling of 'sameness' across nations economically and thus how traditional measures of value apply. Not all changes will be 'insync', nor in sequence. Thus, great care needs to be exercised. To deny that this shift is underway however is to deny reality on the ground. **Here are the next 4 of the 7 essential characteristics.**

2. Knowledge and technology-intensive [KTI] industry: 38% of its GDP emanates from KTI industries. You have to be a leader in KTI in the Fourth Industrial Revolution. This nation has the largest share of global research and development (R&D), generating the largest share of R&D-intensive industry output globally. It awards the largest number of Science & Engineering (S&E) doctoral degrees and accounts for significant shares of S&E research articles and citations globally.

S&E education and R&D investments lead to a highly skilled workforce and new S&E knowledge in the form of peer-reviewed articles, patents, and intangibles. Over time these investments also contribute to economic activity in the form of products, services and processes. Industries that

intensely embody new knowledge and technological advances in their production (reflected by their R&D expenditures and utilization of S&E in the delivery of their services), **account for nearly one-third (31%) of global economic output.**

3. Business Friendly: According to the World Bank, this nation possesses the most business-friendly regulatory regime compared to other major economies. This nation thrives on commerce and is at its centre of purpose.

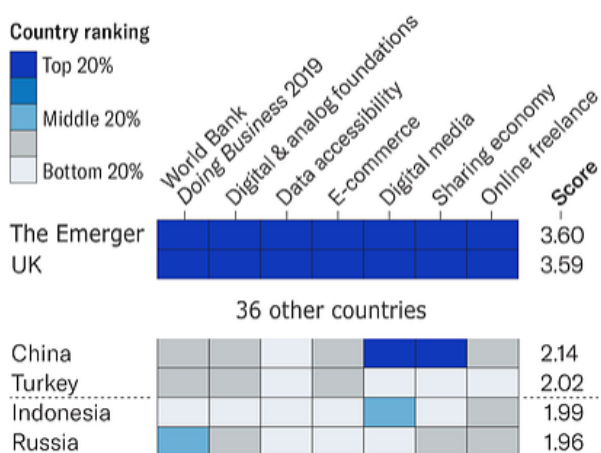
Just as important (yet missing from the World Bank rankings) is the ease or difficulty of doing digital business. Harvard Business Review's analysed the ease of doing digital business in 42 countries. These countries were selected as they constitute the most significant markets for digital businesses worldwide and offer a consistent set of data across a wide range of indicators.

The strongest performers are this nation and the UK. Their strengths encompass market sophistication, supply and accessibility of data, and institutional boosters for the digital economy.

"It should therefore be no surprise that, consistent with Insync's focus on highly profitable and innovative businesses benefiting from global megatrends, that the fund's largest exposures are to companies domiciled in these two countries."

Ease of Doing Digital Business

When 42 countries are compared using seven key measures, our country in question and the UK come out on top, while Russia and Indonesia rank last.



Source: Digital Planet research initiative, The Fletcher School at Tufts University

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China stands out as an anomaly and a contradiction sitting towards to bottom end of the table: while it was the fastest-moving digital economy as measured by the momentum score of our Digital Evolution Index, its EDDB performance is weak. The reason is that even though it has established a highly favourable environment for the dominant domestic digital players, China is a challenging market for new and international business builders because of multiple government restrictions. The "ease" evaluated here takes the perspective of a potential digital business builder located anywhere. In addition to government barriers to entry, China's overall environment is a difficult one for a business that plans to establish itself in the market because of a host of restrictive

digital economy laws and policies – including data localisation laws and lack of data openness. As

a result, despite the rapidly advancing and highly innovative digital ecosystem within China, its EDDB performance is markedly weaker. China is not in prime position.

4. Adaptability: This nation has both cultural and legal traits embedded in its DNA that enable it to falter, fail, learn, renew or improve and then move forward. In most nations, failure has a high stigmatism attached both personally and in business. In this nation - not so much. People, communities' even entire cities are regularly 'allowed' to fail in this nation. Failing fast and moving on clears the decks for future prosperity. This is essential for adaptability. Compare this cultural mindset of its people, industry and government to Japan for example. 30 years on and still its equity markets have not moved forward. This nation's legal framework also supports its cultural mindset of adaptability.

5. Corporate Governance and Capital Allocation: The "cash return" of this nation's stocks, measured by *dividends + buybacks* as a percentage of market cap is the highest among major countries. The gap between buybacks in this country and Europe is huge with European buybacks at a tiny (5%) compared with the this one (25-30%).



Contrary to what most in the market believe; growth investment (capital expenditures, R&D, and cash M&A) has accounted for a larger share of cash spending than shareholder return (buybacks and dividends) every year since at least 1990 in this nation. (ref- Goldman Sachs). CapEx + R&D have also been remarkably stable. Indeed, for the past 30 years, corporate cash spending on CapEx + R&D initiatives have consistently equalled circa 8% of sales. During 2018, its top 450+ firms increased capital expenditure and R&D spending by 13% to \$1.0 trillion, equal to 9% of annual sales (98th percentile since 1990). This is key to its out-performance of all other nations. Traditional measures are not accounting for this difference.

Part III we reveal 'who' and explain how this translates into reality when investing with Insync and its peers globally.

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