

Who is the largest, most successful emerging market? – Part 1

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We believe it's the one with 7 superior long-term drivers working in its favour. 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



Most of all it is a market that is well positioned to capitalise on the **fourth industrial revolution**. This is why we categorise it as an *emerging market*. It will surprise many. This new era we have now entered means all nations are 'emerging', as each adjusts (or fails to adjust) to the new reality. It is this quiet and accelerating revolution that is not only all-pervasive in our lives and communities, but also in its rewriting of many of the traditional valuation and selection criteria used to define what makes a 'good' investment in the future.

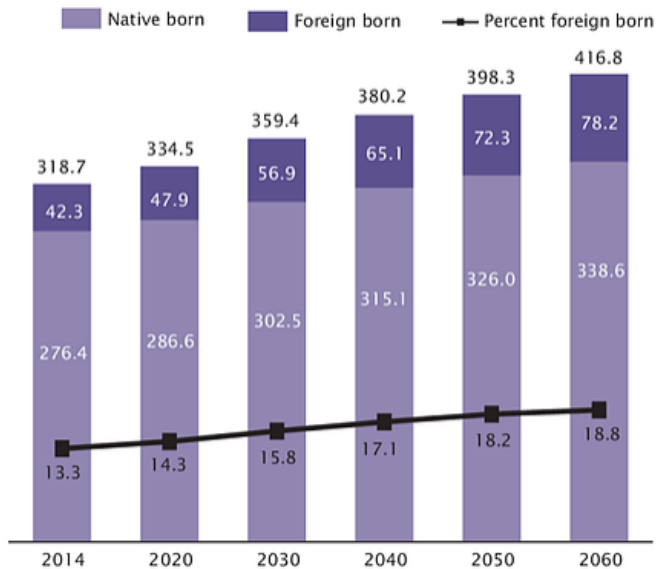
We will reveal its name in Part 3 of this Series. Most don't regard it as an emerging market, and yet its emerging into pole position in our new world of commerce and economic and investment norms.

At Insync we are agnostic to geographic exposures. If one had to focus on geography, then large urban regions (as opposed to political boundaries) make a more useful view. This nation however has great reasons to be looked at in both ways. Our first key driver - Demographic favourability.

Demographics Rule. Ok.

Population by Nativity: 2014 to 2060

(Population in millions)



Japan, Germany and almost all developed nations of size (even China) on most key measures are in big trouble. Falling working age populations, below replacement birth rates and rapidly ageing populations to boot. Political intervention has zero impact.

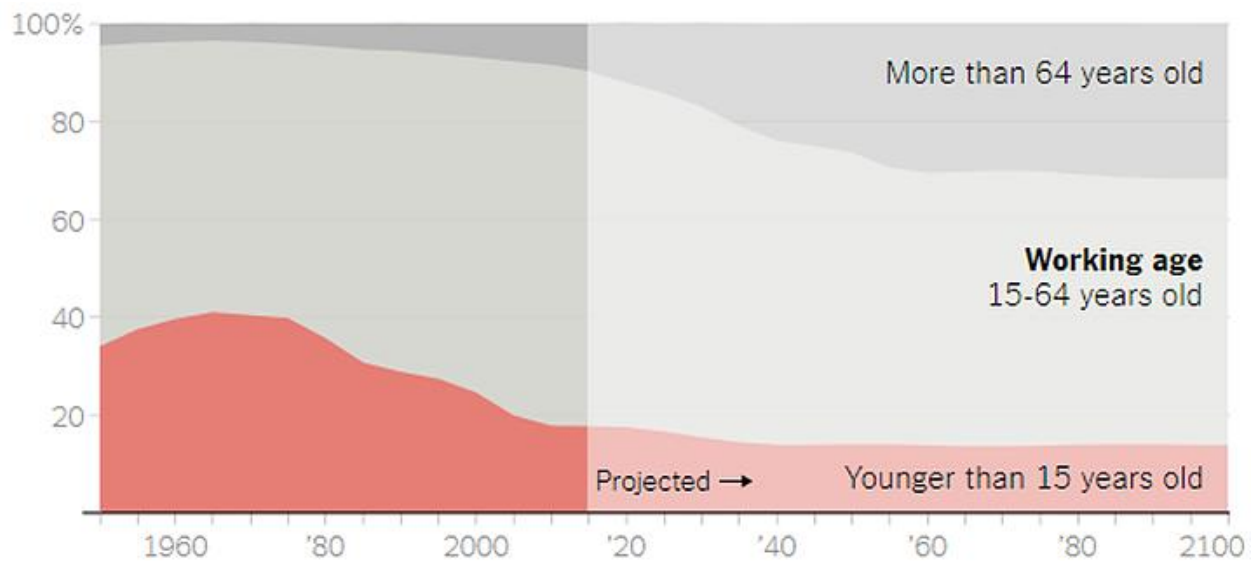
Demographic change influences the underlying structural growth of economies. Productivity growth, living standards, savings rates, consumption, and investment are further key measures it has had a big hand in shaping. It influences long-run unemployment rates, equilibrium interest rates, housing market trends, and the demand for financial assets. It is also not something that can be easily

changed inside 2 or 3 decades either. If it's running for you as a tailwind, not only is it a massive uncommon benefit but it is almost impossible for others to catch up.

This leading emerging market's most obvious demographic advantage is its size. It is in the world's top 7 most populous countries, and it is likely to remain so until 2040. No developed country even comes close—the second and third largest OECD nations, Japan and Germany, have populations that are only a fraction of this nation. Germany for instance needs over 1 million immigrants of working age each year just to maintain its workforce (taxpayer) size. Excluding sub-Saharan Africa, our Number 1 ranked emerging nation is the only one where the rate of population growth is still increasing and its workforce relatively steady. It's on track to grow slightly faster than the world population up to 2040.

But what about China? At first glance it is an impressive rival and nation. With almost 1.4 billion people, the last 4 decades have witnessed the most rapid and sustained burst of economic growth in human history. Its markets however are another story and so it becomes crucial as to how you access this growth and from where. With decades of extremely low fertility and no likelihood of mass immigration, China will see its population peak by 2027.

It's worth remembering that the world passed 'Peak Child' over 8 years ago. Never will we see more children than there was back then, China too. It now faces a grave strategic threat from within; its working-age population has been steadily shrinking over the past five years and is set to decrease by at least 100 million by 2040. It is particularly acute with those under 30 whose ranks are expected to fall by over 30%. A double negative applies; losing workers and adding to retirees that have no savings in place to sustain a 20+ year life expectancy.



Source: United Nations Population Division, 2019

Without this tailwind of demographic advantage, it is hard to prosper well for any length of time. For a nation facing into this as a headwind, they will have a very powerful force thwarting their efforts and watering down their success. Part 2 reveals the next 4 drivers for emerging success.

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