



# AROUND THE WORLD IN 8 PAGES...

1st QUARTER 2018

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## ABOUT OUR '8 PAGES' SERIES:

The Librarium Associates monthly 'Around The World In 8 Pages..' series is a quarterly publication created by our team focused on geopolitical and macro economic trends and developments around the World during the last 3 months. As long term thinkers we draw on the lessons of history as a guide to understanding the present and charting the probable paths ahead. There are no crystal balls but in the words of A.W. Pinero: **"The future is only the past again, entered through another gate."** It's our mission to glean valuable insights from history and apply them as a foundation for understanding the journey ahead.

We are constantly engaged in active horizon scanning while adhering to our belief that students of the lessons of history and permanent features such as geographic realities can provide superior insights.

From these broad scenarios we work to identify investable trends and specific opportunities. We find that such a broad approach provides an 'early alarm' system for risk management and an indicator of attractive price/value situations across asset classes.

The intention of our research and the basic premise of this publication is to present rational perspectives based upon a diligent analysis of historical data. Through organizing the data logically, information is created. Through understanding and developing perspectives on the information, knowledge is generated. With knowledge, one can then start to make informed decisions.

The most practical way to imagine the future is to question the expected, this is best done making use of what we call 'critical thinking' – Critical thinking is the careful, deliberate determination of whether one should accept, reject or suspend judgment about a claim and the degree of confidence with which one accepts or rejects it. Critical thinking employs not only logic but a broad intellectual criteria such as the one outlined above. Critical thinking requires extensive experience in identifying the extent of one's own ignorance in a wide variety of subjects which is often captured in the following sentence: I thought I knew, but I merely believed.

As J.F. Kennedy put it: **"Belief in myths allows the comfort of opinion without the discomfort of thought."** Our aim is always to avoid this trap of the mind, when one attempts to look into the future one is better off exhibiting a more intellectually humble approach and challenge one's beliefs and opinions by asking the question: What if we took the opposite view? This leads to a more balanced set of insights in our view.

The insights and opinions offered in this document are meant as a summary of events and our views – not a conclusive or exhaustive overview or for that matter a specific investment recommendation.

We hope it will offer some food for thought and that it can form the basis of conversations between our clients, interested parties and ourselves.

Sincerely yours,

Mr. S.H. Sorensen  
Senior Associate



# PRE-DEPARTURE BRIEFING:

Napoleon stated that; **"The power of all nations are inherent in their geography."** Combined with slow moving and relatively 'solid' data such as demographic trends, geography forms the foundation for our approach to understanding the world we inhabit. Then you can apply a lens of historical context and an understanding of human and group psychology. With these tools one can distil broad insights on national and global trends and the probable paths forward.

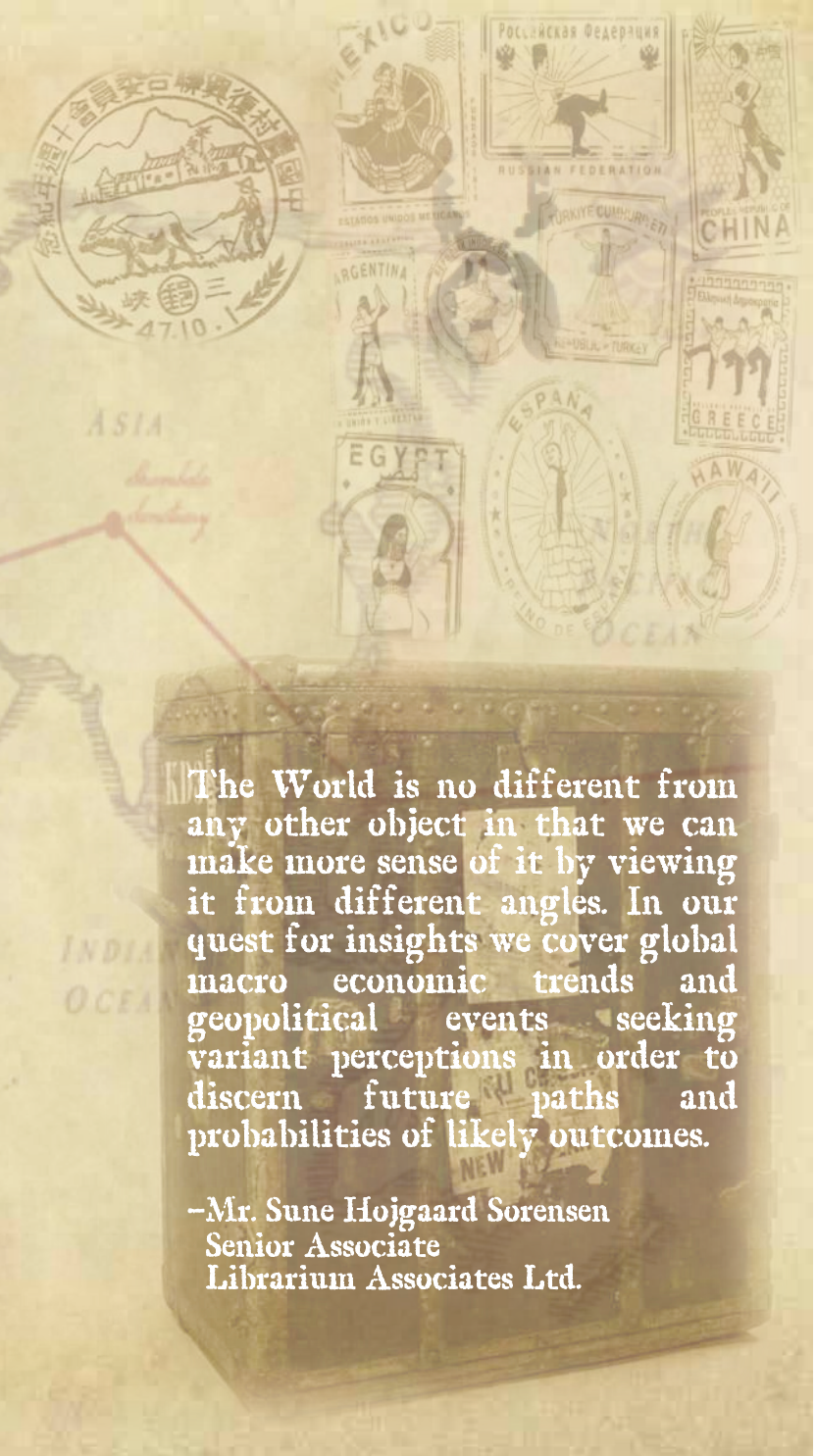
In our opinion too much is made of traditional data, GDP % growth per quarter etc. are simply the short term effects of these underlying forces and should not be considered as the foundation for understanding but merely as a limited and 'noisy' symptom. We look for long-term patterns and potential breaks from the expected linear paths of most observers. As Niccolò Machiavelli puts it in 'The Prince'; **"One change always leaves the toothing for another."**

On our whirlwind tour Around the World in 8 Pages we will not offer traditional broad bland descriptions of quarter over quarter economic data but we will offer variant perceptions on the World's key regions as well as individual nations. We will delve into specific trends or events that caught our eye as significant during the last quarter.

As always we hope to inspire our readers to explore the World further by themselves, to ask questions and let people find the answers, to awake a sense of curiosity and a quest for further understanding. We welcome your observations and feedback and hope to meet up with you for a cup of coffee or a glass of wine in the future and mull it all over together. It has been our experience that real learning resides at the intersection of differing informed opinions expressed respectfully between learners.

Let's begin the voyage together...

**"Not all who wander are lost." – Tolkien**



The World is no different from any other object in that we can make more sense of it by viewing it from different angles. In our quest for insights we cover global macro economic trends and geopolitical events seeking variant perceptions in order to discern future paths and probabilities of likely outcomes.

–Mr. Sune Hojgaard Sorensen  
Senior Associate  
Librarium Associates Ltd.



## AMERICAN PERSPECTIVES...

### Trade wars?

At the time of writing the US administration has engaged in an aggressive and noisy unilateral tilt at the world to right what it sees as unfair trade practices. As it so far is more noise than substance we can only ponder the likely motivations and potential outcomes.

It could be more like an incoherent skirmish akin to an old drunk down the pub who has been having a loud argument with himself for some time getting up and taking a wild swing at someone random while shouting something about foreigners and knocking over his mates pint in the process.

Or It could be a deliberate strategy of bombastically stating your wide ranging intentions for an all-out attack, without much actual details. But enough specifics to let the media take the bait and run with it and project all kinds of worst case scenarios, which in turn makes the counterparty feel the heat even before actual negotiations take place. All the tiger's roaring is essentially just a tool for achieving a better bargaining position.

Or It could be 'all about the base' with some bare-knuckle political theatre taking place...make lots of noise, get tiny self defeating achievements, so you can beat the 'promises made, promises delivered' drum loud enough to distract from the underwhelming realities.

Or It could be a bit of all of the above mixed with plenty of short sighted hyperbole and some sweaty desperation and a drop of 'in need of changing the news cycle' – stir the pot until it comes to a boil.

Only time will tell but trade friction is a natural state of affairs in the international economy and we are now engaged in a spat. It can be argued that this impromptu effort is a counterproductive exercise as the Administration is missing a big opportunity because there's a broad, bipartisan consensus in D.C. that something needs to be done on trade, and there is a rare unanimity amongst the major trading nations that China is going to have to adjust. Other trading nations are willing to confront China through multilateral actions via the WTO.

One could surmise that the Administration's unilateral actions demonstrate tunnel vision with a lack of long term strategic thinking and real world appreciation for how to engage with China for constructive dialogue. Public grandstanding and giving your counterparty little room to maneuver when dealing with a leader in Xi's position would appear to be sub-optimal in the grander scheme of things. We await the specifics, as has become a trademark of this Administration, but the stock market is certainly hoping it's all a game of 'paper tigers' that will quickly be resolved.

## Welcome to TexCalAriNewMexMex...

54.5260° N, 105.2551° W

Mexico has one of the more compelling demographic stories in the Western Hemisphere. It currently has one of the youngest populations in the world with a median age of just 28 versus 38 for the US. Its working-age population is projected to keep growing for the next 30 years and its dependency ratio should keep improving over the next 15 years. Credit penetration is in its infancy and overall household leverage is very low at 19% of disposable income versus 110% for the US. On the other hand inequality remains high, labor productivity needs to improve, corruption and violence are real big issues that needs to be addressed with comprehensive solutions. If not addressed these aspects combined with the current rhetoric north of the border could lead to a rise in populism that could prove detrimental to the needed reforms to the economy.

Structural economic issues are currently being addressed, fiscal reform, passed in 2013, has helped introduce smaller enterprises to the formal economy, thereby reducing tax evasion and increasing tax revenues. Furthermore, this results in these dynamic businesses having access to the benefits of formality such as being eligible for bank loans and giving its workers pensions. All of these are building blocks in a foundation for a developed economy. Reforms in telecommunications has led to significant price reductions and improvement in services which in turn provides the infrastructure for an expansion in the digital economy, media and e-commerce. Low-priced natural gas flowing from the US has reduced operational costs for advanced manufacturing. Its proximity and inter-connectedness to the US through the economy and culture has been a tailwind compared to other emerging markets.

Walls or fences are not really of any consequence, geography and economics dictates a shared reality of the North American continent with a natural logical border being somewhere beyond the Panama Canal. The region along the US/Mexico border is increasingly fluid, some argue that the border is moving north as migration pushes in from Mexico. Others argue that the border is moving south driven by increased investment and integration between the US and Mexico rendering Mexico part of the effective national territory of the US. The combined GDP of the 3 NAFTA nations was around \$22 trillion in 2016 with a population just under half a billion people, the economies are well matched and languages and cultural aspects are aligned making it a natural union.

If you take a closer look at the ten border states that run along the frontier (four in the US and six in Mexico), which combined would be the world's fourth largest economy it becomes even more clear. Together, these ten states have a combined GDP of \$4.6 trillion and a total population of almost 100 million. Many of these citizens currently cross the border on a daily basis to find cheaper goods than in their home countries, or to visit relatives on the other side. Many international companies have invested heavily in establishing operations in Mexico to assemble home appliances and other products for the aerospace and automotive industries. Such investment has provided the northern states with jobs. US companies sold over \$230 billion in products to Mexico in 2016, a figure close to the GDP of Chile and higher than that of Portugal. Almost a million jobs in California and Texas depend on exports to Mexico. More than 80% of the dairy and eggs produced in Texas are exported to Mexico each year, all evidence of the great importance of free trade to the US border-states. Certainly, if NAFTA was to be cancelled, the border would be the worst-affected region, as this "third country" relies greatly on trade to keep its economy running. While Washington DC and Mexico City argue and position themselves to hold the best position at any future negotiating table, people and companies in the "third nation" continue to invest, buy, and sell on each side of the border. Regardless of what happens at the political level, the mutual reliance of these 10 states will remain in place.

**"All this puts Texas smack in the middle of two fast-growing markets. Mexico is the most dynamic emerging market, and the United States is the most dynamic industrialized economy. No wonder Texas is already generating jobs faster than anywhere else in the world." – Pippa Malmgren**

### US BORDER REGION:

POPULATION: 76.12 Million.  
GDP: \$4,394 Billion.  
GDP Per Capita: \$57,735

Source: US Department of Commerce.

### MEXICO BORDER REGION:

POPULATION: 23.03 Million.  
GDP: \$228 Billion.  
GDP Per Capita: \$9,891

Source: INEGI



## In The Spotlight: Chile Rising...

35.6751° S, 71.5430° W

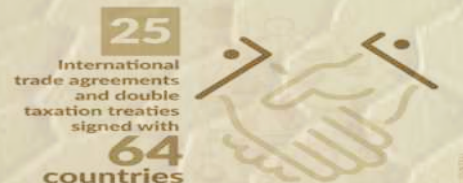
Heading  
South...

Chile has enjoyed more economic and political stability than most of its South American neighbors throughout the broad ongoing commodity slump. Some countries in the region went on spending sprees while commodity prices were high and have been hit since the boom abruptly ended – with Venezuela the most extreme case. Chile has managed its finances responsibly, even at the cost of short-term GDP growth. It has focused on dealing with some structural issues such as water scarcity in the arid northern region, home to much of the copper mining industry, enhanced the educational system and expanding technology adaption, opening up its economy & encouraging investment in areas such as productivity and renewable energy. It has successfully sought to bring large technology companies, with a need for its highly educated population, to the country with Google establishing its first Latin American data center there in 2012. Santiago is a globally renowned tech hub, it has focused on developing its fiber-optic network and establishing its southern region of Patagonia as a digital hub by offering tax incentives.

With an economy and population half the size of Argentina's it has regularly attracted double the foreign direct investment of its neighbor. In its traditional dominant segment of the economy – mining and resource development – it has been working through some growing pains but is now better positioned with Lithium – crucial for the global trend towards electrification as a key component of batteries – positioned along with copper and the Chilean state development agency, CORFO, entered into a deal with lithium miner SQM during Q1, ending a long dispute over royalties in Salar de Atacama, Chile's largest salt flat. The agreement allows the miner to expand production in anticipation of high demand. Copper prices have recovered well since mid 2017 lows providing further support for the economy.

The election of Mr. Piñera, of the centre-right CV coalition, should provide a continued boost for these dynamics with a business friendly mix of policies and an election platform focusing on doubling economic growth, creating 600,000 jobs and more ambitiously targeting to bring Chile to 'developed world standards by 2025.' Chile has made steady progress since the end of the Pinochet dictatorship in 1990 with a reduction in poverty from almost 40% of the population to 11.7% in 2015. It has seen progress under both center-left and center-right governments and the ability to handle public protest in a productive way showing that its democratic institutions can offset volatility. Chile is not too far behind Portugal or Greece and other nations at the bottom of the current list of developed nations. Chile's per capita GDP is \$25,000 a year compared with Portugal's \$30,000 a year. With these long-term improvements, expectations have risen amongst the population and should President Piñera fail to deliver he may be faced with protests and unrest. However, we feel that Chile is well positioned to continue its path towards bigger and better things and as global value investors we see it as a great opportunity.

**RECO: ADD SOME CHILE AT REGULAR INTERVALS AND LET IT SIMMER...**



14.6048° S, 59.0625° W





## AN EUROPEAN PERSPECTIVE...

53.0000° N, 9.0000° E

The European economy is not all 'blue skies' and without its challenges, the banking sector is still in sub-optimal condition with real localized issues but overall the indications are that slowly but surely a stronger and more sustainable foundation is being established. There are still need for deep reforms and for a real conversation about long-term objectives and how to collectively achieve these and bring the European project to the next level.

The Confederation of Switzerland, in existence since 1291 and in its modern form since 1815, provides a good model. As Mr. Fehrenbach puts it in his excellent book; 'The Gnomes of Zurich;' "Switzerland is not even a nation state in the modern Western sense. It is composed of three separate languages and ethnic groups – Germanic, French and Italian. (...) It has the loosest form of national organization of any modern nation, and the weakest central government in the West. Its tiny area is divided into twenty-five sovereign cantons, each of which retains real powers. The federal capital at Bern manages foreign affairs, controls arms and alcohol, regulates the currency and runs the mail and railroads. Almost everything else is left to the cantons. The President of the Confederation is a figurehead, selected annually from a federal cabinet of seven, whose overall powers are small. There are two legislative houses, (...) both must issue bills to make them law – but any law can be repealed by popular initiative and national referendum, and some have been. The federal judiciary has no powers of legislative review. Yet Switzerland has never had serious civil disturbances or national revolution, and has the most stable society and government in the Western world."

This format when combined with a digital platform, akin to the developments in Estonia and their progressive 'E-Estonia' project, can provide a template for a comprehensive set of solutions for the future of the EU. It could harness all that is good about the EU and challenge the key structural issues head-on and reflect the reality that people live locally within a global world. The governance system must reflect this and provide an effective and transparent set of real world solutions for its citizens, while carving out a role for Europe in the world from a position of strength.

The issues Europe and the EU are facing over the next two decades are multiple and significant, and if problems are just swept under the carpet it will no doubt be heading to a problematic place with few good outcomes. However, every event, be it an Italian election, a drawn out German government formation process or a Catalan secession crisis tend to be described by US & UK media in near apocalyptic terms, ignoring the lessons of history, the structural factors and long-term trends that indicate less spectacular and more benign outcomes. The EU has all the hallmarks of being run by a committee of technocrats with appetites for a long lunch – for better and for worse. However comparatively, in today's reality it may just be that the old continent can harness its strengths and deal with its weaknesses and be a source of stability in an increasingly fragmented world.

It has to deal with issues such as: Expediting the historic trend away from the antiquated nation state framework to a regional/global format that empowers people in their everyday life while navigating a larger global path. EU governance structures should be reviewed and changes should be implemented to closer reflect the Swiss model.

Chart and implement a reboot and rationalization by digitalization of all government & public operations (akin to the 'E-Estonia' framework). And using 'smart automation' to offset demographic challenges and enabling cost savings in the right areas – cutting the 'back office' of government and healthcare while enabling increases and increased efficiencies where it really matters. Plus ensuring increased productivity in the private sector. The world is faced with an inequality crisis, that is bringing the whole system under increased scrutiny and pressure to better reflect the interest of the people, the EU has not been immune to this but comparatively with it's broader safety nets it has offered a more cohesive framework.

It must come to terms with the geographical and historic reality that Europe's southern border is the Sahara desert, not the Mediterranean, and begin to deal with this in a cohesive manner and in turn tackle the refugee and wider displacement crisis to offset some of the negatives and harness the positives.

Defense, in strategic and practical terms, needs to be addressed urgently to reflect the reality that the US is currently on an unpredictable path in terms of its global engagement – a major disengagement from the role it has carried since the WW2 can not be discounted as it wrestles with its internal fragmentation and its wider role in the world, in the face of a rising China and an increasingly confrontational Russia. Europe will need to become more independent and to offer a collective front so that it can carry the burden of its own defense and be an active, engaged and capable partner with the US and its other allies in world that appears set on escalated confrontations. Furthermore, key issues such the relationships with Russia and Turkey – both major powers intertwined with the reality of Europe - needs to be addressed and real comprehensive dialogues must be commenced to chart a better path forward for all involved than the current fragmented, disingenuous and short-sighted set of strategies.

Europe's history is a long, long and often messy tale of progress intertwined with instances of real crisis with smatterings of annihilations – at times it's history crawls at others it leaps – but in reading its history one can not help but be impressed with its ability to re-invent itself, overcome the fallout from its most calamitous escapades and outright collective madness. Contrary to much of the sensational news stories, Europe and the EU appears well equipped to deal with many of its current ills and chart a more collective path forward. France, in its current state, is a good indicator for the dynamics and future progress, or the lack of, for the wider continent. The following summary of the situation in France from Mr. Tiersky's 'Macron's World' in Foreign Affairs Magazine captures this well: "Much now rests on Macron's shoulders. There are many reasons why he might fail. Changing minds and creating new energy are hard tasks in any country at any time. Macron is asking the French people to care once again about the country's sense of purpose, "le roman français " or "the French narrative," as he puts it. In particular, he is asking young people to feel ambitious rather than complacent. In graduate school, Macron's master's thesis discussed Machiavelli, whose description of political leadership remains true today: the successful prince needs great skill and great luck. So far, Macron has had both. Whether he will continue to do so will count for much in France, Europe and the wider world."

**This continent continues to offer good value for investors across its geographies and its diverse economic sectors – both for more growth focused strategies as well as so-called safe haven positions.**



## THE UK:

55.3781° N, 3.4360° W

The UK is like a rudderless vessel drifting around at sea with the crew in a drunken argument below deck, while the captain and the officers have locked themselves in the captains cabin arguing over who's fault it all is and trying to chart a path forward using a map drawn by someone who has never left the shore.

In our last report we highlighted the fact that the Northern Ireland issue could not just be swept under the carpet just because it was inconvenient, and as to our expectations the issue is back in the headlines in Q1 with no realistic proposal in sight. In the words of Ayn Rand: "You can avoid reality, but you cannot avoid the consequences of avoiding reality." This issue will not go away and will bring significant practical, political & economic challenges. It is also worth keeping an eye on the issue of Gibraltar, which remains dry tinder poised for a flare up.

Here are some of the more interesting insights offered by a variety of sources over the last 3 months.

**"Brexit will continue to suck the oxygen out of the British government, and fuel the government with unfounded ideas about what the UK can achieve after April 2019. (...) the biggest issue is going to be the friction within the Cabinet over what sort of deal and transition the PM will bring back to Parliament. If the deal is designed to support the UK's economic interests, the Brexiteers could revolt. If it leans instead towards their 19<sup>th</sup> century views of 21<sup>st</sup> century, Tory Remainers and the Labour Party could unite to rebel. Under both outcomes, Theresa May's position could be in jeopardy, and the door to a new General Election could open. Parochially, it is hard to see how the GBP could avoid another dump, but the implications go much further of course." - George Magnus**

**"They were in with a load of opt-outs. Now they are out, and want a load of opt-ins." - Luxembourg PM Mr. Bettel.**

**"Britain is coming to terms with an imagined past, a leadership-less present and a manifestly uncertain future." - Oliver Daddow**

**"Hey girl - are you the EU customs union? Because I want an ill-defined relationship in which I get the benefits of free access to you while making no contribution and ignoring your requirements and also getting involved with the many other partners I imagine to be queuing up for me." - Random funny guy, on Twitter, Tom Freeman AKA @SnoozeInBrief**

**"Brexit is not about returning to a '50s menu of spam and cabbage." - Boris Johnson**

## THE RUSSIAN SPHERE:

61.5240° N, 105.3188° E

Russia is a great power by virtue of its geography, it is the largest country in the world by surface area, covering more than one-eighth of the Earth's inhabited land area and spans eleven time zones. Its vast interior is sparsely populated and its nature, though full of bounty, is a tough and challenging mistress. It is both European and Asiatic, urban and rural wilderness. It lacks natural borders to some of the largest and most established cultural population hubs of humanity – Europe, Persia and China – and it has been attacked from all sides at various times in history with only its vastness, resolute and tough people and inhospitable natural elements as a definitive boundary for its protection. With this in mind it is easy to understand the prevailing policy of this continent sized nation has been one of centralized firm controls with a military focus and a constant sense paranoia and a churning conflict in one theatre or another. The aim has always been to push its borders and buffer zones as far away from the control center as possible. While Russia's strength is the current preoccupation of the world, history would suggest that weakness and chaos would produce a more unpredictable and far more disruptive reality with an orgy of violence being unleashed in the contest over control of this gigantic Eurasian heartland. When entering a stage of collapse – be it 1917, 1991 or the next to come – it has always been astonishing and with wide unexpected side effects. From the chaos the demand for the restoration of order follows and the voice of the strong man has many listeners. Julia Ioffe writes in her excellent article, 'What Putin really wants' in the Atlantic: **"Putin governs with the twin collapses of 1917 and 1991 at the forefront of his thinking. He fears for himself when another collapse comes - because collapse always comes, because it has already come twice in 100 years. He is constantly trying to avoid it."**

The article goes on to quote several business men with government ties who describe realities as; "the last day of Pompeii repeated over and over. Russia always rises from the ashes, time and time again. But I have a feeling that we're about to go through a time of ashes again." When you have two governmental collapses in 100 years it stays in the psyche of its people and its leaders. In Q1 we have seen the re-election of Putin for another 6-year term in a non-event with a predictable outcome. But what will come next? As is always the case with highly centralized powers in the hands of a single individual and a small group of supporters, you get the concentration of risk based on the health & decision making capabilities of a single individual. This is the pin that keeps the façade in place. **What forces lies behind the curtain, that would be unleashed should this tenuous singular grip slip?**

### The economic realities

Unlike much of the industrial world, Russia has both a relatively small population for its size and a population that is highly dispersed, held together by little more than a security apparatus and a common culture and history. Sheer scale and geographical factors makes poor connectivity a fundamental issue for the creation of a productive modern economy.

In economic terms Russia is a comparatively minor player with an economy centered around resources development including a growing agricultural sector, some manufacturing and services largely unsophisticated and focused on serving its home market – some of this is driven by the sanction regime, continuing on from the Soviet reality – and nations in surrounding sphere of old Soviet Union state. It has an outsized military and a related large relatively sophisticated military manufacturing industry. In 2018, although it is expected to remain the worlds 6<sup>th</sup> largest economy in purchasing power parity (PPP) terms, its share in the worlds gross domestic product (GDP) in nominal terms contracted sharply in recent years due to the devaluation of the ruble of more than 50% since 2014. In 2016 (latest full set of data) Russia's GDP per capita of USD23,985 at PPP or 60% of the OECD average is almost the same as it was in 2008, 10 years ago. In nominal terms of USD9,093 it feel below the world average for the first time in since 2007. This represents a stark contrast from the previous decade – between 1998 and 2008 – when its GDP doubled in PPP terms and increased six-fold in nominal terms. The economy demonstrated impressive growth between the two financial crises of 1998 and 2008. That growth, however, was boosted by a surge in oil prices, which increased more than eight-fold from its low in March 1998. According to the World Bank estimates oil, gas and mineral rents contributed 15-20% to the Russian GDP in peak years. Although the oil and gas industry's share of the Russian GDP is substantially less than in oil-rich GCC states, these additional oil revenues helped boost Russian household consumption, which has been an important driver of the country's economic growth in recent years. The growth in nominal GDP reflected growth in oil prices almost perfectly. A sustainable non-oil-based long-term recovery is being hampered by low labor productivity. Russia has been consistently lagging behind developed nations in this respect. Over the past decade, Russian productivity has been 30-40% of the US and approx. half of the OECD countries, even lagging behind some the other former communist bloc nations such as Poland, Czech Republic and Lithuania.



# THE VIEW FROM AFRICA & THE MIDDLE EAST...

29.2985° N, 42.5510° E

## Africa - A divergence story...

In a recent briefing on the outlook for Africa from Chatham House's Alex Vines he states: **"The watchwords for 2018 will not be 'Africa Rising' now seen as overly optimistic, but 'Africa diverging' - politically and economically. The different paths that different parts of the continent are taking will be ever more apparent. So you'll have something pretty hopeless in central Africa and more positive trajectories in southern and western Africa. A general trend is the continued decline of longstanding leaders."** As discussed in our Q4 Report, Africa has perhaps some of the most favorable demographic trends in the world if one looks through the traditional lens. It is the youngest continent with nearly 40% of its population under the age of 18. By 2030, its working-age population is expected to rise to 600 million, from just 370 million in 2010. It has the potential to reap a huge demographic dividend with such large numbers of people entering the workforce, bringing increased productivity, rising savings and more consumption. For this to happen structural issues like infrastructure, education and the broadening of the economies must take place.

Historically, manufacturing drove economic transformation. Today, new technologies have spawned a growing number of services and agro-industries - including horticulture - that share many characteristics with manufacturing. They are tradable, have high value added per worker, and can absorb large numbers of moderately skilled workers. Like manufacturing, they benefit from technological change, productivity growth, scale and agglomeration economies. (See our '8 Pages About Investing in Innovation' report for further understanding of the dynamics at play in this space.) In many African countries ICT-based services, tourism and transport are outpacing the growth of manufacturing. Perhaps African nations with a focus on education and harnessing technology will 'leap' beyond the traditional development model. There are many examples of progress made by both local and international companies in places such as power generation, banking, education and farming.

## The urbanization drive...

The growing youthful population of the continent is increasingly moving from the countryside to its cities. Though the continent is currently one of the world's least urbanized, the number of Africans living in cities is forecast to rise from about 400 million in 2010 to 1.26 billion by 2050. By then Africa will be home to 20 of the world's largest cities. In most places social services, investment, job opportunities and infrastructure are not keeping pace with the explosive growth, leading to poverty and sprawling slums. Governments, already stretched and some with fast rising debt levels and caught in ongoing armed conflicts, are finding it difficult to get ahead of the issue and harness these dynamics for a positive result. Cities with diversified economies, better infrastructure, improving education levels, adoption of technology such as renewable energy and strong local governments such as Cape Town, Durban, Tunis, Casablanca, Nairobi, Dakar and Lagos, are well positioned. However, the outlook for cities in resource-dependent countries in western and southern Africa is more challenging. In the long run, their economies will grow, but the rapid urbanization will bring heavy social and environmental costs. In conflict areas such as Mogadishu and Kinshasa, the future is bleak. With governments unable to provide even basic services, economic opportunity and living standards will decline leading to potential for even further unrest.

## AFRICANS LIVING IN CITIES:

2010: 400 million.

2050: 1.26 billion.

8.7832° S, 34.5085° E

## MENA - IN SEARCH OF A PATH FORWARD...

Much focus on the MENA region is concentrated on the unraveling of societies - some imposed by colonial powers who took it upon themselves to draw 'lines in the sand' and create nation states with little regards for history or realities on the ground but purely with their 'grand game' of petty competition in mind. ('A line in the sand' by Mr. J. Barr is an astounding tale of much of this hubris.) The triangular segment between 4 traditional power houses - Egypt, Turkey (Ottoman empire), Iran (Persia) & Saudi Arabia has been turned into a lawless no-mans land with a maze of byzantine conflicts, casting neighbor against neighbor in civil war, whole ancient civilizations into chaos & a fluid battle ground for the regions major players with Russia, the US & Europe casting sporadic incoherent efforts into the mix.

The catalysts for serious disruption and further mayhem are many, however there are also many positive developments in the region that are getting lost in the noise. In our last report we highlighted the demographic bounty that is set to bloom in this harsh environment, if the parties can overcome the current tendency towards shortsighted 'Mexican stand-off' mentalities and if the regional power players can use the vacuum left by a less than fully engaged US to actually take on some of the challenges that can be overcome and tone down the rhetoric on the issues that are not so easily dealt with.

Furthermore, should the ambitious vision for the KSA be realized to some degree, should Iran's population and the internal power structure evolve to something more productive, should Turkey accept a more productive position in the region, things could change dramatically over the next decade. In the affairs of man we often expect too much to be achieved in a year or two and underestimate what can be achieved in a decade or two. George Friedman put it like this in a recent article; **"Twenty years means nothing in history, but it means everything in our lives, so our tendency to convince ourselves of the permanence of the present era is understandable."**

As investors it is important - especially when looking at frontier markets - to try to see beyond the immediate and look at what could be, both negatively as well as positively. The risks are obvious and gets the lions share of the coverage but if you look at little harder, take in the full swaths of history and actually speak to real people on the ground you can see a path to a brighter future for some of these nations, the region and it's people. Long-term investors should take note of both.

**"...if the soul is infected with partisanship for a particular opinion or sect, it accepts without a moment's hesitation the information that is agreeable to it. Prejudice and partisanship obscure the critical faculty and preclude critical investigation. The result is that falsehoods are accepted and transmitted."**

- Ibn Khaldun (1332-1406) The Mugaddimah - an introduction to history.



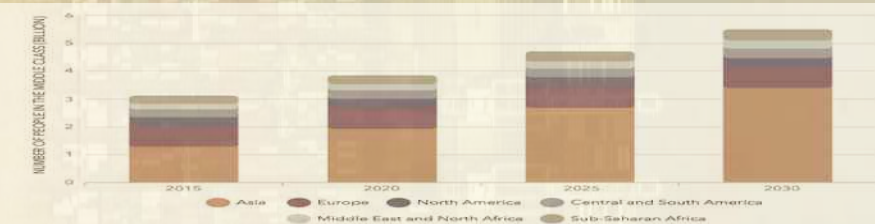
## THE VIEW FROM ASIA: 34.0479° N, 100.6197° E

**Asia - Dynamic Opportunity:** The scale of Asia's transformation has been unprecedented. In little over 3 decades the region went from one in which more than a billion people lived in extreme poverty to one with more than a billion in the middle class. Over the next 10 years, a billion more Asians are set to join the middle class creating a consumer market larger in number and spending power than the rest of the world combined. By 2030, the region will produce more than half of the world's economic output and consume more than half of the world's food and 40% of its energy. By then, more than 600 million additional people will live in the regions cities. Asia already has more internet and social media users than the rest of the world combined. According to a recent PricewaterhouseCoopers report, global assets under management are estimated to almost double to \$145.4 trillion by 2025, with the fastest growth in the Asia-Pacific. The forecast shows a 145% surge in the region more than twice the expected increases in North America and Europe. According to Bloomberg, every other day, a new billionaire is minted in Asia. As with all forecasts these will no doubt become victim to the forces of the unexpected that have always followed humanity's journey. But the broad trend appears clear and investors should ensure they are prepared and positioned to harness these powerful dynamics. In the words of Pericles, from back in the day 5<sup>th</sup> century BC: **"The key is not to predict the future but to prepare for it."**

**GDP forecasts to 2030. (Figures are in 2016 US\$ trillions)**



### Growing middleclass in Asia.



### Asia's share of world's manufacturing output.



Sources: Brookings Institute, the UN, World Bank & Australian Treasury.

## IN THE SPOTLIGHT: JAPAN - FINDING STRENGTH IN YOUR WEAKNESS - A RECIPE FOR THE FUTURE?

Japan is home to the world's oldest population and presents an example of the trends and dynamics most developed nations and China will face in the future. Japan's total population peaked in 2011. The number of births in Japan in 2017 fell to its lowest since records began back in 1899. People aged 65 or older accounted for 27.2% of the total population the highest ratio on record while those aged 14 or younger fell to a record low of 12.7%. By 2050 the population is set to shrink by 20% and on this trajectory, by 2065 it will be 31% below peak. Between 1997 and 2009, nominal GDP in Japan fell 8.4%. The massive stimulus program in Japan has only brought nominal GDP back to 1997 levels. In other words, over the past 20 years, Japan's economy has not grown. What does an aging economy look like? Prisons have been converted into nursing homes. Adult diapers outsell baby diapers. Longevity has increased and social security costs are high. A fast shrinking working age population is struggling under the burden represented by a large and growing older population. These are stunning numbers but in a world of increased automation perhaps having a smaller, older and more educated population will actually turn out to be a position of strength?

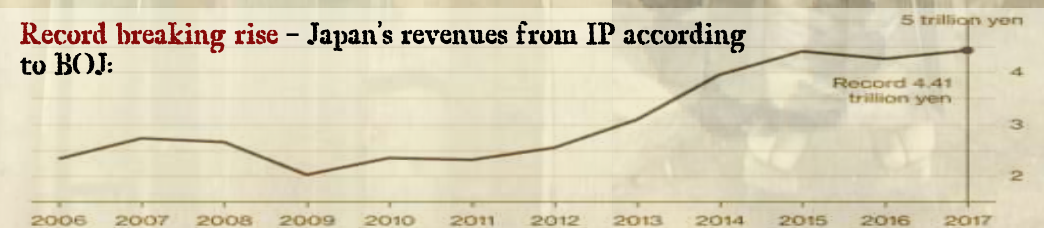
As stated in our recent '8 Pages About Investing in Innovation Report;'

*"Automation could provide the productivity boost for economic growth projections that would otherwise be hard to reach. A study by Bain Macro Trends Group estimates that as much as \$8 trillion could be invested in automation technologies by 2030. Falling capital costs in robotics and rising labor costs in places like China reduce the payback period for automation and in turn prompt higher investment in automation. China has seen a 10 fold increase in purchases of industrial robots between 2009 and 2015. Japan – who faced the demographic challenges before everyone else – is the leader in this space. With the oldest population in the world Japan has made progress with dealing with a shrinking and ageing labor force. These challenges stimulated research and development in areas such as robotics and domestic automation, while it's only home to 2% of the world's population it accounts for 20% of its R&D. Furthermore through its culture of not just focusing on developing new products but on optimizing the industrial process or 'Monozukuri' – literally the "art of making things" and 'Kaizen' the Japanese word for "improvement" as a reference to the business practice of "continuous improvement" – it has established a basis for doing more with less that could put it and its companies ahead of the demographic curve."*

Already this investment is paying off, intellectual property (IP) is generating soaring revenues for Japan, jumping by 74% over the past 5 years to a record in 2017 according to the latest government data. Developing and protecting it is a key element of Prime Minister Shinzo Abe's long-term strategy, which calls for greater investment in innovation to create wealth as the nation's workforce ages and shrinks. The nation ranked 2<sup>nd</sup> behind the US in IP exports (IP is intangible assets such as brands, copyrights, patents & industrial design) in 2014, the last year for which complete data was available, according to the OECD. Japan doesn't break down its IP exports by sector but along with iconic brands like Super Mario and Hello Kitty - robotics advances by the industry leader, Fanuc Corp are key drivers and IP-related services in areas like AI, robotics and medical care are set to generate a lot more future growth for Japanese firms.

36.2048° N, 138.2529° E

### Record breaking rise – Japan's revenues from IP according to BOJ:





The view from the house of Xi...

"By removing the term limits on Xi Jinping, China is reentering a period in which the fortunes of a fifth of humanity hinge, to an extraordinary degree, on the visions, impulses, and insecurities of a solitary figure."

- Evan Osnos

"For more than 2000 years, the Chinese political system has been built around a highly sophisticated centralized bureaucracy, which has run what has always been a vast society through top-down methods. What China never developed was a rule of law, that is, an independent legal institution that would limit the discretion of the government, or democratic accountability. What the Chinese substituted for formal checks on power was a bureaucracy bound by rules and customs which made its behavior reasonably predictable, and a Confucian moral system that educated leaders to look to public interests rather than their own aggrandizement." - Francis Fukuyama

In their excellent book; 'The lessons of history,' Will & Ariel Durant discuss the history of government and provide some illuminating insights. They state that; "Since men love freedom, and freedom of individuals in society requires some regulation of conduct, the first condition of freedom is its limitation, make it absolute and it dies in chaos. So the prime task of government is to establish order, organized central force is the sole alternative to incalculable and disruptive force in private hands. Power naturally converges to a center, for it is ineffective when divided, diluted and spread." And they go on to highlight the prevailing form of government in history has been monarchy with the following observation: "If we were to judge forms of government from their prevalence and duration in history we should have to give the palm to monarchy; democracies, by contrast, have been hectic interludes." They then share some reflections on the optimal historic formation under this format as the period when the Roman empire was blessed with the continuous intelligent and public minded leadership of a succession of great civic minded leaders, who all committed to a principal of 'adoptive monarchy' where; "...the emperor transmitted his authority not to his offspring but to the ablest man he could find; he adopted this man as his son, trained him in the functions of government, and gradually surrendered to him the reins of power." They go on to share how this all came to an abrupt and disastrous end after Marcus Aurelius, who died without a clear succession plan to 'the ablest man' and instead he was succeeded by his own son, Commodus, and as they so eloquently surmise it; "...soon chaos was king." Within this lies a great lesson of history, one that should be heeded when looking at all centralized rulers, the current incumbent may be the wisest and most fair minded individual, a great leader who is best equipped to navigate the perilous seas and bring his/her nation to greatness but father time is undefeated and the next in line may be incompetent or of poor character and ill equipped for such a crucial role – yet in a system without effective checks and balances – they would be thrust into a position of absolute leadership. History is full of examples, with endings that range from mundane mismanagement and corruption leading to a slow unraveling to more extreme episodes of madness, chaos and destruction.

The leadership transition conundrum is a common one in authoritarian regimes, especially those where power is highly concentrated in the hands of one individual. Such systems lack institutionalized mechanisms for leadership transition and often collapse when a leader exits. As China makes it's move away from the temporary rule by committee back to a sole ruler, it only has to look at its neighbor to the north, where Putin is a 'live study' of the pros and cons of this approach. Succession is a point of weakness of all dictatorships: the lack of rules necessitates a damaging power struggle upon the death of the supreme leader. A great advantage that China has had over contemporary Russia was precisely in those rules; should Russian President Vladimir Putin drop dead of a heart attack tomorrow, a huge power vacuum would emerge and plunge the country into uncertainty as powerful elites fought one another. But even short of succession, regular leadership turnover means that new ideas and new generations can rejuvenate policy and hold prior leaders accountable to some degree. Putin is of course also an example of a sole leader whose priority is mainly self perseverance, a model which has not exactly proved to be conducive for the development of a modern inclusive economy. But China does not really have to look abroad for its lessons, it instituted the rules that Xi has just abolished in order to avoid these exact problems and to ensure another 'Bad/Mad Emperor' did not take the nation on a nightmarish journey over the cliff and into chaos. Since 1978, China's authoritarian political system has been different from virtually all other dictatorships in part because the ruling Communist Party has been subject to rules regarding succession. Term limits for senior leadership have kicked in at regular 10-year intervals three times so far, and the party's system of cultivating and training new leaders to replace the outgoing ones had allowed it to avoid the stagnation of countries where presidents ruled for decades.

These moves may turn out to be more symbolic than a major departure from the existing path, Xi and the leadership group may have felt that with all the uncertainty in the world, the many challenges facing China in the next decade and the importance of navigating it all while maintaining the semblance of 'weiwen' AKA 'Stability maintenance' it was prudent to project strong leadership and rally around Xi who has so far proven to be a very capable and stable leader. Maybe the path forward will be more Deng Xiaping than Mao. What is known is that for now Xi will be the most powerful man in China, and unlike Mao he is going to be in control of a China that is at its most powerful point in several hundred years and which is positioned to continue its ascent.

It is a clear sign that China is under the 'rule of man' as opposed to the 'rule of law' – a society in which one person and his supporters rules arbitrarily with absolute authority and is not bound by any law and where there are rules they can be changed at their whim to suit their agenda. These amendments to the PRC Constitution amount to a wholesale revision and highlight the lack of effective checks and balances. In the right hands this may lead to effective stewardship towards grand visions for the betterment of China or it sets the precedents for future bad actors to once again pursue a path of abandon and terror. Another aspect worth considering is that by 'grabbing control of all the levers of power' as Elizabeth Economy, author of a book about Xi called 'The third revolution,' has outlined he is taking a significant risk, as he makes himself the lightning rod if the Chinese economy slows significantly or if there is some major disaster or problem or if China should be caused to loose face in global affairs as it navigates the many issues gathering pace as the storm brews on the horizon. Internally with his relentless anti-corruption campaign and purges of his opposition and amongst the oligarchy, Xi has upset many powerful segments of the Chinese society who will be looking for any point of weakness to attack. For Xi it appears that he has grabbed the tiger by its tail and has just doubled down and decided to take an even firmer grip and hold on for as long as possible. Either he will tire it and subdue this giant powerful beast or it will have its way with him eventually.

39.9042° N, 116.4074° E

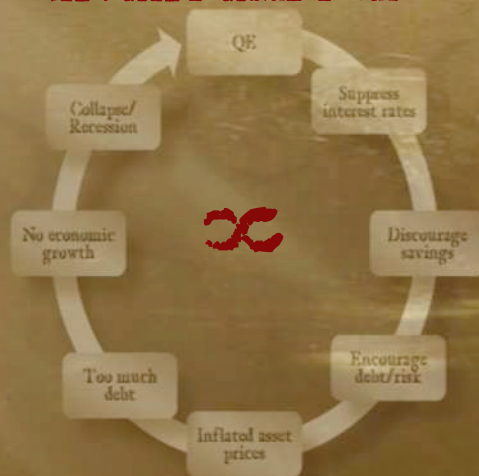


## REFLECTIONS ON THE JOURNEY AS WE PREPARE TO RESURFACE...

### Useful notes from the trail:

If the physical world is changing rapidly, so is the human consciousness, and it is the change of consciousness, so powerful yet so subtle, and in some ways so close to universal, which matters most. One has to set alongside each other the inevitability of discontinuities and the equal certainty that human institutions will resist and delay or defuse those discontinuities. One should not confuse that which appears inevitable with the imminent. When looking at global macro economics its prudent to heed the sign that hung in Albert Einstein's office: "Not everything that can be counted counts, and not everything that counts can be counted." Just because numbers are involved does not mean it is math with its certainty & precision. Human affairs are inherently messy and the only certainty is constant change.

### CAVEAT EMPTOR:



The Wealth Effect Defect.

HT to original source of this illuminating illustration the Grand Master & a 'must follow' on Twitter: @OccupyWisdom.

There is nothing like an old book to trigger realization of axioms about the world:

"Only statesmen who can do their political and strategic thinking in terms of a round earth and a three-dimensional warfare (four-dimensional with today's cyper element) can save their countries from being outmaneuvered on distant flanks. With air power supplementing sea power and mobility again the essence of warfare, no region of the globe is too distant to be without strategic significance, too remote to be neglected in the calculations of power politics." - Mr. Spykman 1942.

"The rising tide of information makes an increasing number of people know more and more about less and less. - Von Habsburg in The Raven of Zurich 1985

### INVESTORS TAKE NOTE:

"Often the greatest opportunities are around the edge of things...When everyone is looking at something in a certain way, looking at it a little differently can be increasingly refreshing and rewarding."

- Mr. Klarman

**REMEMBER:  
REVOLUTIONS  
HAPPEN FAST  
BUT DAWN  
SLOWLY.**



Snapshots from the journey...

# Photographs

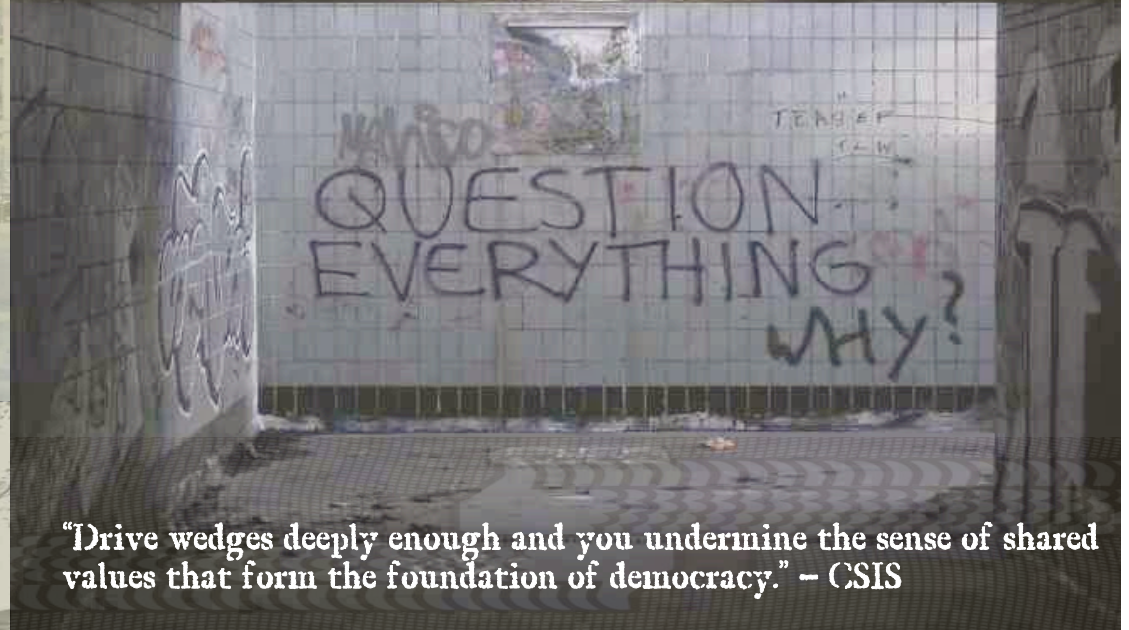




**US 1967: Things got very real  
& the fabric of society was  
torn...Yet a path to new  
strength was plotted,  
democracy & its institutions  
absorbed the shockwaves...**

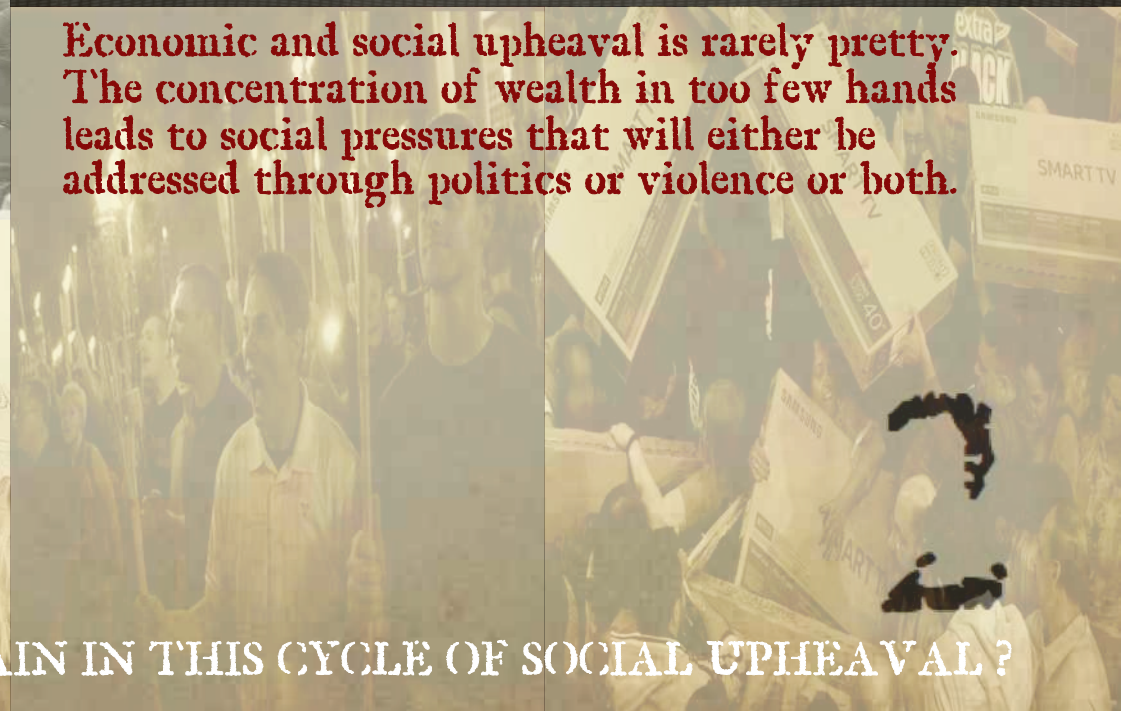


**A PUBLIC SERVICE ANNOUNCEMENT'...**



**"Drive wedges deeply enough and you undermine the sense of shared values that form the foundation of democracy." – CSIS**

**Economic and social upheaval is rarely pretty.  
The concentration of wealth in too few hands  
leads to social pressures that will either be  
addressed through politics or violence or both.**



**WILL THE FABRIC ENDURE AGAIN IN THIS CYCLE OF SOCIAL UPHEAVAL?**



# EXPAND YOUR PERCEPTIONS WITH MAPS...

Started accession talks   Haven't started talks   Not officially candidates   EU members



**EU: MIND THE GAP...**

Source: Bloomberg.

Russian economy fitted into  
Western Europe

Nominal GDP ~\$1.4 trillion

**RUSSIA LAND  
OF  
CONTRASTS:  
GIANT  
MILITARY.  
TINY  
ECONOMY.  
GIANT  
TERRITORY.  
TINY  
POPULATION.**

Created with mapchart.net ©

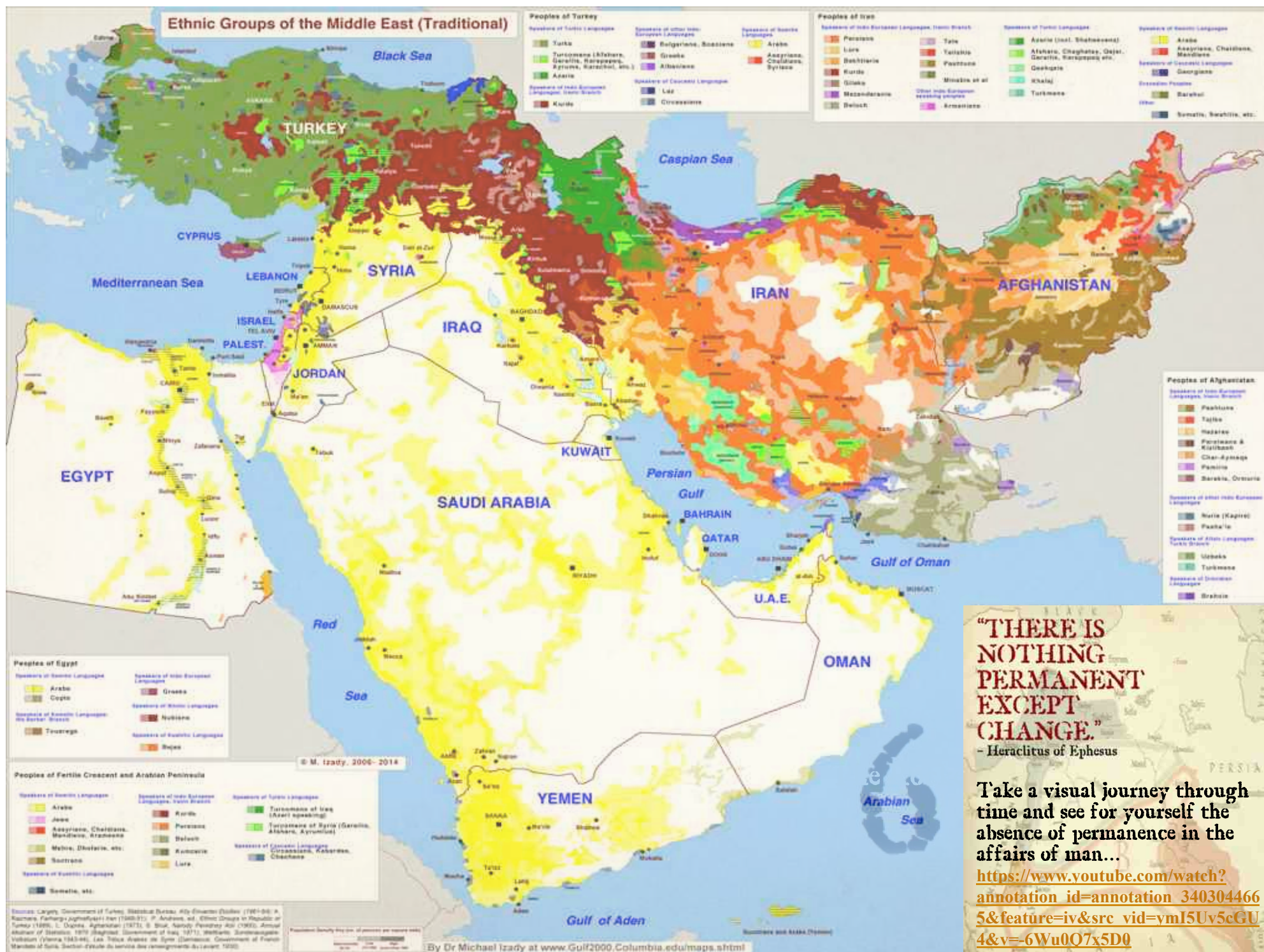


## THE VIEW FROM THE UK...

In the UK, a question which has repeatedly been posed in history in political and military terms, is the UK, as President de Gaulle thought, an Anglo-Saxon country for whom the Channel is broader than the Atlantic or is the UK a European country for whom the logic of geography is going to be decisive in the end?







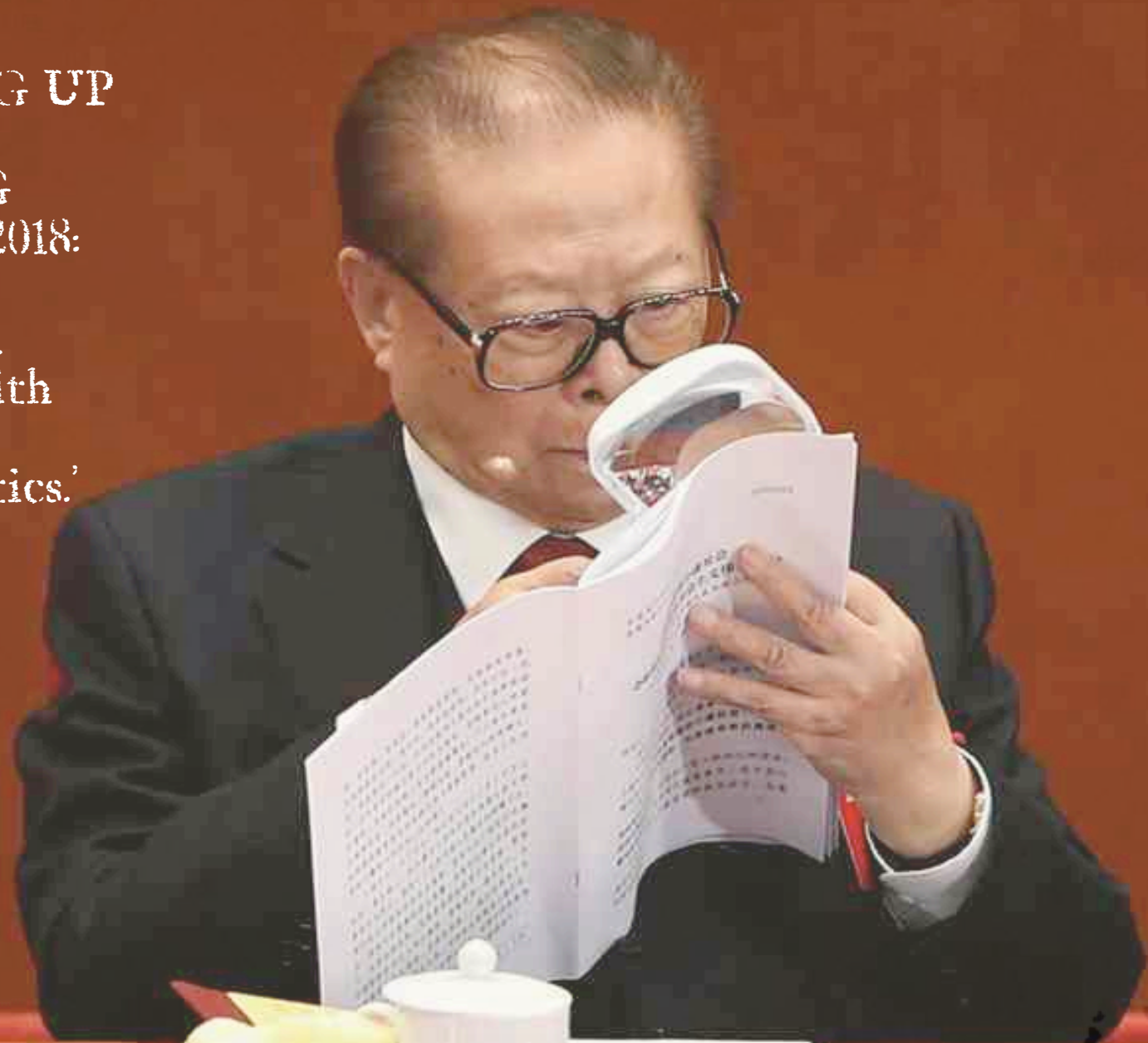
**"THERE IS NOTHING PERMANENT EXCEPT CHANGE."**  
 - Heraclitus of Ephesus

Take a visual journey through time and see for yourself the absence of permanence in the affairs of man...

[https://www.youtube.com/watch?annotation\\_id=annotation\\_3403044665&feature=iv&src\\_vid=vmI5Uv5cGU4&v=6Wu0O7x5D0](https://www.youtube.com/watch?annotation_id=annotation_3403044665&feature=iv&src_vid=vmI5Uv5cGU4&v=6Wu0O7x5D0)



CATCHING UP  
ON THE  
RIVETING  
READ OF 2018:  
'Xi Jinping  
Thought on  
Socialism with  
Chinese  
Characteristics.'





## SOURCES & INSPIRATION...

In the words of Sir Isaac Newton: **"If I have seen further it is by standing on the shoulders of Giants."** On this page we humbly give thanks to those great individuals, source materials & books that provided us with the insights shared in this report.

### The Books:

Earning the Rockies - How geography shapes America's role in the World. by **R.D. Kaplan.**

The revenge of geography by **R.D. Kaplan.**

The Next 100 Years - A forecast for the 21<sup>st</sup> century by **G. Friedman.**

The Next Decade - Empire and Republic in a changing World by **G. Friedman.**

America's Strategy in World Politics by **N. Spykman**

Mega-change: The world in 2050: Freedom's ragged march' by **Edward Lucas**

The Mugaddimah - An introduction to history' by **Ibn Khaldun.**

A line in the sand by **J. Barr.**

### Articles & Reports:

Government & Opposition: Democracy without solidarity: Political dysfunction in hard times by **Erik Jones & Matthias Matthijs.**

Estonia the digital republic by **N. Heller** in The New Yorker Magazine.

Where in the world will you find the most advanced e-government? Estonia by **A. Keen.**

Connecting Texas and Mexico via Beijing by **Pippa Malingren**

Viewpoints - What does population aging mean for growth and investments? By **KKR**

Continuity underlines most 2018 predictions: how realistic is that? By **G. Magnus**

What Putin wants by **J. Ioffe**

8 Pages About Investing in Innovation by **Librarium Associates.**

### Go watch:

For a comprehensive history lesson and a look at times of real social upheaval in the US go watch the masterful PBS series 'The Vietnam War' by **Burns & Novick.**

### New Perspectives:

For a review of the US/Russia confrontation request our collaboration with renowned geopolitical thinker, Dr. Harald Malingren; **Geo-Strategic Perspectives Series** report on 'The Russia Question.'



## ABOUT LIBRARIVM:

Librarium Associates Ltd. is an independent research company focusing on global macro and geopolitical monitoring and analysis. **We are committed to delivering distinctive insights on global trends enabling our partners and clients to make informed decisions in a changeable world.**

We offer global accredited investors such as asset managers, family offices and institutional investors with quarterly and annual publications providing an independent overview of global macro economic and geopolitical events and their implications on the world of investing.

We also provide intra-monthly event driven insights as a part of our constant horizon scanning services.

Our services can also be employed on a retained basis, providing the client direct & always confidential access to our team on an on-going basis allowing us to act as an independent sounding board for our clients ventures.

Furthermore, we can also produce exclusive client commissioned stand-alone reports across a number of broad areas.

We prefer to work with a relatively small and select group of active clients allowing us to provide them and their projects with our full attention and as such we operate a limited amount of such partnerships.

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