

thebigpicture

guideposts for the private investor

Week Commencing 16 September 2002

thebigpicture news

- US President George W Bush appears intent on taking the USA to war against Iraq. While he has now sought to involve the United Nations, this appears to be more of a tactical ploy than a belief that the UN can play a meaningful role in averting conflict. This could destabilize markets for many months. And, even in victory, who believes that prolonged US occupation of a large middle eastern country can be good for business confidence?
- Japanese officials have indicated support for a free trade agreement with the ASEAN countries. Although the Japanese Prime Minister had raised the prospect of such an arrangement being put in place, it was thought to be in the 'too hard' basket because of domestic opposition. But China has also been courting the ASEAN group and this might act as a spur to the Japanese developing their initiative.

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thebigpicture guideposts for the private investor is published by *thebigpicture* Economics (ABN 71 040 787 936). The author, John A Robertson, while working in Australia, London and New York, has over 20 years experience in international financial and commodity markets, corporate strategy, financial analysis and government policy. He has been Chief Economist and a director of a leading Australian investment bank. He has been a top-rated institutional equity analyst and has marketed investment advice in all the major international financial centres.

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THE DEMOGRAPHIC BIG PICTURE: OLDER AND AFRICAN

Changes in the underlying pattern of population growth will have far-reaching economic, investment and geo-political implications.

Companies which are positioned to take advantage of the trends of the past thirty years and which are ignoring these changes will be the losers.

Unless companies can cope with the realities of doing business in Asia and Africa, their futures will be relatively lacklustre. Their identification with older consumers will be critical. Governments, too, will have to reappraise the type of services which their constituents require. The dynamics of global power will be altered irreparably.

In its report on the world population outlook (World Population Prospects: the 2000 Revision), the United Nations Population Division observed that "since the appearance of human beings on Earth, no century has witnessed such a rapid and accelerating population growth than the twentieth century". In fact, the phenomenon of strong population growth was very much a feature of the latter part of the century.

It took until 1804 for the world's population to reach 1 billion. It took another 123 years for the population to increase by another one billion. The third billion was reached in 1960 and, by 1999, the population had doubled to 6 billion.

This pattern of growth, particularly in the last 40 years, created an underlying demand for goods and services which also underwrote technological changes which significantly improved living standards throughout the world but especially in its more developed regions.

Meanwhile, the population of Asia was doubling, providing additional markets for western companies but also acting as a magnet for a redistribution of productive capacity. Industry relocated in part to tap into these markets but also to take advantage of relatively abundant labour to sustain higher rates of profitability through lower costs of production.

In turn, industry relocation created opportunities for significant productivity growth which has helped contain inflation in western economies, reducing the need for disruptive policy adjustments. Eventually, it also acted as a catalyst for a reduction in global trade barriers in manufactured goods further perpetuating a virtuous circle of growth.

"Just as demographic forces played a key role in corporate growth profiles and market returns in the past thirty years, those forces will be less supportive..."

Median Age of Population			
No. of Years	1950	2000	2050(p)
Europe	29.2	37.7	49.5
Northern America	29.8	35.6	41.0
Oceania	27.9	30.9	38.1
Africa	19.0	18.4	27.4
Asia	22.0	26.2	38.3
Latin America & Caribbean	20.1	24.4	37.8

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GLOBAL DEMOGRAPHIC IMPACTS

Key Change	Implications
Slowdown in overall population growth	<ul style="list-style-type: none"> • Reduction in expected rates of output growth • Lower company profit growth • Lower average equity market appreciation
Falling European population	<ul style="list-style-type: none"> • For companies, the benefits of the integrated market will be offset by inherent market weakness • Profit growth through management innovation and sustainable cost initiatives will have to receive a higher priority • European companies will have to seek geographic or product diversification opportunities
Decelerating Asian growth	<ul style="list-style-type: none"> • Continued expansion of domestic and regional markets for goods and services, at a slower rate • A less dynamic environment than in the last 20 years but more mature in terms of the goods and services required • Open regional markets will mean low barriers to the entry of companies from outside the region (esp. economic 'refugees' from Europe) • Profitability will be constrained by competition (and continuing threat of new entrants) • An opportunity for Australia as a regional center may yet emerge particularly as a service provider
Accelerating African growth	<ul style="list-style-type: none"> • A new international source of low cost labour • Opportunities for an African entrepreneurial class to emerge • Market development opportunities for new business entrants • Business opportunities probably limited by uncertainties over political personalities and history of relationship neglect • Western governments might engage with Africa more seriously to promote growth and stability helping companies explore investment opportunities
Population aging	<ul style="list-style-type: none"> • Production to be reoriented from goods for younger people to services for older people • Marketing activities will have to be modified and product offerings will have to be repositioned <ul style="list-style-type: none"> ~ young market exposure to be less desirable ~ housing market dynamics to change with reduced demand for early stage home buyers • Expectations for government will remain high and put pressure on budgets and taxation • Private sector involvement in health, accommodation and superannuation benefits will have to be established

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Looking ahead, the world's population will continue to grow but at a more subdued rate. The United Nations expects an increase from 6.1 billion in 2000 to 9.3 billion in 2050. The UN forecasts include a lower and a higher variant so that the expected outcomes actually range from 7.9 billion to 10.9 billion depending on the assumptions made about the key underlying demographic variables. Nonetheless, the broad trends and implications of all scenarios are similar.

The UN's median population estimate implies that the rate of growth of world population will decline to 0.5% a year from its peak of around two per cent a year during

the 1960s and 1970s, potentially returning to the population growth rates which prevailed for the 150 years prior to 1900.

This population growth deceleration will bring with it several important effects with the potential to alter radically some of the underlying global growth patterns to which we have become accustomed.

- The population of Europe is expected to decline. This trend, already evident in eastern European countries, will become a pan-European phenomenon. Currently, there are 27 countries, including 21 in Europe, with a

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The Demographic Big Picture: Older and African *cont'd*

declining population, headed by Russia and the Ukraine. By 2050, the UN is anticipating that there will be 64 countries with declining populations, headed by China, Russia and Japan and including 34 in Europe.

- Asian growth will decelerate. Between 1950 and 2000, the Asian population increased at an average rate of 45.5 million people a year. The UN expects Asia's population to be expanding at 19.6 million people a year in the last decade of their 50 year projection period.
- The demographic importance of Africa will loom large. The population of Africa increased at an average rate of 11.5 million people a year between 1950 and 2000. Over the UN's projection period, the rate of increase is expected to more than double to 24.1 million a year and the total African population to rise to two billion. In 1950, Africa's population was less than half that of Europe. In 2050, it is expected to be more than three times the size of the European population.
- Average ages will increase. In 1950, 8 per cent of the population was aged 60 years or over. The proportion had increased slightly to 10 per cent in 2000 but is expected to be 21 per cent in 2050. The proportion of people aged 15 to 59 does not change greatly but the proportion of children (aged 0 to 14) falls from 34 per cent and 30 per cent in 1950 and 2000, respectively, to 21 per cent.

In Europe, the median age of the population is expected to be 49.5 years, higher than in the Australian region (38.1), northern America (41.0) or Asia (38.3) where it is also rising.

The numbers of the oldest people in the population will rise. The UN estimated that in 2000 there were 69 million people aged 80 years or older. It expects this number to increase five-fold by 2050 to 378 million. In Japan, there is expected to be only 114 people for every person over 100 years of age (compared to 839 in the USA, 11,103 in India, 23,286 in Indonesia and 919 in Australia).

The Impact: Politics, Economics & Business

Realization of these trends will have important implications across economics, business and international relations.

The geopolitical consequences cannot be ignored. The change in Africa is one of the most striking features of this outlook. Will more developed parts of the world be able to ignore it? Africa will become the global source of low cost labour. Will a significantly entrepreneurial class emerge and will political institutions evolve in a way which would support industrial relocation to Africa? If that does not occur, will Africans, comprising over 20 per cent of the world's population, be content to watch the gap in living standards between themselves and the rest of the world widen? Probably not. How will they react? Injustice has a way of fostering violence and there are enough radical elements looking for a cause to fight if the opportunity is there.

Europeans, already reluctant participants on the global stage in many ways, are likely to become more insular with a heavier burden having to be carried by the USA in protecting the interests of the more developed countries.

There will, no doubt, be pressure for migration to Europe from northern Africa. Almost inevitably, this will cause further social and political tensions in Europe which would create more fertile ground for the nascent right-wing political groupings and a decoupling of political relationships between the USA (and its economic interests) and those of Europe.

Everywhere, however, resources will have to be shifted away from the interests of the relatively young in favour of older people. That will have to happen among both public and private sector providers of goods and services.

These effects are not so remote despite using 2050 as a projection horizon. Most of them are already evident.

The table on page 2 highlights **thebigpicture** view of how these trends might affect economic and business conditions.

Just as demographic forces played a key role in corporate growth profiles and market returns in the past thirty years, those forces will become less supportive. It will

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The Demographic Big Picture: Older and African *cont'd*

UN Population Projections					
Million people	1950	1975	2000	2025(p)	2050(p)
Europe	548	676	727	684	603
Northern America	172	243	314	384	438
Oceania	13	21	31	40	47
Africa	221	406	794	1,358	2,000
Asia	1,399	2,397	3,672	4,777	5,428
Latin America & Caribbean	167	322	519	695	806

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happen in relatively simple ways.

- Companies which have moved operations to, or invested in, Europe will find growth less than they had anticipated.
- Consumer goods companies (e.g. a company focused on developing drinks for young people) will find markets eroding and will have to rejuvenate relationships with consumers who they might have neglected or alienated.
- Financial institutions, dependent on providing home loans for young home buyers, might find alternative institutions emerge to support people for whom they had not been catering.
- Media companies with a positioning toward younger members of the population will see their audiences begin to shrink.
- Governments which had committed a substantial part of their budgets to primary and secondary education facilities and services might find their obsolescence embarrassing as the need for medical facilities and post-employment income support become more pressing needs among constituents.

From an investment standpoint, these factors are likely to be treated as they are in all cycles. Today, a company is likely to downplay the importance of such trends by referring to them as being long term (and, by implication, irrelevant) or describing their own position as special and asserting their possession of unique charac-

teristics which will limit detrimental effects. Treat this for what it is worth: a sign that these issues have not been seriously considered.

Then, at some stage, you will hear someone say "if only half the African population uses just one of my widgets every year my profit will ...". This is a sign that a bubble is beginning to form. The catalysts will be unclear but the forces for relocation will come suddenly and anyone without an African strategy will be seen as a financial laggard. Unwise commitments will be made.

As usual, an investor needs to escape the 'noise' and to focus on how companies in which they invest are beginning to conform to these pressures by reappraising their situation early, realistically and prudently.

Global Population Milestones		
World Population	Year Reached	Years to change by 1 billion
1 billion	1804	
2 billion	1927	123
3 billion	1960	33
4 billion	1974	14
5 billion	1987	13
6 billion	1999	12
7 billion	2012	13
8 billion	2026(p)	13
9.3 billion	2050(p)	17

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