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February 2015

# Multipolarity And Globalization: Incompatible Pairing

Presentation to:  
The 2<sup>nd</sup> Annual Texas Investors Summit - Houston

Marko Papic  
Chief Strategist  
*Geopolitical Strategy*

# A Word On Methodology

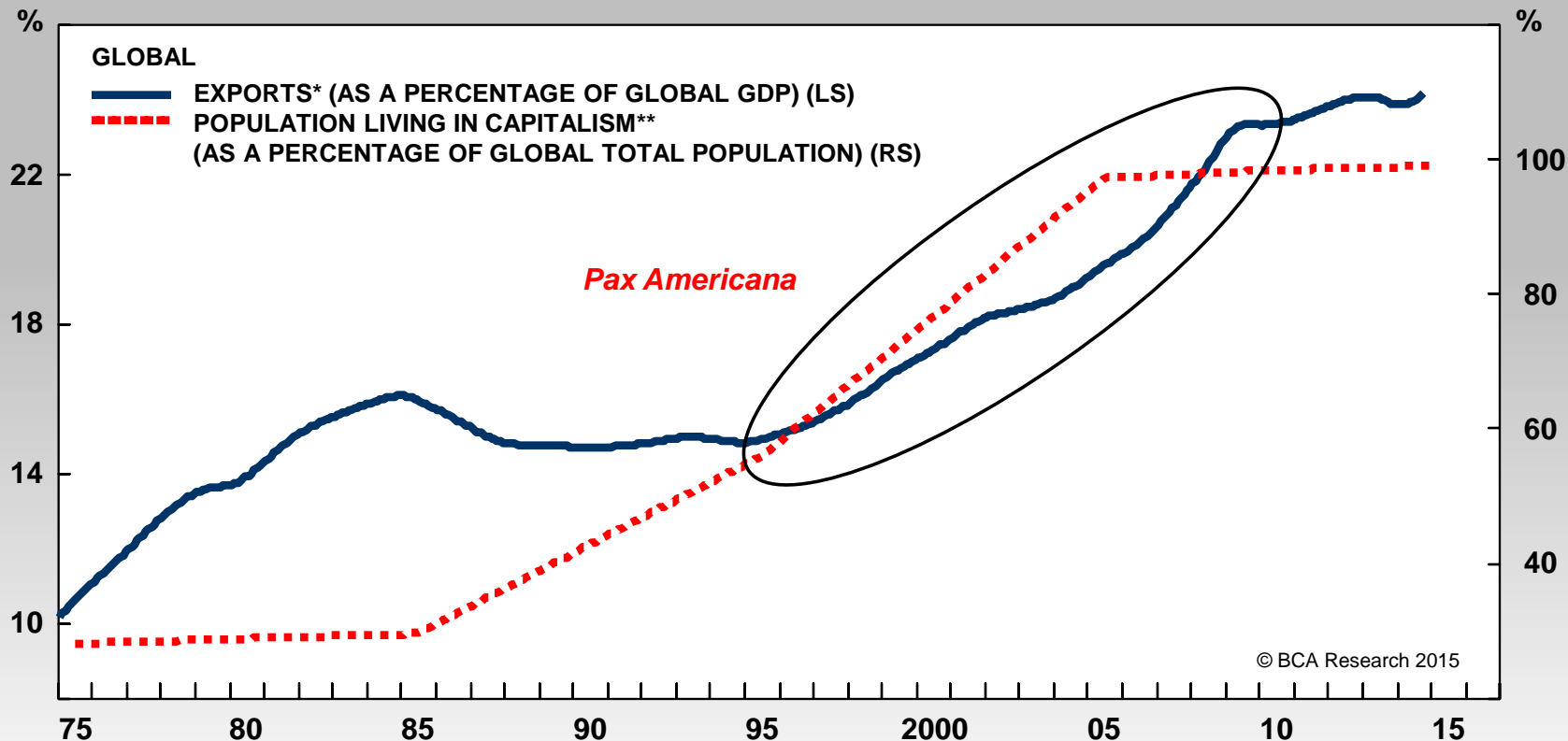
For (geo)political analysis to be investment-relevant, it has to...

1. Examine policymaker **CONSTRAINTS**, not their **PREFERENCES**
2. Maintain risk-neutrality
3. Reveal endogenous (geo)political assumptions, not fixate on exogenous ‘tail risks,’ or as Mark Twain said:

*“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”*

- **Keystone theme: Multipolarity continues**
  - *East Asia: Tensions temporarily subside*
  - *Middle East: Iran-Saudi proxy war in Iraq*
  - *Russia: Cold War Lite subsides and simmers*
- **EM: Bloodbath**
- **DM: U.S. political risks overstated, in Europe understated (but not existential)**

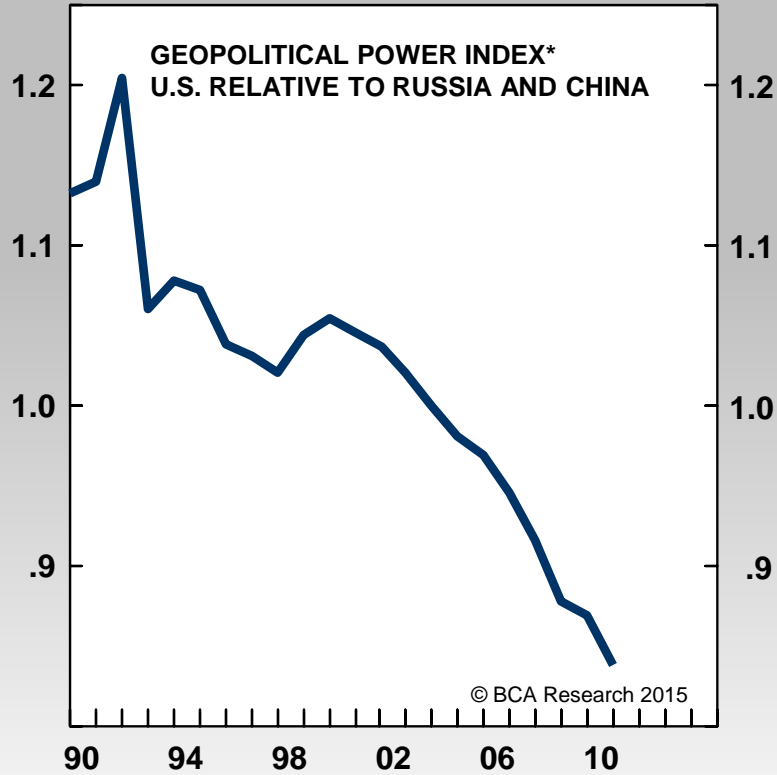
# Hegemonic Stability Has Underpinned Globalization



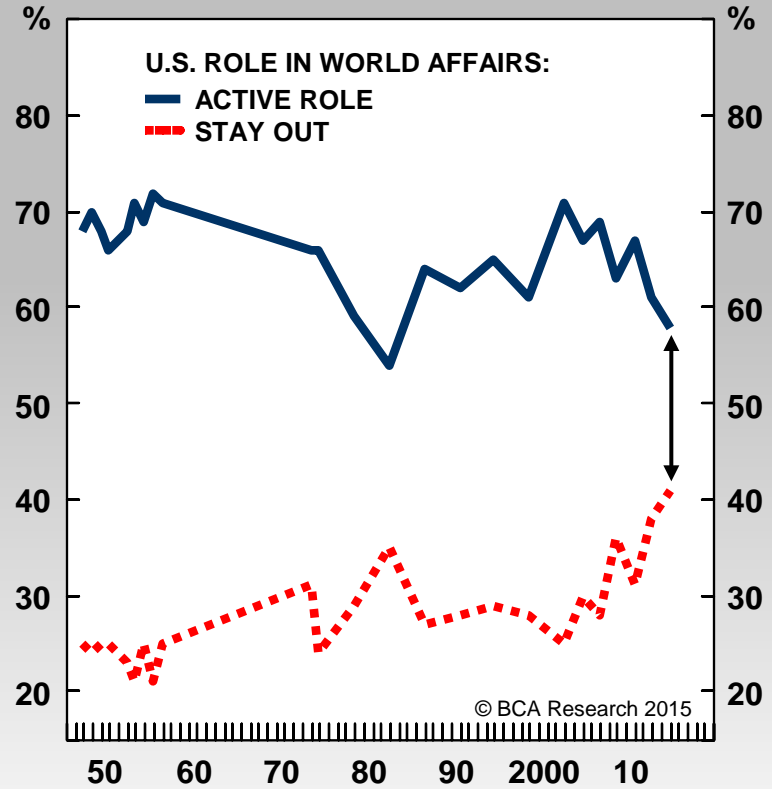
\* BASED ON IMF DATA, SHOWN SMOOTHED.

\*\* PERCENTAGE OF GLOBAL POPULATION LIVING IN COUNTRIES WITH FRASER INSTITUTE ECONOMIC FREEDOM INDEX EQUAL TO OR GREATER THAN FIVE. BASED ON FRASER INSTITUTE AND WORLD BANK DATA.

# Hegemonic Stability Evolving Into Multipolarity

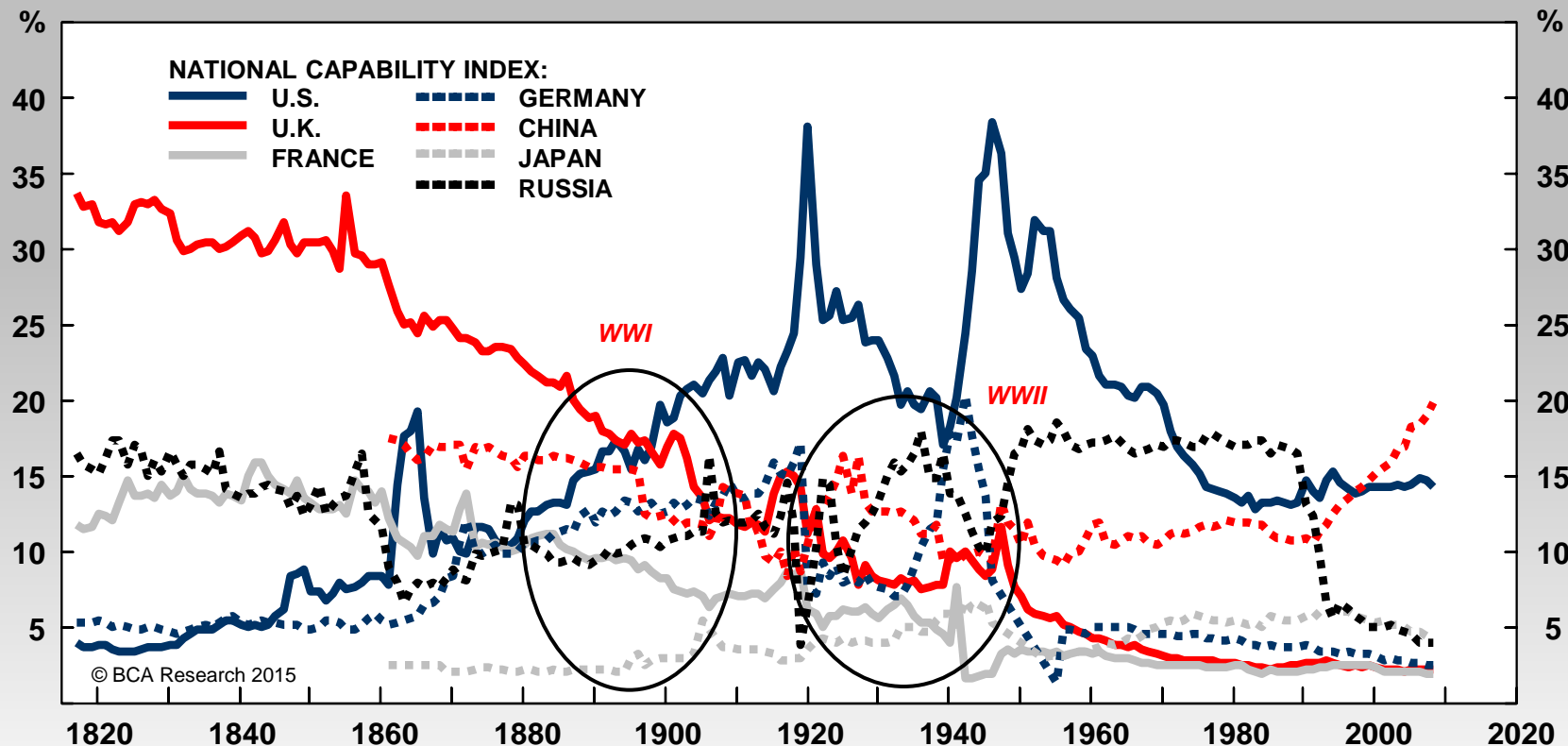


\* THE GEOPOLITICAL POWER INDEX MEASURES A COUNTRY'S POWER BASED ON A WEIGHTED AGGREGATION OF ITS ECONOMIC, MILITARY, POLITICAL, TECHNOLOGICAL, AND GEOGRAPHICAL ENDOWMENTS. SOURCE: BCA CALCULATIONS.



RESPONDENTS WERE ASKED THE QUESTION, "DO YOU THINK IT WILL BE BEST FOR THE FUTURE OF THE COUNTRY IF WE TAKE AN ACTIVE PART IN WORLD AFFAIRS OR IF WE STAY OUT OF WORLD AFFAIRS?". SOURCE: CHICAGO COUNCIL SURVEY 2014.

# Multipolarity Is Messy And Dangerous

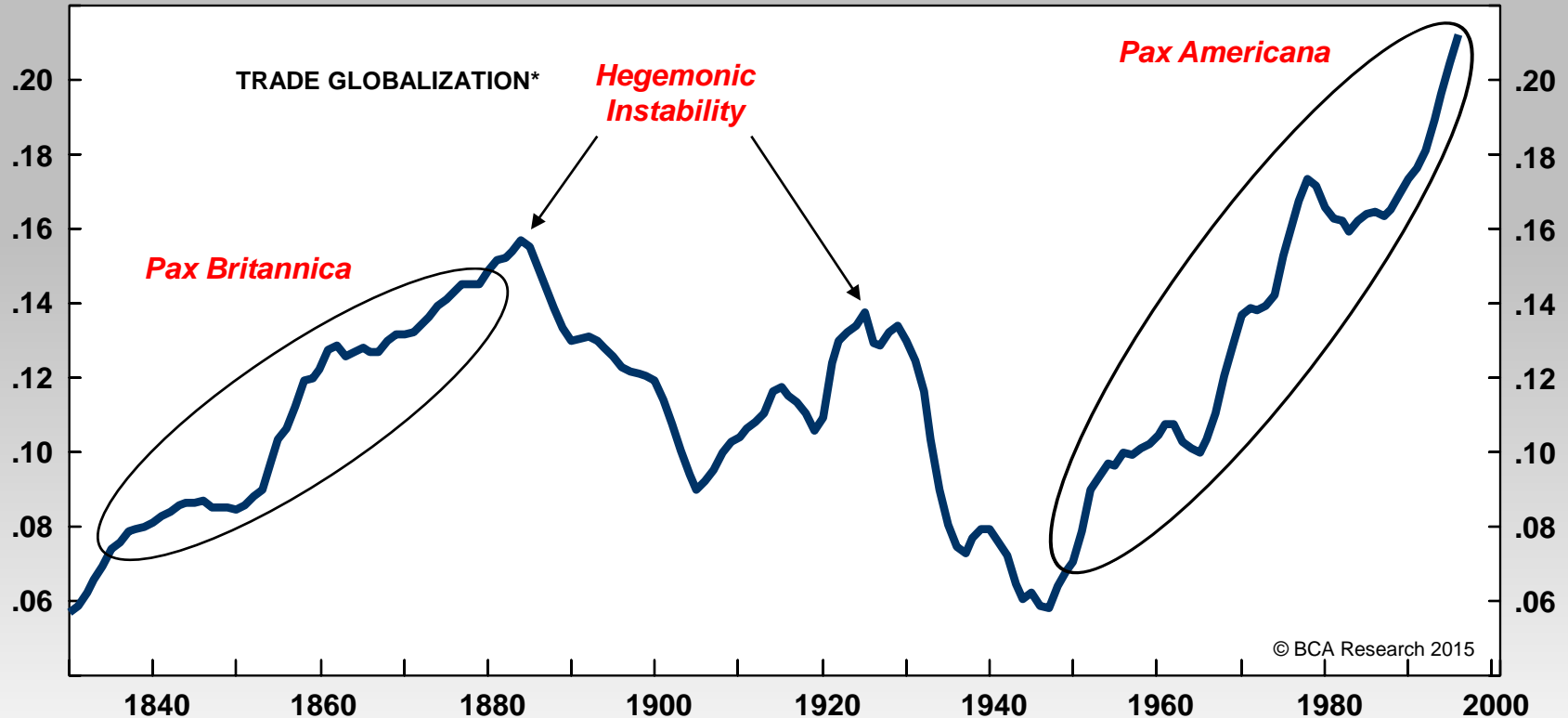


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SOURCE: CORRELATES OF WAR DATABASE BY SINGER, BREMER, AND STUCKEY.

THE NATIONAL CAPABILITY INDEX MEASURES THE MATERIAL CAPABILITY OF COUNTRIES IN THE FORM OF IRON AND STEEL PRODUCTION, MILITARY EXPENDITURES AND PERSONNEL, PRIMARY ENERGY CONSUMPTION, AND TOTAL AND URBAN POPULATION.

# Multipolarity Will Erode Globalization

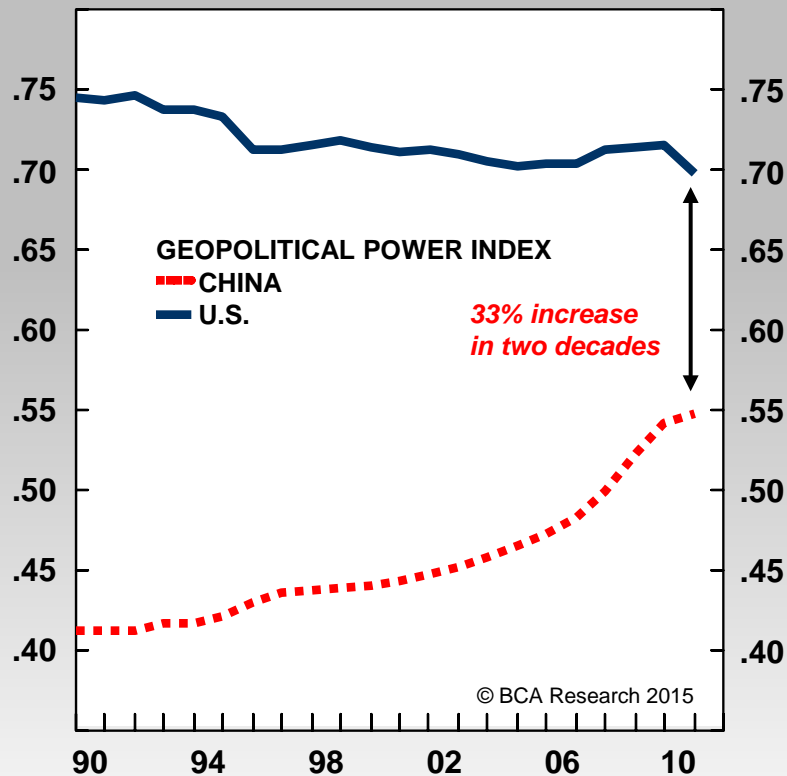


# Investment Conclusions

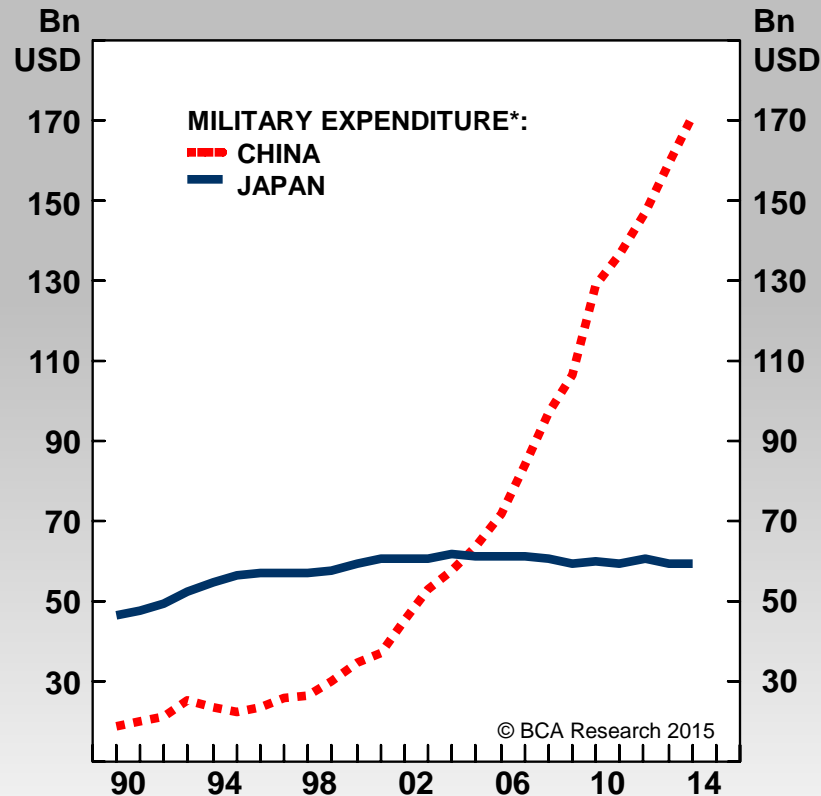
- **(Geo)political risks will increase in frequency – search for safe-haven assets continues**
- **Competition for commodities between competing regional powers will intensify**
- **EM needs access to foreign capital inflows and foreign markets for sustained growth**
  - **DECADE THEME: DM over EM**
- **Global savings glut will be assuaged**
  - **Inflation may not be dead**



# East Asia Tensions Are On A Secular Rise

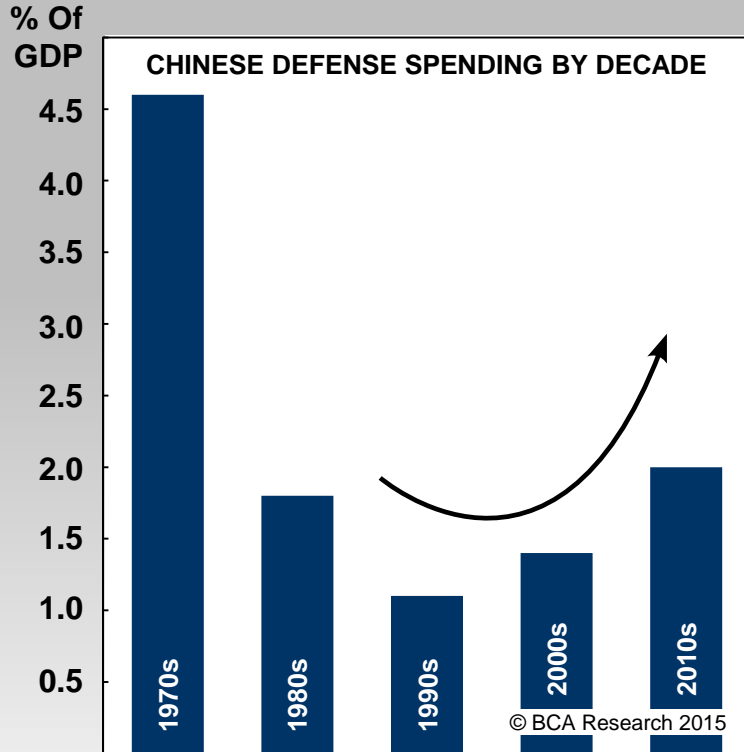


NOTE: THE GEOPOLITICAL POWER INDEX MEASURES A COUNTRY'S POWER BASED ON A WEIGHTED AGGREGATION OF ITS ECONOMIC, MILITARY, POLITICAL, TECHNOLOGICAL, AND GEOGRAPHICAL ENDOWMENTS. SOURCE: BCA CALCULATIONS.

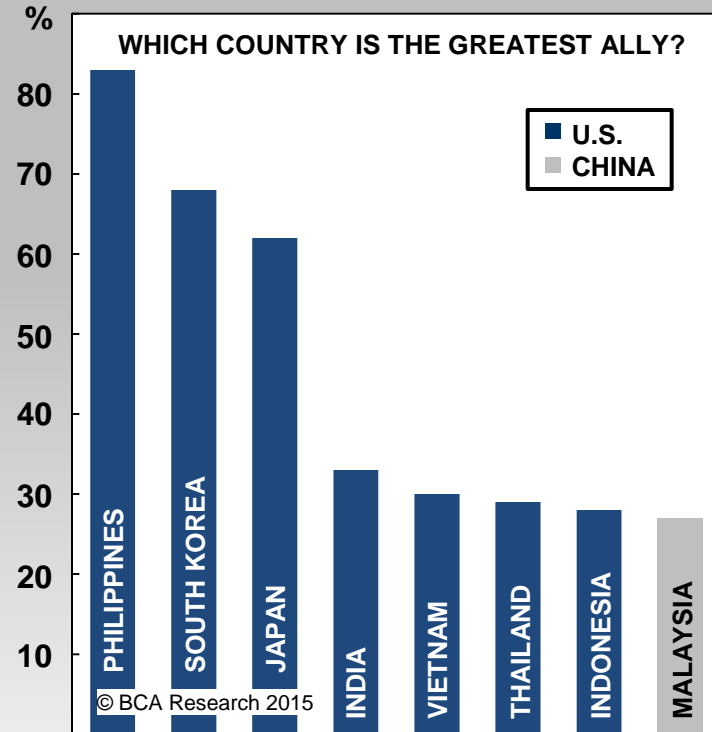


\* SHOWN IN CONSTANT 2011 U.S. DOLLARS. SOURCE: STOCKHOLM INTERNATIONAL PEACE RESEARCH INSTITUTE.

# China: Armed And Friendless

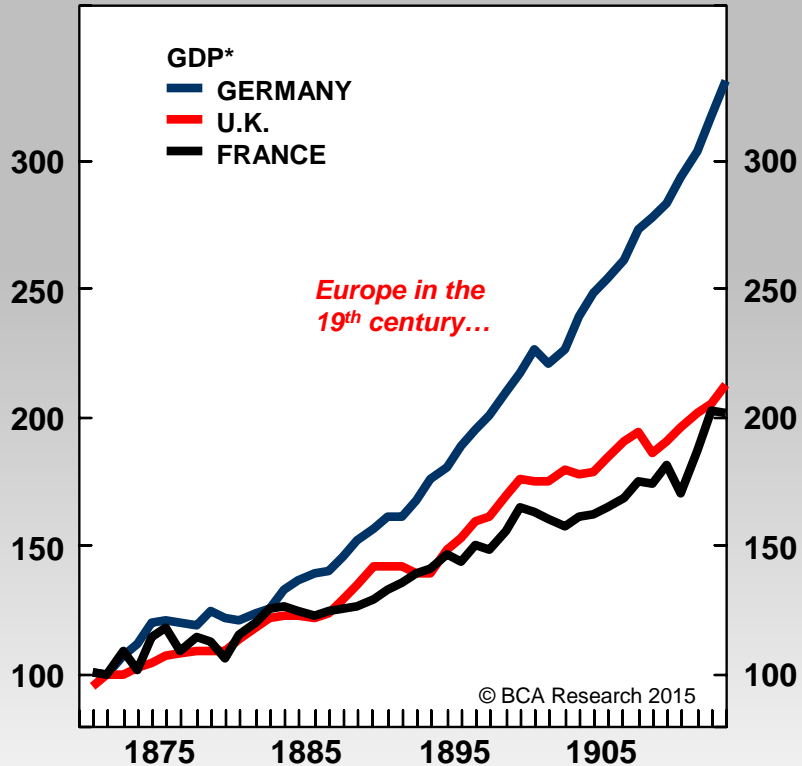


SOURCE: DIMITRAKI AND LIU, "THE MILITARY EXPENDITURE-ECONOMIC GROWTH NEXUS: EVIDENCE FROM CHINA, 1950-2011," BRUNEL UNIVERSITY, MARCH 2011, AND SIPRI.

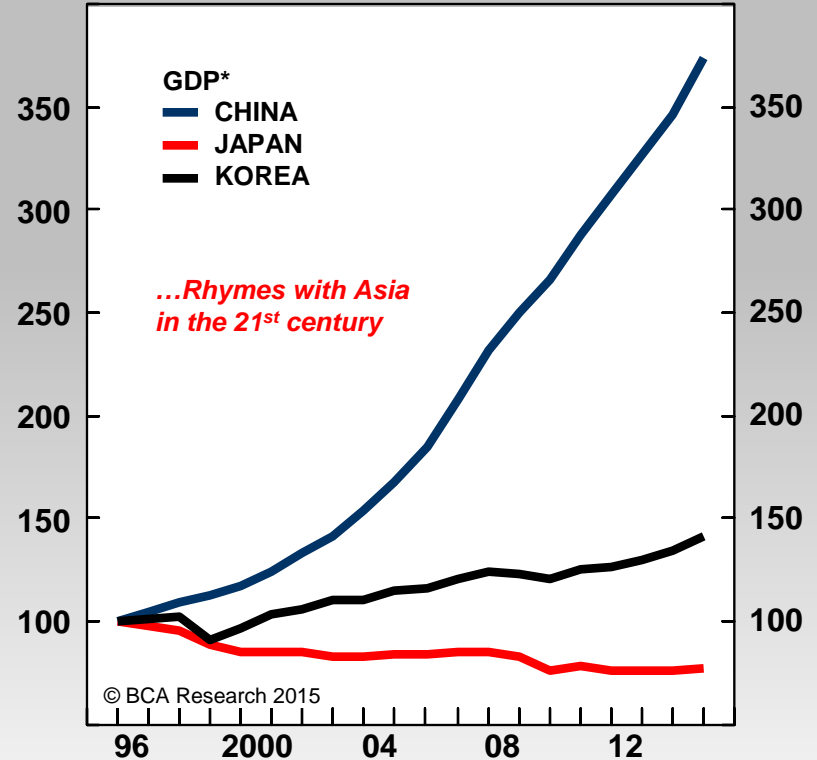


NOTE: THE NUMBER OF RESPONDENTS WHO ANSWERED U.S. OR CHINA TO THE QUESTION, "WHAT COUNTRIES CAN YOUR COUNTRY MOST RELY ON AS DEPENDABLE ALLIES IN THE FUTURE?" SOURCE: PEW RESEARCH CENTER, JULY 2014, "GLOBAL OPPOSITION TO U.S. SURVEILLANCE AND DRONES, BUT LIMITED HARM TO AMERICA'S IMAGE."

# History Is Not Reassuring



\* IN 1990 INTERNATIONAL GEARY-KHAMIS DOLLAR;  
SOURCE: ANGUS MADDISON, REBASED TO 1870=100.

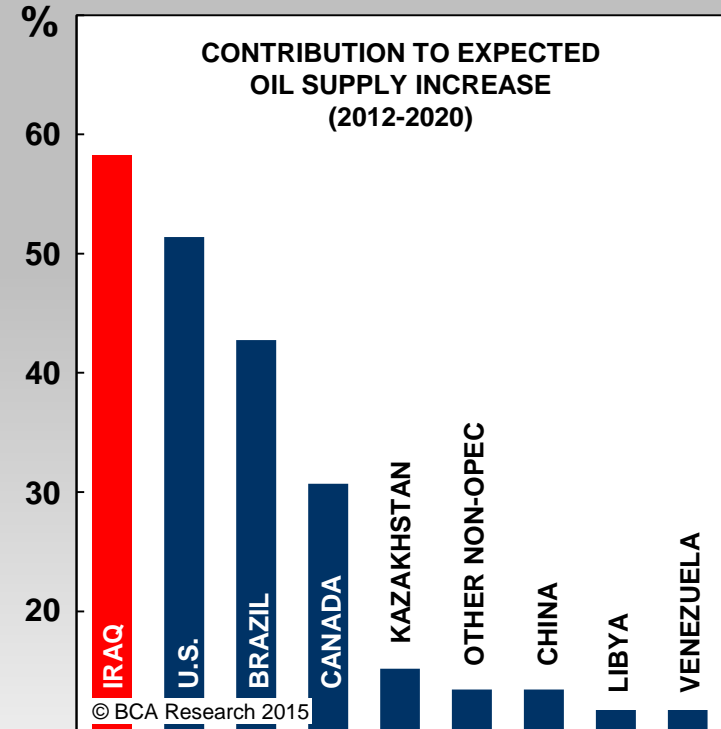
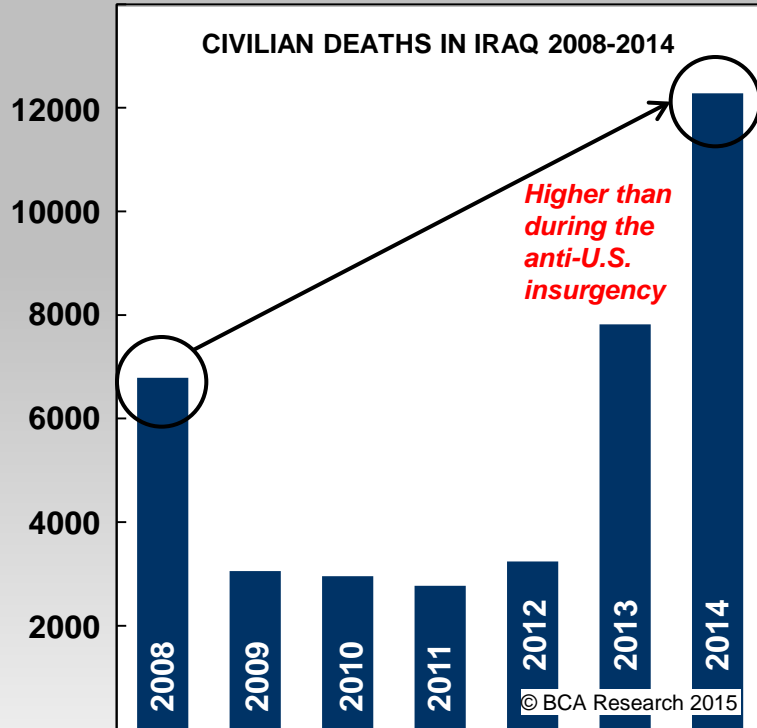


\* AT PURCHASING POWER PARITY, IN REAL TERMS;  
SOURCE: IMF; REBASED TO 1995=100.

# Middle East: Second Derivative Of Multipolarity

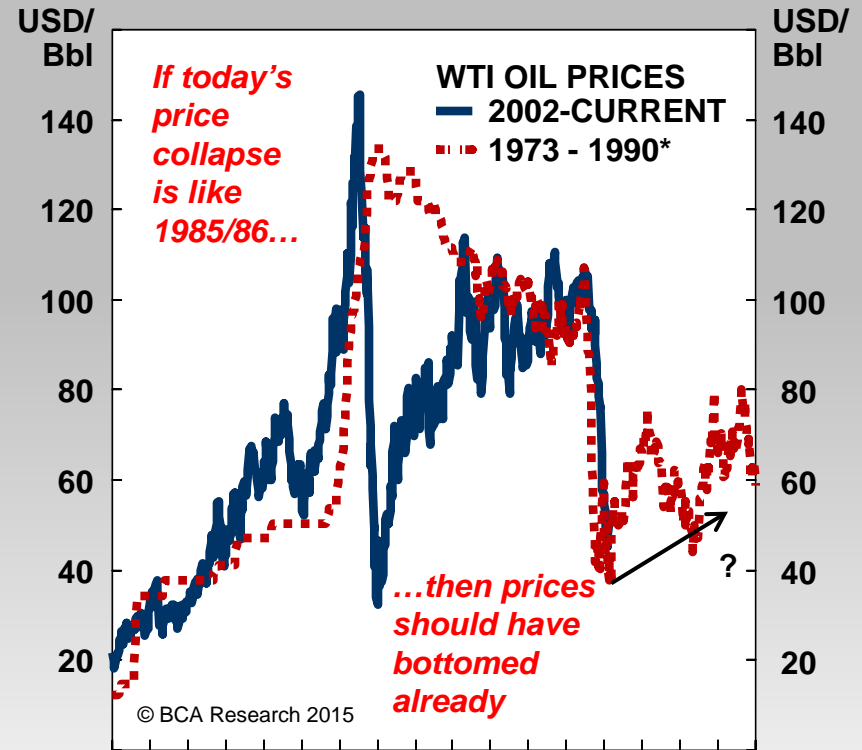
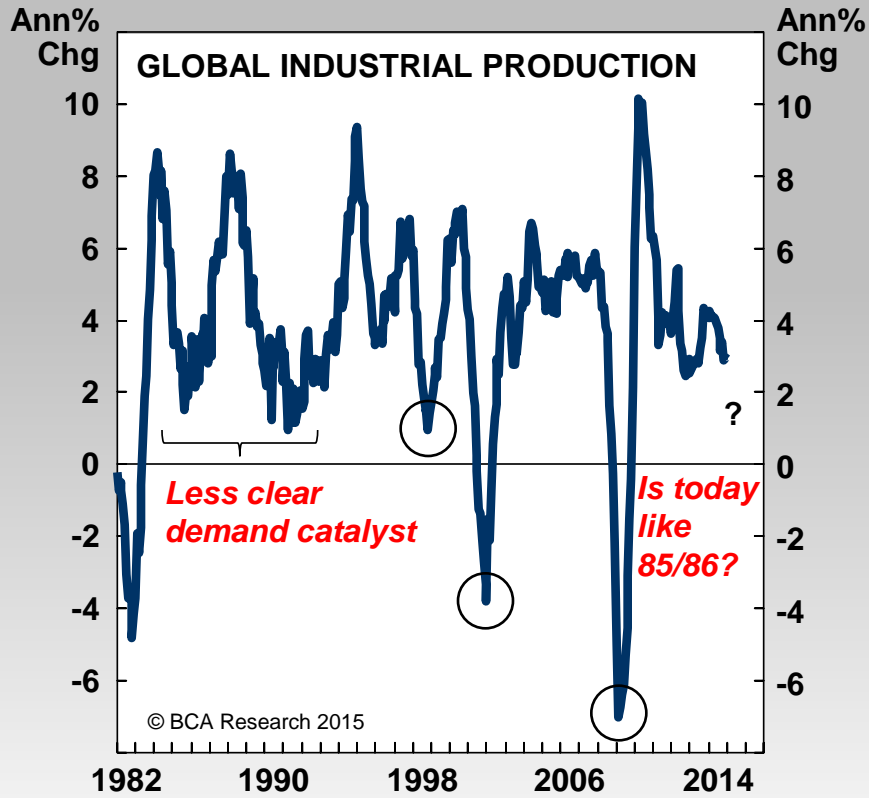


# Middle East: Why Iraq Matters



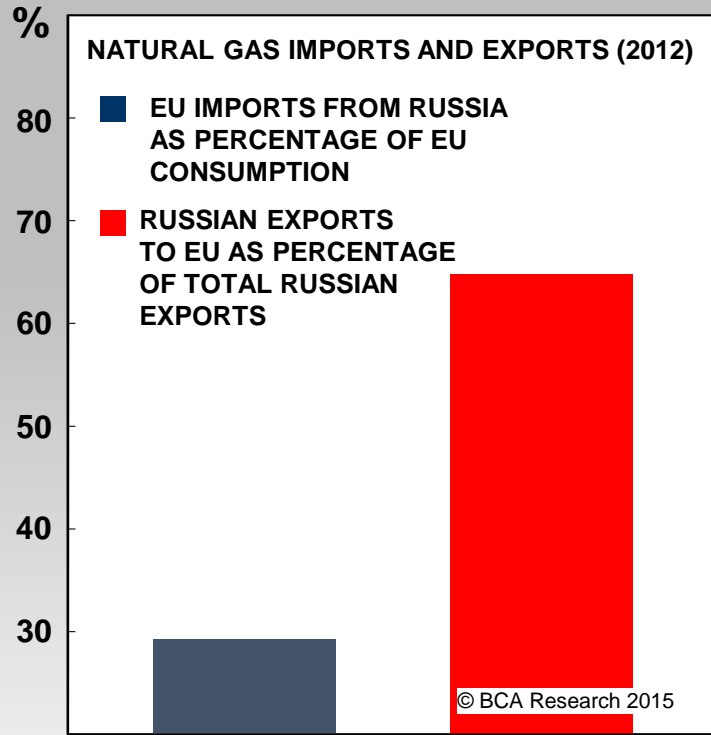
SOURCE: WORLD ENERGY OUTLOOK 2013, INTERNATIONAL ENERGY AGENCY.

# Oil Price Collapse: Is There A Clear Demand Driver?

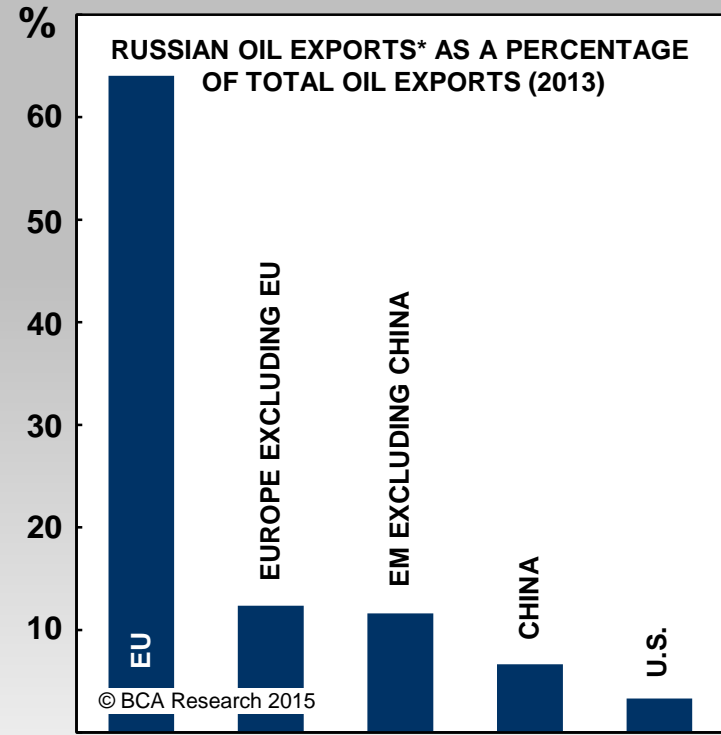


\* OIL PEAK IN NOVEMBER 22, 1985 IS REBASED TO THE JUNE 20, 2014 PEAK LEVEL.

# Russia-West Tensions Will *Simmer*, Not Blow Up



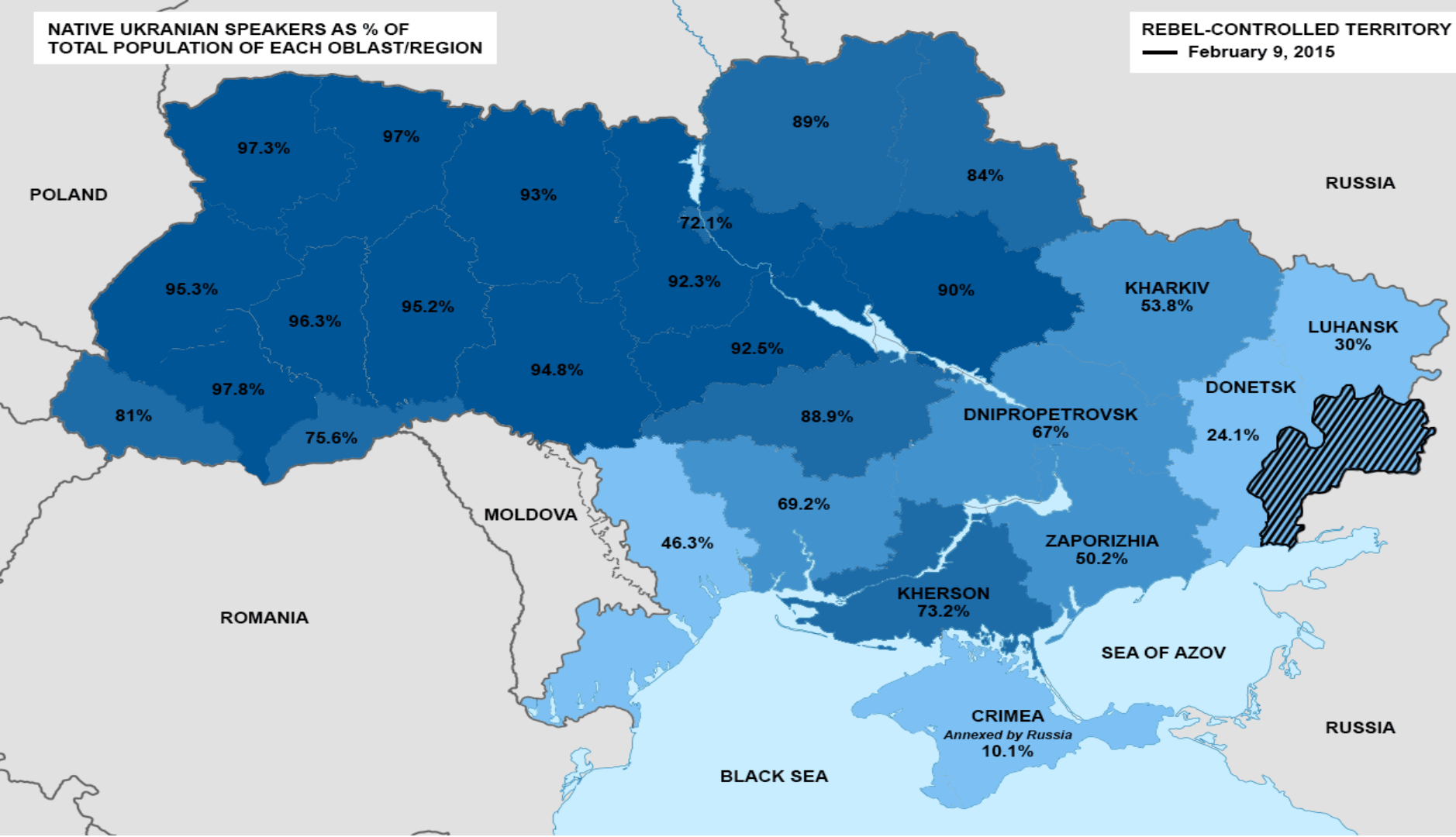
SOURCE: BRITISH PETROLEUM.



\* SOURCE: UNCTAD.

**NATIVE UKRANIAN SPEAKERS AS % OF  
TOTAL POPULATION OF EACH OBLAST/REGION**

**REBEL-CONTROLLED TERRITORY**  
— February 9, 2015





# Why Not Buy Russia On De-Escalation?

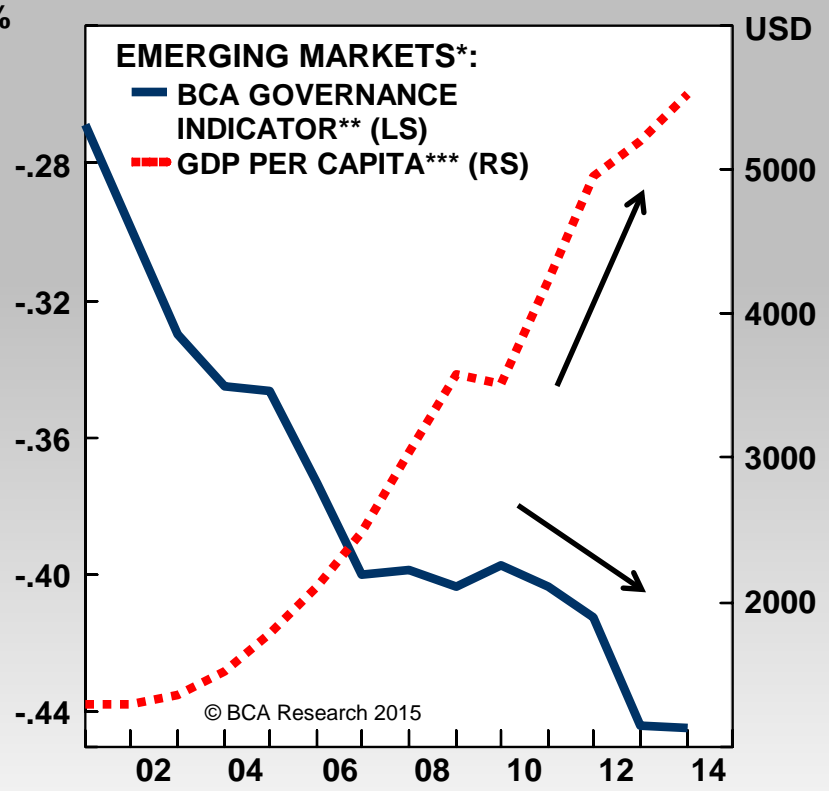
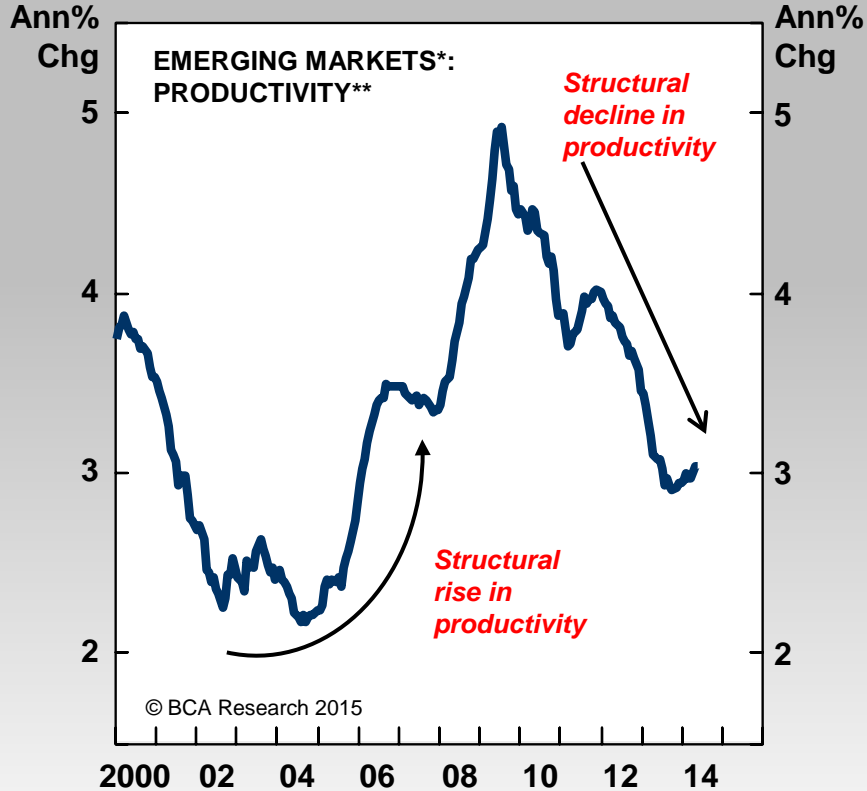


\* SOURCE: THOMSON/IBES.



\* PERCENTAGE PREMIUM / DISCOUNT RELATIVE TO EM BENCHMARK.  
\*\* SHOWN ADVANCED; SOURCE: WORLD BANK.

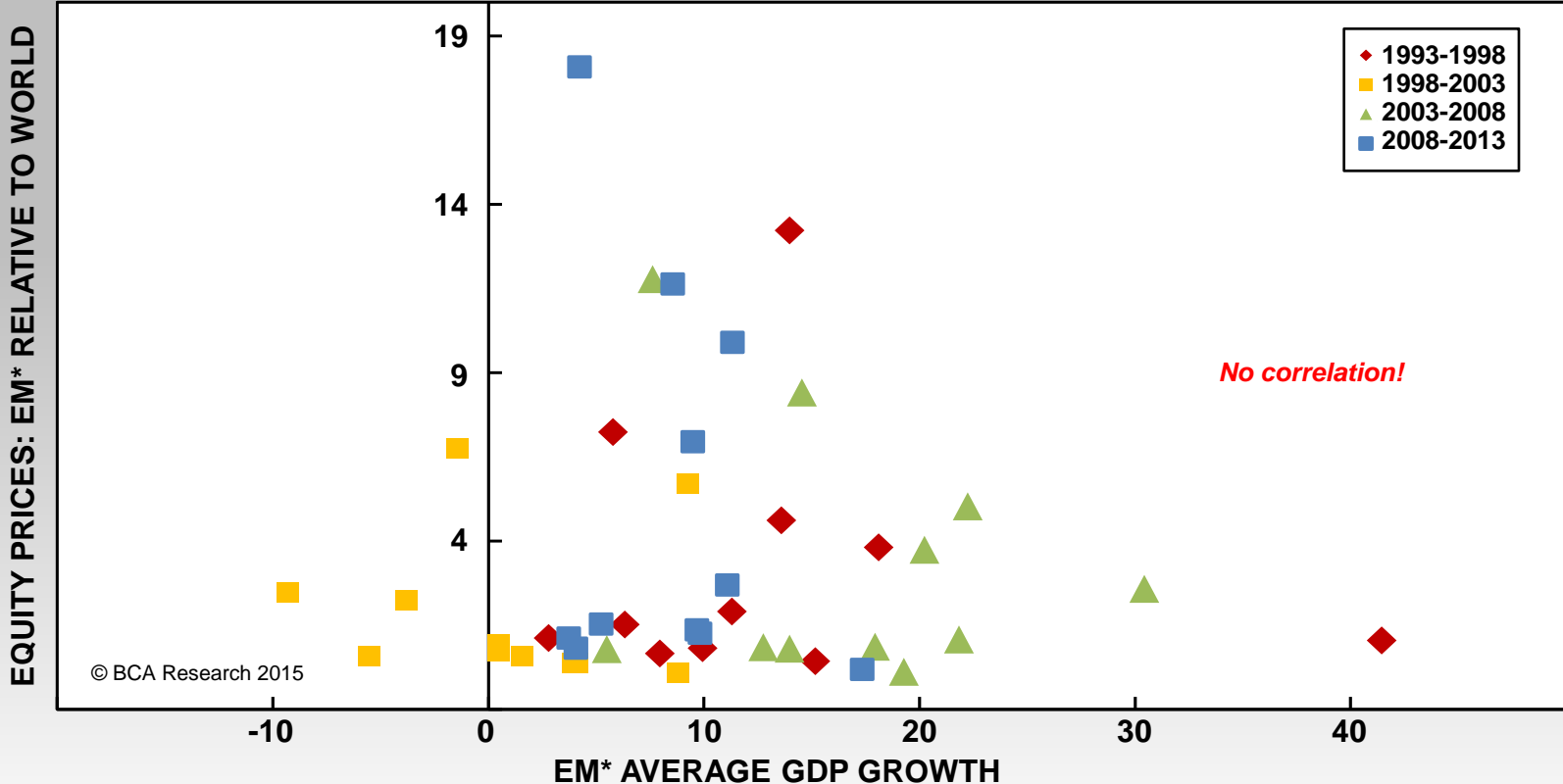
# EM: Bloodbath – Structural Reforms Are Needed



\* MARKET CAP-WEIGHTED AGGREGATE OF 21 EM ECONOMIES.  
 \*\* SOURCE: THE CONFERENCE BOARD, TOTAL ECONOMY DATABASE

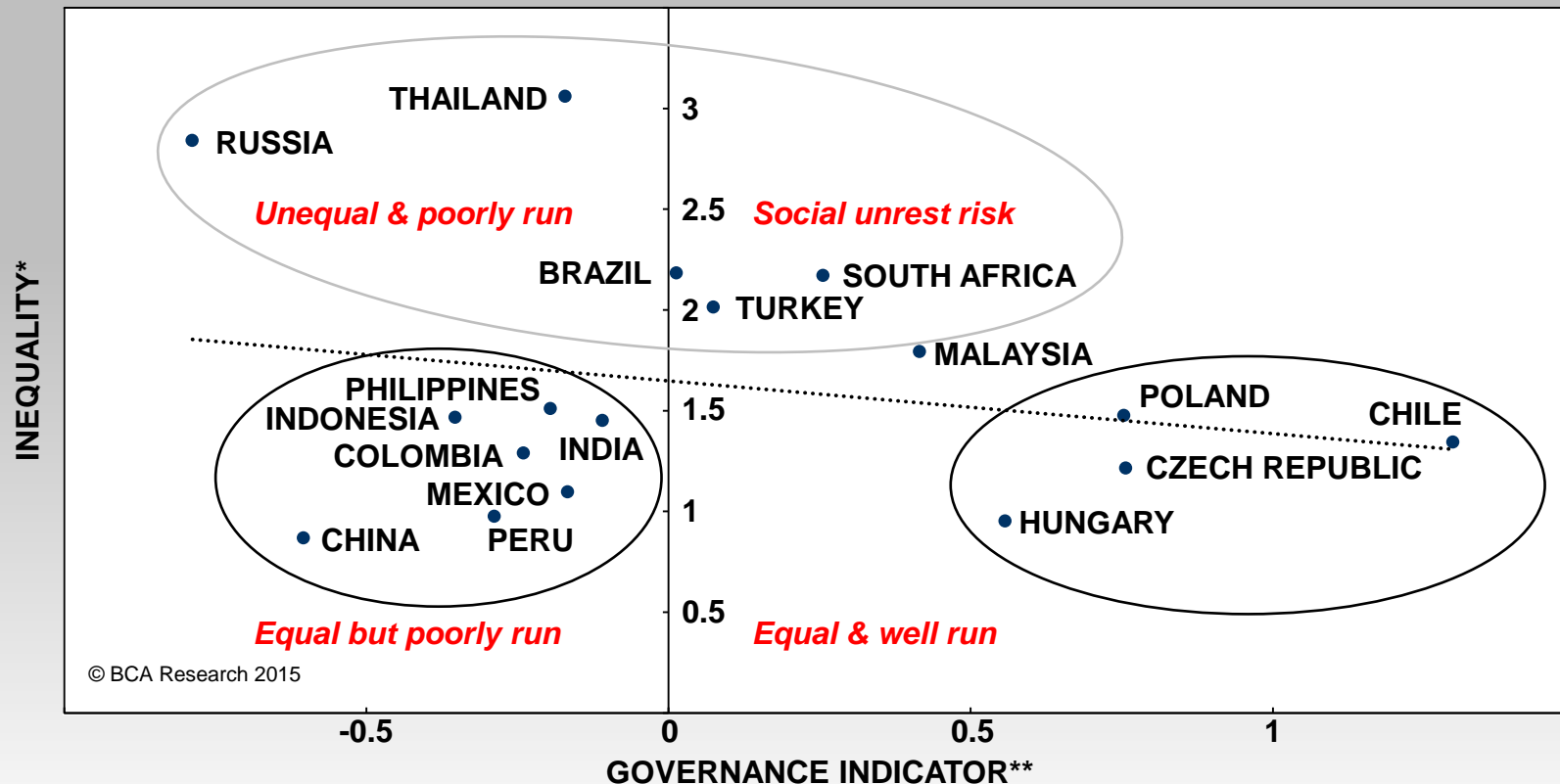
\* INCLUDES CHINA, BRAZIL, RUSSIA, INDIA, MEXICO, INDONESIA, TURKEY, MALAYSIA, THE PHILIPPINES, THAILAND, AND SOUTH AFRICA.  
 \*\* SOURCE: WORLD BANK AND BCA RESEARCH.  
 \*\*\* WEIGHTED BY POPULATION.

# Growth Is Not Correlated With Equity Returns

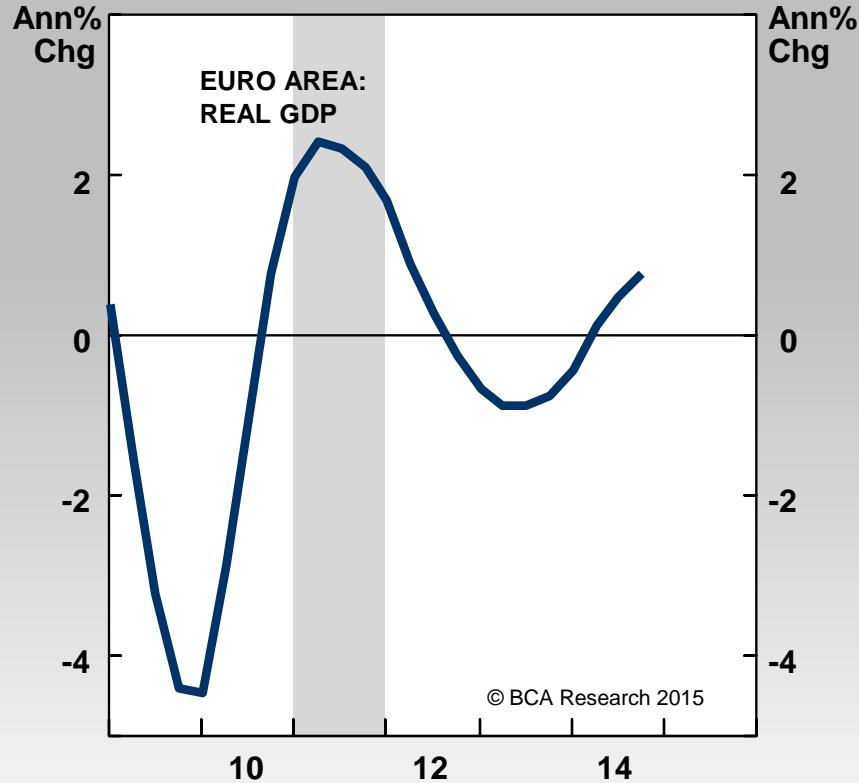


SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION) AND IMF WORLD ECONOMIC OUTLOOK.  
\* NOTE: DATAPPOINTS REPRESENT CHINA, BRAZIL, INDIA, RUSSIA, SOUTH AFRICA, SOUTH KOREA, TAIWAN, MALAYSIA, CHILE, MEXICO, AND SINGAPORE DURING FOUR SEPARATE TIME PERIODS.

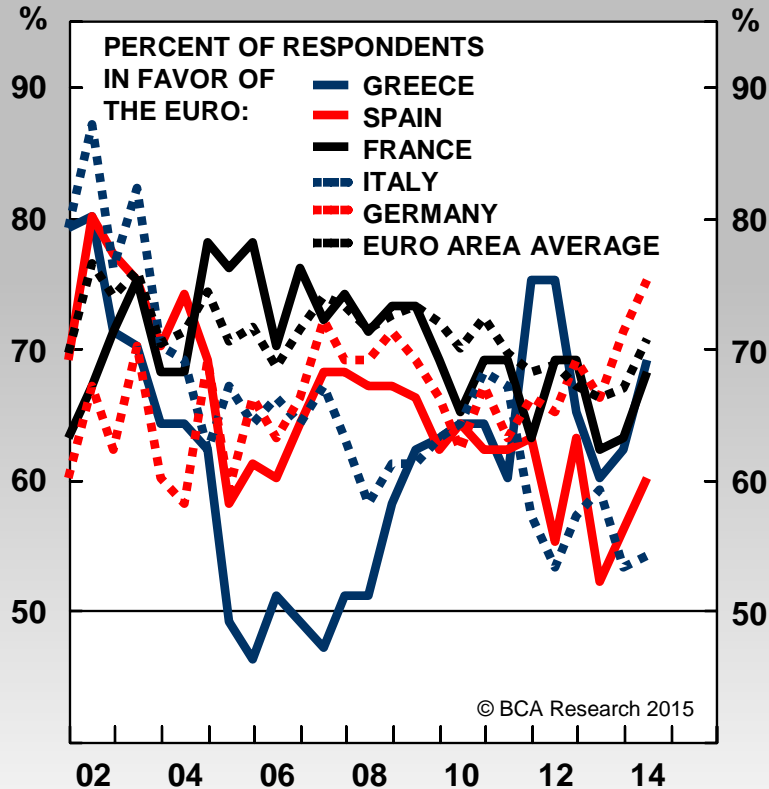
# Gauging Risk Of Social Unrest



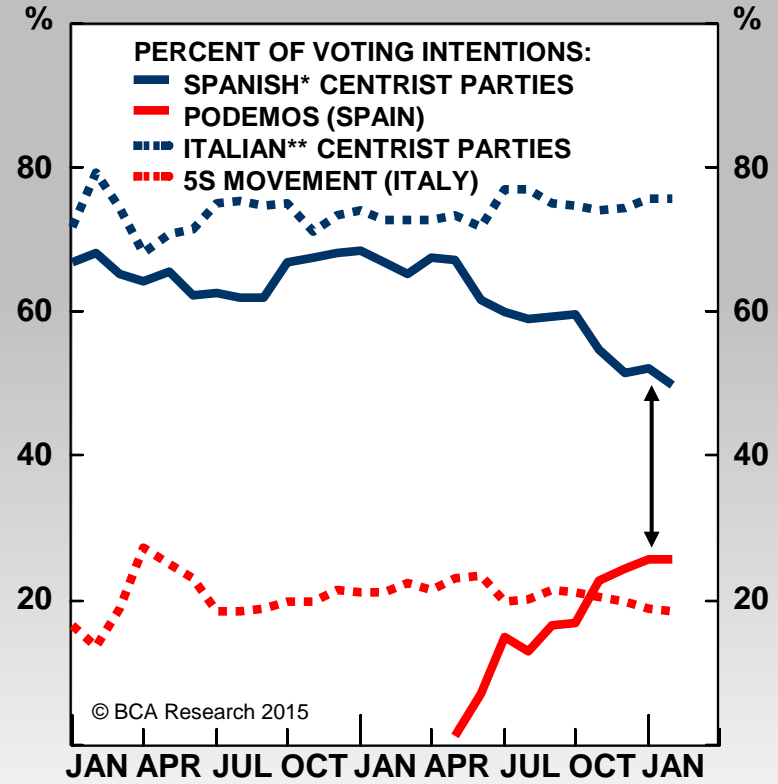
# ...But The Economy Is Actually Worse Off Than In 2011



# European Risks Appear To Be Under Control...



SOURCE: EU COMMISSION.



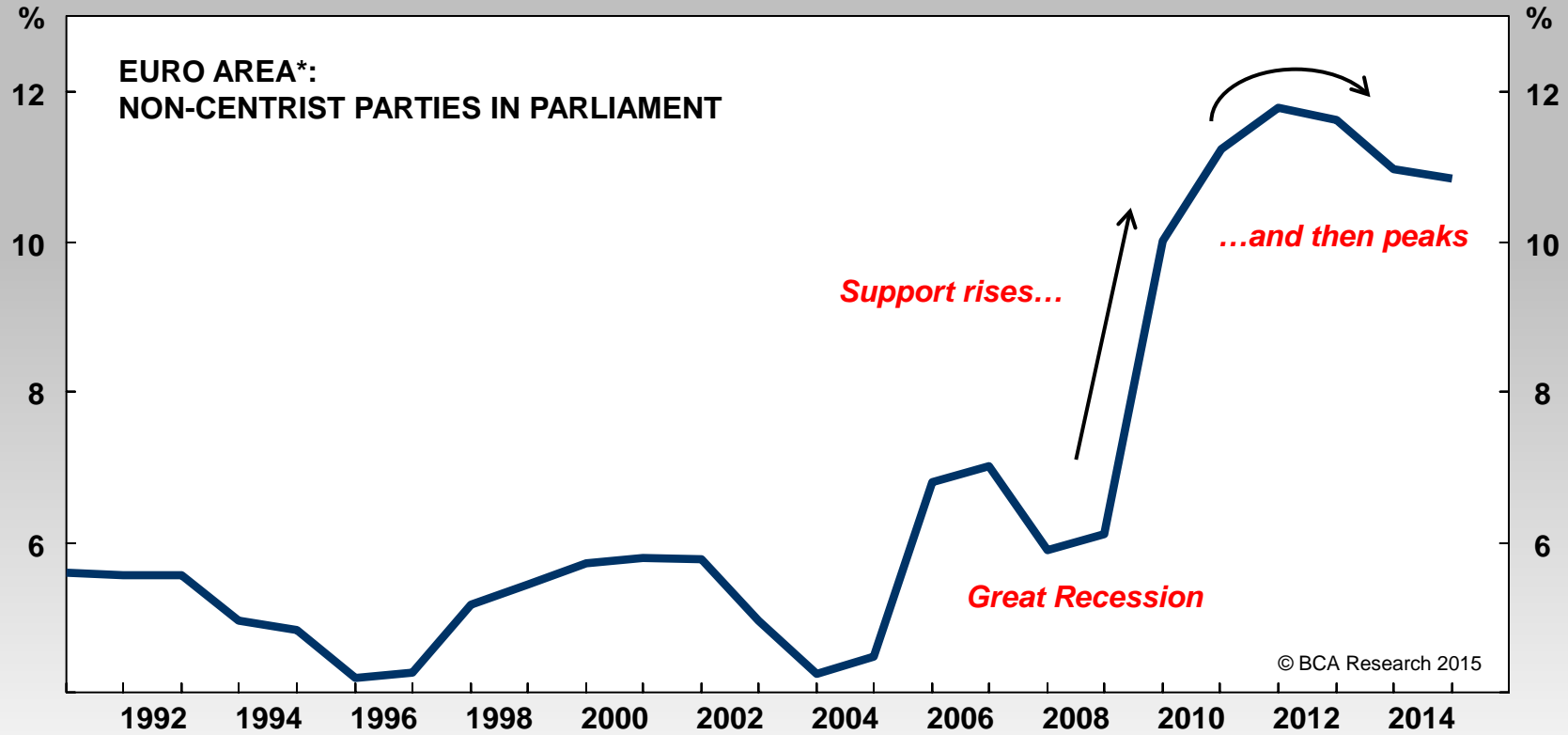
JAN APR JUL OCT JAN APR JUL OCT JAN 2013 2014 2015

\* INCLUDES THE PEOPLE'S PARTY, SOCIALIST WORKER'S PARTY, AND THE UNION, PROGRESS AND DEMOCRACY.

\*\* INCLUDES THE PARTIES IN THE CENTRODESTRA COALITION AND THE CENTROSINISTRA COALITION.

ALL SERIES ARE AGGREGATED FROM VARIOUS POLLING DATA.

# Europe: Populist Appeal Has Plateaued



\* INCLUDES AUSTRIA, BELGIUM, FINLAND, FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, PORTUGAL, AND SPAIN.

# U.S.: Polarization In Context

