PERSPECTIVE

Readers' Questions Answered

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While I can't always respond to each of your questions directly, I do enjoy hearing from my readers and followers and value your feedback. I am quite delighted to see people from all over the world reaching out via my blog, Twitter and LinkedIn. Keep them coming! Here are a few—hopefully one of my responses will answer a question of yours.

Q: I read your recent frontier markets blog and you didn't mention Bangladesh. Can you share your thoughts on opportunities therein? *Nazib in Bangladesh (via Twitter)*

A: We view Bangladesh as one of the more exciting frontier markets and now that Pakistan has been upgraded and moved out of the MSCI Frontier Markets Index to the MSCI Emerging Markets Index, we think Bangladesh will become more important. We have been active there and continue to look for potential investment opportunities.

I really love Bangladesh and its people. During my most recent visit I had an opportunity to travel to the countryside and visit various factories and farms, and found the people so friendly and hospitable. On the farms and in the factories I could see how skillful and hardworking the people are and how gradually they are improving their standard of living.

Q: I don't want to sound naïve, but is populism like a cycle or phase society goes through? For example, capitalism works well in providing jobs and efficient allocation of resources. But over time, many workers get fed up seeing their labors amounting to very little in way of achievement and certain candidates appeal to them, sprouting populism, until the policies fail and reforms are needed. Your thoughts? – *Walter in the United Kingdom (via LinkedIn)*

A: That's certainly not naïve sounding because it is an issue which is challenging all of us. The multilateral agencies such as the World Bank, International Finance Corporation and others realized in the 1970s that a market-oriented system was the best approach to achieve economic growth and lift people out of poverty. As you pointed out, a market-based system is great for efficiently allocating resources. However, the drawback is the rapid growth in wealth is usually not distributed equally, so we end up with great gaps in income, not only within one country but all over the planet.

The socialist/communist answer to the issue is for the state to take from the rich and give to the poor. However, this has led many of the resourceful capitalists—the allocators of capital—to abandon their efforts and sometimes even leave the country in question. The result is that less wealth is generated.

Clever politicians feed off the anger of the "have-nots" and appeal to them with promises of higher wages, free housing, free food, etc. etc. That is called populism. Unfortunately, once populist-oriented politicians have grasped power, they often tend to enrich themselves and squander their country's wealth.

There is no easy answer and I think a combination of philosophies is probably what we need. China is attempting this combination of capitalism (where market forces determine the allocation of capital) and socialism. The goal is for the state to ensure a better distribution of benefits to all the population. Of course, no system is perfect, and it's no secret that the challenges are great there. China's recent aggressive anti-corruption program is an indication of the problem. Nevertheless, we remain optimistic about China's prospects.

Q: What are your thoughts on Pakistan? Any plans to visit? **–** *Imran in Pakistan (via LinkedIn)*

A: From an investor standpoint, we think Pakistan is really doing great. Its graduation from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index has energized the market, so shares of many Pakistani companies have appreciated nicely so far this year. We are happy about that because we had been investing in Pakistan for many years before this change.

I have not visited Pakistan recently but would like to do so. One of our analysts was recently there and came back with favorable reports and recommendations for us to consider. I think Pakistan is on its way to higher growth, not only because of the reforms taking place there but also because of its link with China. China is helping to improve Pakistan's infrastructure in connection with China's "One-Belt-One Road" program which would link Asia by road and rail to the Middle East through Pakistan. We see this as a great idea and one that could benefit Pakistan.

Q: It would be great if you could elaborate on the aspect of mobile finance. While companies are working hard on it, the technological and legal infrastructure to speed up mobile finance and other kinds of cashless payment still need a lot of development in emerging (and of course frontier) markets.- *Hanh in Singapore (via LinkedIn)*

A: Mobile finance is growing quickly all over the world. In some countries where laws were not in place to limit or restrict money transfers and other such financial activities (such as in Kenya), mobile finance has exploded. Generally in countries where there are no complex banking and finance laws (as we generally find in developed countries) the potential for rapid introduction of mobile finance is excellent. So, we have seen many emerging-market countries surpassing the developed markets in this regard.

Nevertheless, cashless payment is developing at high speed. I experience electronic payment systems nearly everywhere in the world I visit, particularly in Asia. It's a wave of the future that can't be stopped, not only because it is so convenient and efficient, but because the rise of Internet shopping and banking makes such technology essential. The identify-card program the Indian government has instituted is enabling mobile banking for tens of millions of people who previously never had a bank account.

Q: How do you see Turkey today? *(Christine in Singapore, via Twitter)*

A: Turkey is facing many challenges not only because of a recent constitutional change, but because of the ongoing Kurdish conflict and the ongoing war in Syria. Nevertheless, the country is still a very important economy with a vibrant capital market that I think international investors shouldn't completely ignore. The perceived risk has risen as a result of the challenges mentioned above, but we still believe that investments in the country hold promise. We currently favor consumer-oriented companies and we will continue to seek potential opportunities in Turkey.

Q: Do you think Brazilian assets provide good value and sufficient margin of "safety" vs. other emerging markets? **–** *Toni in California (via LinkedIn)*

A: While Brazil has faced some turmoil of late, its stock market and currency has been able to recover from their absolute lows. While there have been corrections from a longer-term uptrend, we think Brazil is on the path to growth in the year ahead, simply because its anti-corruption movement should bring government and legal changes which will hopefully prevent the squandering of resources we've seen in the past. We see good value in selective stocks in Brazil, but we also realize there will be setbacks and corrections. We currently think buying on those price corrections could prove a good long-term strategy.

Q: I read your post about Argentina and was wondering if you have anything to highlight about Chile? – *Ancilla in Chile (via LinkedIn)*

A: Chile's government and political system is one of the most forward-looking among countries around the world. Given the importance copper exports play in Chile's economy, the government was clever in planning for the future to ensure copper price slumps wouldn't push the overall economy into a corresponding slump. It established emergency funds to help insulate the economy against volatility in copper prices. That said, the recent government has been less business friendly and has embarked on populist policies which could create problems in attracting new investment going forward. Changes in contract terms of privatized utilities is one case in point. We are watching the situation there carefully.

Q: Do you think China's debt downgrade implies India may receive a greater share of investments in the future?
– *Pratik in India (via Twitter)*

A: China's downgrade could result in more funds flowing to India instead of China but I don't think it will be significant at this stage because the debt downgrade was quite small and still kept China in the investment-grade category. Also, I think it will be necessary for India to make investing in the country easier not only for foreign investors but local investors, too.

Bureaucratic hurdles are still quite significant in India. Being a vibrant democracy means that even if the federal and state governments give approvals for projects, local resistance could kill the projects or delay them to the extent where investors simply give up out of frustration. But even with these barriers, we believe India remains a very attractive destination for investors.

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