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SPECIAL REPORT
**Global Overview: The Milken Institute
Global Conference 2017**

Globalization in the Crosshairs?

By: Jim Altenbach, CFA

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In May of this year, over 4,500 attendees and 700 thought-provoking panelists from around the world gathered in Los Angeles, California, USA, for the 20th annual Milken Institute Global Conference. Speakers included Nobel Prize winners, top industry leaders, scientists and heads of state, including Treasury Secretary of the United States Steve Mnuchin, former Vice President Joe Biden, former President George W Bush, Eric Schmidt, Tony Blair, Bill Gross, and Stephen Schwarzman. Almost 200 panel sessions offered a global overview of pressing questions facing investors and decision-makers. There were numerous panels on technologies that are fundamentally changing not just society, but business and investing. We present topics of interest to those with an eye toward growth, progress, and innovation, including an expanded section previewing the backlash to globalization, and the future to come.



A Conversation with Steven Mnuchin, Secretary, U.S. Department of the Treasury

The 20th annual Milken Institute Global Conference kicked off on May 1st in Los Angeles, with an on stage conversation between U.S. Treasury Secretary Steven Mnuchin and Fox Business News anchor Maria Bartiromo.

Mnuchin was clear about the policy goals of the Trump administration. The tax proposal is only part of a broader economic reform: “We are focused on an economic plan that focuses on tax reform, proper regulation reform, and fair trade,” he told Bartiromo.

The immediate challenge is the tax proposal. He described a system with “only three lower individual rates,” but with many deductions gone [especially ones benefiting the wealthy], no AMT and death tax. The corporate rate is lowered to 15% - this includes a “passthrough” for small businesses. He said “this will spur growth,” adding “studies show more than 70% of the tax burden on business is passed on to the workers. This is our version of a ‘jobs bill.’ I hope we get bipartisan support.”

Tax breaks for home ownership, retirement savings, and charitable giving will remain, however, state and local taxes may no longer be deductible, which could save \$1 trillion over 10 years, inflaming governors and lawmakers in high tax states.

Regarding healthcare reform, Mnuchin observed “18 days was perhaps a bit aggressive but it looks like we’re very close to getting changes to healthcare done.” He later commented that “infrastructure likely will not be added to the tax bill. The administration will rely on public-private financing.”

Corporate Regulatory Strategy and Trade:

The Treasury Secretary supports reforming parts of Dodd-Frank that have been shown to curtail lending or were onerously complicated.

The White House proposes a one-time tax “holiday” – believed to be around 10% - to provide companies an incentive to “repatriate” assets held overseas. “We expect that trillions of dollars will come back on shore and will be reinvested here in the United States, for capital goods and job creation,” Mnuchin said, adding the measure has bipartisan support. There is little doubt the tax plan is driven by a recent wave of corporate inversions.

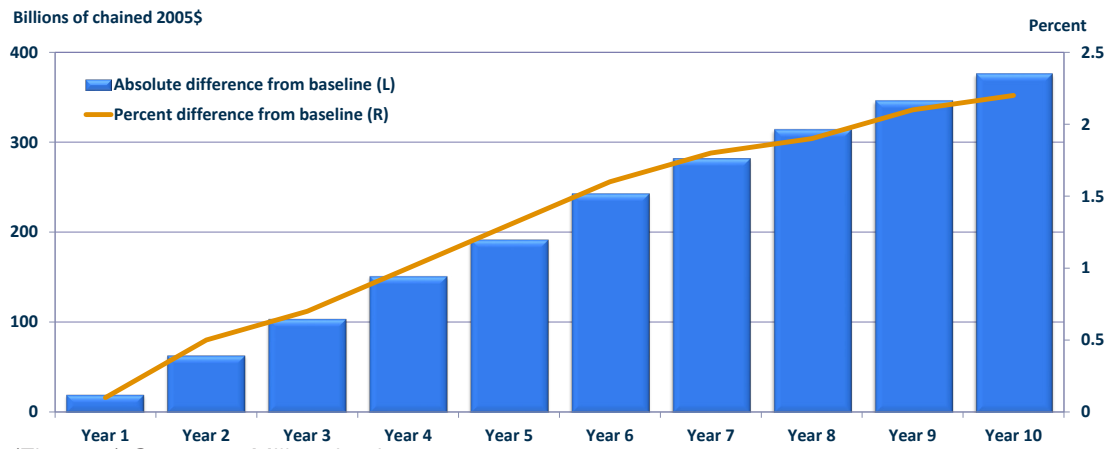
A key part of Trump’s tax plan during the campaign was to levy a tax or tariff against companies that move overseas and then try to sell their products back to American consumers. Mnuchin said they are looking at alternatives on how to structure this idea, as the border adjustment tax, in its current form, is unworkable. “President Trump is for fair trade,” he stressed, however “fair trade is not when we charge zero tariff and someone else charges 25%. The key is ‘reciprocating trade.’” Mnuchin observed “China is a currency manipulator,” however the administration’s priority is to work with the Chinese.

Mnuchin expressed his outlook as follows: “Although the first quarter 2017 growth rate was only 0.7%, we estimate it will take two years to reach 3% real GDP growth. As soon as we get tax reform, we’ll move on to regulatory relief (See Figure 1).” Moreover, when asked if growth alone can pay for the tax rate cuts, he replied “absolutely.”



Corporate income tax policy simulation: impact on real GDP

Rate cut to 22% (Milken Institute Analysis)



(Figure 1) Courtesy: Milken Institute



Panel: U.S. Overview: Will the Economic Tailwind Continue?

The U.S. economy appears to have entered 2017 with wind in its sails and fewer headwinds on the horizon. Animal spirits seem to have returned as investors react favorably to the Trump administration's ambitious agenda of tax reform, deregulation, and infrastructure investment. But challenges remain.

Vasant Prabhu, Chief Financial Officer, Visa Inc. has an opportunity to see U.S. consumer spending patterns virtually before anyone else. "There's 500 million Visa credit and debit cards in the US. For the past several quarters, spending has been both strong and steady in terms of growth...almost low double digits. There's a broadening of the spending base... in the last four to six quarters. Middle-income households that have been growing faster than affluent households," he says.

Labor Participation and Underemployment

In spite of good news from "soft" indicators, a nagging problem in the U.S. is lower labor participation and underemployment. On a related panel, Professor Alan Krueger, observed labor force participation rose in the post-war period and peaked around 2000 with 67.3% of the population part of the labor force. It fell just over four percentage points to 63% most recently. There are many different cross-currents that have been driving the decline (See Figures 2 and 3).

Most importantly, is the aging of the population. 10,000 people a day are reaching retirement age. The aging of the baby boom is projected to reduce labor force participation rate by two-tenths of a percentage point every year for the next 15 years.

He elaborated: "About 11.5% of prime working age men are not employed and not looking for a job. About a third of them are on disability insurance, very unlikely to come back to the labor force." "Almost half of them take pain medication on a daily basis. Two thirds of them say they're taking prescription medication. If you look at the disability insurance population, almost half are getting prescribed opioid medication."

The other group to be concerned about is the youth. If you look at the fraction of youth 16 to age 24 who didn't participate in the labor force, that has been rising. The U.S. leads among low LFPR in prime age men. (See Figure 4.)

"Prime age men who are out of the labor force exhibit many signs of depression. Life satisfaction levels are very low, they are isolated, and spend huge amounts of time watching television." Once they leave the labor force, and it's very difficult to bring them back.

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Observations on the decline in labor force participation

- LFPR in the U.S. has declined since 2007 primarily because of population aging and ongoing trends that preceded the recession.
- LFPR is only moderately pro-cyclical, and the 0.4 pp rise since Sept. 2015 occurred mainly because long-term unemployed stayed in the labor force longer. No cyclical rise in movement from NLF to LF.
- Decline in LFPR of young people primarily offset by schooling increase
- LFPR has been declining for prime-working-age men for decades, and about half of prime-age men who are not in the labor force (NLF) report a serious health condition.
- Prime-age men who are out of the labor force report notably low levels of emotional well-being throughout their days, and low life satisfaction.
- Participation rate stopped rising for cohorts of women born after 1960. Employed and NLF women report similar levels of subjective well-being.
- Population aging will be a continued drag on participation. A rise in participation will require a reversal of secular trends. Focusing on health of prime-age men could have most affect on flourishing.

(Figure 2) Courtesy: Milken Institute

Follow-up Alan Krueger pain survey – sept. 30-oct 2, 2016

- Survey of 571 NLF prime-working-age men using an internet panel provided by Survey Sampling Inc. Weights developed to match CPS in terms of age, race and Hispanic ethnicity.
- 47% of NLF prime-age men took pain medication on the previous day, similar to ATUS-WB
- **65%** of those who took pain medication reported that they took prescription pain medication (in 36 percent of these cases they took both over-the-counter *and* prescription pain medication).
- 40% responded “Yes” when asked, “Does pain prevent you from working on a full-time job for which you are qualified?”
- 66% reported a disability. The higher disability rate than in CPS partly resulted because 16% wrote in “Other” in addition to the BLS’s six conditions. Also possible that men participate in Internet surveys are more likely to suffer a disability, or that the CPS understates the number of prime age men with a disability.
- 35% reported receiving SSDI

(Figure 3) Courtesy: Milken Institute



Panel: Global Overview: The Economic Outlook

Strong economic and sentiment readings, along with recovery in global equity markets, may signal better prospects for the international economy. Chinese capital outflows waned, and the Eurozone's performance has improved, but risk remains.

Going forward, where does growth come from? Emmanuel Roman, CEO of PIMCO, commented "the consensus is the U.S. will grow 1% more than Europe, due to structural impairment of labor laws and wage adjustment. Asked about emerging markets, the PIMCO CEO observed "there's been a global shift in productivity...and higher returns in emerging markets," especially Asia, as well as Columbia and Chile (See Figure 5.)

Roman added that "leapfrogging" is helping the digital economies of India and Asia unleash growth potential. Africa enjoys this trend, too.

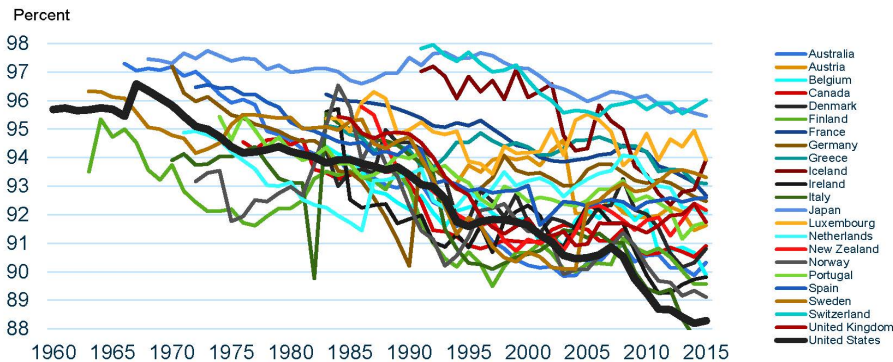
The conference consensus for China's investment outlook was "stable," and not near "crisis" mode as was last year. One notable exception again is Kyle Bass, who on the sideline of Global Conference told Bloomberg TV:

"Some of the longer-term assets aren't doing very well. As soon as liabilities have problems...all hell breaks loose. The wealth management products have swelled to \$4 trillion in assets in the last few years on a \$34 trillion banking system (over 10% of the system!)...In the US, our asset-liability mismatch at the peak of the sub-prime crisis was around 2%!"



U.S. has 2nd lowest prime working-age male LFPR in OECD

Labor force participation rate for men ages 25-54 U.S. original OECD member states



#MIGlobal Source: OECD

(Figure 4) Courtesy: Milken Institute



Panel: White Swans, Grey Swans and Black Swans for the Global Economy

Global markets have been whipsawed over the last year as concerns about China, populist elections and uncertainty around future U.S. and EU policy have ebbed and flowed. What waves in the global economy might occur in the next year?

Bill Gross, Portfolio Manager at Janus Capital Group, observed “We live in a world of negative interest rates. Savers, institutions, in terms of their business models, insurance companies, banks, pension funds, at the margin are going bankrupt. Do central bankers know about the negative aspects of low or even negative interest rates? Ultimately, we need a higher rate in order to rebalance investment and savings.”

Nouriel Roubini, Chairman, Professor of Economics at New York University, warned “There’s a risk of protectionist policies and trade war, especially when we have tightening of financial conditions with the dollar. The restriction to migration is not just people from the Middle East, but also H1-V visas. We have an aging labor force but participation

is falling. To increase potential growth you need more migrants not less of them.”

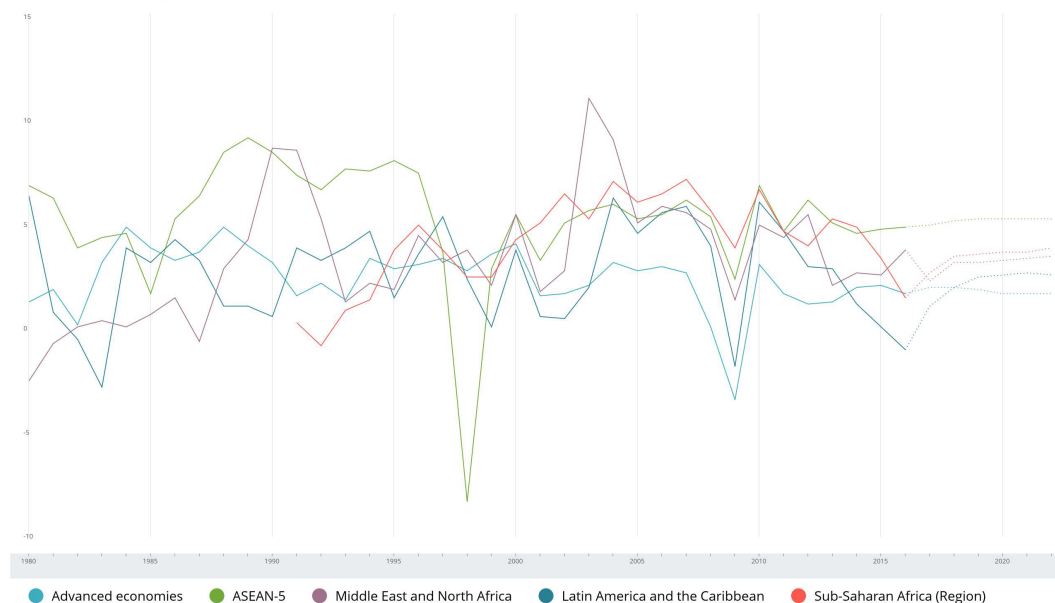
On the positive side, Roubini stated “that all these new industries of the future, Energy, Bio, Information, Manufacturing Technologies; and Fintech have not seen at the macro level the increasing productivity.”

Regarding education, Gross observed: “People go to college in order to get a degree do not to be trained for the future in terms of technology. Until you break the system that’s dependent upon contributions and basketball and football teams and money, society is not going to improve. The bureaucracy of university education has dominated education.”

Ross Perot, Jr. argued U.S. economic growth could hit 4% this decade. The biggest constraint? Labour. Across the U.S., there are 3 million job vacancies. In Perot’s home town of Dallas, there’s a shortage of 19,000 construction workers.

IMF DataMapper

Real GDP growth (Annual percent change)



(Figure 5) Source: Jim Altenbach, CFA; International Monetary Fund

©IMF, 2017, Source: World Economic Outlook (April 2017)

Other speakers and panels:

Mohamed El-Erian

“The market has priced in a lot of announcements. We now need to see action,” said Mohamed El-Erian, Chief Economic Adviser at Allianz. He noted that bond yields have dropped this spring, while economic prospects continue to look muted. And no one seems to be pricing in the risk of a geopolitical event—North Korea, anyone?—or a financial mishap. “Optimism is off the charts but geopolitics is a real concern.”

Jim Yong Kim:

The President of the World Bank, Dr. Jim Yong Kim, emphasized in a keynote speech that A.I. could have a material impact on emerging markets, with 85% of jobs in Ethiopia and 72% in Thailand potentially at risk of being replaced by automation. Two-thirds of all jobs that currently exist in developing countries will be wiped out by automation, he says.

Vice President Joe Biden:

Former Vice President Joe Biden addressed Global Conference on Wednesday to discuss his cancer “Moonshot” initiative that he pushed for while in the White House. It is going global. Biden is now working with world leaders, including Chinese President Xi Jinping, to promote global collaboration on cancer research. He already has cooperation agreements signed by leaders of 10 countries. He called cancer “the only truly bipartisan issue left in Washington.”

The initiative, inspired by the death of Biden’s son, Beau, from brain cancer in 2015, urges cancer researchers and drug companies to pool data and combine therapies in the hope of finding better treatments – and eventually cures.

George W. Bush, the 43rd President gave an address Wednesday. Bush criticized President Trump after Trump questioned Abraham Lincoln’s prosecution of the Civil War, by citing Lincoln’s words—“all men are created equal”—as the moral foundation of America. He believes they should be the compass of American foreign policy, immigration, education and trade. On the power of rhetoric: “When the President says something about someone, he better mean it. Especially if it’s Vladimir Putin,” who Bush describes as a ‘zero-sum thinker.’

The New Skills Economy

Eric Schmidt, Chairman of Alphabet (Google), explained the biggest business going forward is in “crowd-sourced expertise to teach AI to replace those very same experts.” For example, getting radiologists to diagnose x-rays and MRI scans on a mass scale would eventually generate enough data to teach a neural network, which then will carry out the task more efficiently. This principle could be applied to multiple fields, leading to a democratization of expertise.

Masayoshi Son, the Japanese billionaire, believes “the smart robot is going to replace many of the jobs that exist today, mostly blue collar and routine jobs of white collar.” What will happen to humans? “We will have to think, create, interact, focus on feeling.”



Global Risks, Energy, the Middle East, and Africa: Panel: Confronting Terrorism at Home and Abroad

Asked where the US and its allies stand now in the fight against the Islamic State and extremist groups, Nicholas Rasmussen, Director of the National Counter-terrorism Center, explained:

“With ISIS playing such a prominent role, we’re also dealing with an array of threats from individuals who are, perhaps, only enabled a little bit by ISIS, or even only inspired by ISIS or by some form of extremist ideology, having no direct contact.” As a result, “our counter-terrorism community has a much harder problem set than we did after 9/11 when we were focused...on threats involving centralized planning trying to carry out mass-casualty attacks.”

Rasmussen warned: “even as ISIS dominates the headlines, not a single day has gone by in the counter-terrorism community where Al-Qaeda and its affiliate organizations are not still considered a top-tier counter-terrorism concern.”

Brian Fishman, author of “The Master Plan: ISIS, al-Qaeda, and the Jihadi Strategy for Final Victory,” added “there was a misconception that the Islamic State sort of bubbled up suddenly out of the Syrian civil war to take over all of this territory and created a government that’s now losing territory.” They declared a state in 2006. They set speed limits, were running courts, collecting taxes, picking up garbage.

What worries me is the risk a “latent organization that will exist in territory that has been reconquered and will operate underground ...and wait for another political disruption so that it can rise again.”



Panel: How the Energy Transformation Will Power the Future

What is the future of energy, and how will energy transformation power the future? Asked about when peak oil is coming, Mark Schwartz, Global head of analytics for SNP Global Plats and head of scenario planning for Plat's Pyra Energy, observed "the real question is where and when. The Growth rate in oil usage is slowing but not halting (see Figures 6 and 7)."

Michael Smith, Chairman of Freeport Liquid Natural Gas, gave some background: "Natural gas was declining in the United States because we didn't know that we could develop shale. Now, we've increased our production from less than 50 billion a day to up to 77 billion cubic ft of gas per day (See Figure 8).

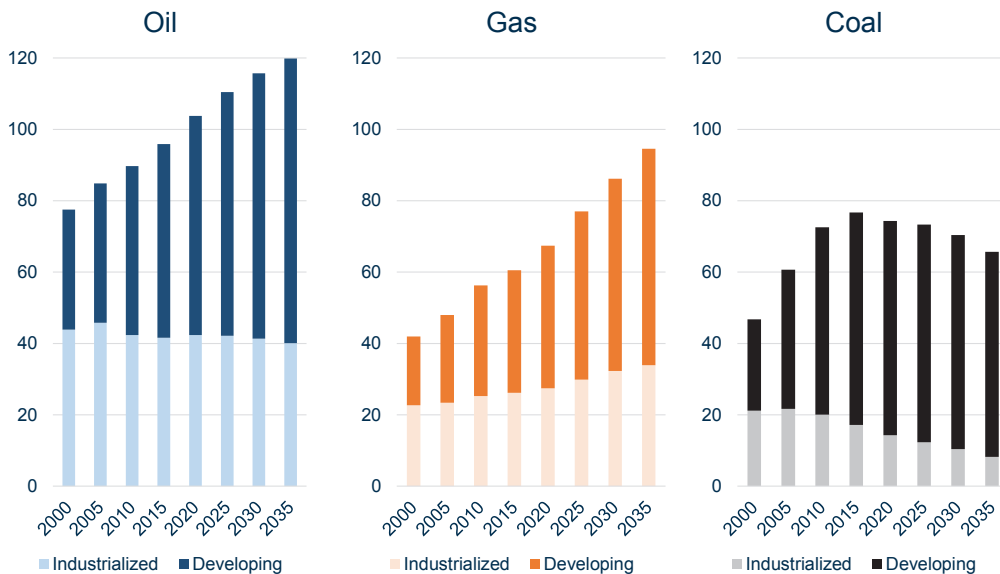
"Now We're building a 13 billion dollar liquefied natural gas (LNG) export facility to take all this excess shale gas in the United States and to turn it into LNG by super-cooling it. The boom

in US-produced LNG has not only generated enough LNG to power the US, it has also generated enough exports to displace coal in markets around the world."

Asked about the future and nuclear power, Robert Armstrong, Chevron Professor in Chemical Engineering and Director, Energy Initiative, MIT, gave an example of what might happen in 'waste free base load energy' in the future – fusion power. "The International Iter project in France expects its first heat test by 2027, then a power test by 2036." Many groups are working on this, especially at MIT which is developing the magnetic confinement for the fusion of plasma. It's the same physics but this technology uses newer, super-conducting materials, developed since the Iter design was locked in. The MIT group thinks they can have a heat test, first a magnet test, within 3 years.

The end of fossil fuel growth?

Beyond 2035

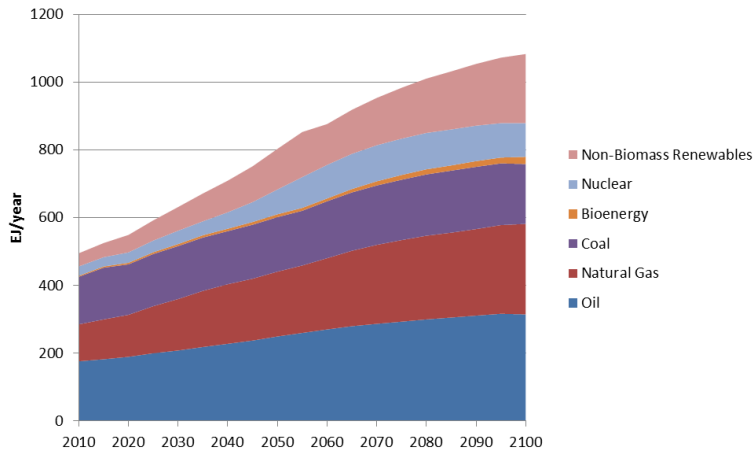


(Figure 6) Courtesy: Milken Institute

Global energy demand growth

No additional policy after COP-21 targets

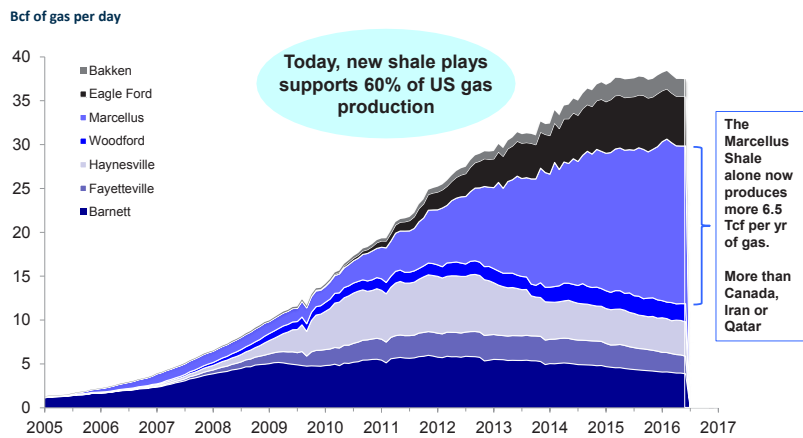
- Global energy use: Most energy comes from the same sources
- Currently utilized: oil, natural gas, coal.



(Figure 7) Courtesy: Milken Institute

Illustration of gas production growth from the main U.S. shale plays since 2005

- **The US is now the world's leading oil and natural gas producer, and will play a growing role as an energy exporter over medium term** - That this is the case is one of the most unexpected dynamics ever witnessed in the energy sector



(Figure 8) Courtesy: Milken Institute



Panel: MENA Region New Tactics to Transform Economies and Accelerate Growth

The Middle East and North Africa (MENA) region has among the highest growth rates of any region (See Figure 5.)

The world is suffering from a demographic slowdown. This is cutting growth in almost every region, but the Middle East, with its young population, is one of the few regions where demographics are positive.

His Highness Prince Fahad Al Saud, Founder of NA3AM, observed: "I found myself as a student here in the US limited to certain stereotypes. I questioned them. I realized that is a problem that my whole generation is facing. The concept behind New Arab is reintroducing this generation, is giving an opportunity for us to define ourselves by building a platform so we can share our voice and counteract stereotypes about us."

"We're hoping to achieve as a young generation is to align with the mission of the company is to connect native Arabs with displaced Arabs around the world joining these two forces."

Yousef Al Otaiba, Ambassador of the United Arab Emirates to the United States, described UAE's diversification strategy, which started 20 years ago: "Now 70% of GDP is non-oil and gas. Seventy percent focuses on services, financial services, real estate, and tourism. Tourism today in the UAE which is a country the size of the state of Maine that has 10 million people, it's 12% of our GDP. UAE officials say 70% is still not good enough as we are going to run out of oil."

Social media has transformed the Middle East economically, culturally, politically. Prince Fahad observed, "I was in charge of 20 million Facebook accounts. There was a trend of Saudi Arabian businesses that are run by women. I knew one of the women. I questioned her how she figured out how to do this because it wasn't even rolled out in Arabic yet?" She is among the educated, thus spoke English. "This inspired me. By just adding, localizing, and introducing the content in Arabic the whole region completely changed. Today 35% of entrepreneurs in the Middle East are women compared to 10% globally."



Panel: Building Tomorrow's Agents of Change Across Africa

Sub-Saharan Africa has been a hot bed of economic growth, hosting many of the highest growth countries on Earth (see Figure 5). By the close of the century, sub-Saharan Africa will be the world's most populous region.

Asked about skills gap in Africa and how to address them, Frank Aswani, Director of Strategic Relations, African Leadership Academy, explained: "Leadership is a challenge on the continent. We've had something like 210 presidents since the 60s. Not that many you'd count," as good. Our biggest risk that Africa is facing is youth unemployment. We have a generation of young people who are more educated than their parents and have few economic opportunities."

He added, "we still only have 15% of trade in Africa being into Africa trade. How do we fix that? Our markets are too small to sustain significant businesses. Young people will be working for African multinationals but how do we make that happen? We need entrepreneurial thinkers in government and in nonprofit space, not just the private sector."

Jingdong Hua, Treasurer, International Finance Corp. (a World Bank Organization), explained: "to nurture entrepreneurship, access to finance is really the key. I think the recognition that country would never achieve its economic potential without a deep liquid functioning capital market. For us to build a functioning capital market, we really have to bring capacity to bring the regulators, government officials to a level that they understand."

Rwanda is one of the most nimble economies of Africa. Why should investors invest there? Clare Akamanzi, CEO, Rwanda Development Board explained: "Rwanda is the second easiest place to do business in Africa and is one of the fastest-growing economies on the continent, at an average of 7%. We are the least corrupt country on the continent."

Somebody told me once: "It's amazing that your country has been able to achieve all these after having only come from a very difficult history, the genocide in 1994." He said, "Is it because you've educated more people that you're now able to do all the things that you're doing? I reminded this person that the genocide in Rwanda in 1994 was masterminded by the elite in the country; the doctors, the engineers, the politicians those that were educated were the ones that are actually engineering the genocide."

During the Q&A session, Koby Koomson, former ambassador of Ghana to the U.S. agreed with the panel that availability of capital is critical. However, he cautioned them: "In middle 2000s the World Bank put the minimum amount of stolen money from Africa in various foreign banks as high as \$200 billion. We are talking about the lack of capital and you are trying very hard to put funds onto the continent although it doesn't strike the surface."



Panel: Things That Will Blow Your Mind

During this annual iconoclastic panel, visionaries again talked about the remarkable inventions they're working on – that will blow your mind.

Ed Boyden, Professor, MIT Media Lab and McGovern Institute, discovered a way, to use polymers to enlarge brain tissue, so they can study it better. The method makes us capable of making brain tissue 20 times larger and biopsies for cancer 100 times larger than original size. The improved spatial resolution of the technology has found wide use by other researchers, such as professor Andy Beck of Harvard, who is able to realize significant improvements in machine learning algorithms.

Bryan Johnson is the founder of Kernel and the OS Fund. Kernel's goal is to build an implantable device to improve brain function in humans, such as memory, while interfacing with artificial intelligence (AI). Kernel is focusing on applications for patients with neurodegeneration such as memory loss. Patients with epilepsy are among the first to test the technology, which relies on

algorithms that mimic the brain's natural electrical signals to improve communication between brain cells. Johnson says the combination of HI and AI is of great importance for the future of humanity.

Mary Lou Jepsen, Founder of OpenWater, explained: "The approach that we're taking at Open Water, is one that images your entire body, with much higher resolution, than MRI, that can reach the neurons, looks at the blood flow, also drastically reduce the cost of high resolution medical imaging."

Neal Kassell, Founder of Focused Ultrasound Foundation, observed how "the blood brain barrier exists to keep toxins and bacteria and viruses from getting into the brain. Unfortunately it keeps drugs, and important drugs, like for Alzheimer's disease, from getting in, in adequate concentrations and limits their effectiveness." He explained how focused ultrasound could open the blood brain barrier, get the drugs in much higher concentration than is currently possible today.

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Panel: Space Travel: From Mars to the Stars

As for when, the most aggressive forecast came from Dan Goldin, former NASA administrator and founder of KnuEdge Inc., a company dedicated to pushing the boundaries of human-machine interface.

“NASA personnel were working on a Mars mission decades ago, but the project became mired in government bureaucracy and a Cold War focus on creating an orbiting space station,” Goldin said. The project could be revived, he said. “If somebody came to me with tens of billions of dollars, I’d tell them I could launch in six years.”

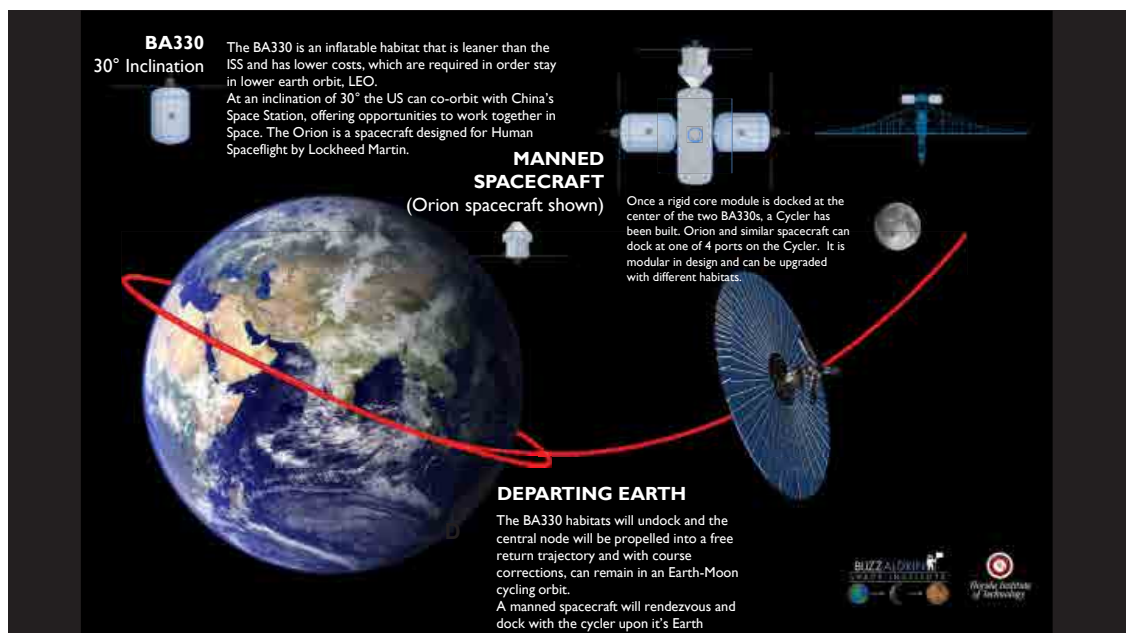
Buzz Aldrin, who followed Neil Armstrong out of the Apollo 11 capsule to become the second person to walk on the moon, said a permanent presence on Mars by 2039 was possible with a firm, serious commitment from the U.S. and other technologically advanced nations. His plan, he said, involves first establishing a base on the moon to facilitate the necessary research and fueling infrastructure (See Figure 9).

Any plan that stops at Mars lacks vision, said former astronaut Mae Jemison, who leads 100 Year Starship, a global initiative to ensure people

have the physical, emotional and social capability for interstellar travel within 100 years. The biggest obstacle to interstellar travel isn’t propulsion, but human health, she said. Systems must be developed that can sustain life and cope with illness and injury during long periods of space travel, she said.

As for why, one motivation for travel beyond the Earth is the prospect that humans will discover life in distant star systems. Scientists have identified planets within our galaxy that resemble Earth, said Yuri Milner, founder of the Breakthrough Starshot Initiative. The Starshot Initiative is a \$100 million program to develop a proof-of-concept “light sail” spacecraft that would provide the technology needed to make a 20-year journey to Alpha Centauri, the closest star system to our solar system.

Within 10 to 20 years, humans will begin to find answers about extraterrestrial life. “To believe now that we are alone in the universe is a little bit of an aggressive assumption,” Milner said.



(Figure 9) Courtesy: Milken Institute

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Panel: Globalization in the Crosshairs

In the 20 years leading up to the financial crisis, international trade grew at twice the rate of global output. Since then, trade has struggled to recover. Recent data suggests trade's share of global GDP is falling.

Stephen Schwarzman, CEO of Blackstone and President of the Strategy and Policy Forum for the White House, explained the administration's reasons for withdrawing from the Trans-Pacific Partnership (TPP) and for demanding the renegotiations of NAFTA. He does not see the administration's trade policies as protectionist, but as "equalization" of the international playing field.

Schwarzman explained: "the administration's theory is that bilateral deals are better than multilateral deals. I'd like to do the best trade deals with every one of these countries," noting he is not concerned that other TPP countries may proceed without the U.S. He stated we should resolve NAFTA in the next year if only the Congress released its paper, and we will have general agreement with China.

John Hagel, Managing Director, Deloitte Consulting LLP, commented that "studies show a declining trust in every institution, not just companies, not just banks, not just government, every institution around the world."

Asked about long term historical context of globalization, J. Bradford DeLong, Professor of Economics, U.C. Berkeley, explained: two stages of globalization and their retreats since the year 1500:

- First Globalization — Trade between capital and resource rich regions, and huge amounts of migration of finance and labor to the resource rich regions.
- Globalization Retreat — Faster progress in mass production than in transport makes it efficient to bring production back home; combined with the depressions on the interwar period encouraged governments to take steps to keep jobs at home and engage in 'beggar-thy-neighbor' policies.
- After World War II, Second Globalization — the enormous expansion of north-north intra-industry trade, as developed countries trade narrow slices of their industrial output with each other. Paul Krugman won his Nobel Prize explaining this history.
- Followed by the green line: Hyperglobalization — in which the global south's low wages give it a comparative advantage which can now be harvested for industrial-scale production because of the success in constructing internet and other communications-mediated intercontinental value chains.

Of these, perhaps the first example was the U.S.–Mexico division of labor in the automobile industry. Many thought NAFTA was going to kill the U.S. auto industry. It did not. By outsourcing the most labor intensive parts of their production processes to Mexico, GM and Ford now find themselves in much more competitive positions vis-a-vis Toyota, BMW, and others companies than they would have found themselves without NAFTA (See Figure 10).



The second wave of globalization increased till 2011 – the green line. DeLong was asked “then what? A second retreat-the red line?” He responded “it’s difficult to make predictions. We are in an era of secular stagnation, central bank-controlled interest rates near zero for long periods of time, and governments are loath to expand their purchases. One of the few tools left is to try to redirect its country’s spending to its own goods whenever it finds itself short of jobs.”

DeLong added: “Low wages are going to be a much less important player in the global division of labor as robots come and as labor productivity in manufacturing soars upward. China is almost sure to be the last country that follows the successful industrialization recipe of becoming a lot richer by exporting low wage manufactures to the industrial core.”

Globalization over 5 centuries (1500-2011)

Shown is the sum of world exports and imports as a share of world GDP (%)
The individual series are labeled with the source of the data



Data sources: Klasing and Milionis (2014), Estevadeordal, Frantz and Taylor (2003) and the Penn World Tables Version 8.1. The interactive data visualization is available at OurWorldinData.org. There you find the raw data and more visualizations on this topic. Licensed under CC-BY-SA by the author Max Roser.

(Figure 10) Courtesy: Milken Institute



Panel: Populism: Passing Fad or New Political Era?

Former British Prime Minister Tony Blair said the failure of mainstream political parties to ease the dislocations caused by globalization has played a critical role in the growth of populist movements which are often associated with protectionist economic policies and harsh anti-immigration policies. “The populism will not swiftly disappear,” Blair said, adding that mainstream political parties must come up with effective economic and social policies to deal with the challenges caused by globalization.

After Blair made his opening statement, he was challenged by fellow panelist Matthew Elliott, former chief executive of Vote Leave, the official Brexit

campaign group, to justify Britain remaining in the EU. A stunned-looking Mr. Blair stared blankly into space, then responded with a stunning admission: “If you run through many policy challenges, Brexit is obviously a very big issue in many different ways. Although I understand what you’re saying, you may be right in what you’re saying. I don’t know.”

Ironically, a 2016 study from the Peterson Institute details that, of the manufacturing job losses between 2000 and 2010, 85% can be attributed to technological advancement while 15% were directly caused by free trade.



Panel: The Future of Europe: Is Liberal Democracy in Trouble?

Liberal democracy has stopped delivering on its promise, and now finds itself in a growing struggle for survival. The signs are everywhere, from Brexit to the prospect of political victories by far-right candidates in France, Germany and beyond.

Alexander Stubb, Former Prime Minister of Finland, observed: "Populism emerges when you have a few things on the table. 1) A perceived income gap 2) Sudden asylum or immigration movements 3) Perceived notion of corruption 4) A financial crisis 5) you need a demigod, to incite these. So when you have these five ingredients, you end up getting populism." Think Brexit, Trump, Le Pen, Geert Wilders, and Farage.

Lord Mandelson, Former European Trade Commissioner and British First Secretary of State, observed: "We have seen the aftershocks of the global financial crisis, we've had a decade of lost growth, and widening income inequality." In Europe, we have gone through financial, banking, sovereign debt crises, an ensuing recession and austerity in government spending.

At the same time, we have seen in Europe vast quantities of refugees emerging creating a disturbing picture. We've had series of terror events as well."

Asked about the far right party in Germany, John Emerson, Former U.S. Ambassador to Germany, is not worried "because of the history, there's a natural speed break in Germany to the rise of a far-right nationalistic party."

Regarding Macron - who since Global Conference won, Mandelson replied "the biggest challenge he's going to face...is the subsequent elections for the French National Assembly. If he fails to get any sort of majority in the Assembly, then he's going to find it difficult to unify France around the reforms. He's also going to be instrumental in saving the European Union from itself."

Stubb added, "from a European perspective, can Macron forge a Franco-German alliance, because that's what we've been missing."

Asked about the 'German fiscal straightjacket,' Emerson observed Germany has a "religious devotion to this concept of a balanced budget, even from the Social Democratic Party." Stubb added, "the Germans, Fins, and Dutch said if our currency is credible, then we need to stick to the Stability and Growth Pact."

Britain not only rejected the EU's political apparatus, but permanent single market membership. Rather it will renegotiate its way back into the single market. Mandelson observed: "This is not going to happen painlessly, if at all. Britain cannot accept the rules and the architecture of the single market. It says we want to be trading in the single market, but we don't want to have anything to do with the European Court of Justice, which is the arbitrator." He expects Britain will see a steady, incremental unfolding over the next 10+ years in the economic consequences of Brexit.



Panel: Brexit and the Domino Effect: What to Expect In the Year Ahead

Voters in Britain and the U.S. endorsed changes last year that promise to drastically alter life at home and the way their governments interact with the rest of the world.

Howard Shore, Executive Chairman, Shore Capital Group observed “the real negotiation, will be between British government and primarily the German government and to a lesser extent, the French government. They will control the process ultimately, not the bureaucrats in Brussels.”

“The deal will be continued access in some form, continued payments in some form, taking back control over our immigration, regaining sovereignty,” he says adding the 50 billion-pound ‘divorce’ figure is fiction. As far as the security point, Shore says it’s a weak negotiating point because Britain wishes to keep security within Europe alongside Europe partners.

Shore says Britain is “not likely to accept a trade deal whereby the Germans, who have an export surplus of 50 billion a year approximately, are allowed to continue to sell their goods freely with a tariff, which is not that material. A tariff can be outweighed by an exchange rate movement in a day.” Britain’s stance is “if you block our services, block access financial services or pharmaceuticals, we’re going to block access to you. And the most powerful lobby in Germany are predominately exporters.”

Jim Mellon, Entrepreneur and Investor, Chairman, Burnbrae, expressed, “I understand concerns

regarding the financial sector leaving London.” But he disagrees that it will happen “because markets will take place where ever the markets end up being. We have the expertise, we have the reservoir of people in the UK, who can do it and the Europeans don’t.”

Mellon continues: “The European Union is not a free trade zone. It’s highly protectionist to, for instance, US food imports or to cars from Japan, anything that threatens the vested interest of the people who are pulling the levers in Brussels.”

Lastly, “we are an open border country. We depend on immigration. We’re going to let whoever wants to come into this country, subject to certain controls and so forth. But what we’re not going to let them do is have welfare benefits for a period of say between five and ten years or more.” He says Brexit is a “side show.” The real problem is in Europe. Greece and Italy may leave the Euro-zone. “It may give us the chance to re-examine... the ideals that we liked in the European Union are gonna be restructured back into a new European Union.”

Nicholas Candy, Real Estate Entrepreneur; CEO, Candy Capital, remarked “the UK is surrounded by regulation from the European Union. And I think get some of those shackles off, we’re a brilliant country and we’ll continue to be a brilliant country, with or without Europe.”

Regarding the collapse of the Euro, Candy says, “it’s only a matter of time.”



Panel: Beyond the Dollar

For more than 60 years, the U.S. dollar has reigned as the world's dominant international currency, accounting for nearly 90 percent of foreign exchange transactions and the majority of global foreign exchange reserves. However, as the United State's share of global output shrinks, the dollar is facing stronger competition from the Euro and the Renminbi.

Is there any foreseeable circumstance in which the dollar's position could decline and if so, would it be rapid or gradual?

Barry Eichengreen, Professor of Economics and Political Science, University of California, Berkeley explained "I'd been predicting that the dollar will lose its monopoly as the leading international currency and I'll go on predicting that until I'm right. I actually subscribe to the Santa Monica view on this question: A well-known bond king described the dollar as "the least dirty shirt in the pile." There has to be an alternative first. Even if people grow alarmed with US policy, I'm going to argue that you're underestimating the scope for alternatives."

Nouriel Roubini (again) commented: "in the short-term there is no alternative to the US dollar. It's not going to be the Euro. Couldn't be the RMB because China has it's own problems," including

inflexible exchange rates, capital controls, lack of deep capital markets, the rule of law, etc. He added, "if China pulls \$3 trillion out of the U.S. that can jeopardize the currency," by challenging the "safe asset" assumption.

"As the US is retreating...and China liberalizes more, they're going to become more convertible. They have a plan. They have a vision about this a multi-decade long, making the Renminbi the reserve currency," Roubini says.

The benefits to having a reserve currency include the "international seigniorage," which is the benefit of having lower interest rates than otherwise that arises if there is a demand for your reserve assets, Roubini explained.

Why would the Chinese want to have a reserve currency? Eichengreen explained: "It's heavily symbolism. A first-class country needs a first-class currency. In the longer term, it's advantageous for the development of their external sector – the internationalization of the Chinese economy. The byword here is "slowly." He later added, "there is a historical association between ability to project military power and the confidence of international investors in your currency." The Chinese have a 30-50 year plan.



Panel: China, Architect of a New Global Order?

Under the growing spotlight of global attention, the Chinese government and its state-owned enterprises are laying the foundations for a new global order: a network of trade, economic and financial relations that flow through Beijing and Shanghai instead of Washington, New York and London. It's global expansion, the Chinese way.

President Xi Jinping said at Davos: "It is time that China guides the economic globalization. There is a China solution for global issues." Lawrence Ho, Chairman, Melco Resorts & Entertainment observed: "What China has done with One Belt One Road, and the AAIB initiatives, is about interconnectivity." President Xi Jinping said they really want the population and the wealth of China to benefit many countries. If you look at One Belt One Road, it involved over 65 countries, and it could potentially benefit 4.4 billion people. It's not a zero-sum game between the US and China. We already see this New World Order with China an economic superpower.

Asked "is China trying to challenge the US in this leadership roll?," Qi Bin, Executive Vice President,

China Investment Corporation, explained: "The system itself is always evolving. China is really focusing on its own development, just trying to grow the economy."

Qi Bin emphasized: "Jeffrey Sachs recently published "The Shift of Global Landscape." He argued that thanks to Adam Smith's theories, the developing countries might someday catch up with developed countries (see Figure 5). There was a European century and an American century. There may be no China century or Indian century, it will be just a world century because the economies will be so much interwoven you can not really tell much difference between one economy from another one because they are so much interwoven."



Author's comments and Insights:

As of June 14, 2017 the Moody's Aaa/Baa corporate quality spread is at a multi-year low, portending enormous investor risk appetite, meaning the economy is strong. Although gold turned up modestly since early 2016, it is still near a multi-year low, portending very moderate re-inflation. Combined, these conditions portend strong economic growth.

David Ranson, Director of Research, HCWE Worldwide Economics, using the spreads and gold, and other factors observed on May 1st, "...4 percent is an achievable rate of growth if the US shifts to better economic policies – less regulation, lower tax rates, a stable dollar. Success would be measured by the extent to which we could get labor force participation back up to pre-2008 levels." Thus, Mnuchin's target for 3% real GDP growth is within reach.¹

Market expectations such as this, are hardly indicative of a pending trade war, and even a slowdown due to "anti-free trade" policies, such as "Brexit" or anti-TPP actions.

On July 15th, 2016 after Brexit, Dave Ranson wrote: "Britain's Brexit opportunity is potentially a huge positive, although the gain is far from automatic. Freedom of trade can and should be pursued unilaterally. Negotiations serve political, not economic, purposes."

Ranson cited Professor Patrick Minford who concurred: "...far from being a "free-trade paradise," the EU has prices well above world market prices, and, in doing so, twists, the shape of the British economy toward those protected goods and away from its best shape." Professor Minford estimates that Britain's GDP can grow 20% with the right policies.

Footnotes:

1) For a detailed discussion of Mnuchin's proposal, see: Jim Altenbach, "The Trump Tax Plan: Cutting the Gordian Knot of Tax Policy Debate?," RealClear Markets, http://www.realclearmarkets.com/articles/2017/05/15the_trump_tax_plan_cutting_the_gordian_knot_of_tax_policy_debate_102687.html (May 15, 2017)



About the Author

James Altenbach, CFA is principal of Florentez Investment Management. Since the firm's inception, he serves as an advisor to the President on strategic matters including research and proprietary analysis and product development on ETFs. He writes published articles and reports on the global economy, financial markets, and investing. He possesses over 20 years of research, financial advisory, institutional relationship, and management experience, and has written several published reports and articles. Previously, he was an equity research analyst with RedChip Companies. He did his undergraduate work in business administration (Finance) at California State University, Los Angeles, with distinction, and holds the designation of Chartered Financial Analyst (CFA).



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