



As We See It

"At six minutes past midnight on December 5, 2006,
the human being will become primarily an urban animal."

Megatrends Asia by John Naisbitt

There are, of course, numerous methods employed in the management of investment portfolios. Each portfolio manager employs several, often overlapping, techniques which mesh with his or her temperament and investment style. As we have often stated in the past, we are long-term investors. It is reasonable, therefore, that we would emphasize situations which stand to benefit from developments expected to materialize and evolve over a long time. Usually such long-term developments, or themes, will have an overriding influence on particular industries and companies within those industries.

One of the long-term developments currently worthy of both consideration and study is the economic evolvement in the developing parts of the world, particularly the Asian Pacific Rim countries. In this part of the world, in varying degrees, command economies are giving way to market-driven economies resulting in an increase in international trade and investment. As a result, these countries are experiencing accelerating modernization and urbanization with profound effects on their societies and their economies.

One of the best illustrations of the development along the Pacific Rim is China. In China, for example, ". . . more than 100 million people—equal to 40 percent of the U. S. population—have left rural communities in search of a better quality of life.", according to *Megatrends Asia's* author, John Naisbitt. He goes on to state, "Lured by the potential for wages that are three times higher than in rural communities, migrants flood into Beijing's main railway station at the rate of one thousand people an hour." In Vietnam, Thailand, Indonesia and India the story is much the same.

This societal shift from rural to urban is unlikely to reverse as it is encouraged by government. For example, according to Naisbitt, "Currently, an estimated 87 percent of the Chinese population live in rural areas. The government would like to reduce that to 50 percent. . . . China created fifty new cities in 1994 . . . and intends to move 440 million people—the equivalent of the combined populations of America and Russia—into new cities." The construction of factories to employ all of these people, along with the infrastructure to support them, is proceeding at a rapid pace.

All of this economic activity has resulted in a significant rise in the standard of living. This improvement is manifested in many ways, not the least of which is a change in eating habits. "When people rise above the subsistence level, the first thing they want is to eat better. . . . Increasingly they leave the basic grains to the animals, and they eat the animals or the animal products in the form of meat, fish, eggs and butter." So states the December 18, 1995, issue of *Forbes*, in an article entitled "China's Ravenous Appetite." On this subject Naisbitt states, "People's tastes have changed. Chinese eat greater quantities of meat and

much of the grain they grow goes to feed livestock." These same trends are taking place in other parts of the developing world, also.

Urbanization is having a profound impact on the region's agricultural production. Cropland is being lost to factories, housing and roads. According to Naisbitt, "In just three years the rural farming areas of Pudong, across the river from Shanghai, was transferred into a modern development zone. . . ." And *Forbes* states that, "Overall, China's farmland is shrinking by at least 0.5% per year, perhaps more in quality terms." The combination of dietary changes and loss of farmland has had an incredible impact on China's grain self-sufficiency. John Deere & Co.'s first quarter 1996 report related that, "In China . . . there was a 15 million metric ton swing in net exports of corn and feed grains over the last two years. During this time, China moved from being a major exporter of grains to a sizable importer. That differential—which amounts to around 600 million bushels—is as much corn as the state of Indiana produces in a year. . . ."

The changes going on in China and other Asian countries have noteworthy implications for the Western world. Technical assistance from the industrialized economies of the Western world is, and will continue to be, essential if the required infrastructure (telecommunications, transportation and electrical power, etc.) is to be built and enjoyed by the current generation of Asians. Moreover, the productive capacity of the West will be required if increased grain imports are needed to preserve the region's irreversible movement to an improved diet.

While the rise of nationalism, or other political events, could sidetrack the progress of these changes, the trends which have developed in the Asian Pacific Rim appear to be durable and provide the characteristics of a viable, long-term investment theme. These changes hold the promise of improving the livelihood of so many people who now have come to expect these improvements will occur in their lifetime. This sea change in expectations will have a significant and overriding influence on many U. S. industries and companies.

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