Development Cycles

Countries, their cycles and their macroeconomic effects

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Abstract

This paper is part of an informative series of research and development, displaying parts of our focus. This part of the series in particular focusses on the cycles of developments countries go through and measures used by the various countries to manage those cycles. Understanding history and the levers of manipulation for economies helps an investor make prudent decisions when allocating capital.

This paper is the result of intense research of the history of development and revolutionary advancements in economy's and technology, with both theoretical and practical applications.

Herein it will outline the changes that have taken place over the course of the industry as well as point out the missing gaps that have been formed by the dynamically moving and changing times. Furthermore, it will provide insight into the current state of the development and how the world of is due for a disruptive change in course as well as in application to the world.

Countries undergo various cycles of development and the speed of development reduces as the countries levels of advancement become more efficient. However these developments create waves within the countries where the government has to use specific measures to manage those waves. This affects the people as well as the firms within the nation.

Here I will be describing the classifications of these countries through the 4 P's of development and how important it tis to understand the history of countries, markets and companies to truly make prudent decisions for long term value creation through investing in the stock market.

A little disclaimer before we begin: I/We do not push for one to buy stocks now or later, but if you do, do so in a safe and secure manner rather than one of speculative and half understood nature (such is the intended aim of this paper), for that, there are casinos all over the world, where you would have better odds of faring than in this game of dynamic value.

Introduction

What are cycles? Cycles are observed rhyming or repeating behaviour of the interactions of a collection of variables or a single variable within themselves and with the environment.

What is development? Development is the progression of an organisation, entity or notion.

Putting them both together, development cycles in the context to this paper are varying and we will get into them all. Development cycles are a process over time. They look at the phases a process has been through and what time it takes them to complete this process. They are more commonly termed as “Dev Cycles” in the computing world. This is the different stages of the process to develop a program and the cycles are over the period of time it takes to develop them. For example stage one can take one month, which would be its first dev cycle and then stage two may take 2 weeks, which is a quicker dev cycle than the first and so on. Another way to look at them is the process of baking. The first step is to get the ingredients, we can term that stage as the first development cycle of the process. The next is to mix the ingredients which is stage two, the second dev cycle of the process and so on and so forth. The rate of development itself undergoes a compounding affect which is observable through human history. Over the existence of our species over the 100,000 years it took us 90,000 years to reach the first civilisation, from hunter gatherers to agriculture. From there it took us another 10,000 years to go from agriculture to the first industrial revolution and then from there it has taken us 200 years to reach nuclear energy and finally 50 years for us to reach the information age. As you can see this compounding effect of continuous development and advancement has reduced the time between the leaps of information and technology we have reached and will continue to speed up over time.

I will be examining various development cycles in this part of the paper.

There will be development cycles of ideas, asset classes and countries to name a few. What we will be exploring is the interaction of the progression of these various topics through the context of history. Time is life’s greatest equalizer and history is the record of time which has passed. Analysing and breaking down the journey from then to now helps put today into perspective to better prepare for tomorrow. Especially since everything works in cycles and hence a rhyming meter is formed where history doesn’t repeat but rhyme with the present as the cycle rolls over. Putting several development cycles together we can form a trend to observe the behaviour and understand what the environment of the current circumstance could potentially lead to based on previously proven situations and connecting the dots.

This is not to say that every finding is true, the cycles and by virtue the trends formed are only as good as the assumptions that go into forming them. However, if the dots are connected in the right path, these trends can be very insightful. Once again, not to base everything off of these, but rather to use them as a guidance tool to indicate whether you are thinking along the right lines.

Think like the manipulators, not the manipulated. Consume and produce what they consume and produce and given enough time, you will be manipulated.

Historical Context Analysis

To start with, we will explore the development cycles of countries:
I will start out by listing the top 15 countries by GDP/World power below:

	GDP ($)	Population	GDP/capita ($)
1) USA	20.89 T	331.9 M	69,287.54
2) China	14.72 T	1412 M	12,556.33
3) Japan	5.06 T	125.7 M	39,285.16
4) Germany	3.85 T	83.13 M	50,801.79
5) India	2.56 T	1393 M	2,277.43
6) United Kingdom	2.50 T	67.33 M	47,334.36
7) France	2.63 T	67.5 M	43,518.54
8) Italy	1.89 T	59.07 M	35,551.28
9) Canada	1.64 T	38.25 M	52,051.35
10) South Korea	1.63 T	51.74 M	34,757.72
11) Russia	1.48 T	143.4 M	12,172.79
12) Brazil	1.44 T	214 M	7,518.83
13) Australia	1.32 T	25.74 M	59,934.13
14) Spain	1.28 T	47.33 M	30,115.71
15) Indonesia	1.05 T	276.4 M	4,291.81

Each country has gone through the various economic development cycles you might be aware of and so has the world in general on a larger scale as we developed as a civilisation. Those cycles are the ones we are taught in school; primary (agricultural focussed), secondary (manufacturing focussed), tertiary (services focussed) and finally quaternary (information focussed).

We will delve into the top 5 countries from the list in depth and their progress through these development cycles at different periods of time.

Starting with the United States of America:

15000 BC: The first people arrived to what is now called the United States of America.

Several indigenous cultures and tribes were established.

16th Century: The European colonization began.

1760: The British Empire had taken over parts of the Eastern, Atlantic coast and several mountainous regions to create their 13 colonies. They began ruling by imposing taxes onto the people of this nation.

1765-1783: Resistance to these taxes led to several armed wars, starting at the Boston Tea Party and ending with General George Washington winning the revolutionary war, where America gained its independence and a peace treaty was signed in 1783.

The USA was found on the 4th of July, 1776. It is a 246 year old country (at the time of writing). They declared independence from Great Britain after a 12 year rule.

They started out just like everyone, from the primary sector, where agricultural dominance is of utmost importance to satisfy the needs of the local population, which they achieved startlingly quickly. By 1790, only 14 years after independence they were already transitioning into the manufacturing stage, which is the secondary development milestone. Through the various industrial revolutions that took place it then took them 149 years (most of their existence) by 1939 to break into the services stage of production, the tertiary development cycle. After which World War II hit, which halted them to reverse back towards their manufacturing prowess, while transitioning from secondary to tertiary behind the scenes. Through this transition they faced several shocks due to the sheer speed at which this was progressing. They underwent a double-dip recession in 1980, after which helped accelerate growth of the services sector. The manufacturing sector flatlined around the 1980s, while services took over. This transition was propelled by the explosion of the internet made public around 1983. This led to another transition, never seen before. The internet caused a rapid expansion, where 17 years later they faced a massive shock due to the rapid growth potential that didn't have fundamental values to back it up, causing the 2000 economic crash. Then growth resumed with a vengeance by 2004 and the new age of social media was born, which still has a powerful effect on us today, it has only been 18 years. Once again by 2008 there was a booming economy, which had further potential to rapidly advance, but didn't have the fundamental values to back it up, causing another massive shock, crashing the economy. They then further developed into a mix between a quaternary and tertiary production with information and services since they were the pioneers and still hold that title in terms of innovation and they are a service based economy today as well. Then most recently the 2022 crash economic crash is due to the same reasons, a new advancement further than any other country, web 3.0 is a new form of the internet, you, me and every tom, dick and harry can see the immense potential in the technology, however, no fundamental values to back it up today since there really isn't an infrastructure built around it yet. Think of rapid periods of growth like going to the gym and trying to lift a weight several times heavier than what you have been lifting. It will result in large enough muscle tears, which can be catastrophic, landing you up in the hospital and potentially in surgery or could be fatal injuries. This is the same. Some small muscle tears are needed in order to grow larger muscle, however, large ones can put you out for several years or potentially life.

After the 1975 (75% of economy was tertiary based) and close to 2002 (over 80% was tertiary sector production), when the US dominated the world in terms of GDP and transitioned from a primary sector into a tertiary and quaternary sector rapidly, between 1920 to 2002. Most countries were given their "role" since the US was the consumer and pioneer in innovation of the world, most of the rest of the world became production hubs and each had its "role" to play, including the US, which was mostly services production. While countries like China and India were mainly the secondary and a joint primary and secondary producing countries respectively.

However, what I seem to find is forgotten is that all countries are continuously developing, some quicker or rather seem quicker than others in the moment, however, looking through the years and understanding the rise and fall of nations, one can clearly see its more about the period of time rather than who is doing what today.

Next up on the docket is China:

China is an interesting country since they haven't really been a typical "country" until very recently, they had several dynasties rule over the land. The last dynasty to do so was the Qing dynasty, from 1636-1912, a staggering (276 years) and then they became the Republic of China in 1949. That is already several decades older than America, and if we really go back through the passage of time, China in its various forms goes back to the era before Christ, to 256 BC.

That is thousands and thousands of years of distilled, inherited knowledge and an immense patience in the people of China, historically and culturally. However, their real development started after 1949 since before that they were under rule. Therefore their period of development is only 73 years.

They started with an already pseudo established primary sector of agricultural land, however, most of that land was and still is rural and unused land.

Over these 73 years they have dominated the secondary sector of manufacturing and converted their nation into the largest exporter of people and products. They are the manufacturing hub for the world and hence rose from the ruins of dynasties to one of the largest superpowers in the world and with a lot more room to grow. They are still moving tens of millions of individuals from rural parts of the nation to more urban parts due to the amount of production and hence labour required. The sheer size of their population and their might in their craft has accrued them such a status. How did they do this?

With such a large internal populous base they are what I term as a "self-sustaining" nation, we will come to a few more through the course of this list. That is not to say these types of countries don't have some dependence on globalisation, however, as the saying goes, "extreme circumstances need extreme measures", and if push comes to shove, they can turn into a self-sustaining economy. China is a proof of concept so to speak of this model. In the 60's they shut their borders from the rest of the world for several years due to wars with the Soviet regime and the Indian regime at the time. They were able to build and build and then several years later when they reopened their borders for the international community, China went from a debilitating nation filled with famine and wars in the 60s to being a very progressive fast paced and sturdy nation with a strong, fundamental, ancestral mindset of the <u>long-term</u> view. By closing their borders, I mean they didn't depend on the "outside" world at all. They replaced everything internally and banned everything that was external and it is even the case today. Google.com is Baidu.com, Whatsapp or iMessage, Facebook, Messenger, Instagram, Paypal/Venmo/Whatsapp Pay/GPay is WeChat, Uber is DiDi, iPhones are Xiaomi, etc. Slowly over time, they improved and the world watched, those that had written them off then became overly dependent on them and are so too today with most of the world's production labelled as "Made in China" with minor changes taking place recently but decades worth of dependence cannot be unlinked with a few changes. China has influenced the greatest and smallest companies, people and nations of the world. The largest company in the world, Apple Inc for decades assembled their greatest product and mastery of their craft in China, in Foxconn and various others alike.

China realised it had a few things going for them, they had the labour force, they had the land and they had the time of a very, very long term mindset, what we at Black Komodo like to call a turtle patience and an elephant's memory. This is evident in their deal with the British, to do with Hong-Kong. This nation has dealt with dynasties after dynasties, famine and various other calamities, that sure, various other nations have as well, however, they had far greater number of people falling prey to such events. The largest famine they faced wiped out over 30 million Chinese citizens, that size if bigger than some countries on this list. They were still able to bounce back and take advantage of their strengths geographically speaking and with their people. Their deal with the British was made with a 100 year outlook. Take a second and digest it. When I first learned of it, through my grandfather's and father's stories, at the age of 12, I never realised what it meant until I got a little older and the topic was brought up again and it took me a second to grasp that as well. Well, this is what it means, a 100 year outlook is around 5 generations long, which means the current people in power and the current people living there would probably not be alive by the time they saw the return of their land and they sat patiently waiting and looking at it every day and 100 years later surely they received what was theirs. That is resilience. They used the strengths they had going for them, developed the land and the people by building countless factory cities, that's right, not factories in cities, factory cities. I have been lucky to have been given the opportunity to visit several of these cities and the factories from within and spend some time in China. They have built what they call ghost towns, towns and cities filled with infrastructure with an outlook of filling them with people from rural areas of China and bring them to the urban city. They are in no rush, they never are, that is the beauty. They just have the foresight and the know how that they will hit it with enough time and effort spent and they are slowly but surely reaching that goal. Just to remind you its only been 73 years since they've been an independent country, they look hundreds of years into the future, we haven't even hit that yet!

Down the line we go! Off to Japan.

Japan as a settlement is one of the oldest settlements with a rich human history. Where the first settlement began in 2500-300 BCE with agriculture and farming as the main source of development from 300 BCE. Japanese culture has been shaped through their emperors and the chosen religion for the nation. They went through several religions and settled on Buddhism. Most of the religions that were involved in the foundational years of Japan were and have been continuously peaceful religions. However Japan too has had its fair share of a war forward history with some of the greatest warriors being the samurai. They have had an immense focus on strategy and the art of focussed practice to hone their craft with quality being a major element. Whether that be in the way they conducted war to the way their built their nation.

Japan too had dynasties initially, with the first dynasty of Japan arising through the dominance of the Yamato clan. They ruled Japan through the Asuka, Nara and Heian periods. Japan was initially heavily influenced by the Chinese culture including the Japanese language containing an entire set of Chinese characters as part of their alphabet. Japan was ruled by various kingdoms and has had to defend itself from several nations as it has been a target for several western countries. Japan was always more advanced in terms of technology and development of their nation, owing to the early establishment of a civilisation.

The state of the country can be divided into clear periods with distinctions through history from the type of rulers they had. The first period was termed as Feudal Japan during the 1185-1868. The country was divided into various warring states ruled by warlords, during which time there were various civil wars that broke out due to the fight for power. During the latter half of Feudal Japan, the Tokugawa Shogunate from 1603-1868 brought about a period of relative peace and stability, however Japan was still in a state of isolation due to the rules placed upon the country from the ruling empire. Post 1868 the Meiji Restoration took place which ended the Tokugawa Shogunate and restored Japan under the rule of Emperor Meiji. Although this period was also scattered with internal conflicts and wars such as the Boshin War, Japan underwent rapid modernization to catch up with the West and emerge from their agrarian based economy.

During the first world war from 1914-1918 (WW1), Japan joined the war on the side of the allies and .they began to transition from a solely agrarian based economy to one of suppliers, they supplied materials to the Allies and expanded their influence further across Eastern Asia. This led to further economic development and a slow introduction into a secondary economy of manufacturing.

However, a few decades later, during world war two from 1939-1945, Japan suffered immense loss of life and infrastructure damage. Post the atomic bombings of Hiroshima and Nagasaki, Japan surrendered and began to rebuild, this was a familiar realm for Japan due to their history with devastating losses through civil wars and the various other conflicts and periods of rule they had been under.

During the 1950s-1980s was truly when Japan developed and was able to push the boundaries of their development from primarily an agrarian based economy into a manufacturing juggernaut and later during the 2000s into a servicing giant. This led to the development of today's manufacturing powerhouses for electronics and automobiles such as Toyota, Sony and Honda. The government subsidized and promoted the development of these industries and focussed on producing them with the best quality and expertise possible that they quickly became the leading exporter of automobiles and electronics, right when the world needed both in excessive demand.

However, with the focus on redevelopment and growth to catch up with the rest of the world, they lost focus on family life and preserving and promoting reproduction within the country which led them to have the lowest birth rates and hence the oldest population, which is alarming especially as times gradually creeps forward.

Additionally, Japan was affected by the collapse of the world markets in the late 90s and the early 2000s with the economic bubble bursting due to the unprecedented rise in asset prices and stock prices. This led to a deflationary spiral for Japan since the local economy is what largely keeps the economy afloat and the local investors were afraid, Japan implemented negative interest rates and was left with a deflationary environment for over 30 years. Only very recently due to the reverse happening all cross the world and inflation kicking up in Japan for the first time in over 30 years is there a discussion of changing the rates and stopping negative rates. This has allowed Japan to have a higher wage growth and boost the local economy further.

Over time as the world economies and trade partners evolved and Japan transitioned from a manufacturing based economy into a service based economy, however, still keeping their manufacturing roots. Now Japan is a leader in technological advancement with companies like Softbank backing the world's best technologies, Mitsubishi and Nintendo. This diversified the economy which further boosted their economic growth.

Japan has made very calculated changes and moves within their economy and their history up until recent times, which proves their resilience in building and rebuilding their nation. Although there is an age crisis taking place in Japan at the moment, if the lindy effect is anything to go by, this is another crisis they will overcome. There may be challenges and they may be late to the game, but when Japan begins developing a product of pushing the boundaries of existing technology they emerge as formidable forces behind them!

Next up Germany!

Pre the 1920s, Europe was the hub for innovation and production, namely the UK and Germany led the pack in their development cycle and then Japan was given the secondary production role of manufacturing. Since those countries are some of the oldest, with the United Kingdom's history of free rein stretching back thousands of years, they were the most technologically advanced, granted that, that was mainly to do with their physical hold on most of the world, over 170 countries out of the counted 197 were ruled under The United Kingdom, from the small isle that they are. However, once again the effect of rise and fall of nations those nations which have had extended periods of rises have periods of relative falls where the countries who have had extended periods of falls begin rising and if their rate of rising is far greater than the subdued growth of the other nations they can begin to take over the countries who had once ruled the world, such as with India taking over the UK in the size of their economy.

Germany much like the rest of Europe was gifted with fertile land and livestock which sufficed the country to feed the population when they were primarily agricultural based. Their trade between the other countries was fairly easy since they shared borders and at one point were under the same rule of various empires.

However just as with the rest of Europe due to their proximity, Germany too was affected by the industrial revolution, which transformed them from relying on their natural resources to becoming an engineering powerhouse. They focussed on the craft of engineering and honed their skills in manufacturing mainly for textiles, steel and machinery. This was then converted into automobiles and transportation engineering, with most of the transportation firms building their parts in Germany. They became a hub for industrial activity. Companies such as Siemens, Krupp and Bayer, which are still household names emerged as leaders in the industrial engineering space.

The second world war left Germany in ruins, which set them back steeply. However, out of crises comes great strength and Germany pivoted and became the transportation engineering hub for the world, leveraging their industrial and engineering strengths to create firms such as BMW, Volkswagen, Airbus and Mercedes which have taken over the automobile and the aviation industry, leading the development and engineering of our most common transportations.

Over the course of development and due to Germany's geographical positioning, they became a travelling and transiting hub and over time they shifted closer to a service based economy in finance, technology and telecommunications and cities such as Frankfurt emerged as financial centres of the world.

Today Germany is one of the leaders in renewable energy application and production, once again a marvel of their engineering prowess.

Finally, on to India!

The rising star, with their stellar growth in recent years and development. India is an interesting country, since they didn't go through the typical development cycle; they skipped one stage.

India was oppressed for close to 200 years by the British rule, during this time they had their natural resources, namely spices, precious stones and metals exploited to the point that very little was left and what was more was that the country was left divided, since they were taken over through the famous saying by Alexander the Great which was "Divide and Conquer". India is a vast nation with a variety of ecosystems that exist both with their geography and their population. There are over 19,500 dialects and 121 languages in the same country and very distinct differences within the nation between the north, south, east and west. On top of this, the peninsula nation has three different levels of government which rarely see eye to eye. Unifying such a nation post oppressive rule was a very difficult journey and they lost a lot of time and resources in the process. Like China, India has only been a true independent country for 75 years. They now boast a population of 1.54 billion people, the world's most populous country and one of the most diverse.

India began through agriculture and ruling states, with over 20 empires throughout history. They were and still are primarily and agricultural based economy and instead of transitioning to the manufacturing level of an economy they skipped that since they joined the development cycle of the world much later, when technology was already far further developed. India took advantage of their size and the ability to get cheap labour since they were such a populous nation with a significantly devalued currency, they transitioned into a services orientated economy and quickly became the world's IT support hub.

India has been playing catch up for over 7 decades and hence needed to maintain a high growth rate in order to be able to rise up the ranks to be a part of the world's largest economies and now overtaking the United Kingdom in the value of their GDP.

India is an open version of China, welcoming the world's technology with the ability to replicate and reproduce the same technology locally, reducing their dependence on international technology, however, their capture of the services market keeps the world dependent on India as a source of technology servicing. Now with the recent complications in China's economy India has the ability to capitalise on the manufacturing segment becoming another source for the world for cheap manufacturing, soaking up the excess demand that is overflowing from China. They need to streamline their goals as a nation and build out the manufacturing infrastructure to enable them to take up that demand, which will take time but very doable with the nature of the people as well as the resources at their disposal.

These two economies are like one another, with India being an open infrastructure and China being the closed version. Both boast large economies and hence are consumption based economies where they can both produce and consume the products and services internally. India has created a phenomenal industrial sector due to the development required internally. They are running two simultaneous development cycles in addition to the governmental level challenges they have within the country, which are also being further streamlined with the continuous leadership of one party that sees India's development as a top priority, bringing the country to an international stage.

They are a slow moving giant that has stayed hidden for decades and has now been given the opportunity to strike and when they do, they will be a very powerful force to reckon with.

The other countries within the list above have gone through similar cycles, all in their own unique ways with their own challenges to overcome.

The 4 Ps of DeveloPment

Now that you can see the countries have gone through similar cycles of development over the years they have existed for as civilisations. These development cycles coincide with the innovation cycles.

These interactions create what we like to term the 4Ps of Development. This can be thought of as a waterfall of development which goes from the pioneers to the peripherals, with the benefits of development waterfalling down. These are as follows:

Pioneers: Those countries which are the first to push forward the cycle of development with innovation and growth
Progressors: Those countries which take existing technology, improve it, make it cheaper or provide it to a larger audience

Preceptors: Aristocratic countries who are more focussed on regulations and policing rather than progressing or pioneering since they benefit from the collective development
Peripherals: Countries which are too slow to adapt and adopt the technology due to the inefficiency of disseminating information, lack of resources or lack of the funds to do so on a large scale in a sustainable way

Starting with the pioneers.

The US is the pioneer, with every modern development cycle they have pioneered the revolution or advancement and are able to scale it to reach an international or global audience partly in help with the alliances they have with the countries in the rest of the development chain. China is a close second and is a pseudo-pioneer since they have made immense changes to heavily globally dependent fields, without their changes in manufacturing and research other countries along the chain would suffer in their role of development. However, they are a pseudo pioneer because they are a progressor but disguised as a pioneer due to the state of their economy being closed, causing them to develop the same functions locally, challenging the original pioneer of those functions in terms of technological advancement. This creates a healthy dynamic of competition, furthering the pioneering spirit, leading to further advancements and developments.
Next up, the progressors.

India, China and Japan feature as the major progressors of the global economy, outside of the pioneer. I will explain each one's role within this bucket below.

India is a major progressor as it opens up the accessibility of the pioneering technology or development to a large part of the population of the planet, due to its sheer size and local accessibility. India also applies the action of replication and what I term as "same shit, different air freshener" or "SSDAF". They use existing underlying technology, dress it up differently but change its application to suit the needs of their local economy. There are several examples of this, where technology has been taken from the pioneer, US, and implemented in the nation as their "own" technology; Ola is a modified Uber. Uber was created and released in 2008, and Ola Cabs was created in 2010 with the same premise and same functionality, the difference was it was tailored to the Indian consumer and was introduced just as Uber was entering into India. PayTm is a modified version of PayPal. Paypal was created and released in 1998 and PayTm was made in 2010, when Paypal was already widespread and in use globally. PayTm has the same idea, just tailored to the Indian consumer. Olx is the modified version of eBay. eBay was created in 1995, while Olx was made in 2015. eBay was a global phenomenon at this point but Olx is an Indian version of eBay, with the same idea, same functionality. There are several examples of this, I will refrain from adding them all here, I am sure you can find them and that you understand the point. India is able to do this due to the state of their economy being insulated. They are an open economy, however, they are very difficult to penetrate since most of the nation is rural and the urbanisation is a localised urbanisation with little exposure to the western way of the world as India has a rich independent history and culture which is apparent in abundance within the country. For global, especially westernised firms to enter into the Indian market it is extremely difficult due to the lack of coherence between the mindsets and the way the Indian consumer works. They take the existing technology and progress it further, scaling it to a much larger audience, acting as an amplifier. For those firms who manage to enter the market and conquer it, it is explosive.

Japan is a major progressor as it advances the existing technology further into a more sophisticated form and for a smaller niche. Japan has taken technology, once again from the pioneer, US, and advanced it for specific use cases such as robotics and gaming (which can be argued that they were a pioneer in). They are far more advanced than most other countries in robotics apart from the pioneering nations.

Finally, China. China finds its way as a pioneer and a progressor and both due to their closed economy system. This state of their economy forces them to create new technology which replaces the current existing technology as they cannot use the same technology exactly, however, they also do apply the "Jesus in Japan" method in a few cases. They are a pioneer due to the way they have enhanced and created a heavy dependence on their manufacturing and supply chain abilities. They are the supplier to the world with Alibaba being the Amazon of the East, however, it is a market place for the wholesale of the raw material or supply of products rather than the whole product itself. This is a combination of using the existing Amazon style technology for logistics and the cloud and scaling it to over a billion people again, close to two billion, similar to what India has the privilege of doing, as well as pioneering a technology to make the supply chain of various products more efficient. Additionally, the same with internet technologies such as WeChat being the central social media app in China, incorporating a payment system and social interaction, which is pioneering since they have combined payments and social communication in one, however it is also progressing since at the time it did exist separately in the US as well. There are several more examples such as Didi or Baidu which showcase the same.

Onto the Preceptors.

Largely Europe (including the UK, since now they have lost even the status of a preceptor, but they have a history of pioneering and precepting within the EU which is relevant to this analysis) is the main global preceptor. A preceptor is one which is more concerned with laws and regulations as they have had periods of pioneering and progression in the past and due to various decisions through the years, have unfortunately not been able to lead the world in term of pioneering advancements post the electrification once their intellectual talent dried up due to the inefficient allocation of resources and their focus turned to more theoretical applications of this knowledge rather than practical applications. Europe as a whole was leading development in terms of information and discoveries since the Ancient Greeks to Sir Isaac Newton and Albert Einstein. However, post the electrification of the world, the focus move to the US with Benjamin Franklin and his electric kite and Nikola Tesla and Thomas Edison battling between AC/DC and taking the world to greater heights standing on the shoulders of the giants that Europe was.

Finally to the Peripherals.

The Southeast, Africa and the rest of the world are the peripherals and this is due to their historical and geographical positions throughout time where they have either been oppressed and exploited for their resources, which they couldn't come back from or they have been geographically disadvantaged throughout time to be able to assert dominance in any one field or were too far from the "action" and hence too late to adopt and adapt to it since they weren't major markets for any technology to reach to. Development looks for exchanges, where technology can move to in exchange for growth in one respect or another. With populous nations its exposure to a wider audience giving it room for scalability and greater feedback. Countries which didn't have a larger population than the home country of that technology, they received the technology towards the end, once it was already widely accepted and hence they weren't able to adapt or grow from their since they were the least exposed to what already exists to know what else to create. The countries which were oppressed the most or received their independence the last, they relied and still rely on their natural resources as their production. They provide the most basic requirement for development, which is raw material and hence are on the lowest rung of the development waterfall.

The above gives you an overview of what the 4 Ps of development are about. These 4 Ps are the result of the type of economy chosen by the nation and each nation goes through all four similarly described in Adam Smith's book, the rise and fall of nations.

The pioneer as you can see above has a free market economy, the largest capitalist democratic economy. This free market has led to immense competition and innovation since any idea is welcome as long as it can be converted into a practical reality and if done so, the free market decides what happens through the classic demand/supply cycle. The only opposition and close second to this within the pioneering bucket is the one with the exact opposite style of economy and it is just as fitting. They have a closed authoritarian, communist economy where there is one leader with an authoritative lead over the nation, directing the large populous to a goal. This works with such large population bases since they need one direction and not many voices and hence as can be seen they have grown impressively and are a challenger to the free market model.

The progressors usually have a closed or ambiguous democratic economy where it is very localised due to various reasons, stemming mainly from the cultural differences. India and Japan have adopted this economy and both have a localised economy and hence are able to progress developments made elsewhere within that localised subset. China is the outlier here with a closed and authoritative, communist economy, however with the same applicable result where they can apply developments made elsewhere within their economy and since it is closed have to create their own as well. All three have ambiguous localised economies where local knowledge is required and cultural expertise is needed to be able to work within it.

The preceptors have a democratic economy with a socialistic tilt and hence the incentives as well as the resources are inefficiently allocated, causing a brain drain as well as developmental hurdles with red-tape and bureaucracy being the main concern rather than ease of creation. These nations are the ones which have historically been colonisers and have passed through the stages of being peripherals, progressors and pioneers pushing development further, however just with the rise and fall of nations, with times changing they were not adept to adapt to the new dynamics and hence lost out on the developmental lead. In their different periods of time they led the world individually through their kingdoms, with the U.K having the longest and largest empire in the world, conquering 173 nations out of the identified 193. However, this war forward conquering mentality led to the world wars where dominance through destruction was their method of choice and their forte was in the art of war. However as time went on and the method of dominance changed to intellectual rights and practicality of innovation, they lost out. They have now become the policing nations of the world, due to their social nature and dominating in the aristocratic fields of luxury and fashion. Just as with developments of nations and economies, the developments of people through history leads it forward. When a nation has had significant historical dominance and seen various seasons of power and abundance, the nation goes through periods of falls due to not being agile enough to change with the times and that is apparent in the European nations where they focus on the events of the past and due to the wealth of their predecessors have been able to fund their livelihood slowly retreating to a privileged form of existence, with emphasis on welfare and social justice and living the high life.

Finally, with the peripheries, they have an economy with extremely large discrepancies with the socio-economic backgrounds of their citizens and due to their oppressed or geographically dislocated past, their development has been stifled and hence they have formed in a way to live within their means and use what is at their disposal. This is true even today in a more free world with almost total independence of nations. This is most apparent in the most affluent peripheral nation, Singapore. Although Singapore has risen above times where they struggled to survive, that is the way the country is still run, even though it has tremendous wealth, the emphasis is on preserving rather than pioneering.

<u>Further Classification- Insulation</u>

Beyond this there is yet another layer of classification. This is between the insulated and the un-insulated. The un-insulated nations are those that rely on other nations in order to produce goods and services and consume their productions, while the insulated do not need to rely heavily on other nations as they have enough resources and consumers to survive and continue growing just by producing goods and services for their own use. You might have guessed it since I have hinted it slightly to you above. These nations are usually the progressors since they are relied on and have localised insulated economies where they use their own natural and intellectual resources to produce for themselves and the cultural differences are so wide that it is much harder for international firms to break through and vice versa. However, there is one major country that I haven't mentioned because it is an outlier since it doesn't fit in the above but does fit here, that is Russia. Russia is not a closed economy, however, they are an authoritarian, socialistic economy similar to China, however, they aren't global progressors or pioneers. Rather they have natural resources to offer, which they depend on and so do several other nations, just like the peripherals. They are an insulated economy and they are so due to their natural resource being one of the most important natural resource needed for human civilisation, that is oil and gas and their geographical positioning gives them the upper hand to Europe and to China. This places them in this category but not in the others. They have a strategic positioning and a strategic hold on a very precious and useful resource. Over time this gave them the ability to gain monetary benefit and hence build a formidable army and thus a strong alliance with their neighbouring nations and since they span across Europe and Asia they play a vital role in keeping the peace with the West and the East and hence have an alliance with the pioneers and progressors. However, they are being led by a volatile leader, which keeps the tensions high amongst the allies.

Economic Growth and The Manipulators

This development and the cycles in our overall capitalistic world has to be measured and the measurement we have settled upon is that of their gross domestic production, since what you produce and what is consumed must match for your development to have value. This is represented by the GDP number of every nation and the development of this is represented by the GDP growth which signifies the economic growth of the country. Over time, the longer the continued presence in the pioneering field, as we can see with the US and with China rising up, the higher the GDP and hence the economic growth. As China began moving from being solely a progressor to being a pioneer as well, the closer they crept up to the US and pose a threat to their development dominance. The larger the numbers get and the more stable the growth factor the even greater the development and hence even greater the GDP. This is due to the effect of compound growth, which takes that growth factor and compounds it on top of every new cycle of GDP created, making the pioneers stay in the lead as they push the stages of advancement forward and the more they do that, the further they get before the rest catch on. Due to this phenomenon of compound growth the US, with the size of USD 28.2 Trillion has reached a size where the closest competitor would take 11+ years to catch up at their current long term average rate of growth. Taking into account a slight decline in that growth over the years, that would take them 15+ years to catch up, by which time, due to compound growth, the US would once again, at the current rate of their long term average growth, be 17+ years away from reaching the same level. The US produces close to slightly more than half of the entire GDP of India every year, doubling them every two years and doubling China every 11 years.

However, with this growth comes the homeostatic balance of the economic system, and this balance gives rise to inflation, which, if left unmanaged can cause runaway inflationary environments, leading to the collapses of economies such as Italy and then Greece later on.

How do governments control this economic growth and inflation? Demand and Supply.

Let me explain.

The governments of every nation have certain economic levers at their disposal to boost and stall growth and hence affect inflation and control it. Similar to the gear shifts of a manual car, running the car in the first gear, you can only go so fast before the engine gives out and the same with the second and the third and so on and so forth. The same applies to economies. To understand the manipulators of the market one must understand the way the market works and what it needs to progress. These levers control the supply of the money within an economy. The demand is that of the people and the demand of money is always excessive and we can take it to be constant. The greater of lower the supply controls how much can be bought with the same amount of money. Here we introduce the concept of inflation.

Inflation is the supply of money in circulation within a closed system such as an economy. If there is a larger supply of money changing hands within an economy we have higher inflation and if we have a lower supply, inflation is reduced. What this does to the price is that when there is a higher supply, the purchasing power of the currency reduces as they can buy less within the same amount of money and vice versa when the supply is reduced. However, for there to be growth there has to be a certain level of inflation as money needs to be changing hands through the purchase and production of goods and services within and economy. In other words, the demand and supply only works when there is money being exchanged between the demand to buy and the incentive to sell. Over time the amount of inflation varies depending on the level of production of an economy, however, it usually settles around a long term average. This average increases over time as the economy grows and it is up to the government to keep it in control.

How do they keep it in control? Through easing and tightening cycles. These involve the changes in interest rates and the purchase and sale of foreign currency against local currency. Quantitative Easing is the method by which a government lowers interest rates, which incentives consumers to consumer and hence increase the supply of money changing hands within an economy. This makes it easy for borrowing and lowers the incentive to save. This is a double edge sword. I am sure you have heard the saying "tough times make tough men, tough men make easy times and easy times make weak men and weak men make tough times" and the cycle continues. Periods of quantitative easing provides the economy with a flush of liquidity for consumption to increase and production to increase due to lower interest rates when borrowing money. This boosts the economic growth within the economy. However, here is the second, darker edge, if they aren't careful, this can cause over spending and over utilisation of this "easy time". When that happens inflation runs up too high and too quickly, which prompts the government to have to turn the tap off.

This forms the quantitative tightening cycle. In quantitative tightening the interest rates are risen over time. This has the opposite effect. Borrowing becomes expensive and it incentivises people to save as the bank pays them a higher rate to keep their money in the bank and risk free assets become more attractive. This lowers the supply of money changing hands within the economy and causes inflation to fall. However, this too has a darker edge, that is that it slows the economic growth down as less people are buying and less production is taking place since borrowing is expensive. It does however, allow the economy the breathing space, taking it back one gear at a time, to absorb the over spent funds.

These two methods go hand in hand and they must be measured as long term dance between the tightening and the easing cycles interfering with each other over long periods of time to crease the long term average rate of inflation and hence the long term average rate of economic growth. As the economy grows, a certain degree of inflation is required to let that size of an economy run, without that level of inflation it could hinder the growth and lead to a subpar growth, just as when you are about to shift the gears in a car, you have to reach that speed and hold it there, slightly above the level in order for the engine to get used to the higher spin rate for the pistons to adjust to the higher gear. The more powerful and larger the engine the larger the space between the gears. The same applies with the economy. The larger the economy, the more inflationary leeway is needed, rather than keeping it strict to limit it to a level below its historic average. Doing that could stall the economy.

To understand the manipulators and prudently make decisions for asset allocation within countries and further still with companies it is greatly important to study history. We here at the BKI are students of history where we analyse and track current movements in economies both macro-economically and micro-economically in the context of history. Just as with countries, the general markets within these countries go through their own development cycles and subsequently so do the companies within these markets. It is true that the past seizes to exist, however, it is extremely insightful to tell us the trends of tomorrow since everything in nature runs in cycles, even nature itself. Gaze into the past to understand the present and prepare oneself for tomorrow! Just as we have done above it is pertinent to understand the manipulators of today and how their actions are playing in the context of long-term history since the goal is to outlast and grow for the long term future.

<u>Applying The Analysis of History On The Markets And Individual Companies</u>

Companies go through their own cycles which are linked to the development cycle of the countries they are in. When they are listed on the markets they go through their own stock market cycles as well, since a private company behaves very differently on the stock exchange as it opens itself up to public scrutiny, something it didn't have to worry about before. Understanding the history of the firm as well as the history of the system it exists in, helps one contextually and fundamentally understand the way the company will behave intrinsically, which allows one to understand if the movements with its stock price are driven by fundamentals or by the public force deeming it either under or overvalued from its fundamental intrinsic value.

The stock market goes through its own cycle as well and understanding the environments in which the markets react in the specific manner they do within that environment allows one to make prudent decisions in the short term to capitalise on the cycles within the market and gain and unlock value over the long term. Markets fall and markets rise, as they fall they become less risky, which becomes clear when you zoom out and view the market as a whole. Understanding why they fall adds a layer of security to be able to identify the right periods and make the decision of buying when there is relative blood in the streets to build up positions and set up portfolios for long term value creation. Vice versa, when the markets rise, being able to identify the right indicators and analyse and understand the reason as to why they rise can help one identify and realise whether the markets are propped up by fundamentals or froth and the same goes with individual firms. Whether the fundamentals can back the rise in their stock price depends on the environment for revenue capture and the intrinsic ability for the firm to produce the product required by the economy during that development cycle in order to capitalise on the demand for that product or not.

A company must produce the product required by the economy during that period of their development in order for that company to grow. How big they will grow depends on the demand for that product or service, its supply chain and the efficiency by which the supply chain can be converted into the product which can feed the demand pipeline with enough margin for the firm to keep a profit. Furthermore for the firm to be able to capture the growing market in the economy it has entered, whether locally or globally and if it can sustain the levels of growth that are priced in in its stock price through the public force of the market. If it can and the market does not accurately identify it, it is considered undervalued, which is later caught on by the rest of the market naturally since the firm begins penetrating the markets in a significant manner. If it cannot, it is considered over valued since the public believe it will, when the fundamental metrics are unable to prove the same notion, where it is not able to do the above in any such efficient manner and fails to meet the demand or there wasn't as much demand as expected since the economy has no use for such a product or service.

The economy is a system, demand is described as the need for a product or service by the economy and the supply is drawn out from the resources. If the resources are misplaced, the economy suffers and if the resources are allocated in an efficient manner and can accommodate the changing needs of the economy, the economy prospers. For example in the US, the need for the economy is physical labour in the medical field as there is a shortage of nurses and in the catering field as there is a shortage of waiters. However most of the workforce wants to do a job in big tech, big pharma or be doctors. This will or has been going on for several years with students applying for computer science and other hard science related fields in university leading to, initially a large pool of applications to those fields and over time an oversaturation in those fields and a large discrepancy of shortages in the fields the economy needs. This leads to major bouts of unemployment in the extremely oversaturated fields and a reallocation of resources for the economy, with the resources being the workforce shifting towards where the economy needs not where the people want. The flow of capital goes the same way, there will be less jobs being accepted in the oversaturated fields while there will be job openings in the fields with shortages, pushing the workforce towards that direction, to fill up the void. The workforce needs capital to survive and over time a homeostatic balance will form, where they will move to match their needs to the economy or a new development will occur, eliminating the need for them to, leaving the workforce unemployed. This can cause a high unemployment in the economy, however with no reduction in production, just a more efficient development and advancement, leading to the government pushing a lever to balance the overarching environment. The workforce will, in today's age, find another method of survival with side businesses which are possible with much greater ease than before or further fuelling the gig economy.

History dictates this to be the case as previously the jobs that were required in most economies, to set the economy up for further development were either an engineer, lawyer or doctor. Whether the people "wanted to" or not, or "liked to" or not , <u>they had</u>

to go to one of the three since that is where the capital was flowing and that is where job vacancies existed. For the economy it was a need and hence had to be filled, therefore in the nations where the workforce was incentivised and efficiently allocated, they developed faster and further in the fields they directed themselves to develop in, while the ones who did not, had slower rates of development or developed in different directions, such as China, putting an emphasis on factory work and assembly line knowhow. They advanced in that field far faster and further than any other.

Those tough times made tough people who did what had to be done. They pushed the economy further through development and the economies prospered creating easy times for those who came after, giving them choice and as the economy prospered, the choices grew. Those easy times create people with wants, likes and dislikes rather than those who will do what needs to be done and hence creating tough times and the cycle repeats. As with the above scenario and this one, it takes several years and in some cases even a decade before economies realise the problem or can affect change within their resources due to the inefficient systems put in place with misplaced incentives.

Understanding this and mapping out the various possible scenarios in conjunction with identifying the right indicators to be able to recognise the scenario one is in allows one to prudently analyse and make short term decisions that will lead to long term growth and value.

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