Global Economic Data – A Few Simple Ratios For Interest and Fun

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During one of our recent exercises, rough economic data on each economy (or country) was collected and assembled. Analysis followed and in the process, we have devised a several simple ratios for reference, and a few of them are listed below (please note the terms are self-made and there could be better and more technical names for them) :

(1) **Gross Domestic Product (GDP) as as percentage of world OVER Population (POP) as a percentage of world** : this would give a rough sense of how an economy is keeping up with its neighbors (or "the Jones" so to speak) in terms of productivity. A ratio of 1 indicates the economy is keeping its own, i.e. neither lacking behind or being ahead of others. A ratio larger than 1 indicates doing better than the average while a ratio less that 1 means doing worse than the average. Naturally, as GDP has its own limitations, the ratio should only be used as a basic reference, particularly in the quantities of assets. For instance, a person who earns only 50% of what income an average Hong Kong person earns may afford more things (ranging from restaurant meals to number of properties owned) in his/her own economy and vice versa.

(2) **Literacy Rate compared to the world average** – the world average is around 75%, hence an economy will 100% literacy would be 1.33 while another with 50% would be 0.66 and so on. Please note literacy is perhaps "loosely" defined in some of the economies and alone does not tell much about how sophisticated the educated mass is or how good their universities are. Nonetheless, the data does show most developed economies including Hong Kong have a close to 99% literacy rate (100% is theoretical only unless the country is very small like Liechtenstein) while most undeveloped economies may have less than 60%. Developing economies tend to fall between 75% to 90% with the exception of Eastern European economies, most of which are above 95%. This gives a rough sense of whether the people in a developed economy can sustain their well-being (or growth) and whether a developing economy can reasonably look forward to becoming a developed economy given human skills and education important ingredients. Hence, a fall in the literacy rate in a developed economy may spell trouble and a rise in literacy rate in a developing economy may spell investment opportunities, given other factors being equal.

(3) Number of People for Each Doctor (Physician) compared to the world average – the world average is around 600 people to 1 doctor. Nonetheless, a healthy skepticism should be applied as the skill level of (registered) doctors in different economies could be very different. Not surprisingly, economies with a more generous social welfare tendency, including many Eastern European economies, have a low people to doctor ratio with most being 500 (or less) to 1, while a few undeveloped economies have over 15,000 to 1. Moreover, there seems to be a slight correlation between this ratio and the average life-span of and economy. This ratio not only gives a rough sense of the "quality of life" in an economy, it also provides a hint on the level of sophistication of the society in general. Given all things being equal, a sophisticated developing economy stands a better chance to progress into the next higher level.

(4) Ratio of Young Population to Old Population compared to the world average – the statistics collected define young as under 15 and old as over 65, and the world average is 4.81 young people to each old person. However, it does not directly give a sense of how much burden the young would shoulder in future as the old as defined here would most likely be the responsibility of the current working generation rather than those still under 15. Nonetheless, it does give a sense of "succession capability" of the economy in future. For instance, if the ratio is not large enough (or if the young constitutes a relatively small percentage of the population in the economy), it may mean a housing glut (especially if the homes are already some of the best developed in the world or are built to last) sometime in the next generation. Most developed economies exhibit this trend. Most are less than the world average ratio. Surprisingly, China is also lower than the world average though is still higher than some e.g. Japan. This may mean sometime in the next generation or two China would have to move from a labor-intensive mode economy to a more brain-intensive mode economy.

(5) Population Growth Rate compared to world average – the world average is around 1.50% with the higher rates exhibited mostly in the developing and undeveloped economies. Most developed economies are below 1% and China, though having 20% of the world population, is growing by around 1% per annum, i.e. below the world average (via its birth control policy) and way below most of the developing economies. This ratio is important for estimating, given all things being equal, which economy stands a better chance to upgrade and modernize itself in that too high a population increase rate means the average resources which could be allocated to raising the next generation (on a per child basis) would be reduced, thus also reducing the chance for significant improvement. Well-being in future does not rely on having lots of people (though a certain minimum level of population is needed to maintain the "momentum") but more on their qualities such as level of education, skills, experience, culture, social awareness, creativity, level of sophistication, diversity, and the like.

(6) Dividing (1) by (2) : this gives a very rough sense of "how smart" (or not) the people collectively in an economy (in terms of earning an income) is by DIVIDING its ratio of GDP as a percentage of world / Population as a percentage of world BY its ratio of Literacy Rate compared to world average. In this sense, most developed economies are smart (being above 1 with many falling between 2 and 4) while the remaining ones are less so (being less than 1 and in some cases even less than 0.5). Nonetheless, and coupled with reference to other factors, several of the lesser economies may hold good potentials to upgrade themselves. Moreover, a few developing economies may very well become developed economies given their relative advantageous basis.

There are much more yet owing to limited space, we save the rest for another occasion.

Topics for Conversation:

(A) Urban China is not representative of China (yet) : While China has been quite successful in opening up its economy, most investments, from Hong Kong and other places, have been concentrating on the coastal / urban locations including the three major cities. Thus, any experience gained represents at most 25% of the population (possibly less) and less than half of the total GDP (the three major cities make up around 15% based on published data). Depending on industries and circumstances, it may not be prudent to thus project the experience gained into other more uncharted / untested territories.

(B) A Recent Enlightenment from our Capital / Business Management Arm Colleagues: Company top executives / owners tend to pay "yes-persons" handsomely while shunning the "nay-persons" who, as revealed by the Asian Crisis, might have saved many businesses from financial trouble with their caution if they were listened to (thus should actually be treasured / compensated more instead). <u>You can always teach a parrot to say "yes" which is a lot cheaper.</u>

Comparative Real Estate Global Indexes (Cregis) for the 4th quarter: (%+/-3rd Qtr)
1. Toronto = 2.06 units for 1 counterpart Hong Kong residential unit (+6%)
2. San Francisco = 1.04 units for 1 counterpart Hong Kong residential unit (+4%)