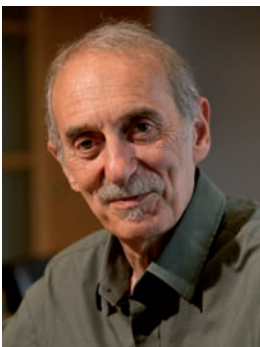




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Prior to this, Mr. Magnus had been the Chief Economist at SG Warburg from 1987 to 1995, and then became the Chief International Economist at UBS. Previously, he had worked at other major U.K. and U.S. banks.

Mr. Magnus received an MSc in Economics from the School of Oriental and African Studies and taught economics at both Central London Polytechnic (now University of Westminster) and the University of Illinois.

Mr. Magnus's current research interests include European political economy, demographic change and interest rate and commodity trends in a long-run context.

You have paid quite a bit of attention to the rise of emerging markets, and, in particular, the effect of the “demographic dividend” on these markets. What is the demographic dividend and what types of policies should emerging nations implement to help derive the greatest benefit from it?

The demographic dividend is a theory that states that as the productive, working-age population expands due to previously higher fertility rates (and before old-age dependency starts to rise significantly), and as the dependency of children on the working-age population declines, the market may experience higher rates of consumption, savings and economic growth. To take advantage of this, governments must create both educational and employment opportunities for their younger citizens. One important way to achieve the latter is to increase the number of labor-intensive jobs in manufacturing and in service industries such as retail and financial services.

You have expressed concern about the impact of rising wages in China on global inflation. Will China's recent policy shift, which refocuses economic growth more on domestic consumption, have an effect on global inflation?

For the moment, I think that rising wages in China will not boost global inflation because labor productivity growth is still quite high, and we know that Chinese export prices aren't rising that much. It is true that the government's strategy to raise wages is part of its official desire to shift growth toward household consumption. But this next stage in China's economic development is about much more than just higher wage levels. I think China still lacks the political will and the high quality of its institutions, especially its legal system, to make this shift likely to happen either soon or successfully.

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You predict that India will surpass China to become "Asia's America." Why do you think that, and do you still have confidence in that prediction?

India is the world's most significant example of the demographic dividend. Its working-age population is set to grow by more in the next 15 years than the size of the entire working-age cohort of Western Europe today. India is young. It has top-tier information, communication, technology and pharmaceutical companies, for example. Its private sector has shown that it can be both dynamic and flexible. And its legal and political institutions have the potential to facilitate creative change. But India is also poor, with a high illiteracy rate and large-scale unemployment. To be confident in a prediction that India can realize its potential, we need to see the reform process advance a lot further, and that includes tackling over-heavy bureaucracy and corruption.

Outside Asia, North Africa has recently shown meaningful progress as a good investment destination with huge potential. In fact, the African continent is rich in natural resources, and its younger workforce has been at the center of your attention for the past few years. How has recent social and political turmoil such as Tunisia's "Jasmine Revolution" affected your view of this continent?

The Jasmine Revolution demonstrates what happens when corrupt and authoritarian political systems fail to pay attention to the economic, social and political needs of a young population (specifically, an expanding cohort of working-age men and women). You can buy off economic unrest, as Saudi Arabia has demonstrated, but you can't use economic policy to give people a sense of status, respect and aspiration, which is a problem China may well have to address in the next few years. I don't think anyone knows really how the "Arab Spring" will evolve in the coming months and years, but if it serves as a catalyst for meaningful economic and political reform, the region's economic outlook will doubtless improve. Just having oil doesn't guarantee any sort of durable success.

An aging society poses a grave threat to a nation's political and economic future. It may also impact the society as a whole. But, at the same time, it can provide a huge investment opportunity. Can you please elaborate?

Aging societies are a big investment opportunity because of the enormous changes they will bring, including the way economies will work and the manner in which wealth will be created and distributed. Consumer demand patterns may change, for example, to emphasize health care, pharmaceuticals, insurance, leisure and technology. The distribution of income between wages and profits may change in favor of wages. Skill sets and education will become even more important. As these changes occur, the composition of the universe of successful companies will also change. But be warned; this represents a source of risk as well as opportunity. There will be losers.

Those who argue the “asset meltdown hypothesis” say that the global stock market will tumble as baby boomers will be forced to sell their stocks and bonds to sustain their lifestyle after retirement. Do you agree?

No, I think that is simply a scare tactic. Baby boomers definitely will not sell their bonds, because older citizens need income-generating assets. And whether they sell equities and real estate to fund their retirement years is entirely speculative. I believe that households headed by people aged 65 to 70 hold a smaller proportion of equities in their asset allocation than do slightly younger households (as they should), but that these older households are hanging on to their equities for longer than could have been predicted. In the end, an aging population means lower equity returns than we've been used to, but the equity market outlook is, I think, also a result of macroeconomic policies, governance and, of course, profits.

Would you suggest investment strategy to individual investors who anticipate a longer life span than others?

Individuals must make their own decisions when they are in their 50s and early 60s as to when they think they can afford to retire, taking into account that they may spend perhaps 20 years or more in retirement, with the last few possibly involving growing bills for health care and/or long-term care. This means, basically, that we should start to build up our savings pools earlier, and then shift the asset allocation as we approach retirement. Essentially, an investment strategy for older citizens should allow for a higher weighting in bonds for income-generating purposes, but also a continuing exposure to equities in emerging markets and resources, where there are relatively sound, long-term stories to tell.

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