HIGHFOREST CAPITAL LIMITED

TURBOCHARGING NATIONAL DEVELOPMENT

THE INTERNATIONAL COMMUNITY NEEDS TO ADOPT A NEW APPROACH TO HELP DEVELOPING NATIONS ADVANCE

NOTICE

This document has been prepared by Highforest Capital Ltd solely for informational and discussion purposes. The information contained in this document has been prepared to assist prospective interested parties in making their own evaluation of the concepts described in these materials and does not purport to be all-inclusive or to contain all of the information interested parties may require. In all cases, interested parties should conduct their own investigation and analysis of the concepts described in these materials.

This document includes forward-looking statements such as those that may predict, indicate or imply future results, achievements or events. Such forward-looking statements reflect our current views with respect to future events and are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by such statements. Highforest Capital Ltd and its respective affiliates and representatives expressly disclaims any representation or warranty regarding involvement in or responsibility for any future-looking statements contained herein.

Certain information in this document has been obtained from published and non-published sources. Such information has not been independently verified by Highforest Capital Ltd. In addition, certain information contained herein is based on or derived from information provided by independent third-party sources. Highforest Capital Ltd believes that such information is accurate and that the sources from which it has been obtained are reliable, but Highforest Capital Ltd has not independently verified any of the information contained herein. Highforest Capital Ltd cannot guarantee the accuracy of such information and has not independently verified the assumptions on which such information is based.

This document is not an offer to sell or a solicitation of an offer to buy any securities and may not be relied upon in connection with the purchase or sale of any security.

Every developing nation aspires to transform into an advanced economy.

Every developing nation can achieve this dream.

$1 trillion

Since 1945, the amount the World Bank has lent developing countries to help them advance. *Source: World Bank Lending (Fiscal 2017), Annual Report 2017, the World Bank.*

$2 trillion

Between 2000 and 2017, the amount of bilateral and other overseas development assistance provided to developing nations. *Source: OECD, 2018.*

4

The number of nations/semi-autonomous regions that have successfully migrated from developing to advanced economy status in the last 75 years. The countries are: South Korea, Hong Kong SAR, Taiwan, and Singapore.

3%

The success rate of our current approach to national development. It has been calculated by dividing 4, the number of nations to have successfully migrated from developing to advanced economy status, by 160 (the total pool of countries in existence today, estimated at 195, less the 35 nations that achieved advancement at or about the start of the 20th century).

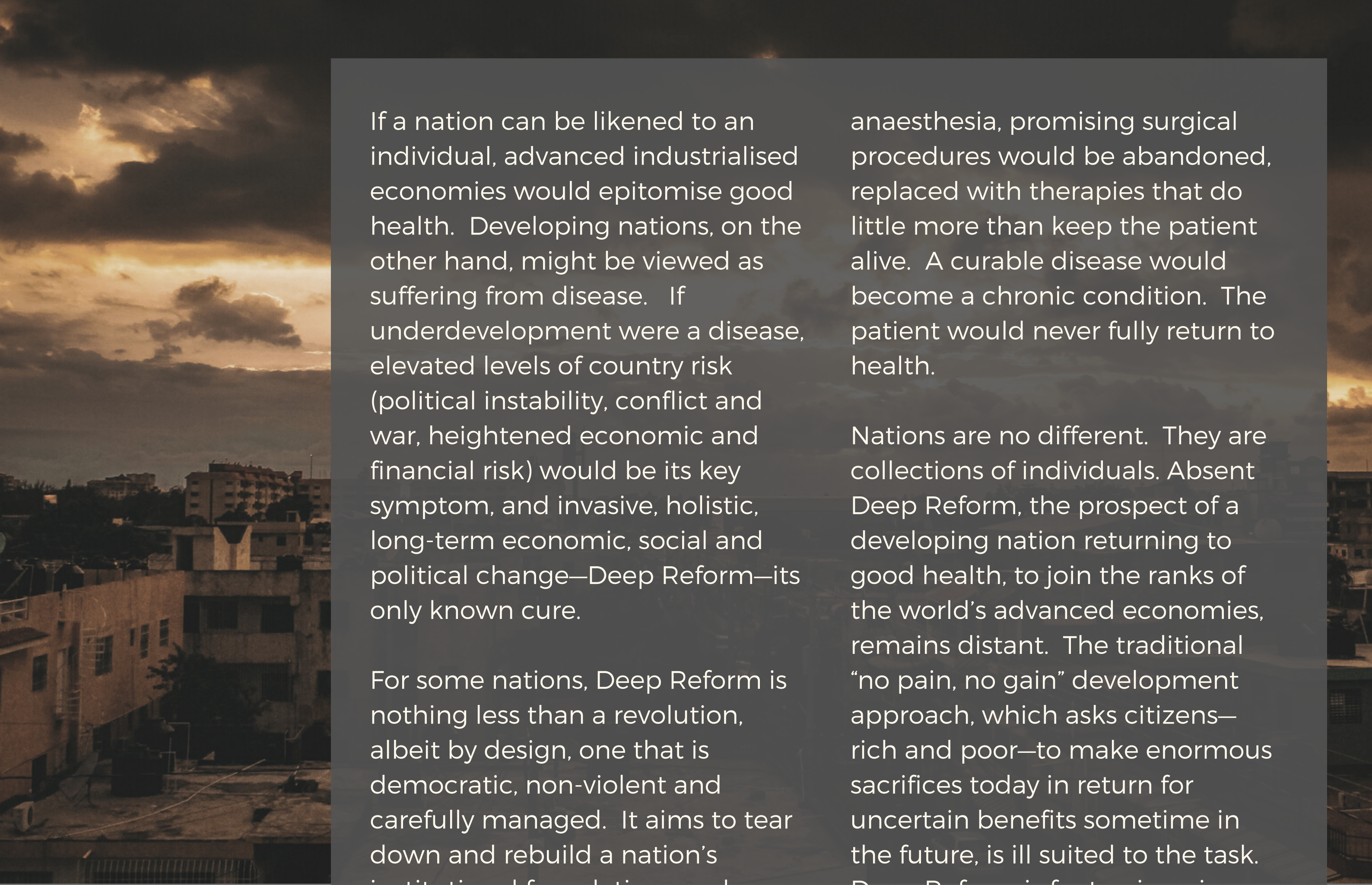
Q:

After 75 years of intensive effort, why are the vast majority of nations in the world still developing?

A:

If economic underdevelopment can be likened to a disease, Deep Reform remains its only known cure.

Unfortunately, for many developing nations, the cure is proving more painful than the disease.



07

If a nation can be likened to an individual, advanced industrialised economies would epitomise good health. Developing nations, on the other hand, might be viewed as suffering from disease. If underdevelopment were a disease, elevated levels of country risk (political instability, conflict and war, heightened economic and financial risk) would be its key symptom, and invasive, holistic, long-term economic, social and political change—Deep Reform—its only known cure.

For some nations, Deep Reform is nothing less than a revolution, albeit by design, one that is democratic, non-violent and carefully managed. It aims to tear down and rebuild a nation's institutional foundations and redesign certain aspects of society itself. In the process, sacred cows are sacrificed, long-held beliefs, perspectives, policies, practices jettisoned. Malfunction-ing organs of the state are replaced with transplants. Transparency, accountability, law and order—the oxygen of national development—are allowed to permeate every nook and cranny of society, wiping out the cancer of corruption.

Deep Reform is analogous to an individual undergoing an invasive surgical procedure. Yet, no surgeon would contemplate putting a patient under the knife without first applying a general anaesthesia. Most patients would recoil at the thought, withholding consent. Absent this general anaesthesia, promising surgical procedures would be abandoned, replaced with therapies that do little more than keep the patient alive. A curable disease would become a chronic condition. The patient would never fully return to health.

Nations are no different. They are collections of individuals. Absent Deep Reform, the prospect of a developing nation returning to good health, to join the ranks of the world's advanced economies, remains distant. The traditional "no pain, no gain" development approach, which asks citizens—rich and poor—to make enormous sacrifices today in return for uncertain benefits sometime in the future, is ill suited to the task. Deep Reform is far too invasive a surgical procedure.

Not surprisingly, sermons evangelising the virtues of Deep Reform have fallen on deaf ears. The proliferation of democracy across the developing world has given even the poorest, most vulnerable in society a voice through the ballot box, empowering them to withhold consent. Politicians have listened, leaving frustrated surgeons—the legion of development professionals—little choice but to prescribe stopgap, "reform in namely only" remedies. For some nations, recurring visits to the equivalent of intensive care—the IMF—seeking economic bailouts have become a part of national life.

If developing nations are to advance, the traditional "no pain, no gain" model needs replacement by one built around delivering powerful new incentives for citizens of developing nations to embrace Deep Reform.

Our proposed solution finds its inspiration in an unlikely place—an immigration model that has proven wildly popular with citizens of developing nations.

61%

The increase, between 1990 and 2017, in immigrants' share of population in advanced economies. In 1990, immigrants comprised 7.2% of advanced economies' population. By 2017, this had increased to 11.6%. *Source: "Migrants Are on the Rise Around the World, and Myths About Them Are Shaping Attitudes", New York Times, June 20, 2018.*

For citizens of developing nations, immigration to advanced nations has long represented an alternative path to advancement. It remains wildly popular with citizens of underdeveloped nations, even as it is becoming less so with the citizens of some advanced nations, a victim of its own success.

Immigration does not spare the individual from Deep Reform. If anything, it does the opposite. Immigrants are left with little choice but to rapidly adapt to life in a modern, advanced economy.

But the immigration model differs from our traditional "no pain, no gain" approach to national development in that it grants immigrants from underdeveloped nations many if not all of the rights and benefits of life in an advanced nation upfront. No advanced nation, at least as of yet, has chosen to discriminate against or deny its legal immigrants the benefits and rights granted to its other citizens. Immigrants gain access to the same health care, welfare programmes, education facilities available to all citizens of an advanced economy, even as they begin what can be a generation-long journey of adapting to modern life.

For the vast majority of immigrants to advanced economies, access to the benefits of life in the advanced economy creates powerful incentives to embrace, at an individual level, Deep Reform. The challenges of adaptation may be no less, but they are more than offset by the benefits of life in an advanced economy. Few immigrants voluntarily return to their native lands. Some immigrant communities even go on to achieve considerable success, with per capita incomes that are higher than those of the broader population.

The immigration model recognises that every individual, even one originating from the least developed nation, can not only integrate into and achieve success in an advanced economy but has every right to do so. It implicitly views underdevelopment as a curable disease, and often allocates additional resources necessary to curing it.

The immigration model serves as the inspiration behind our proposed new approach to national development.

This new approach is designed to accelerate delivery of the benefits to advancement to all citizens, both rich and poor. It leads to national life, at the very outset of Deep Reform, to begin resembling that of an advanced nation. This is made possible, in part, by launching large-scale capital investment programmes, costing tens if not hundreds of billions of dollars, and programmes to drive near-term economic growth and increases in per capita income. It envisions investment in social programmes that deliver healthcare, education, and welfare, on par with those of advanced nations, allowing for rapid improvements in a nation's HDI.

Our proposed approach is designed to allow even the most economically vulnerable nations, through landmark industrialisation and social programmes, to transform national life to resemble that of an advanced economy.

In due course, it may render the immigration model redundant.

$100 trillion

Estimated size of the global institutional debt and equity capital markets. This market represents the largest source of long-term funding in the world. It alone possesses the capacity, creativity and the suite of financial product alternatives to fund both rapid industrialisation initiatives and social welfare programmes of developing nations. For the most economically vulnerable and post-conflict nations, country risk remains a major stumbling block to efficiently accessing these markets.

29%

Issuers assigned credit ratings by Standard & Poor's that fall in the lowest "B" band of creditworthiness. Many of the most economically vulnerable developing nations fall into this rating category, due in large part to market assessment of country risk. They include a number of large, trillion-dollar economies (measured by GDP on a purchasing parity basis), notably Argentina, Turkey, Egypt, Pakistan and Nigeria. Source: *S&P, May 2019.*

9.4%

Total outstanding capital markets debt issued by companies and governments that fall in the lowest, "B" band of creditworthiness. *Source: S&P, May 2019.*

To finance our proposed approach, we have devised a financing strategy that adapts a decades-old structure used to fund greenfield and brownfield capital investment to sovereign borrowing.

To facilitate capital market access, we have devised a new implicit country risk insurance instrument, which formalises a global financial safety-net that has existed for 75 years. Its application will require a far deeper engagement between multilateral agencies and developing nations.

A developing nation pursuing accelerated industrialisation and expanded social spending in order to transform national life to resemble that of an advanced economy will depict an immediate, severe and prolonged deterioration in economic fundamentals. GDP to debt ratios will spiral, fiscal and current account deficits will explode as foreign denominated debt piles up, imports of capital goods surge, and foreign investment floods in.

On the ground, the nation itself will begin to resemble a greenfield or brownfield construction site. It requires a financing strategy that reflects, and accommodates, this reality.

For decades, greenfield and brownfield capital investments that entail long gestation periods have deployed a financing strategy in which financial markets look past, for the duration of a development period, the inevitable deterioration in financial metrics. Provided arrangements for the provision of financial liquidity to avert near-term bankruptcy have been put in place, their focus lies instead with assessing post-development period creditworthiness.

For markets to look past the inevitable near to medium-term deterioration of a sovereign balance sheet, governments pursuing our approach to national development will need assured access, over an extended period, to external sources of financial liquidity in order to avert bankruptcy. They need not look far.

Through much of the post-War period, the international community, acting through leading multilateral institutions, has extended a safety-net to all countries, but particularly developing countries, in case of need. No nation is any longer island. No developing nation need suffer the consequences of adverse country risk events in isolation. Help from the IMF and others is often at hand.

Innovation in financial markets over the last two decades allows for this safety-net to be fashioned into a form of implicit country risk insurance that is neither an explicit guarantee nor legally binding but represented by a set of strong verbal assurances that timely financial and economic assistance will be provided to a nation in times of need.

Formalised, this safety-net can allow a nation to depict higher levels of sovereign creditworthiness than is estimated or implied on the basis of its standalone economic fundamentals and its near-term economic prospects. It can lead financial markets to discount country risk exposure and to maintain flows of capital even as a nation's underlying standalone economic fundamentals deteriorate. It can act as a powerful economic shock absorber.

This form of implicit country risk insurance can pry open up the $100 trillion global institutional debt and equity markets to funding economic development and poverty alleviation, reducing the economically vulnerable nations' undue reliance on underfunded, undercapitalised development finance institutions.

Enormous care needs to be exercised in its application. Its use entails very considerable risk. Its open-ended nature will give rise to an indeterminate financial exposure to its provider. It should, therefore, only be made available by multilateral agencies whose shareholding is sufficiently broad to serve as a proxy for the global economy. Few agencies other than the IMF or World Bank would appear to qualify.

Nations will need incessant reminding that the insurance is not the cure. It is intended to be temporary and to fall away as and when Deep Reform begins to yield the desired economic uplift. For most nations, this will be when its standalone sovereign credit rating, without taking into account any benefit from the implicit support commitment, approaches a threshold investment grade sovereign credit rating.

For its part, multilateral agencies will need steely resolve to manage the moral hazard of rewarding past bad behaviour. They will always retain the option to withdraw the commitment at any time. In the event, borrowing costs could rise overnight, currencies devalue, and the equivalent of cardiac arrest—a sovereign default precipitated by the rapid, unsustainable build-up of foreign currency obligations and burgeoning fiscal deficits—is almost certain to follow. A nation would face economic ruin. Its pleas of mercy to the international community will need to fall on deaf ears.

To assign due weight to this implicit form of country risk insurance, financial markets will need comfort that the prospect of its withdrawal, following a nation's failure to implement its Deep Reform programme, is remote. This will necessitate a new, at times more far more intrusive engagement between the multilateral agencies issuing the implicit support commitment and the recipient nation.   This new compact will need to provide agencies direct oversight and control over key executive functions and institutions of government.   Financial markets will also require comfort that the citizens of the nation are committed to implementing Deep Reform. And a nation's decision to proceed may need be evidenced by a referendum, overseen by international observers if necessary, and codified in legislation.

Highforest Capital Limited
Authorised and regulated by the UK Financial Conduct Authority

Rex House, 12 Regent Street, London SW1Y 4PE
United Kingdom