



## The Asian Century

Issue 03 | Third quarter 2019



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### Idea in brief: The Asian Century



#### A demographic titan

With 4.5 billion inhabitants<sup>1</sup>, Asia accounts for nearly two-thirds of the global population.



#### Economic prowess

21 of the world's 30 largest cities are in Asia. By 2020, Asia will be home to half the world's middle class<sup>2</sup>.



#### Investment opportunities

Within the Asian continent, Emerging Asia accounts for less than a quarter of the global economy today and its investable equity markets (MSCI) still account for less than a tenth of global equity markets<sup>3</sup>.

### Long-term growth prospects

Within the world's largest and most dynamic continent, Emerging Asia includes many of Asia's fastest-growing and largest economies. These are China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam<sup>4</sup>.

Today this region accounts for less than a quarter of the global economy, and a far smaller proportion of total investable equity markets (Figure 1).

Yet with most of the world's population living in the Asian region and its economies both diversified and sophisticated, the global economy and its capital markets will continue to gravitate towards Asia over this century.

### Diversified economies

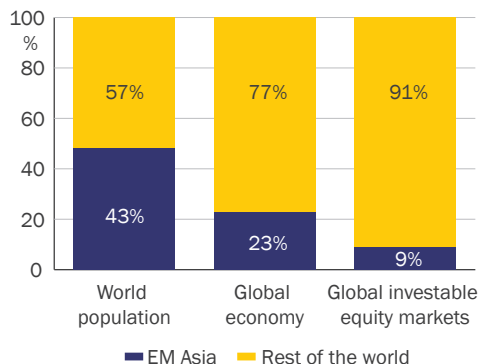
Unlike other emerging markets, Emerging Asia's economies have developed broad consumer and capital goods sectors. This means they are less reliant on commodity exports and less exposed to commodity price fluctuations vis-à-vis other emerging markets. From China's developed eCommerce market to a world-class Indian software sector and Taiwan's diversified manufacturing base, Emerging Asia's economies are pluralistic by nature.

### Ongoing reforms have improved efficiency

Heavyweight economies such as India and China have made progress in liberalising their economies and capital markets in recent years. For example, mutual market access schemes such as China's Stock Connect (2014) and Bond Connect (2017) initiatives have opened up Chinese capital markets to foreign investors and added over 1,400 companies to China's investable universe. More recently in 2019, China doubled the size of its Shanghai Free-Trade Zone in a drive to open markets. Such initiatives

**Figure 1: EM Asia today in a global context**

The global economy and capital markets will continue to gravitate towards Asia.



Source: IMF, UN, MSCI World

<sup>1</sup> Based on the latest UN estimate, 7<sup>th</sup> August 2019

<sup>2</sup> 'The Asian century is set to begin', *Financial Times*, 26<sup>th</sup> March 2019

<sup>3</sup> Market Cap, MSCI, Bloomberg data

<sup>4</sup> Emerging Asia IMF definition

are increasing transparency and broadening access to Emerging Asia's capital markets.

Corporate governance across the region has also steadily improved in recent years with the emergence of shareholder activism helping to drive this change. In Southeast Asia, tangible improvements to reporting and enforcement of corporate governance standards have helped address recent concerns over corporate corruption. Meanwhile, politics in the region remains relatively stable compared with other emerging regions, facilitating foreign investor access to Emerging Asia's capital markets<sup>5</sup>.

### Emerging Asia: Short-term risks but long-term and historic strategic opportunities

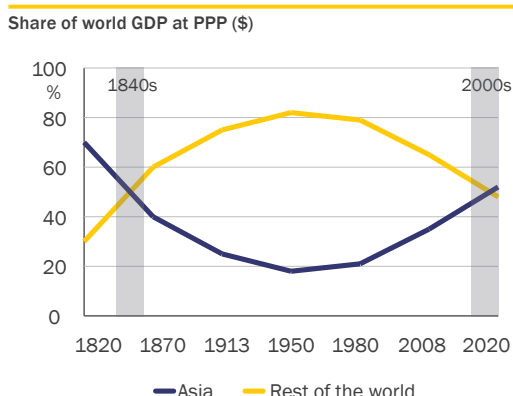
The region has been a significant beneficiary of a more global and liberalised trade policy since the 1980s. Since then, Emerging Asia has enjoyed an average annual GDP growth rate of +7.3%<sup>6</sup>.

Today, increased protectionism between the US and China such as the 2018–2019 trade war poses a short-term economic risk. This risk nevertheless is likely to be at least partly priced into local stock markets, while the longer-term strategic reasons for investing in the region remain intact. Despite trade tensions, Emerging Asia remains on track to deliver more than three times the growth rate of developed economies in the coming years<sup>7</sup>. The region is now set to regain its status as the world's primary economic zone. As can be seen in Figure 2, this is nothing new – it is a return to the economic status quo up until the mid-19<sup>th</sup> century.

### Economic outlook and valuation

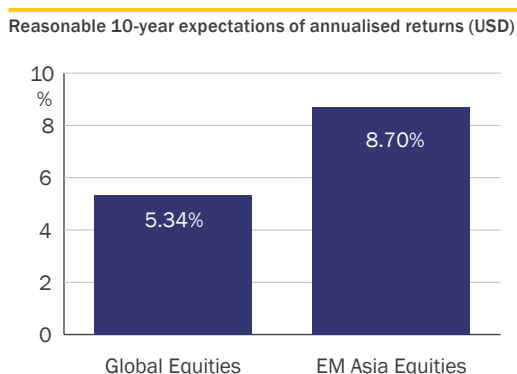
In the last few years, lower interest rates have eased pressure on Asia's borrowers whilst its conservative exposure to foreign-held debt has improved sovereign credit ratings. Meanwhile, less cyclical valuation measures show Emerging Asian markets to be relatively inexpensive. To add to this investor-friendly backdrop, the region's income gap with the West continues to narrow and personal income and spending is growing<sup>8</sup>. This is why the region is driving growth in another of our investment themes: eCommerce. Most importantly for investors, it is also why equity market returns for Emerging Asia could potentially outperform global equity returns over the next 10 years (Figure 3).

**Figure 2: Asia's return to economic dominance**



Source: Angus Maddison, *HS-7 The World Economy, 1950–2001*

**Figure 3: EM Asia's potential equity returns**



Source: MSCI, Bloomberg data

Note: Expected return = current yield + growth dividends + change in valuation

### How to invest in Emerging Asia

There are a number of ways to invest in Emerging Asia to participate in the region's ongoing performance and long-term potential. Valuations of investments in local businesses are often lower than those in Western companies, but the breadth, complexity and depth of local markets call for expert advice when investing.

With our **Investment & Portfolio Advisory** team at Rothschild & Co Wealth Management, we can advise on the most appropriate ways of gaining exposure to Emerging Asia. We look forward to hearing from you.

<sup>5</sup> Global Investment Strategist, Kevin Gardiner, Rothschild & Co

<sup>6</sup> IMF data

<sup>7</sup> OECD, *Economic Outlook for Southeast Asia, China and India 2019*, annual average GDP growth rate forecast 2019–2023

<sup>8</sup> 'Asian consumers', Deloitte, by Akrur Barua, 1<sup>st</sup> February 2019

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Produced by: Julia Bergman  
Publication date: August 2019