THE ASIAN BANKER
STRATEGIC BUSINESS INTELLIGENCE FOR THE FINANCIAL SERVICES COMMUNITY

Opinion:

Investment opportunities in Asia today

July 10, 2015 by William Lawton

William Lawton, chairman and CEO, Seagate Global Group, Ltd., HK feels that investors leaving funds in advanced country banks for little or no interest has created great funding opportunities in Asia.

The financial collapse of 2008 and subsequent fiscal, monetary and regulatory responses have led to a global financial system that is “out of whack” in which banks are scaling back international lending operations, investors are leaving funds in advanced country banks for little or no interest, and the great opportunities of our time in Asia are not getting funded.

This makes investment in Asia all the more compelling now.

World Bank calculated global growth at around 5% for 2007 and recently cut its global growth outlook for 2015 to 2.8%. G-7 growth is forecast well below that. So, global growth is more than 2% below pre-crisis levels.

By contrast, China's slower growth is still forecast to be a stellar 7%. India is now forecast to be the fastest growing large country in the world at 7.5%. The IMF's growth forecast for all of emerging and developing Asia for 2015 is 6.6%, 3.8% above world growth. This differential is a long-term trend, not a one year anomaly, as growth in Asia is in a virtuous cycle. Economic growth and opportunity have shifted to Asia.

Another way to grasp the opportunities in Asia is to look at relative levels and trends in per capita GDP. According to the World Bank developing East Asia and the Pacific (which includes over 2 billion people) has a gross income per capita of $5,536 compared to the US of $53,470; a difference of almost ten times meaning there is almost ten times the “catch up” opportunity in developing Asia compared to advanced economies. I predict that this gap will close much more quickly than most anticipate.

Why?

Japan set the model for economic growth in Asia that other countries have modified and are implementing. The development cycle has been shortened with more knowledge on what strategies and policies work. A good example of this is China.

In 1993 the People's Bank of China had less than $10 billion in foreign reserves and most people were poor. Now, less than 25 years later, after implementing proven market oriented reforms, China has over $3.7 trillion in reserves and over 150 million middle income people, on the way to 500 million in 10 years according to Ernst & Young.

That kind of rapid development is quietly being emulated in other countries across Asia, which will help the region close the GDP gap.

Good governance, which has been a stumbling block to development in Asia in the past, is now recognised as critical for development and being improved across much of Asia.

Finally, technology, regional economic integration and connection to the international trading grid will help Asian countries develop more quickly than most expect.

Here are but a few of the opportunities.

The financial system is still relatively inefficient throughout developing Asia, which means there are investment opportunities in commercial and investment banking, agricultural banking, derivatives, asset management, insurance and ancillary areas such as credit agencies, education, legal, tax and accounting. Public/private partnerships can also be an attractive way to invest there.

Agriculture is another area ripe for the picking as there has been chronic underinvestment in the sector in developing Asia. The same applies to infrastructure, affordable housing, power generation and alternative energy.

Accessing the right opportunities in the right place at the right time is important for investment success. Yes, accessing the right opportunities in developing Asia takes extra work on the ground. But over the next decade returns will be much higher in Asia than in the more advanced economies if you selectively invest now.

Categories: Asset Management, Trustees and Custodians, China, Markets & Exchanges Keywords: World Bank, IMF, PBoC, Agriculture