



The emerging strength, changing character and relative importance of the economies in developing Asia has been a consistent theme for politicians, economists and investors for many years.

Sustained higher rates of economic growth, an expanding middle class, compelling demographics, improved education and major policy initiatives like the Belt and Road Initiative will continue to propel Asia forward, driving a huge amount of infrastructure investment.

The implications for Investors are significant, and will continue to be so for decades to come. Indeed, we are living in the Asian century and investors need to be ready.

Some of the key trends emerging from Asia, and the impact for Investors, include:

1. Asia has changed significantly over the past 20 years

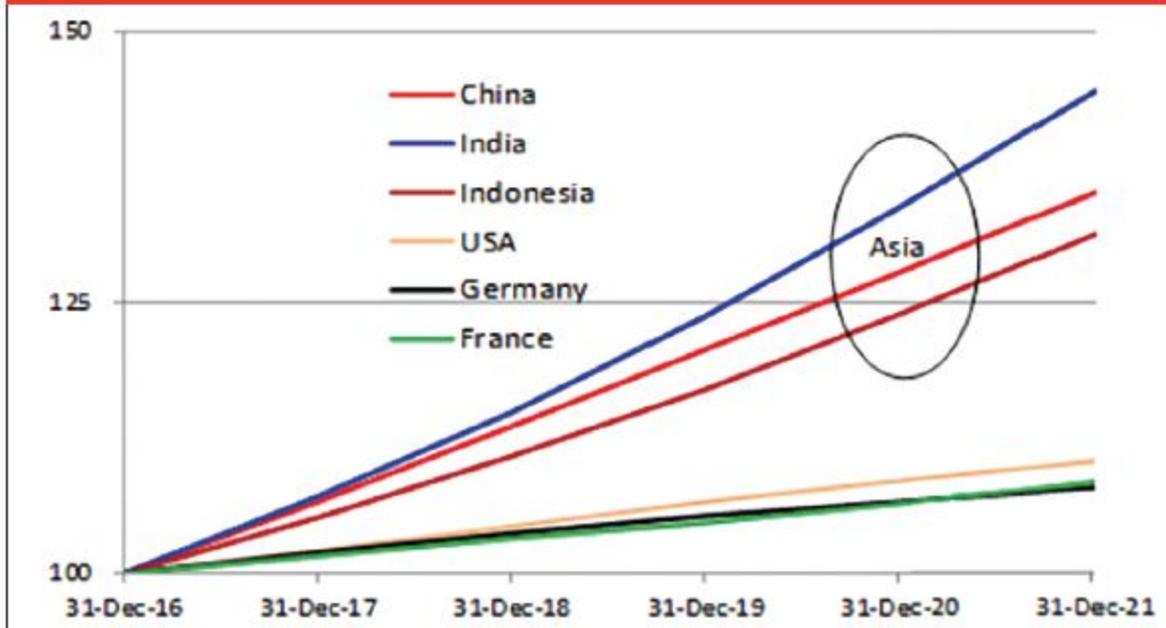
The Asia has changed enormously since the turn of the century. At a macro level, there has been significant divergence in gross domestic product (GDP) growth rates between the East and the West: over the past decade, the East has manifestly outperformed the West.

The economic growth trends of the past decade look likely to continue into the future, as shown in Chart 1. A combination of Bloomberg consensus and IMF forecasts strongly suggest that, in GDP growth terms, the East is expected to significantly outgrow the West to 2020 and beyond.

Together, China and India have almost tripled their share of the global economy over the past 20 years.



**CHART 1: EAST VS WEST: FORECAST GDP GROWTH 2016-21
(INDEXED TO 100 IN DEC 16)**



Source: Bloomberg & IMF, 2017

As Asia's relative share of GDP growth increases, the global centre of economic activity will migrate from West to East, with India and China dominant. By 2025, the Asian region is expected to account for nearly half the world's output, as illustrated in Chart 2.

2. Positive demographics provide a tail wind for the East

The western world, which enjoyed a long post World War II economic upswing, has been seduced by increasingly hedonistic lifestyles which accompanied that long period of wealth accumulation. Society has changed, and it seems this has meant there is less room for children. As a result, the western world's demographics are in a tailspin.

Both Western Europe and North America global fertility rates are well below the 2.1 children/women required to maintain the population. In contrast, both South East Asia and Central and Southern Asia have fertility rates above the key 2.1 metric.

The exception to this is China (East Asia), the dominant nation in the East, which exhibits a low fertility rate and deteriorating demographics by virtue of its longstanding, but now relaxed,



one-child policy. However, at present China has a very large working-age generation, which will help boost growth over the next few decades.

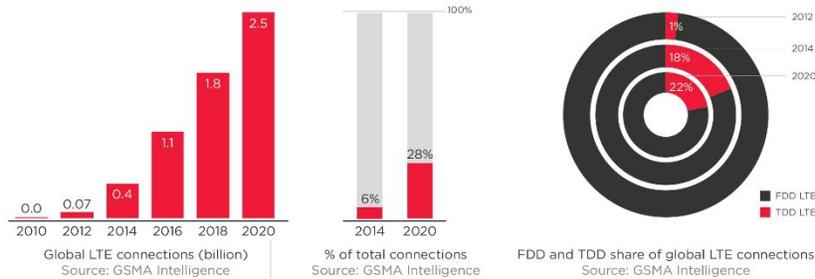


Global 4G-LTE connections forecast: 2010 to 2020

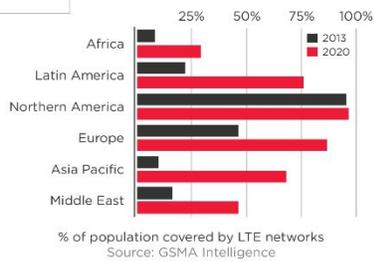


264 LTE networks commercially launched across 101 countries worldwide between December 2009 and January 2014 — and almost as many additional LTE networks are expected to launch over the next five years, leading to...

2,500,000,000 4G-LTE (FDD/TDD) connections expected worldwide in 2020



6 in 10 global 4G-LTE connections will come from the developing region in 2020, up from 5% in 2013, largely driven by TD-LTE growth in China



64% of the world's population will be covered by 4G-LTE networks by end of 2020



3. Asia catching up in education investment: facilitates ongoing GDP growth

Asian countries have long recognised the crucial role education will play in their development. In developed Asian nations such as Hong Kong, Singapore, Japan and Taiwan (as well as China), education was often compulsory and by 1960 was prevalent. This trend has continued, with improved access to education across the region—primary school enrolment rates are nearly 90 percent in the Philippines, and close to universal in Cambodia and Indonesia.

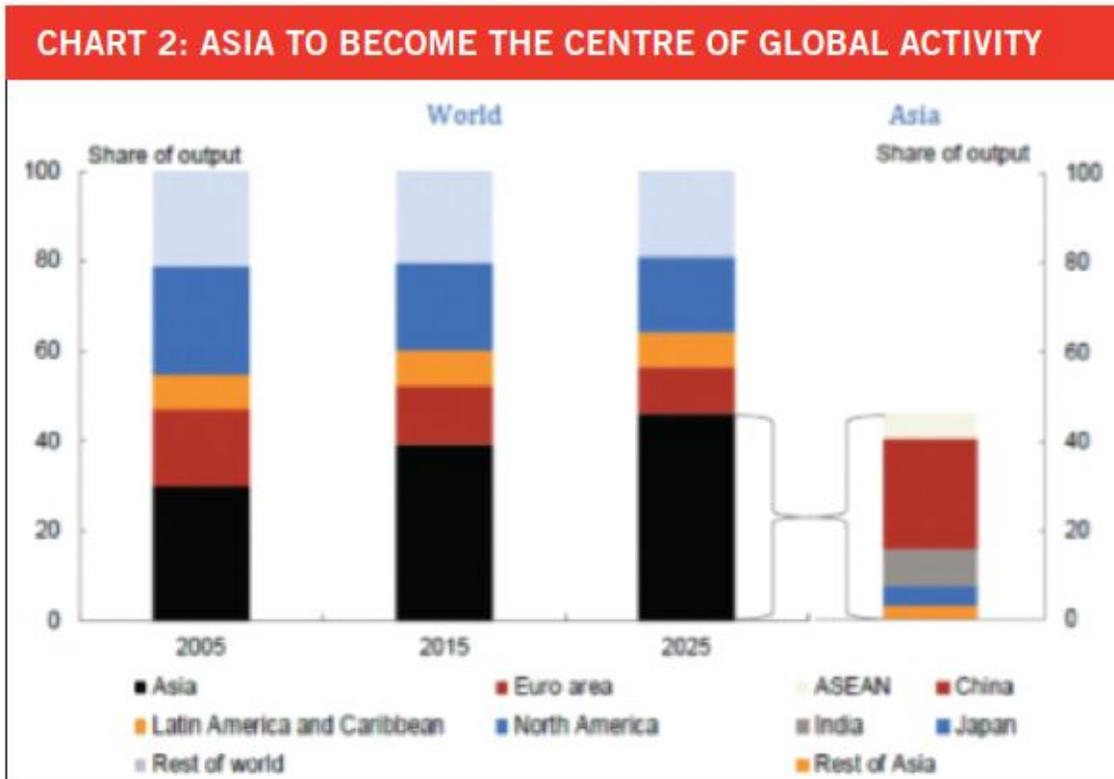
However, it is the overall growth in the level of formal education in key developing Asian nations that is most encouraging, with Malaysia, China, Indonesia and India all showing ongoing significant improvement in the level of formal schooling.

4. The Belt and Road Initiative will transform Asia and propel its growth

The Belt and Road Initiative in Asia (BRI), is a major foreign policy and economic strategy of the People's Republic of China. The term derives from the overland 'Silk Road Economic Belt' and the '21st-Century Maritime Silk Road', concepts introduced by Chinese President Xi Jinping in 2013.

These are the two major axes along which China proposes to economically link Europe and China through countries across Eurasia and the Indian Ocean. The BRI also links to Africa and Oceania.

Formally, the BRI emphasises five key areas of international co-operation. However, it is the huge investment in infrastructure needed to facilitate the BRI's trade objectives that has received the most attention. While the quoted numbers tend to vary, in broad terms China is spending roughly US\$150 billion a year in the 65 countries that have signed up to the scheme, with potentially up to US\$1 trillion to be invested over the next five years.



Source: *Australia in the Asian century*, Australian Government, October 2012

BRI projects already stretch widely across Asia. From Bangladesh to Belarus, railways, refineries, bridges, industrial parks and much else is being built. A new city is taking shape in Colombo, near Sri Lanka's main port, with the total investment estimated at US\$13 billion spanning about 25 years. China Merchants Port Holdings Company (CMH, a Chinese government majority-owned, listed port operator) owns the Colombo port and is backing a much-needed second terminal. A freight route linking China's east coast and London has already commenced operations. Stretching over 12,000 kilometres and passing through nine countries, the railway allows cargo to travel across the Eurasia continent in less than 20 days.

Chinese President Xi has described the BRI as 'the project of the century' that would 'add splendour to human civilisation'. We have no reason to doubt his conviction – it will be the signature policy of his presidency. In fact the BRI, along with President Xi, was recognised in the constitution at the recent 19th National Congress of the Communist Party of China – an acknowledgement of the BRI's importance. It will involve a huge amount of infrastructure



spending, which will create investment opportunities, jobs and wealth for decades to come. It will reshape Asia and propel its growth and transformation.

5. Consequences, rewards and risks from the evolution of Asia

Emerging middle class in Asia: consumption patterns change to services

As Asian wealth increases, we believe the emerging middle class will be one of the most enduring investment themes of the next 30 years, and will be accompanied by a fundamental shift in consumption patterns.

Opportunities in Asia will be immense

As the ascendancy of Asia continues and individual wealth expands, opportunities for all nations to participate will grow – particularly for those fortuitous enough to be located in the region, such as Australia. As observed above, consumption patterns in Asia will also change towards services and experience-driven spending.

Demand for education, health and aged care services to grow

As wealth expands in Asia, so will society's demands for a better quality of life – starting with the education of children, ongoing healthcare and ultimately aged care services.

Modest level of passports on issue confirms the potential for travel growth

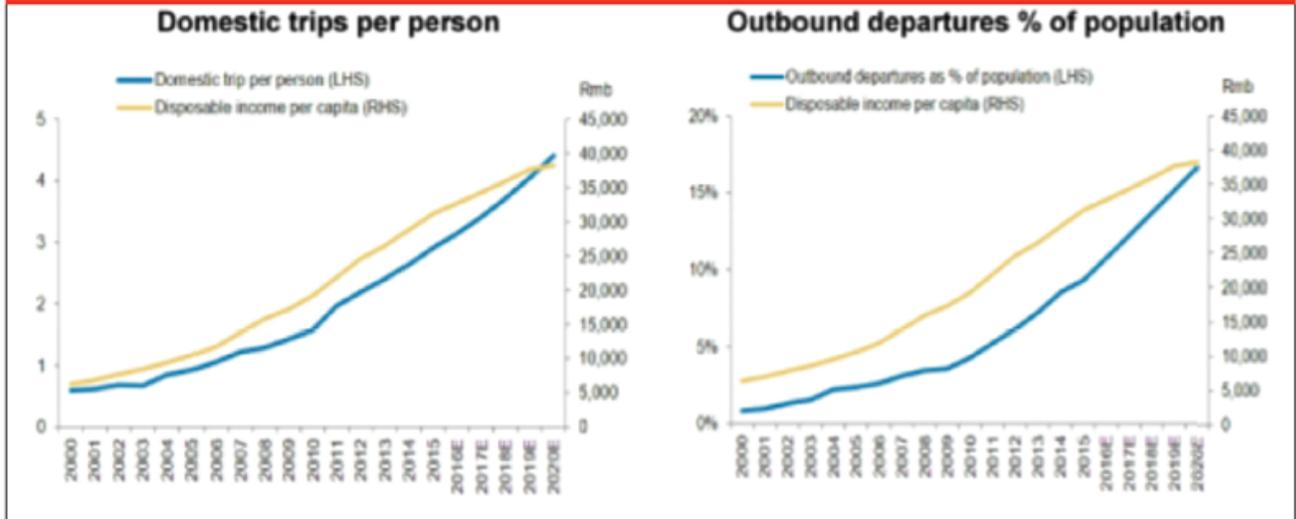
A further reference point for the potential for overseas travel growth is that, at present, around 10 per cent of the Chinese population (and only around five per cent of Indians) has a passport, and is therefore capable of travelling overseas. This compares with around 50 percent in the United States or Australia. If incomes continue to grow in China, there are likely to be a lot more international Chinese tourists.

Overseas and domestic travel to continue to grow: airports and ports needed

Chart 3 shows that, as disposable income has grown in China, so too has the amount of travel undertaken by Chinese residents, both domestically and overseas. We expect this trend to continue and be exhibited more broadly across Asia.



CHART 3: RISING DISPOSABLE INCOME/CAPITA IN CHINA HAS HAD A POSITIVE IMPACT ON DOMESTIC TRIPS/PERSON AND OUTBOUND DEPARTURES



Source: *Why we are bullish on China*, Morgan Stanley Research, blue paper, February 2017

Increased motor vehicle penetration: improved road infrastructure demanded

China, India and Indonesia all have very low levels of vehicle ownership penetration. However, as each nation’s GDP per capita climbs, so too will each country’s level of vehicle ownership. As a result, demand for new cars can be expected to be strong, as will demand for new and improved road infrastructure.

Quality infrastructure will be a must

As Asia’s standard of living increases, so too will their demand for more and improved infrastructure – be that airports to facilitate a higher propensity to travel, roads to drive new cars, or better basic utility services such as clean water, waste water management, and a reliable supply of electricity and gas. Construction and investment opportunities in these sectors will abound.

Geo-political dynamics from the advance of Asia: Chinese ascendancy

The key geo-political issue arising from the advance of Asia, and the BRI in particular, is the rise of Chinese power and influence. The Chinese Government has stated that the BRI is not a strategic initiative and does not represent a form of ‘alliance’. However, the BRI may well lead to a seismic shift in the balance of global economic, and hence political, power between East and West.



For the foreseeable future the US will retain its absolute global military hegemony by virtue of the massive amount of funds it spends on the military. However, the ascent of China on the global political stage comes just at a time when a new Trump administration in the US is forging a 'Make America great again' or 'fortress USA' foreign policy – ripping-up the Trans-Pacific Partnership free trade agreement, revisiting the North American Free Trade Agreement and building walls with Mexico.

In contrast, the Chinese Government under President Xi is heading in exactly the opposite direction. China is actively seeking to be recognised as the world's leading advocate for free and open trade – a long-held position of the US, but one they now appear to be vacating. Even though China states that the BRI has no strategic goal, with economic influence comes global political power.

We are living in the Asian century and Investors need to be ready.