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Why the 21st century belongs to Asian investors

There is a huge shift in economic activity towards the east, all of which requires financing.

If the 19th century belonged to Europe, and the 20th century to the United States, then the 21st must belong to Asia. So argue many economists and investors.

It is easy to see why. Take China, clearly the major driver of Asia's economic transformation. Since 1990, the country's gross domestic product (GDP) per capita has risen over tenfold, much faster than the global economy and faster even than most emerging markets. Measured on a purchasing-power-parity (PPP) basis, which adjusts for the domestic cost of goods and services in local currency, the Chinese economy became the world's largest in 2013.[1]

Indeed, since 1979 when it first opened up to foreign trade and introduced free-market reforms, through to 2018, China has delivered real annual GDP growth averaging 9.5%, a feat the World Bank described as "the fastest sustained expansion by a major economy in history."[2]

These changes have been felt across the country. There are now less than 10 million people in China living in extreme poverty, down from 750 million in 1990.[3] At the other end of the scale, according to the Hurun Research Institute, there are over 600 billionaires in China, on a par with the US.[4]

From consumer power to infrastructure

But the Asia story goes way beyond China. Since 2015, Indonesia, the world's fourth largest country by population, has jumped 34 places in the World Bank's Ease of Doing Business rankings.[5] In Vietnam, between 2002 and 2018, more than 45 million people – almost half the population – have been lifted out of poverty.[6]

Asia is already home to over half the world's population. And, by 2030, more than 60% of the world's middle class will live in Asia-Pacific. Indeed, China and India will each account for a greater share of global middle-class consumption than the US.[7] Since 2007, Asians have been buying more cars and trucks than people in any other region – by about 2030 they will be buying as many vehicles as the rest of the world combined, according to LMC Automotive.[8]

This belies a wider trend across much of Asia and in China in particular: a steady evolution of their local economies where imports are playing an ever more important role. From now until 2030, on the back of a burgeoning middle class, China's consumption growth is expected to exceed that of the US and Western Europe combined.[9]

But the Chinese government, a key driver of wider economic transformation across Asia, has much bigger ambitions than that. Under its "Made in China 2025" initiative, it has outlined 10 key sectors from biomedicine and IT to robotics, where it wants to be a leading global player. And through its forging of closer commercial and economic links across the Asia Pacific region via the Regional Comprehensive Economic Partnership (RCEP) – a proposed free trade agreement between the member states of ASEAN and six other members including China, India and Japan – this prosperity is likely to be shared across what will be the world's largest economic bloc.

Then there is Beijing's Belt and Road Initiative (BRI), a multi-billion dollar infrastructure investment project co-ordinated across almost 70 countries and designed to create a new commercial corridor, or 21st century "Silk Road", between East Asia and Europe. According to a recent study by the World Bank, BRI transport projects, if fully completed, could increase global trade by between 1.7 and 6.2%, and raise global real income by between 0.7 and 2.9%.[10]

Swelling financial markets

All this investment and economic activity requires financing. And this has helped underpin rapid growth in Asia's debt and equity markets. Today, Asian companies are the world's largest users of public equity financing.[11]

In 2017, a record number of 1,074 companies listed in Asia, almost twice as many as the annual average between 2000 and 2016. This strong initial public offering (IPO) activity reinforced Asian companies' status as the largest users of public equity markets globally. At the end of 2017, of the approximate 50,000 companies listed worldwide, almost half were listed on Asian stock exchanges, equating to around 40% of global market capitalisation.[12]

At the same time, Asia has grown in importance in the corporate bond markets. Between 2007 and 2017, Asia's global share of corporate bond issuances tripled to 32%.[13]

Asia has several of the world's largest economies, most of the world's foreign-exchange reserves, and is playing an ever more important role in global financial markets. Regional investors will increasingly find some of the world's best opportunities on their doorstep.

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