December 2020

Building tomorrow

Aberdeen Standard Asia Focus PLC – capturing Asia's future potential today

A collection of articles celebrating 25 years of Aberdeen Standard Asia Focus PLC – by the region's leading investors, commentators, politicians and business leaders including;

Andrew Neil
Alexander Downer
Krish Shanmuganathan
Liam Halligan
Flavia Cheong
Parag Khanna
Richard Han
Kiran Mazumdar-Shaw
Danny Alexander
Parwati Surjaudaja
Beh Swan Gin
Nihal Kaviratne

Fifteen leading contributors explore 25 years of transformation across the Asia-Pacific region – and the investment opportunities ahead for Asia's smaller companies.

Aberdeen Standard Asia Focus PLC

A fundamental, high conviction portfolio of well-researched Asian small caps.

Aberdeen Standard Asia Focus PLC was launched in September 1995 to harness its management team's deep insight into the dynamic smaller company opportunities emerging throughout the Asia-Pacific region.

Investing across both Asia and Australasia, excluding Japan, the company brings together a high-conviction portfolio of around 60 companies, each with a market capitalisation of typically US$1.5bn or less at the time of investment. The team's steadfast focus on first-hand, on-the-ground company analysis has consistently helped to uncover high-quality companies with talented management, strong balance sheets, and compelling market propositions and franchises – many of which have grown to become leaders in their sector at home and abroad.

Now managing gross assets of more than £420mn (as at end-Oct 2020), the trust's performance record speaks for itself: £1,000 invested when the trust launched 25 years ago would be worth more than £18,000 today with dividends reinvested, and shareholders have seen their annual dividend increase from just in excess of 1p to 19p.

Building tomorrow

Harnessing opportunity in Asia – past, present and future

Contents

Geopolitics

Trade

Sector innovation

Country focus

Asian companies

Last word

Front cover: Supertree Grove at Gardens by the Bay, Singapore.
Piotr Kloska / Shutterstock

Twenty-five years of change

Nigel Cayzer, Chairman of Aberdeen Standard Asia Focus PLC, introduces our in-depth exploration into Asia over its first – and next – 25 years and the prospects for Asia's dynamic smaller company universe.

Nigel Cayzer
Chairman,
Aberdeen Standard Asia Focus PLC

Five years ago, on Aberdeen Standard Asia Focus PLC's 20th anniversary, we published a booklet entitled 'Twenty years of transformation: Asian smaller companies 1995-2015'. In it, we outlined the development of the Asia region, how in that period the economies of the Indian subcontinent, the ASEAN region, China and Australasia had navigated the traumas of the Asian financial crisis of 1997-9, the dot-com boom and bust of 1999-2000, the SARS outbreak of 2003, global financial crisis of 2008-9 and the market volatility of 2015. Despite massive geopolitical shocks, the Asian stock markets have powered through these storms. Smaller companies, the focus of Asia Focus, have thrived with a considerable number emerging as market leaders in the countries in which they operate. These two decades of change were also highly rewarding for those who invested in the region.

Five years later, on our 25th anniversary, with the help of a distinguished panel of contributors, we thought it would be interesting to pose the question of Asia: the next 25 years. 2020 saw the world beset by the greatest economic crisis since the Second World War. It started in Asia but through the incredible discipline for which the peoples of Asia are such an exemplar, it has also been the first region to emerge towards recovery.

The articles on the following pages explore both the broad global question of whether the 21st century will be the Asian Century and the economic impact of this on the broader market and also smaller companies. Our contributors also consider an array of issues that are shaping business, consumption trends and policy in Asia, including technology, supply chains, tariffs and disease control. I would like to thank all our contributors for their time and thought-provoking comment and, in particular, one of our directors, Krish Shanmuganathan for helping to co-ordinate a great deal of this work.

As ever, the success of Aberdeen Standard Asia Focus over the last 25 years has been founded on the investment team at Aberdeen Standard Investments, led by Hugh Young, ably assisted in recent years by Gabriel Sacks, together with the support staff whose dedication and hard work ensure the smooth turning of the corporate wheels.

I have had the honour to serve as Chairman of the company from its inception in 1995. During this period I have been well supported by a board of directors, whose composition may have changed through the years while the high quality of their advice has remained consistent.

> As with every listed company, we depend on the support of our shareholders and in return, we aim to deliver good returns and a secure, steadily increasing income.

Lastly, as with every listed company, we depend on the support of our shareholders and in return, we aim to deliver good returns and a secure, steadily increasing income. As this publication demonstrates, our confidence in the future of Asia and the prospects for Asia's smaller companies justifiably remains undiminished. In the 25 years since we made our first investment, £1,000 with dividends reinvested would be worth more than £18,000 today and we have seen the annual dividend increase from just in excess of 1p to 19p.

Although I will be long retired, I am confident that this fascinating and beguiling part of the world can be relied on to deliver exceptional returns to our shareholders in the next quarter of a century, as it has done in the last.

Ho Chi Minh City and the Nhieu Loc canal, Vietnam.
Nguyen Quang Ngoc Tonkin / Shutterstock

The changing face of Asia in numbers

The scale of Asia's ongoing transformation into a modern economic powerhouse is breathtaking. Here are some numbers highlighting the region's growth, consumption and business trends.

2040

By 2040, Asia is expected to represent 40% of global consumption and generate 52% of global GDP

Source: McKinsey
https://www.mckinsey.com/featured-insights/asia-pacific/sias-future-is-now

30,000

China filed more than 30,000 public patents for AI in 2018 – about 2.5 times more than the US

Source: Nikkei Asia
https://asia.nikkei.com/Business/Business-trends/China-overtakes-US-in-AI-patent-rankings

66%

66% of the world's middle class will live in Asia by 2030

Source: OECD Observer
https://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html

43%

43% of the world's largest companies have their headquarters in Asia

Source: McKinsey
https://www.mckinsey.com/featured-insights/asia-pacific/corporate-asia-a-capital-paradox

2030

By 2030 China and India are set to be the largest economies in the world, overtaking the US

Source: World's Top Exports
http://www.worldstopexports.com/top-asian-export-countries/

US$6.8trn

US$6.8trn in goods were exported from Asia in 2019

Source: KPMG
https://www.afr.com/companies/professional-services/china-india-set-to-overtake-us-economy-by-2030-20191223-p53mfg

1.7x

Asia's services trade is growing 1.7 times faster than the rest of the world

Source: McKinsey
https://www.mckinsey.com/featured-insights/asia-pacific/asias-future-is-now#

2.3bn

Asia accounts for over half (2.3 billion) of the world's internet users

Source: DataCentre News/ Learnbonds.com
https://datacentrenews.eu/story/asia-home-to-half-of-the-world-s-internet-users

3/4

In shopping, Asia is generating about 3/4 of global retail growth and about 2/3 of online growth

Source: Bain & Company
https://www.bain.com/insights/the-future-of-retail-in-asia-pacific/

The incredible journey

Travelling to the heart of Asian innovation

Launching an investment trust focused on Asia's smaller companies may have seemed a radical step in 1995, says **Hugh Young**. But as our contributors on the following pages show, Asia's ongoing transformation continues to reap dividends.

It is 25 years since we launched Aberdeen Standard Asia Focus PLC, then known as Aberdeen Asian Smaller Companies Investment Trust. It was a modest Stock Exchange placing back then. We toured the larger UK institutions across the UK, explaining this pioneering opportunity, and raised £35mn in September 1995.

Our aim was to capture the exciting growth and innovation happening across Asia through a focused selection of listed smaller companies in the region, Asia ex Japan, which were often poorly analysed and understood. If anything, the continent has proved even more dynamic than we expected, now leading the world in areas such as e-commerce and social media and navigating global and local crises with skill and resilience. The trust has grown too, with assets today of over £400mn, with a greatly diversified shareholder base, as wealth managers and private investors joined our journey over time.

In this special 25th anniversary publication, we aim to give you a flavour of how Asia is developing today and looking ahead: its key trends, its innovative businesses, its economic might in a changing world. Growing Asian consumer markets and intra-regional trade are a recurring theme for many smaller companies' own growth stories. To pull the stories of the future together, we have compelling thinking from leading UK commentators, such as Andrew Neil and Liam Halligan, alongside insight from regional leaders, such as Swan Gin Beh, head of the Singapore Development Board, Danny Alexander, vice president at the Asian Infrastructure Investment Bank, and former Australian politician and diplomat Alexander Downer.

We also hear from those locally who lead the businesses in which we invest. Nihal Kaviratne, whose business career has included senior roles for Unilever, AkzoNobel, GSK Pharma, Titan, and ConAgra in India, gives his perspective on the region's emerging opportunities, while Richard Han, CEO of international technology group Hana Microelectronics, discusses shifting supply chains in the wake of Covid-19. Founder of biotech group Biocon, Kiran Mazumdar-Shaw talks about the future for her business, while Parwati Surjaudaja, President Director of Indonesian bank OCBC NISP explains how the banking industry is digitising and promoting financial inclusion.

Hugh Young
Managing Director, Aberdeen Standard Investments, Asia

Today, we see real resilience across Asia. It is at the forefront of global innovation and brand creation, some barely known in the UK but often dominating their own markets.

Today, we see real resilience across Asia. It is at the forefront of global innovation and brand creation, some barely known in the UK but often dominating their own markets. It has also learned the lessons of excessive debt, helping it weather both the global financial crisis and now Covid-19 more adeptly than its Western peers. Governance is stronger than it has ever been, while governments across the region recognise the power of co-operation. This makes it a fertile region for active investment and discovery.

We are every bit as excited to invest in Asia now as we were in 1995. We hope this publication brings the region to life for you in all its idiosyncrasies. I thank our shareholders who have been on this exciting journey of growth and discovery with us and, hopefully, are ready to accompany us over the next 25 years.

Opposite: Night view of Shanghai, China: Aberdeen Standard Asia Focus PLC has sought to capture the growth and innovation happening across Asia.
Ioana Catalina E / Shutterstock

The art of influence: *The Asian Century*

With the United States' grip on geopolitical dominance slipping, Asia's economic and political power is sharply in the ascendant, says **Andrew Neil**. However, securing global supremacy will also require adopting a new, subtler set of skills.

Andrew Neil is chairman of GB News, founding chairman of Sky News and former editor of The Sunday Times.

The United States exerted cultural, economic and geopolitical dominance for much of the 20th century, but its grip on global leadership has slipped. Even as Joe Biden promises to re-engage with the world after four years of retreat, it is not clear that it can scramble back to its former pre-eminence. Asia has the economic might to take its place, but its hold on the 21st century will depend not only on its ability to seize geopolitical leadership, but its mastery of soft power as well.

Biden has vowed to restore American leadership, backing away from the unilateralism that dominated the Trump administration. He has promised to lead by the 'power of example' rather than the 'example of power', potentially taking America back into global agreements such as the Trans-Pacific Partnership and the Paris Agreement on climate change. It is not too late for him to make a difference, though without a Senate majority (still unclear at the time of writing) his hands may be tied.

Overtaking the US economy

The question is whether this will be enough to halt the rise of an increasingly ambitious Asia. Economic dominance is already given. This year, Asia's GDP overtook that of the rest of the world combined and by 2030 is expected to contribute approximately 60% of global growth. These lofty predictions tend to focus on China and, while it is undoubtedly dominant, the role of India should not be forgotten. On current growth rates it will overtake the US economy by 2030.[1]

The 2020 pandemic has accelerated this redrawing of global economic power. Asia has emerged from the Covid-19 outbreak, its economies returning swiftly to full capacity. This speedy recovery has helped ensure its governments are less indebted and its societies less fractured than the embattled West. Asia had already shaken off much of its dependence on global demand. Far from being a widget maker for the West, more of what is made in Asia stays in Asia.[2]

Less access to US markets

There are caveats, of course: the pandemic is likely to see a far tougher line on China from the US. This is a bipartisan position. While Biden has obfuscated on China, those around him are hawks. Chinese companies are unlikely to enjoy the same unfettered access to US markets they have naively been offered before. It may be that their domestic market is large enough for it not to matter, but ultimately it must place limits on growth.

> Should China overtake America to become the world's largest economy, it will be hugely symbolic – and not necessarily in a good way. For the first time in 200 years, the link between freedom and prosperity will be broken.

Should China overtake America to become the world's largest economy, it will be hugely symbolic – and not necessarily in a good way. For the first time in 200 years, the link between freedom and prosperity will be broken. From the rise of Britain in the 19th century, to the predominance of America in the 20th century, to the German and Japanese economic miracles, the West has always been able to claim a link between political freedom and economic success. No longer if China is top dog.

Economic vigour has been accompanied by greater ambition on the world's political stage. China has already start to muscle in on the space left by the US. The ambitious 'Belt and Road' international trade network is a modern equivalent of the ancient Silk Road. It goes beyond trade links, but also serves as a marketing tool to promote China's influence through the world.[3]

Sidelining Western powers

China has revived its relationships with India, Japan, and South Korea. Amid regional cooperation pacts, Western powers are increasingly sidelined – from the China-Japan-ROK trilateral summit to cooperation platforms such as APEC, ASEAN and the Shanghai Cooperation Organisation. Biden,

Previous page: Leeza SOHO by Zaha Hadid is a skyscraper located in the Lize Financial Business District in Beijing, China.
maliao / Shutterstock

China and USA national flag.
Shutterstock

Shri Narendra Modi, Prime Minister of India.
iTechGuru / Shutterstock

President Xi Jinping shakes hands with the then US Vice-President Joe Biden 2013.
Xinhua / Alamy Stock Photo

recognising the potential harm to US influence, may attempt to rejoin the Trans-Pacific Partnership.

Can China be a constructive force in global governance? The lack of coordination among Western powers has ' stalled reform of global institutions, leaving severe governance deficits' according to the World Economic Forum, but it isn't clear that China is the right country to provide it. President Xi has returned China to a totalitarian state. That may inhibit its dynamism and ability to innovate. Nor is it clear that China can afford to do all it has set out to do — build the Belt and Road network, build a military to rival America in the Pacific and create a welfare safety net for its fast-ageing population, which the Communist party's Faustian pact with the people will require it to do. Something may have to give.

In search of China's soft power

Its cultural dominance is as yet unclear. Part of the US's supremacy has come from its soft power, what US political scientist Joseph Nye defined as – "the ability of a country to persuade others to do what it wants without force or coercion". The US has been uniquely skilled at spreading its values across the globe. It is certainly China's ambition – "We will improve our capacity for engaging in international communication so as to tell China's stories well, present a true, multi-dimensional, and panoramic view of China, and enhance our country's cultural soft power," said President Xi at the 19th Communist Party of China (CPC) National Congress in 2017.[4]

Beijing has developed an international media network and has been busy promoting its values and traditions around the world, but whether this has the same seductive appeal as American culture is open to question. The Chinese government's cloth-eared PR response to the pandemic – boasting about how much better it has handled Covid-19 than the West – suggests China has some way to go before it understands how to handle this subtler global influence. The West may mount a significant rebellion against the idea that authoritarianism is somehow a 'better' approach to running an economy.

Asia's century – Asia's challenges

There are risks to Asian power in the 21st century. As it watches an increasingly confident Asia, the US may decide it wants its position back. The region remains vulnerable to trade wars and economic transition can be messy. China's humanitarian record makes it an uncomfortable global champion, while India's sclerotic administrative machine will act as a brake on growth.

Could this be the Asian century? It will be if the US blinks.

Balance of power

How Asia will keep China in check

Asia's economic ascendancy isn't in doubt, but it will be vital for the region to tackle the risks that could compromise its prosperity. Most notably for many countries in the region, this means addressing China's dominance, says **Alexander Downer**, the longest serving Australian foreign minister.

Alexander Downer is a former Australian politician and diplomat. He led the Liberal Party from 1994 to 1995, was Minister for Foreign Affairs from 1996 to 2007, and High Commissioner to the United Kingdom from 2014 to 2018. He is currently chair for the International School for Government at King's College London.

It has become a media cliché to talk of the 21st century as the Asian century, just as the 20th century was the American century. These tropes deserve careful examination. They are often half-truths clothed with hyperbole.

It is worth starting with the good news: there are reasons to be optimistic about the economic prospects for the Asia-Pacific region and India over the next few decades. China's new five-year plan suggests a very rational, albeit authoritarian, approach to economic policy-making. China is determined to work itself out of the middle-income trap and drive its per capita GDP up to the level of mainstream European countries over the next 20 years.

This is not just wishful thinking. The government in Beijing knows that it has to push China further up the technology curve if it is going to increase productivity at a time of declining population. It also knows that China cannot permanently rely on being an export-oriented manufacturer. It has to build a stronger economy around domestic consumption and services. China is already on this path.

Going beyond China

As China's economy continues to grow, it will provide an ever-expanding market for its neighbours. It will also become an increasingly attractive destination for investors from the Indo-Pacific region. As such, one of the drivers of economic growth throughout the region will be China itself.

There is much more to the Asia-Pacific region than China, of course. Indonesia, the third most populous democracy in the world and the fourth most populous country, is increasingly opening its economy and focusing on achieving higher rates of economic growth with improved per-capita incomes. It is moving away from its tradition of economic nationalism, realising that to achieve higher rates of growth will require greater openness and transparency.

It would be a mistake to ignore Indonesia and other Asian countries as part of the *wirtschaftswunder* of Asia. China itself will increasingly invest in Asian countries. Much of this investment will be in infrastructure and manufacturing. So will Japan. The Japanese government is concerned about the impact of China's regional economic diplomacy and believes that if Japanese companies and the Japanese government invest more heavily in the region, it will balance China's power. There are clear signs of this in countries such as Myanmar and Indonesia.

Previous page: Two spiritual creatures in Buddhism representing the spirit heaven and matter earth.
Shutterstock

Display of vintage wine bottles. Barossa Valley, South Australia.
Ekaterina Kamenetsky / Shutterstock

> The Americans and the Australians also know that increasing investment in Southeast Asia will help to limit the influence of Beijing. This is prompting an increase their economic activity across the region.

Rebalancing regional power

The Americans and the Australians also know that increasing investment in Southeast Asia will help to limit the influence of Beijing. This is prompting an increase in their economic activity across the region.

As for trade policy, the Asia-Pacific region driven initially by APEC is strongly committed to trade liberalisation including at the plurilateral level. There are three major trade agreements: the ASEAN bloc of 10 countries, which have their own liberal trading arrangements; the US driven Comprehensive and Progressive Trans Pacific Partnership, which includes a number of key Asian economies but not yet the United States; and finally, there is the Regional Comprehensive Economic Partnership which brings together a number of Asian countries with Australia, New Zealand, Japan, China and the Republic of Korea.

Whatever the strengths or limitations of these agreements, they will contribute to economic growth in the region and to habits of trade liberalisation more generally.

View of modern bridge in the busy Sudirman Street in the evening, Central Business District of Jakarta.
Sony Herdiana / Shutterstock

Risks to prosperity

Governments now recognise that more open economies are going to be more prosperous economies. This augurs well for the economic future of the region and supports the view of an 'Asian century'.

However, it pays to think of possible risks. Asian economic growth over the last half century has been made possible by the security provided to the region by, inter alia, the United States. It is, after all, a region that over the centuries has been torn by conflict.

There are at least three questions about the future security of the region. If that security is not maintained, then prosperity will collapse.

First, how will the region manage the rise of China? China under Xi Jinping may aspire to dominate East Asia with a latter-day equivalent of the Monroe doctrine. If it was to succeed, this would lead not to permanent subservience in the region but growing resentment, heightened tensions and even conflict. Most countries in the region are well aware of this danger and while happy to benefit from China's economic miracle, they want to ensure there is an appropriate balance of power in the region to curb Chinese dominance.

Secondly, can the balance of power be maintained? To maintain it requires active engagement by the United States, its allies and other like-minded countries. How easy will this be? All the signs are that the United States will maintain a strong commitment to the security of the Asia-Pacific region. Both US political parties regard China as a strategic competitor.

No United States administration will want China to become excessively dominant, even in East Asia. Its two most loyal allies in the region – Japan and Australia – are enthusiastic not just to maintain their alliances with the United States but to build that relationship further into the region. Noteworthy is the decision to add India to the security dialogue between Australia, the United States and Japan.

Maintaining regional peace

It is also reassuring that countries such as Indonesia – not, strictly speaking, allies of any nation – are privately anxious for the United States to remain engaged in the region. Indonesia already has a security treaty with Australia (the Lombok treaty), which underscores the commitment of Indonesia to a strong security relationship with an American ally.

It isn't often said, but the truth is the Indo-Pacific region broadly is developing constructive architecture, which will help to manage the rise of China peacefully. Not only is there architecture to maintain an appropriate power balance in the region, but there are several multilateral institutions, which will also help to maintain a peaceful environment.

These include the East Asia Summit (EAS), the Asia-Pacific Economic Cooperation (APEC) and at the very heart of Southeast Asian diplomacy, the Association of Southeast Asian Nations (ASEAN). The EAS brings together 18 of the key countries in the region from India to New Zealand. Importantly, it includes China and the United States as well as Japan. APEC's membership is more diverse, including not just Asia-Pacific countries but also North and South American economies. It also includes Hong Kong and Taiwan.

Not only is there architecture to maintain an appropriate power balance in the region, but there are several multilateral institutions, which will also help to maintain a peaceful environment.

Assessing Asia's flashpoints

Thirdly, for all this optimism, there is always the risk of miscalculation. There are several possible flash points. There is no resolution to nuclear-armed North Korea and some fear that North Korea could launch an attack on South Korea. My judgement is that this is improbable; if it took action, it would swiftly be eliminated by the United States and its allies.

A US seaman on lookout watch on the aircraft carrier USS Ronald Reagan in the South China Sea.
ABACAPRESS / Alamy Stock Photo

View of corporate offices in Gurugram, New Delhi. India is one of the 18 countries in the region that have joined economic forces as the East Asia Summit (EAS).
Naveen Macro / Shutterstock

Tensions could erupt in the South China Sea where China has asserted territorial sovereignty in defiance of international law. It is using force to assert its claims for contested maritime territory. The US and its allies will continue freedom of navigation exercises in the South China Sea to maintain the international status of the Sea and defy China's claims to sovereignty. This could lead to conflict, though this is likely to be on a minor scale. Having said that, it is worth noting this as a possible source of conflict coming from miscalculation rather than specific planning.

Then there is Taiwan. There is no doubting Beijing's ambition to incorporate Taiwan into the People's Republic of China and Beijing might be prepared to take military action to do that. For as long as China believes the United States and its allies would come to the support of Taiwan, then conflict seems unlikely. However, if Taiwan miscalculates and, for example, declares its formal independence from China – and there is pressure for it to do so from within Taiwan – then that could incite military action from China without necessarily the guarantee of defence from the United States.

The greatest risk to the security of the Indo-Pacific region may not come from these traditional concerns but from within China itself. The mistreatment of the Uighur people and poor faith on the Joint Declaration on Hong Kong illustrate the type of issue that could raise international tensions and prompt international intervention.

That said, it is hard to see what this issue will be. No nation wishes to intervene to protect the Uighurs and ultimately the United States and its allies would see Hong Kong as dispensable. If China's economy goes into deep recession, perhaps driven by a severe financial crisis and civil unrest erupts, it could arouse international activity. There is no sign of this happening but it is important to flag the risk.

A stable outlook

Overall, the prospects for the Indo-Pacific region are positive and benign. In security terms, a balance of power is likely to be maintained and it is unlikely that war will erupt as a result of miscalculations over North Korea, Taiwan or the South China Sea. That all bodes well for the financial and economic stability of the region.

And finally, for reasons that are explored elsewhere in this publication, East Asia, from China to Australia, has handled the Covid-19 pandemic better than many other parts of the world. This will have medium-term economic consequences.

Powering prosperity

Asia's case against Western-style democracy

One-party rule may be a contentious form of government – but there's no denying the political stability and economic success it has helped to deliver in China and elsewhere. **Krish Shanmuganathan** examines the political models behind Asia's economic transformation.

Previous page: Chinese President Xi Jinping speaks during the opening session of the 19th National Congress of the Communist Party of China at the Great Hall of the People in Beijing.
REUTERS / Alamy Stock Photo

Monument at the Chairman Mao Memorial Hall, Beijing. Concerns are rising that China is moving from one-party to one-person rule.
cowardlion / Shutterstock

The Indonesian Parliament, Jakarta. Indonesia continues to maintain a multi-party political model.
Bimo Pradsmadji / Shutterstock

A canteen of a central government institution in Beijing : the CPC understands that if people have a job, they are less likely to rebel.
Xinhua / Alamy Stock Photo

Krish Shanmuganathan is a leading advisor on geopolitics following a career in diplomacy, asset management and corporate advisory. He is a non-executive director of Aberdeen Standard Asia Focus PLC.

The transformation of China over the last 25 years has been nothing short of remarkable: an industrial revolution that has taken a handful of relatively peaceful decades when, for most Western liberal democracies, it has taken centuries, punctuated by major continental wars. Whisper it quietly in the coffee shops of Washington, London and Brussels, but the Communist Party of China (CPC) must be applauded for its handling of this economic transition.

Backing the China model

The argument, oft heard around Asia, is that Western-style liberal democracy is ill-suited to the challenges faced by many emerging Asian nations. Instead, that the Chinese model of a single party authority, in which debate and elements of democratic expression are allowed under the strictures of that party umbrella, brings political stability. This allows for longer-term decision-making that in turn enables better capital allocation – including infrastructure development – and improves the economic lot of its peoples. Where the West seems obsessed with GDP, debates within the CPC have focused on another metric: employment. It is perhaps a simple calculation: make sure people have a job and they are less likely to rebel. And it is one that the West is increasingly adopting with many central banks now including employment levels in their mandates, rather than just managing inflation, and the widespread adoption of furlough schemes during the pandemic.

But this is no paean to one-party rule, nor an apology for any abuses made by states under the guise of economic advancement, merely a recognition of what many in Asia see, hear and understand. It has been a recipe for economic success and is likely to power parts of Asia to further success.

The West also needs to recognise China’s resultant ability to lead in areas of policy innovation. For example, it is little surprise to find the Chinese central bank leading the technological revolution in the changing architecture of money. By trialling a digital renminbi in Shenzhen through its state-owned banks, the People’s Bank of China is potentially opening the way for a controlled internationalisation of the renminbi in decades to come – offering a potential challenge to US dollar hegemony, particularly in the Asia-Pacific region.

Democracy vs prosperity

Strong criticism is rightfully made when it comes to the treatment of minorities or the curtailing of personal freedoms, amongst other things, but to what extent are people willing to make such sacrifices on the altar of economic prosperity? There is little sign of mass discontent within China – and the recent security measures imposed in Hong Kong are perhaps more widely supported on the island itself than many Western commentators would like to admit. A similar story could be told in India: it remains the world’s largest democracy but, politically, it increasingly resembles China, with the BJP continuing to extend its success at the electorate, and over state institutions, such as the central bank and the judiciary. This expanding party influence has been made possible by its popular support and has met surprisingly little resistance.

> It could be argued that Indonesia’s development has not been as impressive as its regional rivals, in part because its Western-style multi-party democracy has acted as a brake on development.

The Community Party of Vietnam has operated in a remarkably similar manner to China – providing political stability and leading the economic transformation of the country. Singapore’s People’s Action Party has equally overseen the modernisation of the country over the last 25+ years. It looks well placed to oversee its continued economic success for the next 25 years, to such extent that, in parts of the UK’s political leadership, it is held up as the shining example of what a post-Brexit UK could look like. And it could be argued – and indeed many do – that Indonesia’s development has not been as impressive as its regional rivals, in part because its Western-style multi-party democracy has acted as a brake on its infrastructural development and economic growth.

One-party or one-person rule

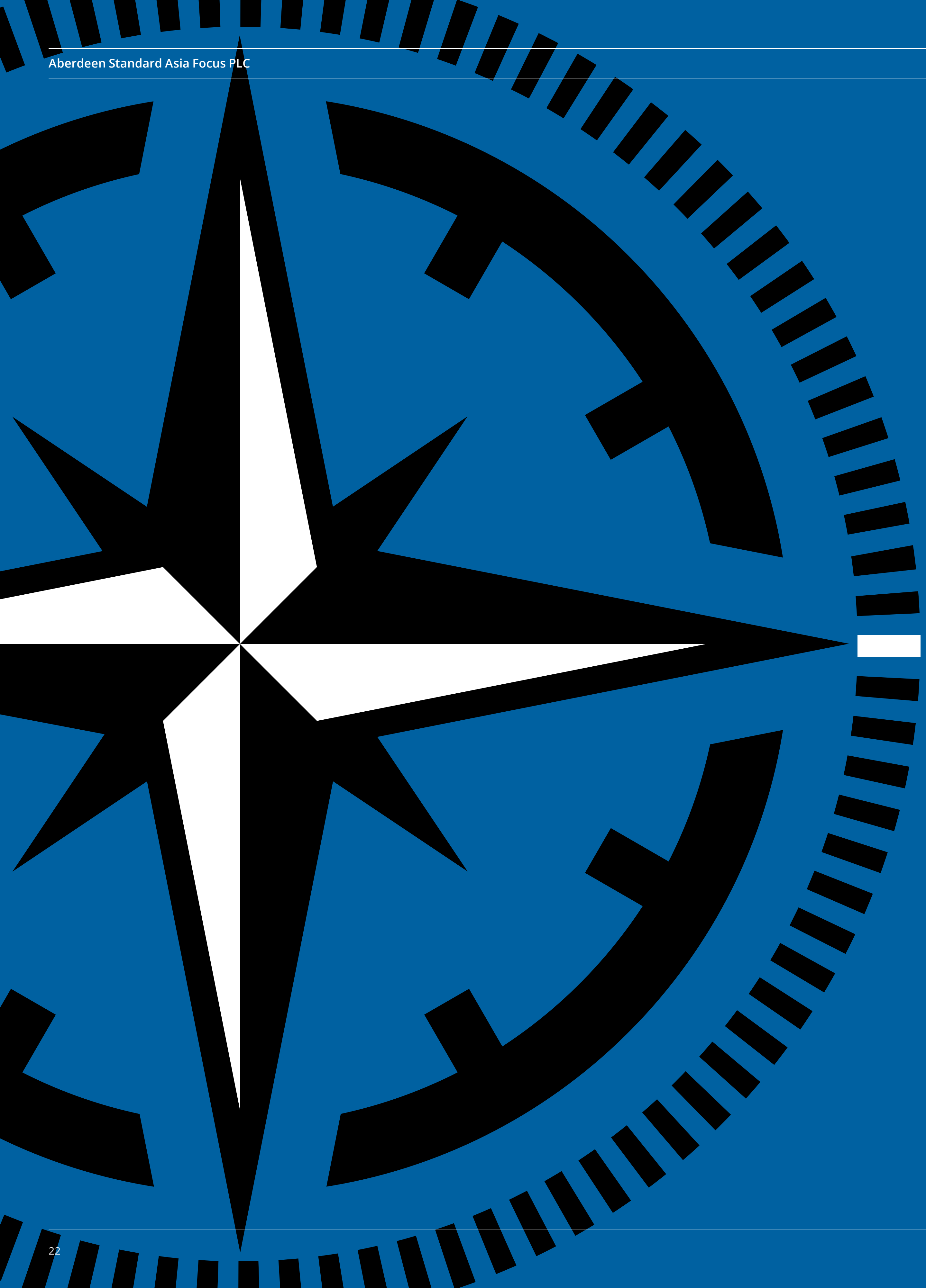
Although economic progress has been largely serene in China over the last 25 years, the danger with the evolution of its political system lies less in whether any local discontent at curtailed freedoms leads to domestic instability, but more in whether the system itself has changed from one-party rule to one-person rule. The CPC has succeeded in part because of the strength of its internal debates, the ability of the best and the brightest to rise to the top within the party structure, and for the party itself to be open to all comers.

Has President Xi started to alter that successful dynamic? Recent constitutional changes in China have further blurred the lines between the party and the state but it is the removal of term limits for the president that perhaps poses the most questions. If internal challenge and consensus decision-making become replaced with a narrower command and control, are more policy mistakes likely in the future?

Managing peaceful transition

In India, in the short term at least, such moves away from democratic norms might in fact help cement political stability, allowing further economic reforms to take place thereby spurring growth and prosperity. In the longer term, however, the danger is that corruption is allowed to infect the political system and vibrant internal challenge is replaced with a cult of personality with no obvious means of transitioning power from one generation to the next. A well-established democracy allows for (largely) peaceful transitions to happen; in autocracies, there is often a tendency towards a more violent coming-together.

The next decade should be one of unprecedented political stability in both China and India – and of continued transformational economic success. These are both remarkable domestic growth stories. Whether that will remain the case when the Aberdeen Standard Asia Focus PLC celebrates its 50th anniversary is perhaps a more difficult question to answer.



Shifting East

Covid-19 and the building of the Asia Powerhouse

Having traditionally relied on markets elsewhere, the world's most populous continent is now irrevocably replacing the West as the global growth engine – a process that the region's more successful handling of the pandemic has powerfully accelerated, says **Liam Halligan**.

Liam Halligan is an economist, journalist and broadcaster. Since 2003, Halligan has written his weekly 'Economics Agenda' column in The Sunday Telegraph, where he is economics editor.

The Covid-19 pandemic may not have ushered in an entirely new global world order, but it has certainly accelerated and accentuated existing political trends. Chief among those is the shift in the economic balance of power from West to East.

As 2020 came to an end, a surge in Covid-19 infections forced the US and most European nations to once more shut down their economies and limit social gatherings. Across much of Asia, however, such restrictions were becoming distant memories.

Returning to normal

As the time of writing this, in countries including China, India and South Korea life has mostly returned to normal. With Covid-19 infections contained, bars and restaurants are bustling, buses and trains are crowded and concerts and spectator sports have resumed. The vast majority of Western nations, meanwhile, as they went into winter, reimposed regional or national lockdowns, crushing signs of a post-Covid-19 recovery.

By mid-November 2020, the US was registering almost 500 new Covid-19 cases per million people daily, with around 350 across Europe – both experiencing a 'second wave', in terms of cases, much higher than during the Spring.

Asia, in contrast, seemed to have Covid-19 largely under control. The continent as a whole was reporting just 20 daily cases per million in mid-November, with India recording 30, the Philippines at 13, South Korea down to five and Vietnam, Thailand and China itself, the original source of the virus, well below one case per million per day.

As of November 2020, the US and Europe combined, home to just 15% of the global population, had endured almost half of the world's 1.4 million Covid-related deaths. The densely populated nations of East Asia and Southeast Asia, though, while accounting for roughly a third of the world's population, had registered less than a fifth of all fatalities linked to this virus.

Over the last 25 years, Western economies have clearly lagged Asia when it comes to the pace of economic expansion. The highly uneven incidence of Covid-19, in terms of both cases and deaths, means established West-East growth disparities are now widening even more.

The 'advanced' economies grew by just 1.7% on average during 2019, prior to this pandemic. Prolonged and repeated lockdown meant heading for a deep 5.8% GDP contraction in 2020, according to the International Monetary Fund. Rebounding with 3.9% growth in 2021, Western nations are forecast to return to their modest 1.7% 'steady state' growth by 2025.

> With Covid-19 infections contained, bars and restaurants are bustling, buses and trains are crowded and concerts and spectator sports have resumed.

A 2021 bounce-back

The story across 'emerging and developing Asia' is different. The region saw pre-Covid growth of 5.5% in 2019, much faster than the West of course, before managing the pandemic far better, imposing shorter, more concentrated lockdowns, or avoiding them altogether due to more effective 'test and trace'.

Growth across 'emerging and developing Asia' was expected to contract just 1.7% in 2020, according to the IMF, with the region then on course for a much more pronounced 8.0% GDP bounce-back in 2021, before returning to buoyant mid-decade trend growth of 5.9%.

While Asia is rapidly recovering, the negative effects of lockdown across the mature economies of the US and Europe are set to endure. The large Western economies have implemented quite extraordinary fiscal and monetary measures to support businesses and households – which are extremely expensive and, politically, difficult to reverse.

A coffee shop in Shanghai, China in May 2020. By November 2020, China was reporting Covid-19 cases below one case per million per day.
Robert W / Alamy Stock Photo

Back in 2007, prior to the sub-prime global financial crisis, the advanced nations were shouldering an average national debt of 71% of GDP, rising to 103% by 2019. Grappling with Covid-19, Western governments have spent very heavily on furloughing and other anti-Covid-19 measures, as their locked-down economies have struggled to generate tax. That's why the average national debt across the West rocketed during 2020, now standing at 124% of national income.

Asia's lower debt burden

The fiscal picture across 'emerging and developing Asia' is much healthier. With no marked increase after the sub-prime crisis, the region's combined state debt was just 53% of GDP by 2019 – around half that of the advanced nations. That rose to just 63% of GDP by the end of 2020, the IMF predicted – again, half that in the West.

The 'Asean-5' – the biggest South East Asian economies, namely Indonesia, Malaysia, Philippines, Singapore and Thailand – were on course to end 2020 with state liabilities of just 47% of national income – the lowest debt burden of any sub-region in the world. So Asian governments, in general, borrowed and spent far less than the West during the pandemic, having started with much lower debts.

> The contrast in the 'cost of Covid-19' between the West and East has been dramatic – in terms not only of lives but economic growth and debt.

The G7 nations were set to run an average 2020 budget deficit of no less than 13% of GDP, with annual fiscal shortfalls twice those in the aftermath of the sub-prime collapse. A more measured slowdown and much lower lockdown spending saw budget deficits across Asia stay well within single-digit GDP percentages, keeping national debts in check.

The contrast, then, in the 'cost of Covid-19' between the West and East has been dramatic – in terms not only of lives, but economic growth and debt. Asia's different kind of medicine more centralized and disciplined, often with more effective technology – has allowed the region to limit both the human and economic damage.

Western panic

Across the Western nations, with far less experience of pandemics, politicians have panicked – resulting not only in greater fatalities, but economic stagnation, dramatic 'money printing' and borrowing surges, which Asia has largely avoided.

Since lockdown in March 2020, the Federal Reserve has extended its quantitative easing programme from $4,500bn to over $7,000bn. The Bank of England's balance sheet has also ballooned, from £425bn to £875bn, with the European Central Bank and Bank of Japan unleashing similarly rapid monetary growth.

There is a risk such massive policy interventions will normalise and intensify, raising the prospect of developed world inflation spikes and sovereign debt crises. And while the US dollar's reserve status surely protects it, the combination of slow growth, spiralling debt and money-printing surely suggests other leading Western currencies will lose ground.

Fast-growing, far less indebted Asian economies, meanwhile, having shunned central bank largesse, should see local currencies strengthen. This adds 'currency overlay' to the investment case for a fund like Aberdeen Standard Asia Focus PLC, as the secular shift in West to East asset allocation over the past 25 years extends into the next quarter century.

Commuters in Seoul, South Korea – like other Asia-Pacific nations, it maintained tight restrictions again a resurgence of the Covid-19 virus.
WireStock / Alamy Stock Photo

Fast-growing, far less indebted Asian economies, meanwhile, having shunned central bank largesse, should see local currencies strengthen.

The past year has seen Taiwan, South Korea and many other Asia-Pacific nations suppress Covid-19, then maintain tighter restrictions against a resurgence. Having controlled the virus, their economies and societies are increasingly open and recovering, in contrast to still struggling nations across the West.

A shift in gravity

With much of the developed world in lockdown, Asian manufacturing hubs are benefiting from a shift in global consumption towards goods and away from services. Intense US and European demand for medical equipment and working-from-home necessities like personal computers, has rippled through Eastern supply chains.

But this is the Asian century and, having traditionally relied on markets elsewhere, the world's most populous continent is now replacing the West as the global growth engine, as the centre of economic gravity continues shifting inexorably eastward – a process quickened by this pandemic.

This Covid-19 crisis has exposed serious weaknesses in Western institutions, while badly impairing state balance sheets and decimating countless otherwise viable companies. Asian economies, in contrast, are expanding and increasingly confident, emerging relatively unscathed.

Pumped up on QE, the main Western stock indices look detached from economic and corporate fundamentals. Rocketing valuations and all-time highs, amidst lockdown, seem premature, even illogical. But while US stocks are trading at 23-times earnings, Asian equities are priced more conservatively, at a multiple close to 15.

Asia-focused firms

By targeting small- and mid-cap stocks, particularly those exposed to the domestic growth story, Aberdeen Standard Asia Focus PLC is working with the grain of economic and geo-political history. The fund's local manufacturing and consumer-facing companies, often family-owned with strong corporate governance, are less well known than the big Asian multinationals – so are priced more keenly, offering greater potential returns.

Such firms are unashamedly Asia-focused, insulated from any escalation of East-West trade wars, as the diplomatic fallout from this pandemic intensifies and post-Covid economic differentials come more clearly into view.

The global outlook remains uncertain. Despite the roll-out of effective vaccines, new waves of Covid-19 could yet appear. Yet Asia remains, unequivocally, the emerging powerhouse of global growth and commerce – a shift that has long been inevitable, but has now been hastened by a global pandemic.

Federal Reserve Chairman Jerome Powell – the US Federal Reserve extended its QE programme to over $7,000bn in 2020.
REUTERS / Alamy Stock Photo

After the pandemic

Explaining Asia's speedy recovery

Asia was the first region to bear the full brunt of the 2020 Covid-19 virus outbreak – but it was also the first region to recover from it. **Flavia Cheong** examines the economic and policy reasons for Asia's strong rebound and what it means for the region's future resilience.

Flavia Cheong is head of equities – Asia Pacific at Aberdeen Standard Investments.

2020 is likely to be a year that most want to forget. On March 11, the World Health Organisation declared the Covid-19 outbreak a global pandemic. At that time, few could have foreseen the unprecedented crisis that would ensue.

The human toll has been devastating. More than 57 million people have been infected and close to 1.4 million have died. Virus containment measures such as closed borders, lockdowns, contact tracing, social distancing and mobility curbs would seem more at place in a dystopian novel than in the real world. Yet, here we are.

The economic fallout has been immense. Growth has slumped. Poverty and unemployment have climbed. Human capital has been shaken to its roots, with livelihoods, learning and working, and productivity irrevocably changed.

Trade and investment flows have been disrupted, along with supply chains. This has created winners and losers. For some industries, outdated processes, mind-sets and the like have been excised in big structural swoops. For some countries, decades of development gains have been wiped out in just months.

Asia's first in, first out recovery

Through the pandemic, Asia was the first region to bear the full brunt of the virus outbreak, and was the first region to recover from it. By contrast, Europe and North America were still struggling with fresh Covid-19 waves in late-2020.

Asia's recovery has come in spite of an increasingly complex geopolitical landscape, as the tussle between China and the US broadens beyond trade and technology, with significant spill-over impact on the rest of the region.

Swift policy responses and positive fundamentals have supported Asia's rebound. Painful lessons from past currency and financial crises, with the 1997 Asian financial crisis top of mind, have been well learnt.

Most governments have made major progress in managing their current accounts, while companies are also more keenly attuned to the pitfalls of weak balance sheets and inadequate cash.

In a time of pandemic, this made the difference. Governments had room to ramp up spending and central banks could pull several policy levers to mitigate the impact on the economy. Companies tightened their costs and capital expenditure, while cutting or deferring dividends and raising equity to boost cash reserves and strengthen balance sheets.

China has led the way

China best illustrates this. The country, which was the initial epicentre of Covid-19, has led Asia's recovery, thanks to initial drastic actions to contain the virus, its huge reserves and an arsenal of policy tools at its disposal.

Its economy is becoming far more self-reliant, and Beijing is pivoting its fortunes more towards domestic factors, such as consumer spending. This should bode well for investment opportunities focused on rising consumption.

The exposure to domestic spending is not only a structural growth story, but also a buffer against the vagaries of geopolitics. Higher disposable incomes will spur demand for health-care products, wealth management services, insurance and luxury goods and services.

China's steady recovery could set the tone for the rest of Asia, given its importance as a key trading partner.

Technology leadership has helped

A key aspect of Asia's recovery has also been its sweet spot in the growing adoption and integration of digital technology globally, which is shaping the new economy and transforming the way businesses operate. The region's tech supply chains are well positioned for structural growth related to 5G, digital connectivity and e-commerce.

While many companies have found the going tough during the pandemic, others have emerged as winners. The technology sector has been a key beneficiary. As social distancing forced people to remain indoors, more of them began to rely on digital services including online payment systems, e-commerce and work-from-home solutions.

Covid-19 has also accelerated the drive towards artificial intelligence, cloud computing and the Internet of Things, and the auto industry's electrification push.

Swift policy responses and positive fundamentals have supported Asia's rebound. Painful lessons from past currency and financial crises, with the 1997 Asian financial crisis top of mind, have been well learnt.

...and benefited other markets

For other technology-heavy markets like Korea and Taiwan, electronics companies have benefited from demand for remote work. Taiwan is also benefiting from the dispute between China and the US. Taiwanese companies with factories in China and customers in the US are relocating some production back home. Also, its government has helped with tax breaks and other support.

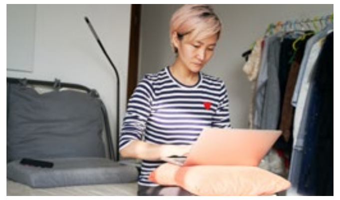
We have also seen tech companies increasingly diversify their production bases, resulting in spill-over benefits for Malaysia and Vietnam, which are part of the electronic manufacturing services supply chain.

India yet to meet its potential

India has always been a land of much promise but has still yet to live up to its full potential. While Covid-19 has benefited certain sectors like IT software services, it has also exposed the country's structural fault lines: inadequate healthcare infrastructure, bloated state banks, and liquidity stresses among non-bank financial companies.

To its credit, the Modi government has kept to its reform agenda despite the challenging conditions. It has passed landmark bills on labour and land reforms to attract foreign investments and promoted investment in agriculture.

The longer-term opportunity lies in how India best positions itself as a preferred low-cost manufacturing base for multinationals. For the country to compete globally, much more still needs to be done. Fiscal consolidation to reduce debt and that will free up resources for private investment is also overdue.



Opposite: Commuters at Shinagawa station in Tokyo, Japan in March 2020.
StreetVJ / Shutterstock

Food and water being distributed to migrant workers leaving Jaipur, Rajasthan, India due to the Covid-19 pandemic.
Mukesh Kumar Jwala / Shutterstock

Many Asian businesses adapted to the pandemic with employees working from home.
Shutterstock

That said, India is home to great entrepreneurs and many of Asia's most successful companies, which have been tested and tried by earlier economic crises. It also has a rapidly growing middle class that is upwardly mobile and increasingly affluent.

Asia is shaping its own destiny

In the light of evolving geopolitical dynamics, Asia is taking its destiny in its own hands. It has pressed ahead with regional integration via the Regional Comprehensive Economic Partnership (RCEP), which aims to reduce tariff and non-tariff barriers across 15 countries.

The RCEP will be the world's largest free trade agreement (FTA). Members include the 10 ASEAN nations, plus Australia, China, Japan, New Zealand and South Korea. Together they comprise nearly 30% of the global population and global GDP. India is the notable absentee, perhaps part of a plan to align with the US.

Being the first FTA that links China, Japan and Korea together, the RCEP will open up new opportunities along these corridors. The Peterson Institute for International Economics expects the deal to boost intra-RCEP trade by up to US$428bn by 2030.

More than that, the RCEP will also enhance regional integration and trade liberalisation. China and Japan would gain the most, but countries like Thailand would benefit as a manufacturing hub. Frontier markets Vietnam and Cambodia will also gain as foreign businesses look to locate factories in those lower-cost markets.

Regional efforts enhance Asia's potential

Trade deals aside, Asia's prospects remain intact with structural growth drivers that will play out for years to come. The region accounts for nearly two-thirds of global growth and is still the most dynamic economic region in the world by a wide margin. Its vast potential is underpinned by a huge domestic market, young workforce and continued urbanisation. It will be home to more than 60% of the world's middle class by 2030 and account for over half of global demand.

The growing middle class has fuelled the creation of new companies across the region. The rise in disposable incomes has led to expanding domestic markets that are much less dependent on exports than before.

Asia is also a leader in many aspects of emerging structural technology trends, such as electrification, automation, artificial intelligence and machine learning. These fundamental changes combined with the rise of e-commerce continue to transform the dynamics of many industries, presenting both risks and opportunities for companies.

The growing middle class has fuelled the creation of new companies across the region. The rise in disposable incomes has led to expanding domestic markets that are much less dependent on exports than before. All this leads to larger and more complex markets; it means greater opportunities but the flip side of this is that greater efforts are needed to identify and select the right holdings that can deliver sustained returns.

Opportunities lie in structural growth

As active managers, we focus on investing in good quality companies that are able to weather storms. We believe our holdings' defensive traits, including balance sheet strength, visible revenue streams and healthy profit margins, will be invaluable.

We favour market-leading businesses that are hitched to structural growth drivers in Asia. These include trends that have boomed during the pandemic, such as e-commerce and online activity, alongside longer-term shifts, including rising demand for healthcare and infrastructure.

We also see opportunities in the increased digitalisation and automation of manufacturing to cut production costs and increase utilisation, as factories are reconfigured for social distancing, remote working and monitoring.

Growing populations and rising middle classes and wealth can power domestic consumption for years. That encourages us to search for strong consumer companies that are well positioned to benefit from this structural dividend.

Environmental, social and governance (ESG) issues and responsible investing are entering into investors' thinking more as the Covid-19 pandemic has forced nations to rethink their priorities when pursuing economic growth. As governments pledge trillions of dollars to support businesses and save jobs, it will present substantial opportunities for investments in a sustainable future for the planet.

Smaller companies are well placed

Asia's developing economies provide fertile ground for smaller companies, with a rising urban middle class that has money to spend. Smaller companies are typically domestic in focus and benefit especially from higher demand for discretionary goods and services.

Smaller companies should offer faster growth because they are at an earlier stage of development. Although Asia is home to many good quality small companies, market research remains scant. Despite a large and varied universe, individual stocks are often under-researched and hence more likely to be mispriced.

Such a scenario favours our intensive due diligence. We have an experienced and well-resourced team of managers stationed across key markets in the region, providing us front-row seats to the rapidly changing investment landscape that is being shaped by long-term structural changes.

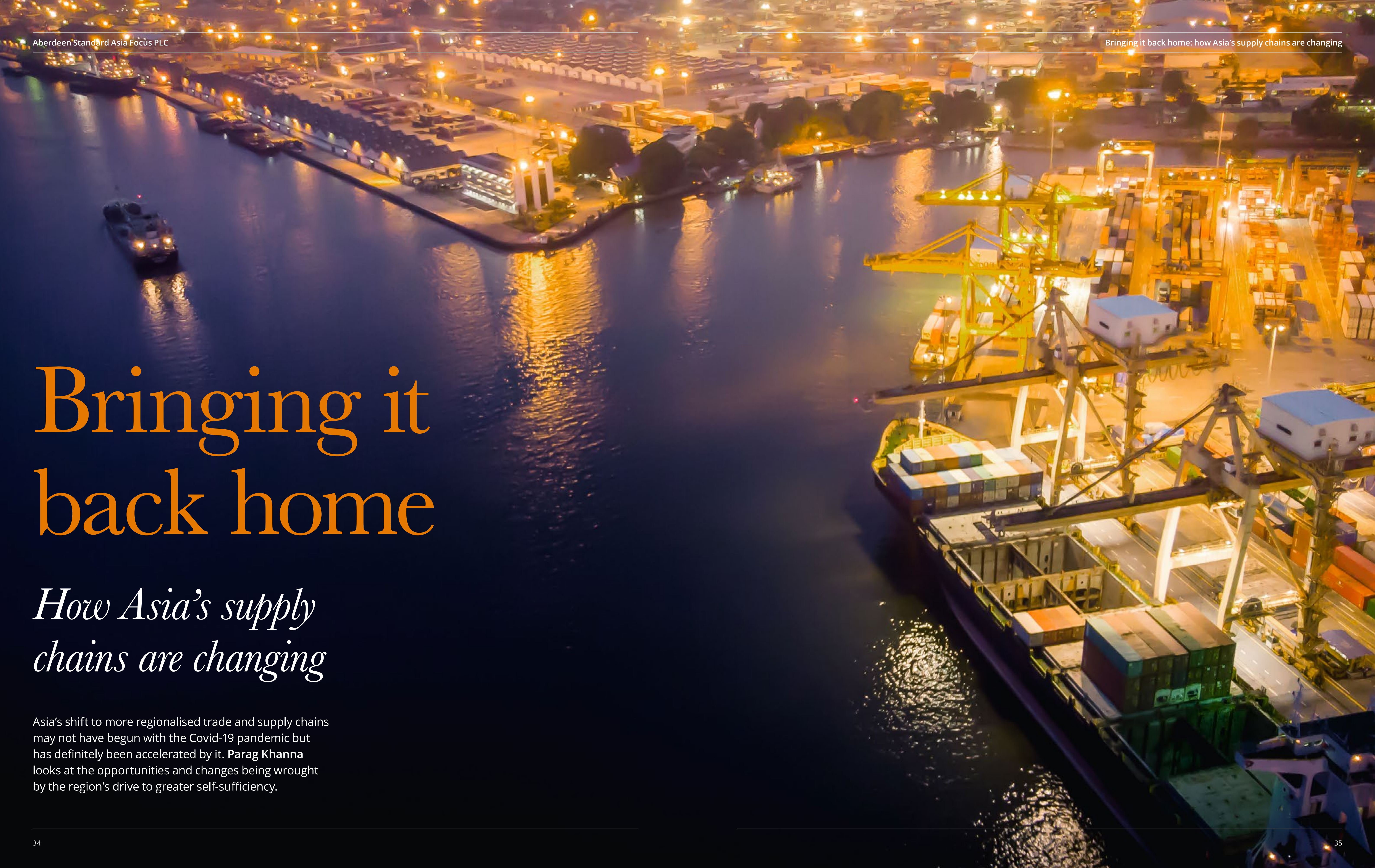
Economic activity set to gather pace

Three potential vaccines and a potential easing of political risk on the back of a Biden presidency brought some much needed cheer for the world at the end of 2020.

In Asia, we should see economic activity gather pace with Covid-19 past its peak across most countries and given abundant policy support. The region's strengthening growth profile and reasonable valuations leave its stock markets well placed to continue to outpace global peers. Furthermore Asian equities remain under-represented in global portfolios and we expect that to change as investors realise the critical role of the region in driving growth and prosperity for the global economy; powered by the dynamism of its smaller companies.

Looking ahead, 2021 could be a year for Asia to remember, and for all the right reasons this time.

Vietnam's Prime Minister Nguyen Xuan Phuc addresses his counterparts during the 4th Regional Comprehensive Economic Partnership (RCEP) Summit. The RCEP is set to be the world's largest free trade agreement, covering 30% of the global population.
NHAC NGUYEN / AFP via Getty Images



Bringing it back home

How Asia's supply chains are changing

Asia's shift to more regionalised trade and supply chains may not have begun with the Covid-19 pandemic but has definitely been accelerated by it. **Parag Khanna** looks at the opportunities and changes being wrought by the region's drive to greater self-sufficiency.

Parag Khanna is a leading global strategy advisor, world traveller, and best-selling author. He is an international relations specialist and founder and managing partner of FutureMap, a data and scenario-based strategic advisory firm.

Amid the deep Covid-19 pandemic-induced uncertainty across the world economy, we can be fairly confident that the years ahead will witness an accelerated trend towards regionalisation, particularly for trade and supply chains.

In North America, for example, the Trump administration signed the United States-Mexico-Canada (USMCA) trade agreement which came into effect in July 2020. US trade with both Canada and Mexico topped US$600bn in 2019, while US-China trade fell to approximately US$500bn. In Europe, 60% of trade is within and among EU members, a figure that may also rise on the back of the robust new eurozone stimulus and regulatory measures aimed at near-shoring.

From global to local recovery

After the 2008 global financial crisis, G20 governments undertook coordinated stimulus aimed at resuscitating economies and promoting the restoration of global trade flows. By contrast, today their instincts are protectionist, with stimulus measures focused on local recovery. Instead of a synchronised global recovery, we will instead have an asynchronous set of regional recoveries – with the scales tilting in Asia's favour.

Asia's 'Sinodependency' appears to be a blessing – for now. With China's economy first to rebound, Asia's exports will recover more quickly. At the same time, China's newest Five Year Plan and strategy of 'dual circulation' (cultivating internal and international markets) suggests a country poised to become more self-sufficient. Already in recent decades, China has slashed its import share of exports to below 20%; most electronics are now produced domestically end-to-end.

> Instead of a synchronised global recovery, we will instead have an asynchronous set of regional recoveries – with the scales tilting in Asia's favour.

China – along with South Korea, Japan, and Singapore – is making massive investments in industrial automation as its workforce ages and begins to decline. This explains how the country's output has remained so high (and even grown) despite its worrying demographics.

Open for business

That said, China's economic recovery and rebalancing towards consumption sends a strong signal to multinationals that they still have large opportunities in the Chinese market – and therefore they should continue to produce there despite local competition and regulatory obstacles. Tech companies such as Apple and Philips have had significant success in the Chinese market and plan to remain rooted there even as they branch out. The same goes for Tesla, despite it being named on China's 'unreliable entities' list and the surge in electric car output from BYD and Nio.

Another reason why it is far too soon to speak of deglobalisation is China's unfolding capital account liberalisation. Foreigners already represent 5% of China's onshore equity and bond markets, and the government has signalled a willingness to let that rise to 10% and higher. The inclusion of Chinese government bonds in the FTSE Russell World Government Bonds Index is expected to bring in at least US$140bn more foreign capital into China's government debt as well. Both onshore financial activities and offshore listed ETFs are attracting wide interest in the search for yield.

The 'China plus' model

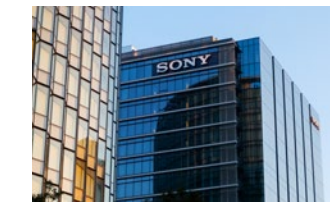
However, investors and manufacturers operating in Asia have a growing range of options beyond China. Indeed, we are rapidly moving beyond even a 'China plus' model of supply chains towards Asia representing multiple 'factory floors' for the world including Japan, China, Southeast Asia, and India. Protectionist trends as well as concerns over China's rising wages and industrial policies have prompted the US, Europe, and Japan to launch robust near-shoring programs. However, Asia's growing markets instead compel its multinationals to pursue 'make where you sell' strategies that will reinforce Asia's collective leadership in global supply chains.

Southeast Asia and India have taken note of China's industrial and financial strategies to fuel its meteoric ascent and have devised similar playbooks suited to their situation. The road for a diversification of Asia's supply chain footprint was paved in the region's 1998 financial crisis, after which governments focused on building trade surpluses and currency reserves, adopting flexible exchange rate regimes, and stabilising interest rates and controlling inflation. Macroeconomic stability allowed them to issue longer maturity, bonds in local currency, diminishing their dependence on US dollar financing – a crucial advantage during the recent 'taper tantrums'.

According to a 2019 AmCham survey, about 17% of companies have considered or actively relocated their supply chains away from China, which demonstrates the fungibility of investment today. These include tech giants Samsung, Sony, GoPro and Dell, sports apparel manufacturers Nike, Adidas and Puma, South Korean motor companies Kia and Hyundai, fashion companies Steve Madden and Old Navy, among others.

> China's economic recovery and rebalancing towards consumption sends a strong signal to multinationals that they still have large opportunities in the Chinese market.

Most of them relocate their manufacturing to Vietnam or elsewhere in Southeast Asia. The money has continued to follow Asia's growing capacity as a supply chain hub. As of 2017, American foreign direct investment (FDI) into ASEAN countries stood at US$329bn, larger than its footprint in China, Japan, Korea and India combined. Precisely because the US did not join the Trans-Pacific Partnership (TPP)



Previous page: Shipping and freight import, export and delivery of goods at port in Bangkok.
Shutterstock

Opposite: Assembly workers at the Geely automobile manufacturing plant in Zhejiang Province, China. The country is making massive investment in industrial automation as its workforce ages. Linhai, Zhejiang Province, China.
Jenson / Shutterstock

Samsung, Sony and Hyundai, three of the many business relocating their supply chains away from China.
SUNG YOON JO, Morumotto, Ki young / Shutterstock

trade agreement, its firms will need to invest more in Asia to get behind the tariff wall. It is not likely that the next US administration will reverse course on TPP, meaning that those multinationals that depend on overseas revenue will be looking ever more to Asia.

Europe's free trade agreements

Europe's approach has been quite different, and ultimately far more significant for Asia's future as a supply chain centre. The EU now has free trade agreements with South Korea, Japan, Singapore, and Vietnam – the latter two paving the way for an eventual FTA with the ASEAN community as a whole. Europe's overall trade in goods with Asia – including China, ASEAN members, Japan, and India – stands at $1.6 trillion annually, far larger than even Europe's trade with North America. This is one of the strongest indicators of the irreversible shift in the global economic centre of gravity from transatlantic to Eurasian domains.

Trade within Asia

Supply chain dynamics within Asia have been rapidly evolving and shaped by geopolitics, trade agreements, wage pressures, technological automation, industrial policies, and many other factors. While Southeast Asian countries such as Malaysia and Thailand have been favoured destinations for mid-range manufacturing for several decades, Vietnam illustrates how rapidly these forces have come together to elevate one of Asia's poorer nations. As Japanese, Korean, American, and European firms pour capital into the country's special economic zones to produce everything from apparel to automobile parts to mobile phones, the country's trade-to-GDP ratio has shot up to 210%. The joke widely circulating in Southeast Asia rings true: 'The US-China trade war is over – and Vietnam has won.'

Trade liberalisation within Asia has also significantly facilitated supply chain shifts and cross-border linkages. Again, going back to the 1998 Asian financial crisis, governments learned the importance of enabling interdependence to flourish. Intra-Asian trade crossed 50% of the region's total by 2005, just in time to cushion the region's exporters from the demand shock created by the global financial crisis of 2008. Since then, it has risen to more than 60%, with the impending Regional Comprehensive Economic Partnership (RCEP) set to expand Asia's internal trade even further. Already China trades more with the ASEAN region than it does with the US, and has been seeking to actively offset industrial, technology, agricultural, and energy imports from the US with exports from Asian trading partners and Europe.

Service sectors on the rise

Asia's rising prosperity also means that the economic role of supply chains differs markedly from generations past where manufacturing (and agriculture) represented the largest share of economies. Now, only an average of 15% of Asian workforces are employed in manufacturing despite lower per capita incomes than Western societies. Instead, much as in the West, services dominate both the Asian labour force and GDP.

The stellar rise of services across the region is embodied in cross-border champions such as Air Asia and, in the digital domain, Sea. Sea is the first ASEAN-born tech company to be listed on the New York Stock Exchange, and has delivered superb growth during the pandemic across its e-commerce, gaming, and other platforms. Vietnam's VinGroup also epitomises this economic diversification within a single conglomerate. Beyond manufacturing, it is active in real estate, retail, services, e-commerce, hospitality, healthcare, and even education in a new partnership with Cornell University in the US.

Thai Air Asia Airlines at Don Mueang International Airport, Bangkok. Thailand is one of the countries benefiting from ASEAN membership.
Skies Clear / Shutterstock

Forrest Li, chairman and group chief executive officer of Sea, based in Singapore, the first ASEAN-born tech company to be listed on the New York Stock Exchange.
Wei Leng Tay / Bloomberg via Getty Images

Opposite: View of downtown Bangkok: a strong privatisation wave lies ahead for Thailand and other Asian countries as they seek to attract investment.
Shutterstock

Already China trades more with the ASEAN region than it does with the US, and has been seeking to actively offset industrial, technology, agricultural, and energy imports from the US with exports from Asian trading partners and Europe.

South and Southeast Asia meanwhile has much going for it despite the Covid setback. India has attracted record FDI into its tech sector with the rise of Reliance Jio as a telecoms platform.

A strong privatisation wave lies ahead for countries such as Thailand, Indonesia, and the Philippines as they seek to attract investment amid the slowdown in portfolio capital inflows. The region's under-valued companies are set to be strong performers as national champions ready to expand regionally and beyond.

Small-caps on the rise

Supply chains are not just connections among production nodes. In reality, each node is an ecosystem of suppliers and other players whose production and output spills over into logistics and transportation, accounting and legal, and other sectors of the economy. The growing density and breadth of Asia's supply chain activities, coupled with its rapid transition towards services industries, ensures that small-cap companies across many sectors will continue to gain market share.

Trade winds, trade wars

Where next for US-China tariffs?

The Trump era may have come to an end in the US – but decoupling from China may be one of its more lasting legacies. **Richard Han** considers what ongoing trade tariffs and technology export restrictions mean for companies like his, operating both in China and the US.

US President Donald Trump shakes hands with China's President Xi Jinping before starting their bilateral meeting during the G20 leaders summit in Osaka, Japan, June 29, 2019.
REUTERS / Alamy Stock Photo

Richard Han is CEO of Hana Microelectronics, the leading independent electronics manufacturing service company in South East Asia, and a long-term holding for Aberdeen Standard Asia Focus PLC.

The most interesting challenge will be how to navigate the growing demand of China to become self-reliant on specific supply chains currently controlled and dominated by the West.

Among the many changes anticipated from a Biden administration, trade tariffs will be closely watched. Will the new President repeal Trump's more onerous tariffs and how should companies impacted by those tariffs be looking to position themselves going forward?

The new administration has many domestic problems to address, notably a re-grouping to fight the Covid-19 pandemic. It's possible that the China trade issue may be put on the back-burner, which would mean there would be no significant reversal of tariffs or changes in technology export restrictions. However, we do believe a more pragmatic approach will prevail with a focus on the core issues.

It could mean less of the blanket tariff structure currently in place, which mostly serves to tax the US consumer while not really hurting the China export machine, while keeping the pressure on those high-tech areas that have more sensitive or military applications.

Reducing importer dependency

While this maybe the current thinking, it may not be what actually happens and it is clear that many US importers have been and will continue to move forward with plans to reduce their dependency on China. Conversely and more aggressively, we are seeing the same from China. It has assumed that the status quo will continue (more or less), even in the face of a Biden administration, with ambitious plans to accelerate its home-grown industries – particularly in areas such as semiconductors, where it clearly lags the West.

As the Trump era comes to an end, we believe the cold war he ignited and expanded will not. Although we may see a welcome change in the tone – decoupling with China may be one of his more enduring legacies.

Rethinking operations

As one of many cogs in the machinery that intertwine within the complex supply chain, the Hana Microelectronics Group – with factories in Thailand, China, Cambodia and the USA – has had to reposition itself over the past four years to ensure we can not only survive these fundamental changes, but flourish.

Firstly, we have re-focused our China operation on the domestic market. The initial tariff impositions had already forced a number of our US accounts away and we have been fortunate to be able to transfer them over to our Thai operations. We believe over the course of the next three years, the domestic share of our China operations will be over 75%.

Secondly, we have set up a robust supply chain transfer process to substitute step-by-step non-China suppliers in order to bring up the local content, thereby qualifying for 'assembled in' Thailand/Cambodia. This is easier said than done and while there is a definite pathway it will take time. However, from a competitive view point, China still dominates and therefore it is unlikely that in the near term all parts can be locally substituted at similar costs. At this stage the 'assembled in' configuration is allowable as opposed to 'made in' and therefore this buys us time.

The final and probably most interesting challenge will be how to navigate the growing demand of China to become self-reliant on specific supply chains currently controlled and dominated by the West. As the fastest-growing major economy for a long time to come, this is an opportunity that many companies do not want to miss. The question will be how, as a non-China entity, can this be achieved?

Harnessing a megatrend: the EV market

To do so, it is important to identify the growing mega-trend industries that are globally in demand and where Hana can participate (avoiding any areas considered sensitive). We have identified the fast-growing electric vehicle (EV) market and more specifically within that industry, the on-board/off-board charging process. This requires designing and developing electronic power modules that will improve battery charging speeds – an area where currently China still lags the West technically.

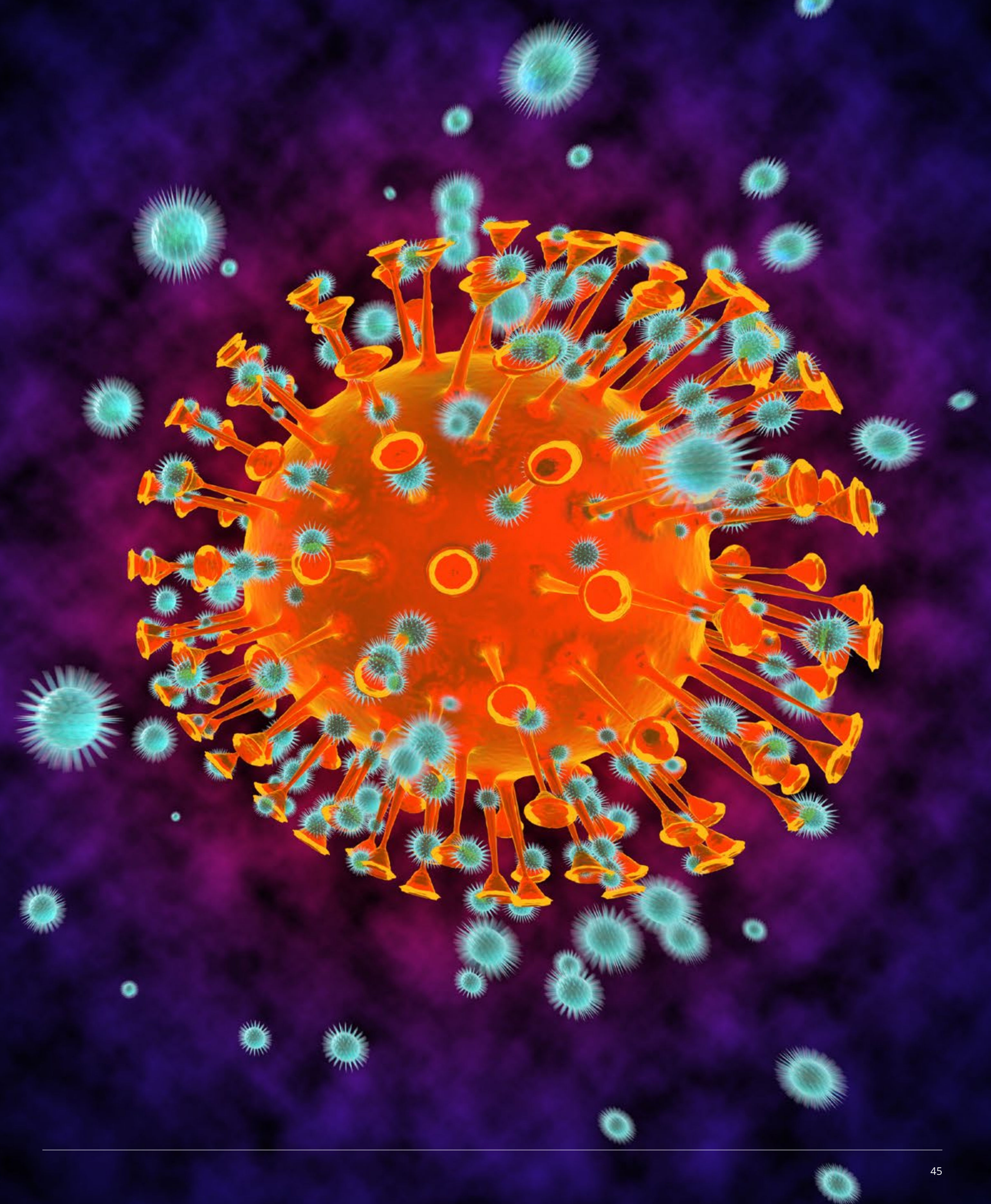
It is hoped that within the next few years we will be successful in bringing these power modules to the fast-growing China EV market – especially as most major governments (China included) pledge to focus on emissions control and carbon neutrality within the next 20-30 years. These power modules will be assembled in China for the local market and outside China for the rest of the world, mitigating the US-China decoupling challenge.

China's electronic vehicle market is fast-growing but lags the West technically – offering opportunity to companies such as Hana Microelectronics.
Shutterstock

Eureka!

Groundbreaking moments for pandemic science

The Covid-19 pandemic has shown how swiftly resources can be allocated to find solutions and the regulatory agility that's possible to enable treatments to be delivered. By continuing to embrace bold new ways of thinking, the global fight against disease could reach even greater heights, says **Kiran Mazumdar-Shaw**.



Kiran Mazumdar-Shaw is one of the most successful female entrepreneurs in the world and founder and executive chairperson of Biocon, India's largest biopharmaceutical company, manufacturing generic active pharmaceutical ingredients sold in over 120 countries. Syngene, a publicly-listed subsidiary of Biocon, is a long-term holding of Aberdeen Standard Asia Focus PLC.

The Covid-19 pandemic has exposed the deep fault lines underlying the North-South economic divide, laying bare the structural inequities in the way the world approaches disease control and mitigation.

Before the novel coronavirus struck, infectious diseases were perceived as a Third World problem as the wealthier, industrially-advanced North was thought to have almost completely eradicated them.

A recent study by Lancet Global Health found that historical funding for Covid-19 research was very low, even after the high-profile outbreaks of severe acute respiratory syndrome (SARS) and Middle East respiratory syndrome (MERS). In fact, coronavirus-related research received a mere US$0.5bn from 396 grants between 2000 and 2017. In comparison, HIV/AIDS received US$42bn. Overall, annual investment in infectious diseases research witnessed a general decline between 2007 and 2017, according to the study.

The world is now paying for this decade-long neglect of studies into infectious diseases and the over-prioritisation of research into non-communicable diseases (NCDs).

Covid-19 has demonstrated that the economic impact of infectious pandemics is far more devastating than NCDs. The IMF forecast global output to shrink by 4.4% in 2020 and make only "a partial and uneven recovery next year."

A constant viral threat

Latest scientific findings estimate that in any human body there are around 30 trillion human cells, but our microbiome has an estimated 40 trillion microbial cells, the basic material of all microbes, including bacteria, viruses and fungi that live on and in us. Human health hinges on the balance between human and microbial cells. When an invader – such as a virus or a bacterium – disrupts this homeostasis, it leads to sickness and disease.

We are living with the constant threat of emerging viral infections. In the span of the last two decades, the world has had to contend with the Nipah, SARS, MERS, H1N1 flu viruses as well as the re-emergence of the Ebola virus. Localised outbreaks of Zika, Chikungunya, Dengue viruses have also occurred from time to time.

To prevent the recurrence of a Covid-19-like pandemic in future, early identification, monitoring and survey of the viruses circulating among humans and other animals is essential. For this, we will need fast, sensible, cheap and broad-spectrum methodologies.

From testing for viruses to developing vaccine programmes, governments will have to strike a better balance between regulation and innovation to support public health.
Shutterstock

Tackling viral pandemics

Our bodies fight viruses by producing antibodies, wherein our adaptive immune system kicks in to fend off a viral pathogen.

The Covid-19 crisis has demonstrated that viral pandemics spread so rapidly that vaccines' availability tend to lag a major outbreak by months. Thus antiviral drugs have a key role to play in tackling any pandemic virus.

> To prevent the recurrence of a Covid-19-like pandemic in future, early identification, monitoring and survey of the viruses circulating among humans and other animals is essential.

The most important enzyme that a virus carries with it is its polymerase, which is responsible for replicating the viral genome. An antiviral agent that inhibits the polymerase enzymes can stop the replication of the virus. This opens up the opportunity to create a combinatorial library of antiviral agents that can block the polymerase agents of each virus, as each such pathogen will have its own polymerase enzyme. If a cluster of viruses share the same kind of polymerase enzyme, then a single antiviral agent can be designed to effectively fight several viruses.

For new scientific breakthroughs in fighting viral disease, the global scientific community needs to more closely study how viruses replicate, how they infect and how the human immune system reacts to a viral intrusion. Research must span surveillance, rapid response through antivirals and vaccine development, which could represent a longer-term solution for fighting viral pandemics.

Accelerating the pace of discovery

From antiviral therapies that stop viral replication to vaccines that can help the body fight the virus, we need research to come up with potential solutions as rapidly as possible.

The regulatory system also needs to evolve to help this rapid response. Globally, we have risk-averse healthcare systems that prioritise regulation and strict bureaucratic oversight of pharmaceutical research and development. The Covid-19 crisis has taught us that we need to usher in a paradigm change in the way pharma research and innovation are currently regulated.

Governments worldwide will have to strike a better balance between regulation and innovation in the interest of public health. There is an urgent need to speed up the regulatory processes to get new testing kits and supplies manufactured and get new drugs and vaccines into development. Now that our priorities have radically changed, our regulatory frameworks need to change, too.

If the world can take a risk-based approach to Covid-19-related treatments and vaccines, it can extend the same approach to other diseases. Why should it take 5-10 years for a drug to go from the lab to patients?

If the 'lab to market' journey of any therapy can be compressed like it has been for vaccines against Covid-19, then many unmet healthcare needs can be addressed and rapidly.

This would also allow for medical science to quickly devise alternative solutions to combat communicable as well as non-communicable diseases. Regulatory agencies would be able to base their decisions on real world evidence pertaining to the safety and efficacy of a drug, rather than data from clinical studies conducted under a controlled setting.

Demanding disruption

The Covid-19 crisis has offered several Eureka moments for pandemic science.

It has triggered a massive allocation of resources to finding solutions that address viral pandemics – from identifying life-saving treatments, tracking how viruses spread and ultimately to preventing infection with vaccines.

The high level of effectiveness reported for Pfizer's and Moderna's messenger RNA (mRNA) based vaccines have been a Eureka moment as they have shown that mRNA vaccines can produce robust immunity and can be developed rapidly, thus providing an effective solution for mass vaccination.

> From the development of thermo-stable vaccines to efficient vaccine delivery mechanisms, pandemic science is poised to scale greater heights.

Another Eureka moment is the agility exhibited by regulators globally in fast- tracking the development of treatments and vaccines against Covid-19, in some instances allowing Phase 1, Phase 2 and Phase 3 clinical trials to be conducted in parallel.

I believe there are several more such moments in the offing. From the development of thermo-stable vaccines to efficient vaccine delivery mechanisms and advances in surveillance mechanisms to effective models for immunising entire populations, pandemic science is poised to scale greater heights. To make this quantum leap, the world will need to embrace change and adopt disruptive new ways of thinking.

Move fast and make things

Delivering Asia's digital transformation

Bringing digital infrastructure to Asia is helping to transform the region's economies, not only opening up new industries, skills and job opportunities but also providing new possibilities in healthcare, distance learning and connecting the region's remotest areas, says **Danny Alexander.**

Danny Alexander is former UK chief secretary to the Treasury and now vice-chairman of the Asian Infrastructure Investment Bank (AIIB) which aims to improve social and economic outcomes in Asia by investing in sustainable infrastructure, other sectors and beyond.

Previous page: Girls are learning online with laptops in rural areas of Thailand.
Shutterstock

Digital advances are breaking down geographic barriers, transforming economies and creating opportunities for greater trade and social connection worldwide.
Shutterstock

Digital technology is continuously transforming the global economy. Digital applications have successfully lowered barriers posed by geography, solving market imperfections, and connecting people both for trade and social purposes. They have transformed economies and created new opportunities across countries, regions and industries including the reskilling of workers where required. A range of industries have embraced digitalization, including finance, healthcare, entertainment and sports, travel and transportation and marketing.

Infrastructure key to growth

It is estimated that the digital economy footprint represents between 6% and 15% of global gross domestic product (GDP). It contributes to about 25% of GDP growth in developing countries, 80% of which is accounted for in sectors other than information communication technology. In the decades to come, the quality of digital infrastructure will be a key driver of economic growth. The Asian Infrastructure Investment Bank (AIIB) has defined our goal for the next decade as 'investing in infrastructure for tomorrow.' We aim to invest in infrastructure projects that meet the needs of our members in the next few decades.

Infrastructure for Tomorrow has four components: green infrastructure, tackle climate change; connectivity to enhance trade and regional co-operation; private capital mobilization to generate investment at scale; and technology-enabled and digital infrastructure. This final component is key to help close the digital divides that, if perpetuated, will slow growth and deny opportunities in many of our low and middle income members countries.

As an infrastructure bank, our focus is on helping member economies that contend with limited or poor quality infrastructure. Sectors we have committed to include transport, urbanisation and water – technology can help to make the most of these investments.

> Given the economic impact of the digital economy and the role it plays in society, the AIIB sees a clear need to support its development.

The need for a digital solutions was crystallized and accelerated during the Covid-19 pandemic. Normal ways of working and socializing were changed considerably, replacing in-person interaction with virtual interaction due to the ongoing need for social distancing and the inability to travel due to quarantine measures.

Countries have jumped on the opportunity to embrace change, most notably in organizations to ensure work carries on and in the health care sector to support data collection, research and patient care, making it safer and more reliable. An example would be the ability for nurses and doctors to record important real-time patient data and share it instantly within their updated medical history through handheld computers.

Delivering digital transformation

Given the economic impact of the digital economy and the role it plays in society, the AIIB sees a clear need to support its development. Digital infrastructure was therefore recently included as a thematic sector in our Corporate Strategy – Financing Infrastructure for Tomorrow. We know through our own experience that organizations that successfully undertake digital transformations reap huge benefits from doing so. Hence we want to be able to offer a better experience and an expanded range of products and services to our member countries.

Connecting the unconnected

Digital infrastructure provides critical solutions, especially so at times of crisis such as the recent Covid-19 pandemic. Quality internet access and digital platforms allow for remote work, distance learning, distance medicine and provision of social services. The need for more and better digital infrastructure has become more evident and the demand for broadband is higher than ever. In parallel, the pandemic also exposed the limitations of the digital infrastructure network and revealed the vulnerability of the unconnected, who represent nearly half of the global population

The adoption and mainstreaming of technological applications to traditional infrastructure also leads to better allocation and management of resources, efficiency gains, and productivity increases. Technology, as diffused through digital applications, contributes to a more sustainable infrastructure sector.

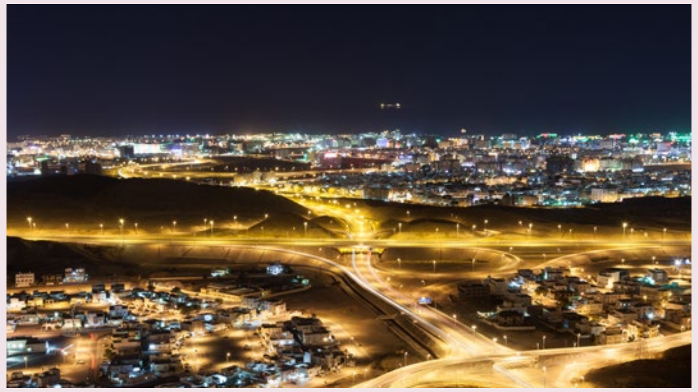
The positive economic impact of digital infrastructure, the necessity to bridge the growing digital divide and reduce the financing gap, alongside the benefits of technology applications in traditional infrastructure, are all reasons why digital infrastructure investment is set to be a major focus of AIIB.

Overleaf: Examples of AIIB projects

Digital infrastructure projects supported by AIIB

By investing in sustainable infrastructure and other productive sectors in Asia and beyond, AIIB aims to connect people, services and markets better to improve the lives of billions and build a better future.

Oman
Oman Broadband Infrastructure
US$152mn



View over the city of Muscat at night.
Shutterstock

This project aims to help improve Oman's infrastructure in the information and communication technology sector, thereby increasing the attractiveness of Oman as a destination for manufacturing business and strategic logistics services.

The finance provided to Oman Broadband will be used for its rollout of a fiber optic broadband cable network to 406,003 homes/premises by the end of 2021.

It comprises 4,097 km of laying cables, 9,535 km of drop cables and supporting infrastructure such as fiber distribution hubs. By the end of 2021, 80% of Muscat will be fiber-ready for connection with the gigabit-capable optical networks. The project is in alignment with the country's goal to progressively diversify its economy away from its current dependence on the export of hydrocarbon products.

Cambodia
Fiber Optic Communication Network Project
US$75mn

Father and children use a laptop outdoors.
Shutterstock

This project will support the development of both the fiber optic cable backbone network and the metro network in Cambodia.

By building out these two networks across the country, the project is expected to support increased access to telecom services in both rural and urban areas. It is expected to provide greater capacity for operators in the telecommunication sector and improve both outdoor and indoor coverage for service providers.

China
Legend Capital Healthcare Technology Fund
US$30mn

A scientist at a biomedical laboratory.
Shutterstock

This financing supports the Legend Capital Healthcare Technology Fund, a venture capital fund which invests in healthcare technology and digital hospital companies in China.

It aims to foster more mature applications of technology and digitalization to improve capacity, efficacy, inclusiveness and resilience in Chinese healthcare infrastructure and service delivery. The Fund targets early stage and growth stage healthcare companies, covering medical technology, digital health and biotechnology.

Indonesia
Multifunctional Satellite Public Private Partnership (PPP) Project

A barista managing online orders, Indonesia.
mohammad aldi purnomo / Shutterstock

This project supports the Government of Indonesia's goal to provide connectivity to more than 149,000 Public Service Points in Indonesia.

The project involves High Throughput Satellite (HTS) technology with Ka-Band2 Frequency providing data transfer capacity of 150 gigabits per second (gbps). Indonesia's Ministry of Communication and Information Technology (KOMINFO) initiated the project to provide fast internet access to remote areas in Indonesia, enabling easier access by various government sectors, such as maritime, education, health, agriculture, communication and others. Satellite-based technology is the only feasible means to cost-effectively connect these remote locations. This was the first telecommunication satellite PPP project in Indonesia for AIIB.

Building the bank of tomorrow

Parwati Surjaudaja explains how Bank OCBC NISP in Indonesia is responding to the challenge of ultra-low interest rates, digital disruption, the changing needs of retail and corporate customers – and the growing demand for strong corporate governance in Asia.

Parwati Surjaudaja is president director of Bank OCBC NISP in Indonesia, a holding in Aberdeen Standard Asia Focus PLC.

After the Asian financial crisis in 1998, the Indonesian banking industry took steps to become more resilient. As a result, when the global financial crisis hit in 2008, it weathered the storm. In 2020, the Covid-19 pandemic irreversibly reset the world and dented the global economy. Indonesia has been no exception. Banks have been significantly impacted and may take one to two years to recover. Nevertheless, the industry was better prepared for a crisis than it has ever been.

Banking had already been experiencing considerable disruption from digital technology and the rise of a younger generation that increasingly make up our customer segments. At the same time, the all-time low interest rate environment has shifted customers towards wealth and investment products.

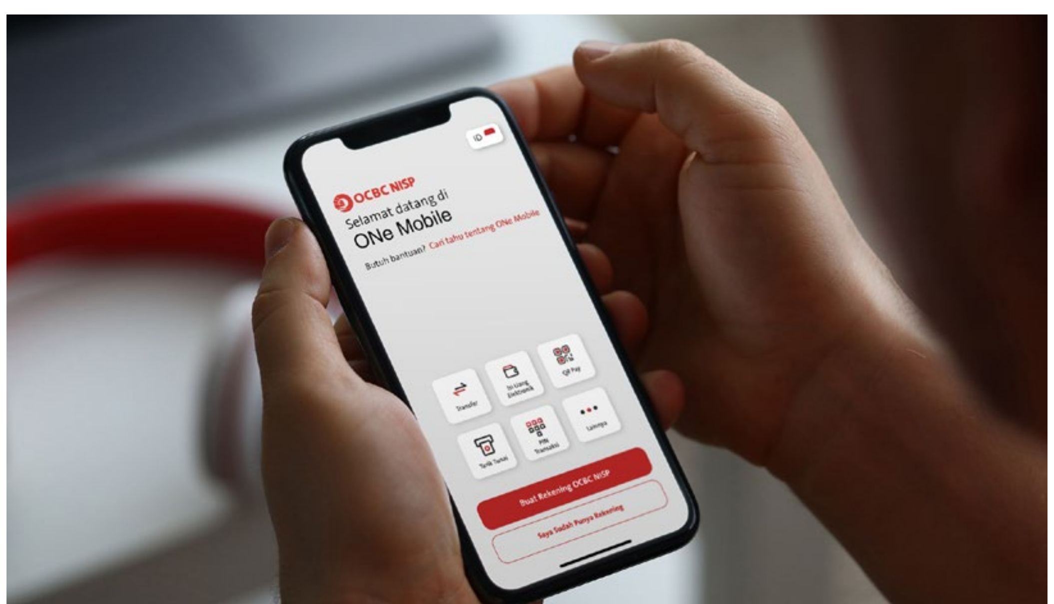
In terms of delivery channels, with less than 7% of our banking transactions done through branches, digital has become a necessity for both retail and corporate banking customers. Bank OCBC NISP is committed to building competitive advantage and maintaining sustainability through transformation initiatives while maintaining strong integration and alignment with the Bank's core business. Digital innovation is key.

Our personal mobile banking application, called ONe Mobile, enables individual customers to manage their personal wealth. This is not just about executing daily transactions with convenience and flexibility, but also providing access to various products – mortgages, currency exchange and mutual fund products. We also offer a digital banking solution for business – Velocity Mobile.

More than 90% of banking activities carried out in branch offices can be executed through these applications. This has enabled us to transform our branches to offer higher value-added and advisory type services, as well as transactional ones.

Given the low interest rate environment, customers have been looking for more than just traditional banking products. Wealth management has become a key focus. For example through ONe Mobile, we can now offer products such as mutual funds, bancassurance, corporate and retail government bonds.

The group's 'Beyond Banking' strategy aims to create a digital ecosystem. With this in mind, we have established a venture capital subsidiary, OCBC NISP Ventura (ONV), which started operating in early 2020. ONV focuses on promoting financial inclusion, bringing together the banking sector, start-ups companies and micro, small and medium enterprises (MSMEs). Through ONV, Bank OCBC NISP opens up opportunities to create synergies and collaboration with start-up companies.



Governance principles

Strong corporate governance has become increasingly important across Asia and we are committed to implementing the good corporate governance (GCG) principles at all organisational levels. The Bank's GCG implementation refers to the applicable Regulations on Corporate Governance for Commercial Banks and Public Companies, and ASEAN Corporate Governance (ASEAN CG), in addition to best practices.

GCG management and implementation requires commitment not just of the top management team but everyone across the organization. The Bank has established fundamental policies, vision, mission, and corporate values as an initial step of GCG implementation. The Code of Conduct is part of daily conduct for all employees. To our mind, corporate culture is the cornerstone of GCG implementation.

We have our GCG practice externally assessed by, among others, ASEAN Corporate Governance, the domestic ranking body appointed by the Financial Services Authority (OJK). Based on the ASEAN CG scorecard, the Bank is listed as Top 10. The Bank has also received a Most Trusted Companies rating for its GCG for the last eight years from 2012-2019. This is really important to us.

Long-term growth

We believe the Indonesian banking market promises some exciting growth opportunities in the next few years. Key areas of growth are likely to be:

Small and medium-sized enterprises including gender loans: Indonesia has one of the world's largest populations and has a significant base of small and medium-sized enterprises (SMEs). SMEs drive Indonesia's economy and have weathered recent crises. Furthermore, the Bank promotes gender equality by tailoring its products to support female business owners through gender loan programs, which provide banking and other solutions, using digital platforms.

Consumers have started to put more emphasis on the environmental footprint of businesses. This has prompted a shift in business innovation and operations, requiring support from the banking sector.

Wealth management: The Bank also sees opportunity to tap into the growing working-age population (around 60% today). Disposable income is expected to increase and, given lower interest rate trends, demand for wealth management is expected to rise. The Bank provides financial solutions through wealth management products that can be tailored to individuals' profile and life-stages, plus advisory services.

Green projects: Financing for green projects is also on the rise. Consumers have started to put more emphasis on the environmental footprint of businesses. This has prompted a shift in business innovation and operations, requiring support from the banking sector to provide 'green-focused' loans – for example, for water treatment, low-cost green cars and green buildings.

Bank OCBC NISP has been a public company since 1994 and understands the importance of maintaining good relationships with shareholders that have given their trust to the Bank. The Bank will continue to work towards sustainable performance and will ensure that good governance is in place while serving its customers with the best banking solutions. This is done by implementing Transparency, Accountability, Responsibility, Independency and Fairness (TARIF) in all aspects of our organizations.

Previous page: OCBC NISP bank interior.

Opposite: The ONe Mobile app enables OCBC NISP's customers to manage their personal wealth and access a range of financial products.
H_Ko / Shutterstock

The Association of Southeast Asian Nations (ASEAN) flag: Bank OCBC NISP is ranked top 10 under the ASEAN Corporate Governance scorecard.
Shutterstock

The isle of innovation

Singapore

Beh Swan Gin, explains the ambitious initiatives, featuring both local enterprises and global multinationals, that are helping to drive Singapore's transition to an innovation-led economy.

Beh Swan Gin is the Chairman of the Singapore Economic Development Board, the government agency responsible for promoting Singapore's role as a Global-Asia hub for business, innovation and talent.

Singapore began its research, innovation and enterprise journey in earnest in the early 2000s with the S$7bn 5-year Science & Technology Plan 2005. A major focus then was to broaden and deepen the R&D capabilities in our universities as well as the research institutes under the Agency of Science, Technology & Research. That was when the National University of Singapore (NUS) and the Nanyang Technological University (NTU) began their transition from teaching to research-intensive universities. In the rankings of top global universities, both are now regularly placed amongst the top ten universities in Asia[5].

The government also attempted to grow the start-up ecosystem around the same time. The initiative proved premature with the conditions not conducive. This started to change from 2012 as successful venture capitalists (VC) and entrepreneurs who had made their mark in China and elsewhere started to pay attention to the growth opportunities in Southeast Asia.

The gross merchandise value of the internet economy in this region reached an estimated US$100bn in 2019[6] and held steady in 2020 despite the headwinds from Covid-19. It is projected to reach US$300bn by 2025. Some 140mn people have come online since 2015. This rapid growth has led to the emergence of billion-dollar companies like Grab, Sea (previously Garena), Lazada as well as the Indonesian unicorns like Gojek, Traveloka, Tokopedia and others. VC investments in Singapore have grown exponentially from S$380mn in 2010 to reach S$13.4bn during the first 9 months of 2019[7] alone, up from S$10.5bn in 2018.

In addition, the Economic Development Board started an initiative in 2017 to encourage large corporates to create new businesses from Singapore. We are actively supporting efforts by multinational companies and also our large local enterprises to pursue open innovation, corporate venturing and strategic partnering with start-ups. It was and it remains our belief that for Singapore to successfully transition from an investment-driven to an innovation-led economy, we cannot depend on start-ups alone and large corporates (as well as small and medium enterprises) need to get involved. The going was slow initially, but the initiative is gaining traction and we now have promising projects with SIA, ST Engineering, SATS, Procter & Gamble, Unilever, Schneider Electric and many others.

Previous page: Singapore Merlion Park at night.
Netfalls Remy Musser / Shutterstock

Owned by Alibaba – the world's largest retail and e-commerce company – Lazada is Southeast Asia's leading online shopping platform, aiming to serve 300 million customers by 2030.
Quality Stock / Alamy Stock Photo

A critical success factor for Singapore's research, innovation and enterprise journey will be the continued availability of talent. The government has invested heavily to help Singaporeans acquire the necessary skills and experience.

Innovation spending

For the next stage, the Singapore government has announced a S$25bn budget to support research, innovation and enterprise from 2021-2025 (RIE2025). This is up from S$19bn for 2016-2020. Under RIE2025, there will be three priorities: the first is to extend the focus areas to a broader spectrum of national needs such as human potential and climate change mitigation solutions; the second is to sustain and enrich our scientific base by strengthening interdisciplinary research and explore emerging areas where Singapore can be competitive; thirdly, we intend to scale up platforms to drive technology translation and foster networks across industry, academia and government, with the view of growing the base of enterprises with innovation capabilities.

In the near term, we see accelerated adoption of digital tools and services by consumers, enterprises and governments as a major driver of innovation. For instance, the use of health tech went up fourfold during Covid-19. While poor US-China relations are casting a shadow over the global economy and global trade, the diversification of supply chains is an opportunity for Southeast Asia and Singapore. A third area of opportunity is healthcare and wellness products and services. Despite Covid-19, the 'dry powder' available for VC and private equity investments reached record levels of US$439bn on May 2020[8].

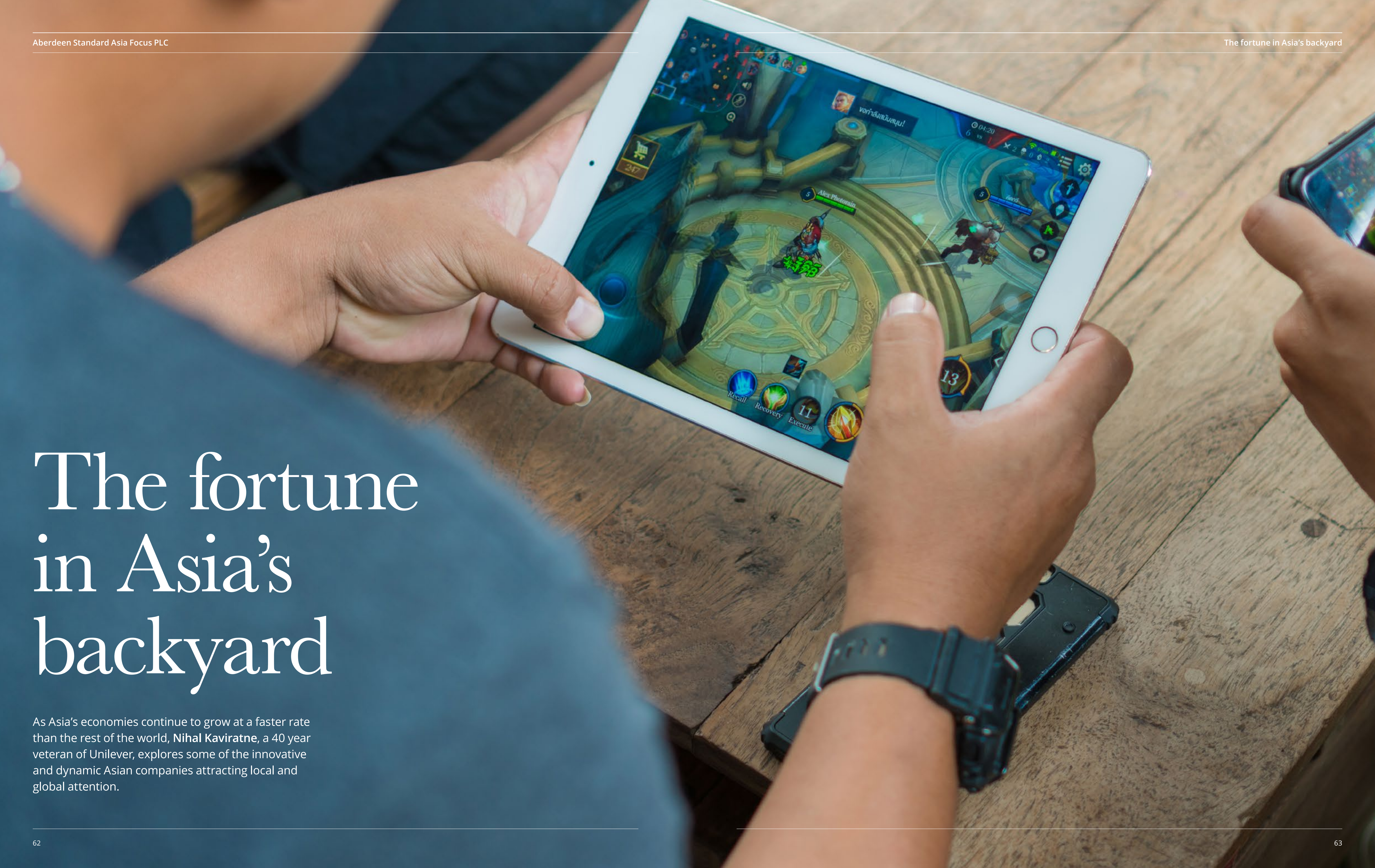
Talent management

A critical success factor for Singapore's research, innovation and enterprise journey will be the continued availability of talent. The government has invested heavily to help Singaporeans acquire the necessary skills and experience, in tech as well as more generally in product management and entrepreneurship. These initiatives are targeted at both students as well as adult learners.

To supplement and complement the training efforts in Singapore, we also started the Singapore Tech Forum to reach out to Singaporean and international tech talent working in California's Silicon Valley and elsewhere. The third edition of the event was held virtually last month and attracted more than 7000 attendees from the US and around the world. We took the opportunity to announce the Tech.Pass initiative, a new visa that is more flexible than the regular Employment Pass. Tech.Pass allows established tech entrepreneurs, leaders or technical experts to come to Singapore to start, operate or be involved in one or more Singapore-based companies.

We are also establishing stronger links with leading innovation hubs around the world under our Global Innovation Alliance programme. These connections enable our companies to tap into overseas talent pools and also find partners, capital and markets. We firmly believe that it is only by working together that we can all emerge stronger. We are optimistic that the journey Singapore started in the early 2000s to become an innovation-led economy is gaining momentum.

Singapore is benefiting from enterprise across Southeast Asia, such as 'super app' Gojek which supports more than 20 different on-demand services and e-commerce platform provider Tokopedia.
Chinnapong / Shutterstock
Creativa Images / Shutterstock



The fortune in Asia's backyard

As Asia's economies continue to grow at a faster rate than the rest of the world, **Nihal Kaviratne**, a 40 year veteran of Unilever, explores some of the innovative and dynamic Asian companies attracting local and global attention.

Nihal Kaviratne spent 40 years of executive life in senior roles with Unilever around the world, is a former or current chairman/ director of AkzoNobel, GSK Pharma, Titan, and ConAgra in India, as well as DBS Bank, SATS, Wildlife Reserves, StarHub, Olam and Caraway in Singapore. He is former chairman of the Indian Cancer Society, Founder of St. Judes India ChildCare Centres, and serves on the advisory board of Bain Consulting for Sea/Indonesia and on the global McKinsey Risk Advisory Council.

> 'Developing Asia' is on a secular growth path that is supported by several long-term structural factors such as favourable demographics, rapid urbanisation, rising smartphone and internet penetration.

Popular depictions of Asian culture – from Crazy Rich Asians to Slumdog Millionaire and Parasite – detract from the real story of a silent yet remarkable metamorphosis in Asia since the end of the Second World War; a large part of which has been driven by its positioning as a factory and IT body-shop to the world.

This gives a lie to Gunnar Myrdal's 1968 prediction that a growing population would stunt Asia's economic growth. Led by Japan and mimicked by the Tigers (and their cubs), then China and India, export earnings spearheaded this transformation. Today though, the economies of Asia represent huge consumption centres, attracting Western brands to enter and display their wares – from mass market goods to the top end of luxury and fashion.

Home-grown demand

China is, of course, the poster child. Its economy has grown eight-fold since 2001 when it joined the World Trade Organisation, which helped drive its exports five-fold over the same period. Today, China is not only the world's largest exporter of goods but also the world's second-largest economy.

It will not be long before it takes prime position. In 2019, exported goods from Asia were worth an estimated US$6.8 trillion, representing over one-third of all global exports, though exports as a share of GDP in PPP terms have been steadily declining as Asia creates more home-grown demand for the goods and services it produces.

Previous page: Playing the Garena RoV Mobile Game online.
TZIDO SUN / Shutterstock

The Bund in Shanghai; China's economy has grown eightfold since it joined the World Trade Organisation in 2001.
Shutterstock

Asia has been the key driver of global growth for some time now. Already accounting for the largest share of global output at 36% in 2019, versus 28% for the US and 25% for Europe. Asia will drive increasingly more of the world's economic growth as it continues to grow at a faster rate than the rest of the world.

'Developing Asia' is on a secular growth path that is supported by several long-term structural factors such as favourable demographics, rapid urbanisation, rising smartphone and internet penetration, a fast-growing middle-class and increasing wealth. Meanwhile, 'developed Asia' is also in a strong position to benefit given its proximity and connectivity to developing Asia

Compelling growth

It is therefore no surprise that growth opportunities abound in Asia's own backyard. Besides Samsung, Huawei and Xiaomi have risen rapidly in recent years to challenge Apple in terms of quality, innovation, and popularity, eroding Apple's market share.

Asian companies also benefit from having local market knowledge, knowing how to navigate local regulations better. Ride-sharing company Grab introduced GrabBike (ride-sharing on motorcycles) in the congested cities of Indonesia, Thailand and Vietnam and eventually ousted Uber from Southeast Asia.

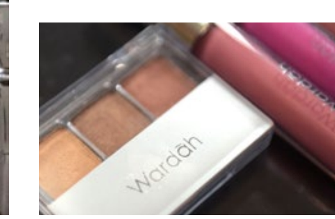
While Sea began in 2009 with a communication application for internet gamers, the company progressed quickly into third-party game publishing and then created its own game. Its digital entertainment arm Garena is now a billion-dollar revenue business that is highly profitable. Meanwhile, Sea has also leveraged its digital experience to develop an e-commerce platform, Shopee, in 2015, which has since become the leading e-commerce platform in Southeast Asia. The company's share price has increased over 10-fold since the beginning of 2019.

The small-cap advantage

Given this backdrop, small-cap companies in Asia are in a strong position to generate attractive investment returns.

> As smaller companies largely serve domestic markets, they will be among the greatest beneficiaries of incoming monetary impulse flows.

Ride-sharing company Grab's local city knowledge to help oust Uber from Southeast Asia.
Naypong Studio / Shutterstock



95% of listed companies in India are smaller companies, but they still account for only 10.45% of the market. As smaller companies largely serve domestic markets, they will be among the greatest beneficiaries of incoming monetary impulse flows.

Smaller companies are nimble by nature, and are able to respond quickly to a fast-changing environment, allowing them to gain market share and grow revenues and/or earnings rapidly. They give high returns in times of economic growth but perform poorly in times of recession. Investors would be more than happy to pay a higher valuation multiple as growth sustains or even accelerates.

Furthermore, those with a robust business model and a strong economic moat could easily deliver compelling returns over a period of just a few years. SITC International, a shipping logistics company focused on the intra-Asia area, has seen its share price more than triple in the last four years as its earnings steadily doubled over the same period – a sharp contrast to the earnings volatility we have seen for international container shipping companies. Haidilao International, which has expanded quickly in China and Asia by providing exceptional levels of service, saw its share price nearly triple since its IPO in September 2018 as customers flocked to its hotpot restaurants.

Laurus Labs, Persistent Systems and Dixon Technologies from India have all outpaced the CAGR of sector indices. Wardah Beauty Cosmetics in Indonesia has captured 30% market share by focusing on halal-compliant products. Jollibee Foods, selling fast food, started with five outlets in 1978 in the Philippines. By 2019 it had 1,150 outlets at home and 234 outlets abroad. It opened its first outlet in North America in California, in 1998. Its signature product is a hamburger, called 'Yumburger'. A Filipino will walk miles to buy it. THP (Tan Hiep Phat) the Vietnamese Beverage Group, a family business, held its markets, and spurned a US$2.5bn offer from Coke. Today, THP's brands are sold in 16 countries. It produces over a billion litres of soft drinks per annum.

Smaller companies tend be under-researched and under-owned by the investment community, making the segment a fertile ground for mispriced opportunities over the long term. A major concern to address is judgement of the quality of management. Laurus Labs has a management team with an average of 22 years of pharma experience. The three founders of B2B e-commerce platform Udaan are all Flipkart veterans. Small caps whose promoters have consistently held stakes of more than 30%, without pledging their holdings, are more dependable.

Asia is currently well poised to emerge from the Covid-19 pandemic in better shape than the rest of the world. As Asia looks to shine once again, one of the best ways to capture that shine is to invest today in Asia's dynamic small companies that could grow into tomorrow's next Asian or even global giants.

Opposite: Asia-focused shipping logistics company SITC has seen its share price more than triple in the past four years.
Akio Kon / Bloomberg via Getty Images

Indian pharmaceutical Laurus Labs has outpaced compound growth for its sector.
Sara Hylton / Bloomberg via Getty Images

Jollibee Food's signature Yumburger, the company now has over 1,150 outlets in the Philippines and 234 abroad.
Imaginechina Limited / Alamy Stock Photo

Wardah Beauty Cosmetics in Indonesia has captured a 30% market share by focusing on halal-compliant products.
Jason Kempin / Getty Images for Indonesia Fashion Gallery

Small but mighty

Asia's small-cap revolution

Backing smaller, dynamic and enterprising companies across Asia has been at the crux of Aberdeen Standard Focus Investment Trust's success over the past 25 years. Will it be the key to performance over the next quarter of a century, asks **Hugh Young**.

Hugh Young is the managing director of Aberdeen Standard Investments, Asia, and portfolio manager for Aberdeen Standard Asia Focus PLC. He joined Aberdeen Asset Management in 1985, moving to Singapore in 1992 to set up its Asian operations.

The simple belief, held passionately at the birth of Aberdeen Standard Asia Focus PLC, was that small companies offered a fantastic avenue for investment returns. The reasons behind that belief were straightforward: we could see Asia becoming the fastest-growing region in the world. Equally, as a team on the ground in Asia, we were ideally placed to identify suitable opportunities. Importantly, those opportunities were actually valued at a discount to their larger counterparts.

History proved our thesis correct with an outstanding performance track record, weathering the various storms that have hit economies and stock markets in that period – notably the Asian financial crisis in the late 90s; the global financial crisis that struck ten years later, the effects of which are still arguably with us; and most recently Covid-19. That's not to mention the political crises that have from time to time been experienced in various of the countries in which we invest.

> China and India should both see growth of at least 5% per annum over the next five years, with a similar rate in Indonesia and faster rates in smaller economies such as Vietnam, the Philippines and Myanmar.

World's fastest growing region

Today and fast forward another 25 years, what do we see? Will Asia and smaller companies still be the place to invest? The answer is unequivocally in the affirmative. In terms of economic growth the region will still be one of the fastest-growing in the world. The behemoths of China and India should both see growth of at least 5% per annum over the next five years, with a similar rate in Indonesia and faster rates in smaller economies such as Vietnam, the Philippines and Myanmar.

And what of smaller companies? The opportunities still abound. The themes are substantially the same as they have been since the start – namely the growing wealth of Asia in general and a far broader middle class, along with the building of infrastructure in the widest sense of the word.

Yes, economic development has grown apace and there has been astonishing change particularly where information technology and the internet are concerned. That has been hugely disruptive for certain businesses but also hugely enabling for others and particularly enabling for vast swathes of rural and poorer populations throughout Asia, who are now enfranchised more than ever.

Harnessing technology for growth

This has opened up even more investment avenues, particularly in lesser developed economies and has seen us grow our exposure to the likes of Vietnam and Myanmar. It has also created a more accessible audience for existing holdings within the portfolio that are able to use technology to expand their consumer base. Bank OCBC NISP immediately springs to mind as a holding we have had from day one. It is a high quality conservative lender that survived the extreme stress of the Asian crisis in 1998 and now has a large regional bank as its major shareholder. It has harnessed technology both to improve its services and to serve more customers and thereby to ensure its growth in the future.

Technology has, of course, been a double-edged sword. Asia has been a very fast adapter of new technologies particularly when it comes to consumer behaviour. So while the theme of the growing buying power of the Asian consumer, which was a core part of our investment premise 25 years ago, is still valid, looking ahead it is expressed not so much in traditional bricks and mortar retailers as through the medium of the internet. Hence Momo, Taiwan's version of Amazon, is now one of our largest holdings and retailers that served us well in the past no longer feature as prominently as they once did.

Similarly today, in anticipation of future trends, we have far larger exposure directly to the technology sector, from a digital marketer in India to an accounting software provider in Korea, as well as exposure to sophisticated hardware, an area where Asia excels in manufacturing.

Opposite: Bangkok's famous Pratunam shopping and business district: Asian consumption is still a strong investment theme – but is swiftly moving online.
Shutterstock

Commuters In Makati Central Business District.
Z. Jacobs / Shutterstock

Chinatown in Singapore: urbanisation remains one of the key trends shaping Asia.
John Wildgoose

Opposite: Welcoming in the lunar new year in Ho Chi Minh City: Vietnam is one of Asia's lesser-developed economies offering compelling potential.
Huy Thoai / Shutterstock

Undiscovered pools of value

Turning to valuations, it is still the case that smaller companies trade at a discount to their larger counterparts. This is at least in part explained by the growth in passive investing, where money is allocated by market capitalisation rather than by a company's its fundamental attractions and strengths.

If anything, smaller companies have become more overlooked in recent years as both institutional investors and investment banks have concentrated on the upper echelons of the market. From our point of view, that's exciting. Our large and experienced team on the ground in Asia has a rich and comparatively undiscovered pool in which to fish... and it's pretty good value!

Wealth, industrialisation and urbanisation

Am I still as excited today as I was 25 years ago about Asia? Absolutely. The key themes remain the same, namely Asia's growth and the spread of wealth more broadly across society, together with further industrialisation and urbanisation. There is also a growing maturity: while still emphasising growth, companies and indeed countries have become far more aware of their responsibility to society and to the environment.

> Am I still as excited today as I was 25 years ago? Absolutely. The key themes remain the same, namely Asia's growth and the spread of wealth more broadly across society, together with further industrialisation and urbanisation.

Against this backdrop there are great opportunities across a spectrum of businesses. Newer businesses such as the internet, investment technology, health care and pharmaceuticals obviously offer strong growth potential, but so do what one could describe as traditional industries such as finance, consumer goods and real estate, providing they embrace the new – particularly technological change.

Doubtless there will be bumps along the way as there have been in the past 25 years, but Asia's smaller company story remains the same – growth, opportunities, quality and value.

Rethinking tomorrow, rebuilding resilience

As countries around the world address the need to strengthen systems and institutions against future global shocks, Asia is powerfully placed to be a beneficiary of the new world that will emerge, says **Sir Douglas Flint.**

Sir Douglas Flint is former chairman of HSBC Holdings plc and is chairman of Standard Life Aberdeen plc.

I am delighted to have the opportunity to offer some concluding remarks to complement the outstanding contributions made by a truly distinguished and expert group of commentators. Asia's contribution to the global economy over the next 25 years will, in so many ways, define how the world adjusts to rebuild economic activity more sustainably in the aftermath of the Covid-19 pandemic.

My fascination with Asia is founded upon 22 years on the board of HSBC, ultimately as group chairman and currently serving as the UK Treasury's Special Envoy for Financial and Professional Services to China's Belt and Road Initiative. Aberdeen Standard Investments' long history of commitment to and investment success in Asia was one of the key attractions to my joining as chairman of the Group in 2018.

As a leading global asset manager, Aberdeen Standard Investments shares a huge responsibility. It is critical, particularly in the post Covid-19 world, that investment activity through the global asset management industry builds the economic growth and resilience essential to the world we aspire to build for future generations. That future is, ever more clearly, an interconnected future that I hope will precipitate an era of greater cooperation, collaboration and multilateralism while rejecting national and regional polarisation.

A need for new thinking

The pandemic has driven the need for new thinking among all sectors and stakeholders involved in investment markets:

It is forcing governments to reset their fiscal priorities and policies as indebtedness rises to levels unprecedented other than in times of war, as well as having to redefine their interaction with the private sector in order to meet their primary role of securing safety and security for their citizens.

It is also requiring governments to reconsider alliances, multilateralism, the role of the state versus private enterprise, centralised versus devolved powers and responsibilities within countries – and also the collection, use and transparency of data and the decision-making models into which such data is fed to support policy choices.

For companies, the challenges are primarily around bolstering their resilience in terms of financial strength and reconsidering their workplace policies and the stability of their supply chains; the mantra of 'just in time' is morphing into 'just in case' and in some cases 'just at home'.

For individuals, the primary issue is job security in light of the scarring of the economy from economic contraction driven by lockdowns; beyond that, individuals need to consider the model of work that is optimal for family circumstances, together with how to build better personal financial resilience in order to manage future shocks better.

> Asia's contribution to the global economy over the next 25 years will, in so many ways, define how the world adjusts to rebuild economic activity more sustainably in the aftermath of the Covid-19 pandemic.

There is also a larger lesson from this experience as it relates to the global financial system. Had it not been for the coordinated actions taken during the global financial crisis by policy makers and regulators across the world to force greater resilience into the largest financial institutions and market places, the pandemic could have simultaneously precipitated a global financial crisis with disastrous consequences. The benefits of global coordination and cooperation for shared risks are borne out by this example. It is imperative that we use the lessons learned from the Covid-19 pandemic to further bolster the resilience of economies and the financial systems that support them.

Lessons for public policy

The pandemic has been a wake-up call to the world in so many ways; the implications are profound and the lessons of the pandemic need urgently to be embedded in public policy globally. These lessons include:

First, the major challenges facing the world – climate change, pandemics, population growth, demographic ageing, economic inequality between and within countries and the impact of all of these on migration flows, are incapable of being solved by nations acting alone or even regionally. A framework of global cooperation and resource pooling will be needed with international coordination that sets aside geopolitical rivalries. The challenges we face respect no physical or man-made borders, so we need to reflect on the capabilities and capacities of the least prepared nations, lest the impacts of their inadequacies overwhelm the most prepared nations.

Second, the world needs move away from 'just-in-time' business modelling and build more resilience into global supply chains and improve financial contingency to absorb unforeseen shocks. Where governments may be slow or resistant to the policy changes required, financial institutions must collectively take the lead in requiring this resilience through sustainable credit decisions and environmental, social and governance (ESG) investment policies. Lessons learned from the global financial crisis forced significant shock-absorbing capacity into the banking world – think how much less costly in economic and human terms the current pandemic would be if the same philosophy had been embedded into healthcare provision and personal savings across the world.

Third, the pandemic demonstrated the criticality of having access to extensive, high quality data to inform policy choices and enable the political communication of such choices – that means we need to build trust in data collection and its uses and be prepared to share data globally. Quality data analysis is one of our most valuable tools, the spread of misinformation one of our greatest threats.

Previous page: An inherent entrepreneurial spirit is seeding the next generation of Asia's emerging companies. Jaipur Metro and Elevated Road. Jaipur.
Umesh Gogna / Shutterstock

An ageing population is one of the biggest social and economic challenges facing Asia – and the world.
Gabriela Lukacijewska / Alamy Stock Photo

To counter this, the way we collect data must be transparent and trusted. Financial businesses have business models that are built upon data integrity and transparency, and their responsibilities with regard to protecting the financial system from financial crime and from misallocation of resources already depend upon international collaboration to fulfil these responsibilities. In the even more expansive digital world of the future, such collaboration will be even more critical.

Finally, we should think of Covid-19 as providing an accelerant to trends already underway. As we recapitalise economies we have the opportunity to reshape business activity in a more sustainable way, notably on climate change; as digital business takes an ever greater share of transactions, international financial collaboration becomes even more important both to facilitate and to understand economic activity and to agree how and where to tax such activity; and as ever more data is collected, the urgency of global collaboration on data localisation, data privacy and data sharing policies is clear.

Asia – a vision for future generations

While challenges abound, the opportunities are equally clear. The necessary rebuild of the global economy is taking place at a time of unprecedented low interest rates available to finance the necessary hard and soft infrastructure. Demographic ageing in emerging markets is building retirement systems with considerable additional resources looking for long-term investment opportunities. Technological progress is reducing dramatically the cost of preparing for the lower carbon future now demanded. And the explosion of data availability is informing better policy choices, creating network effects that boost economic efficiency and building platforms that offer consumers extraordinary choice and service levels.

Nowhere is this more evident than in Asia where a unique combination of data availability, breakthrough technology, ease of doing business and an inherent entrepreneurial spirit is seeding the next generation of Asia's emerging companies that will scale to become global leaders, the very companies that our mission remains to identify early on. Building the future we all desire for future generations requires vision; Asia is at the forefront, often in the lead, in imagining and acting upon the new horizons opening up, which almost certainly suggests the next 25 years will be even more exciting than the last.

Commuters in Taipei, Taiwan in April 2020. Post-pandemic, individuals have to learn how build financial resilience against future shocks.
o1pok12 / Shutterstock

A Global Climate Strike protest in Bangkok, Thailand, September 2019: addressing climate change demands a framework of global co-operation.
FIFTYONE by Athi / Shutterstock

Commuter at the Andheri metro, Mumbai.
Manoej Paateel / Shutterstock

Opposite: Night view of the financial district of Shanghai.
Shutterstock

Asia in context over the last 25 years

Twenty-five years have shown the volatility of global economies and markets in a period of growth in the region. Political changes, economic upheaval and market ups and downs have been common features of the period as the region has developed and transformed.

1997

Hong Kong handover by the UK to China

Hong Kong underwent a fairly smooth transition from British dependent territory to Chinese special autonomous region. However, it led to a period marked on the one hand by simmering political tensions, and on the other hand by an infrastructure boom aimed at rapidly integrating Hong Kong into the Pearl Harbour region. Mainland China's emerging financial centres, Shanghai and Shenzhen, would increasingly challenge its status as the financial gateway to China in subsequent years.

Victoria Harbour, Hong Kong
Shutterstock

1997-99

The Asian financial crisis

The Asian financial crisis started with the collapse of the Thai baht, with the currencies of Indonesia and South Korea hot on its heels. It savagely exposed the ingrained habit of Asian governments to borrow excessively in foreign currencies. While tough at the time, the subsequent capital discipline it forced upon governments and corporates was to set the foundation for the subsequent years of growth.

Indonesian rupiah banknotes featuring President Suharto
Shutterstock

1998

The crisis widens

After policymakers spend billions defending their currencies, the IMF intervenes to make funds available to the most troubled Asian countries. By April, Indonesia and the IMF have agreed their third bailout pact in six months. In August, Wall Street reacts to the deepening crisis; the Dow plunges 300 points in its third-biggest loss. Singapore slips into recession for the first time in 13 years and in October Japan announces a $30bn aid package for Southeast Asia. As Hong Kong's currency and stock market came under attack, Hong Kong Government Financial Secretary Donald Tsang takes extraordinary measures to calm the rout, buying 11% of the Hang Seng using foreign exchange reserves. The stock market rises rapidly and stayed high, giving future policymakers confidence that dramatic intervention in markets can work.

1999-2000

The dot-com boom and bust

This saw the share price of technology and, specifically, internet-related stocks soar. The subsequent collapse saw even the most stable of technology companies lose a significant proportion of their market capitalisation – Cisco, Amazon.com and eBay.com, all of which were still healthy businesses a decade later, saw 80-90% falls in value.

Cisco Facility in Silicon Valley
Ken Wolter / Shutterstock

2001-04
Asia starts to bloom

These years saw Asian economies reap the rewards of the disciplines put in place during the financial crisis. Regional growth was also accelerated by the elevation of China to global trading superpower with its accession to the WTO in 2001 and the Information Technology Agreement (ITA) in 2003 being key milestones. Economic growth was strong, particularly in China, India and Vietnam with corporate earnings reflecting that strength. Corporate governance improved and Asia started to draw the attention of global investors.

Tsunami refugee camp, Indonesia
A.S. Zain / Shutterstock

Ho Chi Minh City, Vietnam
Matyas Rehak / Shutterstock

2003
The SARS outbreak

The savage virus Severe Acute Respiratory Syndrome (SARS), a precursor to COVID-19 today, hit Asian people and economies hard. Measures to prevent its spread stymied growth, closing up export markets and stalling domestic consumption. In April, Beijing announced that all primary and secondary schools would be closed for two weeks. The World Health Organisation (WHO) issued travel advisories against Beijing, Toronto, and Shanxi Province. By July, WHO declared the SARS outbreak contained and removed Taiwan from the list of affected areas. By May the following year, WHO announced China as free of further cases of SARS.

2004
Indian Ocean tsunami

An earthquake beneath the Indian Ocean caused a devastating tsunami to hit Indonesia, as well as Sri Lanka, India and Thailand.

2004
Madrid train bombings

In March, 3 days before its general election, Spain experienced its worst terrorist attacks, known as the 2004 Madrid train bombings, killing more than 200 people. Al Qaeda took responsibility.

In June, the US handed over power to the Iraqi interim government; Iyad Allawi became prime minister. In November, George W. Bush was re-elected president, defeating the Democrat John Kerry.

2005-07
Buoyant markets

These were buoyant times for global stock markets, and Asia was no exception. Markets charged higher, fuelled by readily available credit.

2005 saw the start of strong years of growth in the Asia Pacific region. Meanwhile storm clouds gathered in the US, as the sub-prime crisis revealed itself.

Citywire magazine leads with a profile on the manager, 2007

The financial crisis made daily headlines, 2008
Shutterstock

China National Olympic Stadium
Eastimages / Shutterstock

2008

The Beijing Olympics

Beijing comes under global scrutiny as the host of the Olympic Games.

2008

Lehman Brothers collapse

The collapse of the investment bank precipitated the Global Financial Crisis. Asian stock markets were hit harder than many other countries as foreign money withdrew to 'safe havens'.

In the Manager's review of the 2008 annual report we wrote: "Asian stock markets, in fact, have fallen sharply, and by more than their Western counterparts. The biggest winners in 2007 have fallen furthest, led by India and China. Perhaps that was to be expected – these markets attracted the bulk of fund flows to the region over the past few years, stock prices became extended and thus scope for profit-taking was greatest.

But other markets have also suffered. Even those such as Thailand and Taiwan, which had trailed behind in the rally, and benefited earlier in the year from renewed political hopes, have relapsed.

It continues: "Yet far from being pessimistic, as we believe these developments may turn out positive: as share multiples became more elevated, with market leadership concentrated in a narrow area of cyclical stocks and China-related stories. Market exuberance led to inflated projections of earnings growth. Many investors overpaid. Happily, more attention is now being paid to company fundamentals."

> "Market exuberance led to inflated projections of earnings growth. Many investors overpaid. Happily, more attention is now being paid to company fundamentals."
>
> **Extract from the Manager's review, Annual Report 2008**

2008-11

An unstable environment

Asian progress slowed in the face of devastating natural disasters in the region. May 2008 saw the Sichuan earthquake kill 69,000 people, making it the deadliest to hit China since the 1976 Tangshan earthquake. In November, the central government announced that it would spend 1 trillion RMB to rebuild the worst-hit areas.

Japan's earthquake and tsunami in 11 March 2011 led to all the country's nuclear reactors being shut down for inspection. Soon after, Thailand's floods had a profoundly disruptive impact on Japanese automobile and ICT manufacturers, leading to a major re-evaluation of risk in global supply chains.

2008-11

An unstable environment

Asian progress slowed in the face of devastating natural disasters in the region. May 2008 saw the Sichuan earthquake kill 69,000 people, making it the deadliest to hit China since the 1976 Tangshan earthquake. In November, the central government announced that it would spend 1 trillion RMB to rebuild the worst-hit areas.

Japan's earthquake and tsunami in 11 March 2011 led to all the country's nuclear reactors being shut down for inspection. Soon after, Thailand's floods had a profoundly disruptive impact on Japanese automobile and ICT manufacturers, leading to a major re-evaluation of risk in global supply chains.

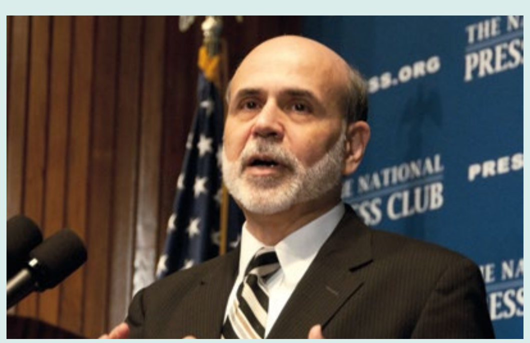
> "Although the problems in the mortgage-backed securities markets surfaced in late July, it took a further three months for Asian markets to be impacted. Hopes that Asian economies could 'decouple' from their Western counterparts had underpinned markets but as the year progressed, it became increasingly clear that regional markets and economies were still sensitive to events in the West."
>
> **Extract from the Manager's review, Annual Report 2008**

2012-13
The taper tantrum

Emerging stock, bond and currency markets were sold off as the prospect loomed of a tentative end to the Federal Reserve's era of loose monetary policy. Asia was no exception, but the sell-off saw some much needed valuation discipline return to markets.

The 2013 Manager's review reported: "The knee-jerk sell-off (Bernanke taper tantrum) underscored the extent to which sentiment was driven by policy expectations rather than fundamentals."

In the 2012 annual report, Nigel Cayzer, Chairman of the trust, wrote: "the fiscal problems of the developed nations, leading to America's first-ever credit rating downgrade and persistent speculation of a eurozone breakup, weighed heavily on market sentiment."



Ben Bernanke
Albert H. Teich / Shutterstock

2014
Chinese e-commerce

The $230bn flotation of Chinese e-commerce giant Alibaba on the New York Stock Exchange – the world's largest to date – was a landmark moment, proving that Chinese companies and entrepreneurs could attract Western capital. The float made founder Jack Ma, an English teacher-turned businessman, a billionaire.

2014-15
European and Japanese QE

Japan and, finally, the eurozone launched quantitative easing measures, unprecedented in their size and scale, while Mario Draghi promised to 'do what it takes' to save the single currency. Asian markets responded in line with global markets. The Chinese market was one of the strongest performers over the year, but we remained sceptical of its charms.

A glance at China suggests its institutions are weak and will take time to build, the financial system being symptomatic. It doesn't price capital properly, interest rates are artificially low and bad loans a potential cancer for its banks. Yet these weaknesses are the products of deliberate choices, albeit ones that do enable flexibility elsewhere. For example, China's dirigisme does mean state-directed lending is quickly put to work.

2015
Volatility

A problem that starts as a wobble in the Chinese domestic market culminates in a full-blown sell-off in global equity markets. A sudden 30% fall in the 'A' shares market, prompted by Government intervention to prevent margin trading, is compounded by weak economic data. The world comes to fear a painful slowdown in China and markets fall while investors digest the implications.

Bank of Japan (Nippon Ginko) building in Ginza, Tokyo
YMZK-Photo / Shutterstock

2014-Today
Indian liberalisation

Since coming to power in 2014, Prime Minister Nahrendra Modi has driven through a series of reforms to improve the Indian economy. This has included a controversial demonetisation of high denomination bank notes aimed at tackling the black market. At the same time he has liberalised India's foreign direct investment policies, allowing more foreign investment in several industries. He has made it harder for workers to form unions and easier for employers to hire and fire them. His re-election in 2019 has given him a mandate to continue.

The City of Shanghai hosts one of two stock exchanges operating independently in the People's Republic of China
oceanfishing / Shutterstock

2018

The US/China trade war

The US launched a broadside against the Chinese in 2018, accusing them of intellectual property theft and unfair trade practices. The attack had its roots in the burgeoning US trade deficit with China, over $420bn and counting. The US initiated tariffs on steel and aluminium in March 2018. China retaliated, tentatively at first, but with increasing vigour as the US stepped up its attacks. Behind the scenes, the trade war has grown into a battle for economic supremacy, which is likely to define US/China relations for the long-term.

On 9 November 2018 Aberdeen Asian Smaller Companies Investment Trust PLC changed its name to Aberdeen Standard Asia Focus PLC and reduced its number of holdings from 80 to 60 – highlighting its emphasis on identifying small-cap companies that can deliver on growth and returns.

2020

Covid-19 arrives

Believed to originate in November 2019 in a seafood market in Wuhan, the capital of Central China's Hubei Province, coronavirus 2019 (Covid-19) spread rapidly across China in January 2020. On 31 January 2020, Europe had its two first confirmed cases – two tourists in Italy from China. Although Asia was the epicentre of the pandemic, swift action by governments in China, South Korea and other countries to impose tough lockdowns and comprehensive test and trace programmes (probably helped by previous experience of SARS epidemics) has enabled the region to emerge from the crisis to relative normality far more swiftly that its Western counterparts. Moreover, leading tech firms in the region are clear beneficiaries of the global shift to e-commerce and remote working that's been accelerated by the pandemic.

Songkhla Province in Thailand opens a Covid-19 screening station
Wittaya Sunbu / Shutterstock

2019

China's STAR market

China introduced a new Nasdaq-style tech board – the Science and Technology Innovation Board, or "STAR Market". At launch, 25 companies were listed, with many more waiting in the wings. The new market is designed to address some concerns over governance and volatility that have deterred international investors. The market is focused on high-growth technology-based industries, such as high-tech equipment manufacturing and biotechnology.

China's STAR market
Shutterstock

Appendix

For more information please visit us at **asia-focus.co.uk**

World Economic Forum
weforum.org/agenda/2019/12/asia-economic-growth/#:~:text=In%202020%20Asia's%20GDP%20will,class%20entering%20the%20global%20economy

ESG Clarity
esgclarity.com/interest-in-esg-investing-grows-in-asia

Aberdeen Standard Investments
aberdeenstandard.com/docs?editionId=10c3bd62-eafc-4b1c-b607-59cbe35bff51

Endnotes

Page 20-21
[1] weforum.org/agenda/2019/01/india-will-overtake-the-us economy-by-2030
[2] weforum.org/agenda/2019/07/the-dawn-of-the-asian-century/
[3] aabri.com/manuscripts/193067.pdf
[4] chinausfocus.com/society-culture/examining-chinas-soft-power-and-cultural-influence

Page 70-71
[5] Such as Times Higher Education and QS World University Rankings
[6] Annual e-Conomy Sea report conducted jointly by Google, Temasek and Bain & Company
[7] Press release by Enterprise Singapore in October 2019
[8] EY Private Equity briefing: Southeast Asia (June 2020) report

Page 7 and 70 – Performance data
Please refer to relevant Key Information Document (KID), which can be found at asia-focus.co.uk, prior to making an investment decision. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis, should not be taken as an indication or guarantee of any future performance analysis forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI" Parties) expressly disclaims all warranties (including without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages (www.msci.com).

Discrete performance (%)

Year ending	30/11/20	30/11/19	30/11/18	30/11/17	30/11/16
Share Price	4.0	8.9	(1.6)	11.6	27.2
Diluted NAV[A]	5.9	4.6	(2.9)	13.7	29.7
MSCI AC Asia Pacific ex Japan	18.0	8.3	(2.9)	21.6	30.8
MSCI AC Asia Pacific ex Japan Small Cap	19.5	2.0	(7.2)	18.0	23.9

[A] Including current year revenue. Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value. Source: Aberdeen Asset Managers Limited and Morningstar. **Past performance is not a guide to future results.**

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- The Company invests in the securities of smaller companies which are likely to carry a higher degree of risk than larger companies.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down.
- Specialist funds which invest in small markets or sectors of industry are likely to be more volatile than more diversified trusts.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:
Issued by Aberdeen Asset Managers Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. Registered Office: 10 Queen's Terrace, Aberdeen AB10 1XL. Registered in Scotland No. 108419. An investment trust should be considered only as part of a balanced portfolio. Under no circumstances should this information be considered as an offer or solicitation to deal in investments.

GB-081220-136086-1

Aberdeen Standard Investments

Aberdeen Standard Investments is dedicated to helping investors around the world reach their desired investment goals and broaden their financial horizons.

Aberdeen Standard Investments has been pioneering investment opportunity for over 140 years. Starting in the 1870s, our heritage companies established investment trusts that enabled ordinary investors to harness opportunity in the new world of North America.

Over the past 40 years, we have looked to lead the way in broadening investment potential as new markets have emerged globally. In Asia, in particular, our deep-rooted networks of on-the-ground investment specialists and strong local corporate relationships have allowed us to uncover opportunities that other overseas investors may miss. This has allowed us to offer specialist strategies such as the smaller-company focused Aberdeen Standard Asia Focus PLC, profiled here.

Today, Aberdeen Standard Investments is one of Europe's largest active asset managers. We are proud to manage assets of £455.6bn (€501.2bn/$562.9bn) on behalf of governments, pension funds, insurers, companies, charities, foundations and individuals across 80 countries (as at 30 June 2020).

Aberdeen Standard Investments