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Asean – a bright spot for investors

Global investors need to pay attention to the rapid economic development of Singapore's neighbours, says **TANAY SAIGAL**

AT a time when the West, especially the United States and Europe, struggle amid a gloomy macro environment, one bright spot for global investors is the Asean region.

Asean, or the Association of Southeast Asian Nations, is made up of Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Myanmar, Cambodia, Laos and Vietnam. Although Asean as a region is regarded as an attractive investment destination, not all countries in it are growing at high rates. Our focus today will be on the hot markets within this region that have caught the attention of global investors.

Some investors may ask: why this sudden interest in the Asean region?

First, as the global financial crisis began to intensify in 2008, the US economy kept sliding downhill and investors fled the equity markets. Many of these investors have gradually moved money to the Asean region where there is better growth potential.

Second, the economic fundamentals such as good GDP (gross domestic product) growth and low debt-to-GDP ratios helped the region weather the financial crisis that began in 2008, followed by the eurozone crisis in late 2009. Asean economies were well-prepared because the region went through its own crisis in 1997, and lessons on keeping debt levels low have been learnt.

Third, a common trend seen across a large number of Asean nations is the burgeoning middle class. This makes economies consumption-driven, thereby reducing their dependence on export-led growth and, hence, less susceptible to global downturns.

Lastly, the region is becoming increasingly integrated, seen in recent efforts from governments across the region to ensure cohesiveness between nations. An example is the Asean Economic Community (AEC), through which the region plans to reduce trade barriers between countries and encourage intra-regional trade. Although it is expected that the AEC cannot be completely established by 2015, experts believe that most plans would be laid out by then, with the remaining to be completed in the following few years.

Another effort developed in line with the objectives of the AEC was the Invest Asean 2013 regional investment roadshow, where regional exchanges cooperate to make regional markets more liquid for investors. The purpose is to allow investors to gain information about companies listed across the different Asean exchanges and promote the Asean region as a highly investable asset class.

We will now analyse three standout nations in the region: Indonesia, the Philippines and Vietnam.

Driving growth: *A darling of every investor, Indonesia has the best structural growth story out there, driven largely by domestic demand coupled with infrastructure investments by the government, as well as a capacity-led expansion investment cycle.* PHOTO: AFP

Indonesia

If there is one nation within the region that is a darling of every investor, without doubt, it has to be Indonesia. While some experts believe that the Indonesian story is now old and more sanguine than it really is, the consensus is that Indonesia has the best structural growth story out there, driven largely by demographic-led domestic demand coupled with infrastructure investments by the government, as well as a capacity-led expansion investment cycle.

For example, nearly two-thirds of Indonesia's GDP is driven by domestic consumption. Furthermore, between 2003 and 2010, roughly 50 million people entered the middle-income bracket, defined by the World Bank as those who spend between US$2 and US$20 a day in 2005 purchasing power parity terms. In 2011, Indonesia's GDP per capita hit US$3,600, speeding past that of India, Asia's second-largest consumer market after China.

Home to the largest population in South-east Asia, Indonesia has come a long way in terms of its global positioning. Back during the Asian financial crisis in the late 1990s, Indonesia was bailed out by the International Monetary Fund (IMF). Last year, the nation pledged a billion dollars to the IMF. Furthermore, during the same period, Indonesia grew at an average annual rate of 5.4 per cent as well as reduced its reliance on debt. Its debt-to-GDP ratio dropped from 90 per cent in 2000 to 25 per cent in 2010.

The nation has taken decisive measures aimed at improving a number of fronts including cleaning up corruption, stabilising the government and the political situation and, most importantly, reducing the nation's fiscal deficit situation (proposed level of 1.62 per cent for the 2013 state budget). All of these, in turn, have improved the country's overall condition which led to it receiving an upgrade in its investment rating close to two years ago and has resulted in a rapid inflow of funds ever since.

Where does one look in the Indonesian markets? Investors with a long-term view could venture into the retail sector. Foreign retailers are already showing keen interest in the Indonesian retail space due to its tremendous potential. According to Business Monitor International, per capita consumer spending is expected to increase by 59 per cent over 2013-2017 compared to a global average of 46 per cent. Moreover, the number of middle-class consumers is forecast to triple to 135 million by 2030 from 45 million this year, according to research by consultancy McKinsey.

Local retailers such as Mitra Adi Perkasa, Matahari Department Store and Hero Group are posting double-digit growth. Such growth in a developing country is rare, especially when compared to the developed markets grappling with periods of low consumer activity and consequently low retail growth.

The Philippines

The situation looks rosy for the Philippines today due to a confluence of factors.

Firstly, the stock market is booming. The Philippines Stock Exchange index (PSEi) ended 2012 33 per cent higher than the 2011 close. Recently, Fitch Ratings upgraded the Philippines to investment grade and the PSEi hit an all-time high of above 7,000 points. Secondly, economic growth has improved dramatically in the years after the Asian financial crisis.

One bright spot for investors seeking to generate good returns is the business process outsourcing (BPO) industry. This industry in the Philippines has already overtaken India's, the nation that wore the crown for many years until recently. As at 2011, the Philippines had US$5.5 billion in revenues from this industry, surpassing India's US$5.3 billion. Also, the nation had more than 500,000 call centre workers as compared to roughly 330,000 in India. The BPO industry's contribution to the overall GDP figure has risen sharply over the years, contributing close to 7.5 per cent of GDP in 2012, up from 4 per cent in 2008.

Another key trend witnessed in relation to this industry is the increasing number of employees entering it – in a population of roughly 94 million people, this industry already employs close to one per cent of the total population. This number will only go up as the industry grows in significance.

A variety of factors has contributed to the rise of the BPO industry. For one thing, the nation has the second youngest population in the Asean region with a median age of 23.1 years as at 2012. The Philippines is also home to millions of young, educated and English-speaking workers – a perfect mix of ingredients to host the world's call centres. With the industry contributing significantly to reducing the fiscal deficit, one can expect the government to continue investing in this industry.

Vietnam

Vietnam is beginning to face the heat of the global macroeconomic situation. Coupled with internal problems and inefficiencies, the nation is going to face an extremely difficult year in 2013. However, an investor is more interested in the structural story of a nation from a long-term perspective.

Undoubtedly, Vietnam is facing worrying trends such as the drying up of foreign investment, stubbornly high inflation levels, slowing economic growth, lack of proper infrastructure and the eternal problem of corruption. That said, the nation still has a number of factors that keep investors positive on the country.

First, despite the strong growth in the last decade, Vietnam still lags behind many of its South-east Asian peers. Hence, there is a greater catch-up effect for Vietnam as compared to countries such as Indonesia, Malaysia or Thailand. Second, the nation is home to a large young population of 90 million people and, more importantly, a growing middle class. It is also present in a rapidly growing Asean bloc.

Vietnam's financial sector is currently performing extremely poorly due to the inefficiencies of the state-owned investment firms. These firms are highly levered and most of the debt is turning into non-performing loans. What this industry needs is private foreign investment to restore the sector to an efficient state by pumping liquidity into the capital market to help it become more robust.

In addition, an economy cannot continue to grow at its historical rate without banking and financial-market reforms. It is only a matter of time before foreign investors venture into the nation's financial sector and help pull the sector out from the heap of inefficiencies and losses it is currently going through.

The writer is a third-year student at Singapore Management University's (SMU) Lee Kong Chian School of Business and one of the student trainers in the Citi-SMU Financial Literacy Programme for Young Adults.

Jointly launched by Citi Singapore and SMU in April 2012, the programme is Singapore's first structured financial literacy programme for young adults. It aims to equip those aged 17 to 30 with essential personal-finance knowledge and skills to give them a firm foundation in managing their money, and a financial headstart early in their working lives

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