



ASEAN: Finding Growth in a Slowing Global Economy

September 2016

Beyond China and India, Asia’s global heavyweights, the continent harbors yet another dynamic and fast-growing region that remains relatively unknown: the 10-nation grouping known as ASEAN, or the Association of South East Asian Nations.

Formed in 1967 to promote regional solidarity and cooperation, and to collectively leverage its influence in regional affairs, the grouping is broadly separable into two blocs: “ASEAN-6” and “CLMV”—Cambodia, Laos, Myanmar and Vietnam. The more developed ASEAN-6 comprises Singapore, Malaysia, Thailand, Indonesia, the Philippines and Brunei. Meanwhile, the CLMV bloc shares the same characteristics of rapid growth, but tends to be at an earlier stage in its economic development.

FIGURE 1. THE 10-MEMBER NATIONS OF ASEAN



Source: ASEAN Secretariat

Despite the collective categorization implicit in the grouping, ASEAN nations are highly diverse. This diversity ranges from distinct ethnicities and cultures, varied languages and religions, different stages of economic development and stages of demographic cycles to a wide range of political governance.

However, when looked at collectively, the region’s long-term potential becomes more apparent. If ASEAN were a single economy, it would be the world’s seventh-largest today. With its dynamic demographics, rising labor force and productivity-enhancing structural transformation, urbanization, and increased regional integration, we believe there are significant opportunities in this space awaiting discovery by the entrepreneurial active investor.

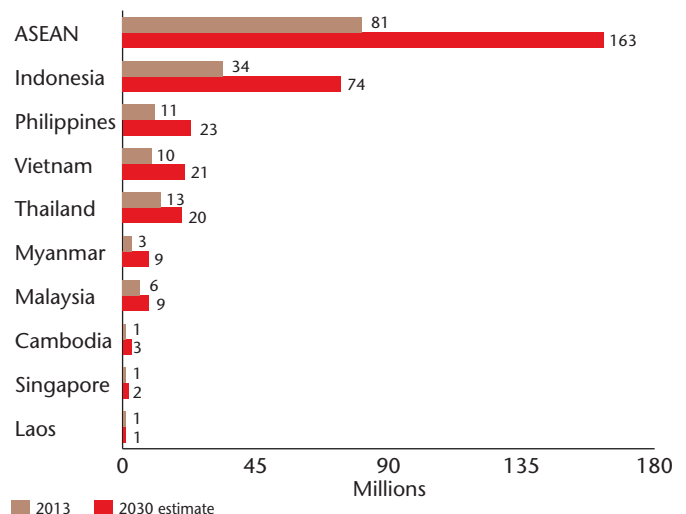
Southeast Asia has made strong, if uneven, progress in the nearly half century since ASEAN was founded, with the region growing at an average annual pace of approximately

6% over the past decade. The region covers over 4.4 million square kilometers, more than half the size of the continental United States.

Looking forward, ASEAN is poised to make further strides by leveraging some key attributes: a population of over 630 million people (the third-largest population globally), a potential market larger than the European Union or North America, and a strategic location between Asia’s two economic giants—India and China.

As a foreign direct investment (FDI)-driven manufacturing base second in scale globally only to China, increasing intra-regional trade and global linkages are fueling income growth. This, together with a young population that is increasingly entering the workforce, and migrating from rural areas to urban centers, makes ASEAN one of the fastest-growing consumer markets in the world. Participation in free trade agreements such as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are already drawing in new FDI aimed at increasing backward integration to comply with more stringent rules of product origin. This will deepen ASEAN’s linkages with the global supply chain and make its competitive position as a manufacturer for the world more durable.

FIGURE 2. ASEAN CONSUMING CLASS HOUSEHOLDS, 2013–2030*



■ 2013 ■ 2030 estimate

*Defined as households with more than US\$7,500 in annual income (in 2005 purchasing power parity terms). This is the income level at which households begin to make significant discretionary purchases.

Source: McKinsey Global Institute

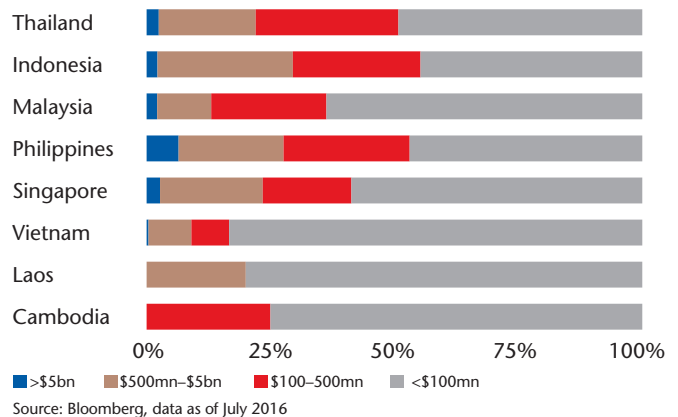
But how does one invest in this resilient growth story? The difficulties facing equity investors in the region can be illustrated by a few interesting numbers. In all of the accessible ASEAN markets, there are a total of 4,238 listed company stocks. But the majority of the listed company universe, 2,608 stocks (62% of the total listed ASEAN universe), lies in the sub-US\$100 million range and is poorly covered by the analyst community.

Consequently, we believe there are significant opportunities in this space awaiting discovery by the entrepreneurial investor who is willing and able to perform on-the-ground due diligence.

To sum up, we believe successful investing in Asia requires an increased focus on regional growth and domestic demand. Nowhere is this more likely to be accessed than in ASEAN, powered by its dynamic demographics, rising workforce entrants and productivity-enhancing structural transformation, urbanization and increased regional integration.

Sriyan Pietersz
Investment Strategist
Matthews Asia

FIGURE 3. LISTED STOCKS GROUPED BY MARKET CAP



The views and information discussed are as of the date of publication, are subject to change and may not reflect the writer’s current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. Investment involves risk. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. These risks are magnified in frontier markets. Many Asian countries are considered emerging or frontier markets. Such markets are often less stable politically and economically than developed markets, and investing in these markets involves different and greater risks. There may be less publicly available information about companies in many Asian countries, and the stock exchanges and brokerage industries in many Asian countries typically do not have the level of government oversight as do those in developed countries. Securities markets of many Asian countries are also substantially smaller, less liquid and more volatile than securities markets in developed countries. Past performance is no guarantee of future results. The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews International Capital Management, LLC (“Matthews Asia”) does not accept any liability for losses either direct or consequential caused by the use of this information.

