Vietnam is one of the most dynamic Asian nations, offering high political stability, a deeply integrated global market and abundant labour with its young population of 100 million people.
PHOTO: REUTERS

Asia's growing heft, post-pandemic

Region is poised to grab a greater slice of international investment as it develops into a strategic asset class. **BY PATRICK ZWEIFEL AND LUCA PAOLINI**

A YEAR after the Covid-19 outbreak triggered widespread social and economic upheaval, Asia is emerging from the crisis stronger and with greater influence on the world stage, pulling the globe's economic centre of gravity steadily to the East.

Economic activity across the region has largely returned to where it was before Covid-19 struck, thanks to its exemplary management of the pandemic. (Asia's Covid safety and resilience are ranked as the best in the world.)

What's more, the bloc's anti-crisis economic policies have been prudent and measured, in contrast to the West, where governments and central banks have been forced onto a war footing.

Take China. Although it was at the epicentre of the pandemic, policymakers there have not had to resort to excessive fiscal or monetary largesse. China has not experienced a build-up in borrowing at a scale developed economies did. The world's second largest economy went into the crisis with public debt at below 50 per cent of GDP, which we forecast to rise to 68 per cent by 2022. The picture is similar in the rest of emerging Asia, comparing favourably with G5 economies where the average debt-to-GDP ratio should exceed 150 per cent by 2022.

In other words, Asia has managed to support growth without sowing the seeds for future financial risks.

We expect the bloc's GDP growth to rebound strongly to 8.9 per cent in 2021, ahead of advanced economies which should grow just 4.9 per cent. That performance looks stronger still when set against the region's shallow contraction of just 0.2 per cent last year compared with 5.2 per cent for its developed counterparts.

Asia's effective handling of the pandemic and its economic resilience owe a lot to a series of pathbreaking structural reforms which the region has been advancing in the past 20 years or so, a process which we expect will pick up pace the coming decade.

Since the currency crisis in the late 1990s, Asian nations have strengthened the foundations for long-term prosperity by reforming their institutional, regulatory and capital market framework and boosting international competitiveness.

Deeper regional integration is another linchpin of post-pandemic economic revival. In November, Asia unveiled a new ambitious trading pact – the Regional Comprehensive Economic Partnership agreement (RCEP), which covers trade in goods, services and investment among 15 countries, home to 30 per cent of world population.

The deal should help boost long-term growth even more by lowering trade barriers and lifting foreign direct investment. Asia's foreign direct investment (FDI) remains resilient despite the pandemic. In 2020, China topped the United States as the largest recipient of FDI in the world, attracting US$163 billion.

South-east Asian countries such as Vietnam, less developed than its Northern counterparts, should benefit the most from the new pact as they build a manufacturing base that will capitalise on demand from importers keen to diversify away from China.

Vietnam is one of the most dynamic Asian nations, offering high political stability, a deeply integrated global market and abundant labour with its young population of 100 million people. Its successful handling of the pandemic has added to the country's credentials. Thanks to its geostrategic connectivity to China and the rest of Asia, Vietnam should grab a greater pie of FDI in the coming years.

As the region's capital markets gain depth and open up to foreign investors, Asia is certain to become a much bigger feature of the investment universe.

At a pan-regional level, Asia's living standards are improving fast and its population is becoming more urban and affluent. By the end of the next decade, Asia will account for two-thirds of the planet's middle-class – a cohort whose consumption and investment habits will transform the business landscape.

IMPLICATIONS FOR INVESTORS

Asia's rise will have far-reaching implications for investors, not least because the financial markets have yet to take notice.

A glance at the world's equity and bond indices shows Asia is woefully under-represented.

Emerging Asia accounts for a mere 10 per cent of the global equity market index and just 3 per cent of the bond counterpart – when it accounts for almost a quarter of both the world economy and global corporate profits.

That disparity will not remain for much longer.

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Unsurprisingly, China is the disruptor in chief.

With its population ageing rapidly and its investment needs rising as a consequence, the world's second largest economy has every incentive to integrate more fully into the global financial system, drawing in foreign capital as it does so.

To achieve that, it needs to press ahead with reform. Here, the signs are encouraging.

Beijing has already relaxed rules to make it easier for foreign investors to trade Chinese bonds; it has also launched a new Nasdaq-style stock exchange and introduced other initiatives to attract funding into its burgeoning technology and artificial intelligence sectors.

The global health crisis is not slowing the pace of reform. To the contrary.

In October, China detailed steps to grant more autonomy to Shenzhen, letting the southern financial and technology hub pilot reforms in market development and economic integration.

Under the trial scheme, Shenzhen will launch stock index-futures and issue offshore yuan-denominated local government bonds, while some companies will be allowed to issue shares.

Responding to these changes, global index providers have started to incorporate more Chinese assets in their bond and equity benchmarks. It is a development that is expected to generate combined inflows of more than US$300 billion in the coming years.

It has been long predicted that if the 19th century belonged to Europe and the 20th century to the US, the 21st century belongs to Asia. The region is poised to grab a greater slice of international investment as it develops into a strategic asset class. Investors will have to change their portfolio allocations to reflect Asia's growing heft.

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