

# Asia in charts

## Navigating the post COVID-19 world

June 2020

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# Summary



Asia has fared better than most of the rest of the world during the ongoing public health crisis but we have still seen a significant impact on the region's growth. An uneven recovery is underway but there are challenges. Governments and central banks are stepping up their support to ameliorate the effects of an imminent economic downturn. At the same time the pandemic-induced economic crisis has acted as a trend accelerator of sorts, amplifying ongoing structural changes and creating new opportunities in the process.

## Key takeaways:

- ◆ North Asian economies have been amongst the best in the world at containing the COVID-19 outbreak, whereas South and Southeast Asian economies have faced bigger challenges in navigating the health crisis
- ◆ On the monetary front, Asian central banks have taken aggressive steps to combat the economic downturn brought about by the COVID-19 crisis
- ◆ Adding on to the already heightened market uncertainty are the renewed tensions between the US and China. On the bright side, there are signs that at least parts of the Chinese economy are recovering
- ◆ As people in Asia gain better awareness of health risks after the coronavirus pandemic, certain industries in the region are expected to benefit – such as healthcare and insurance
- ◆ The “digitalisation” of the economy has moved faster in Asia than in the other parts of the world as people in Asia are more incentivised to embrace e-commerce and digital payment platforms, due to a relative lack of well-functioning traditional alternatives
- ◆ Some Asian markets are bound to benefit from the 5G revolution, as they are crucial contributors in the 5G supply chain
- ◆ The market for luxury goods in Asia not only exhibits a trend of strong growth but also has proven itself resilient even during times of economic weakness

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# Macro overview

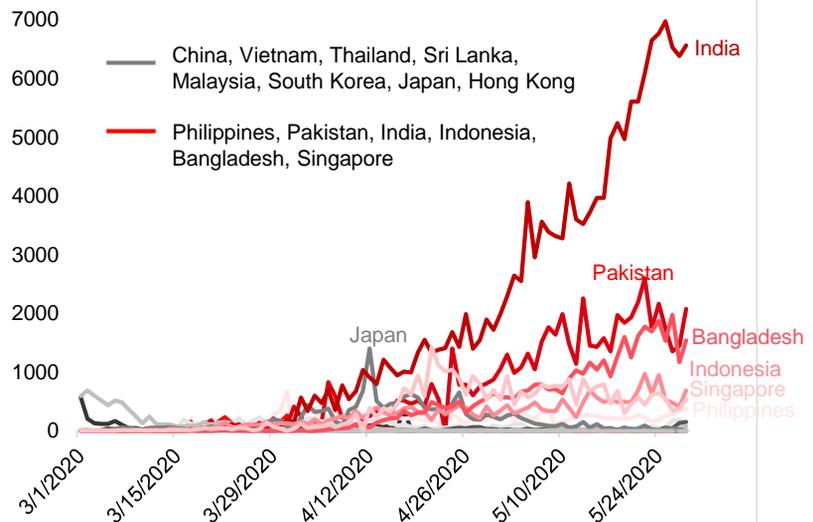
## COVID-19 responses

### *A tale of two Asias*

There is a diverging trend in the outbreak and containment of COVID-19 among Asian markets. North Asia (China, Japan, Taiwan, Hong Kong, etc) has so far contained the spread of the virus, faring much better than their neighbors in South and Southeast Asia (India, Indonesia, Philippines, etc) where new COVID-19 cases are still rising. As a result, North Asian economies are expected to see an economic recovery sooner.

### Parts of Asia have done better at containing the virus outbreak than others

Daily confirmed new cases of COVID-19<sup>(1)</sup>



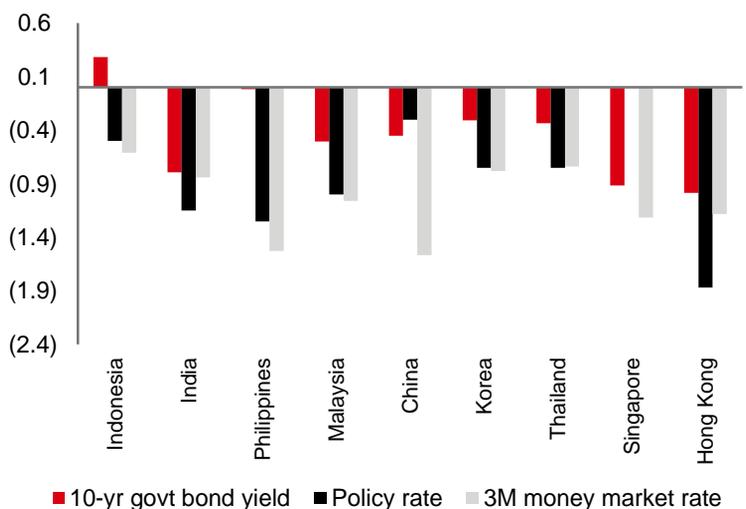
## Massive policy easing

### *No time for half-measures*

Central banks across the world have undertaken aggressive monetary easing to combat the economic downturn brought about by the COVID-19 crisis. But unlike Western central banks, which went into the crisis with already very low policy rates, Asian central banks have had much more room to implement rate cuts to mitigate the economic impact warranted by the coronavirus outbreak. In fact, many Asian central banks can still make further cuts to their policy rates if future developments call for more easing.

### Asian central banks have made sizable cuts to their policy rates, and there is still room for more

YTD changes in interest rates (%) (as of 1 June 2020)<sup>(2)</sup>



Source:

(1) University of Oxford – Our World in Data, data as of May 2020

(2) Bloomberg, data as of June 2020

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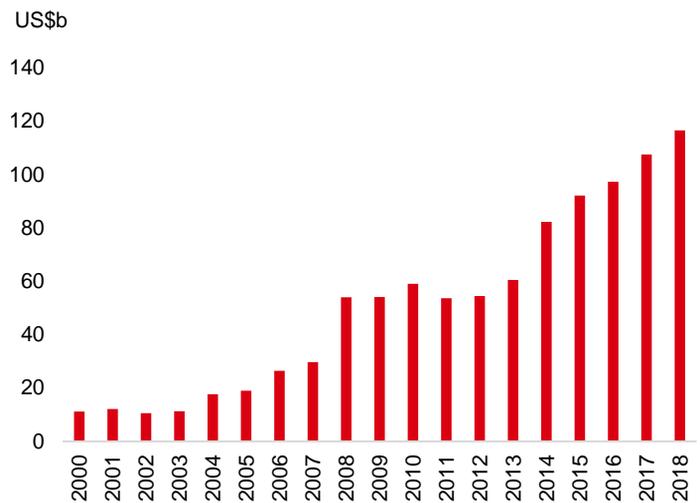
## US-China tensions

### *More than a lovers' quarrel*

At the beginning of the year, US-China trade relations were starting to warm up subsequent to the phase one trade deal. Unfortunately, the COVID-19 outbreak has driven a wedge between their mending relations. Tensions are heating up again as evidenced by recent threats coming from both sides at each other. A strong force running counter to the current actions of both governments is existing economic integration between the two as a result of increased mutual investment flows over the past two decades.

## US investors (including corporations) have increasingly invested more in mainland China

Direct investment position of the United States in mainland China (on a historical-cost basis)<sup>(3)</sup>



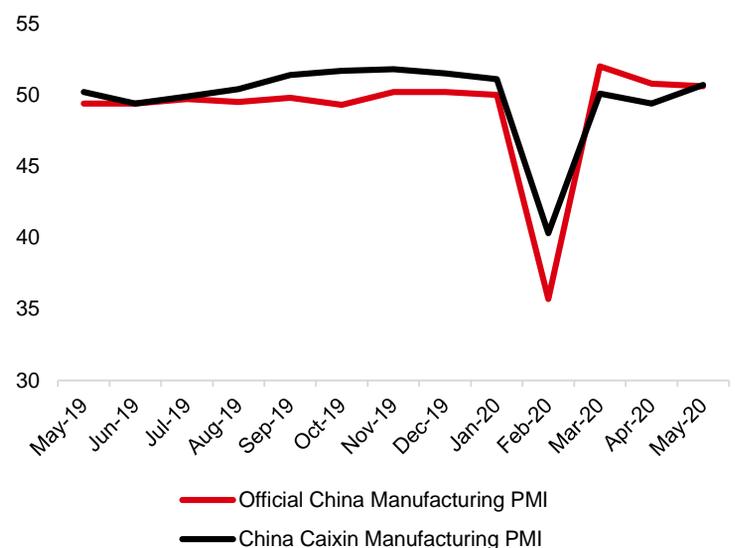
## China as a lead indicator

### *Getting back on its feet*

China was the first country to be impacted by COVID-19, and it is also the first to come out of the crisis. The supply side of China's economy is on a steady path to recovery, as can be seen by the restoration of the country's manufacturing PMI to normal levels. On the other hand, the demand side of the economy might remain sluggish for a while longer because external demand is still weak – since many countries are still tackling the coronavirus outbreak – and it will take time to restore consumer confidence within the country.

## China's manufacturing PMI returning to its previous levels suggests a supply side recovery

China manufacturing PMI<sup>(4)</sup>



Source:

(3) Bureau of Economic Analysis, annual data as of 2018

(4) IHS Market, National Bureau of Statistics, data as of May 2020

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# Investment themes

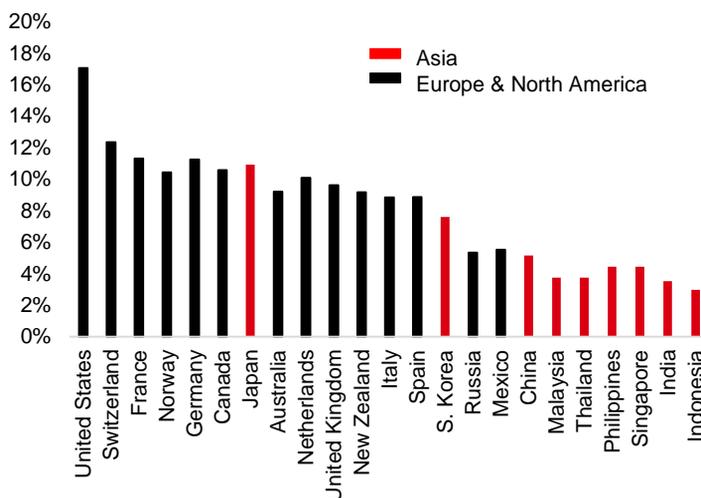
## Healthcare

### Room for growth

Asian economies in general still spend a much smaller portion of their GDPs on healthcare than developed economies. As the region is seeing increasing levels of income, its inhabitants are also becoming more health-conscious, implying abundant room for growth in its healthcare industry. Over time, demographic changes and aging populations in some parts of Asia will be potent forces that propel the region's healthcare industry.

### Healthcare expenditures in Asian economies are still low indicating room for growth

Healthcare expenditure (% of GDP in 2017)<sup>(5)</sup>



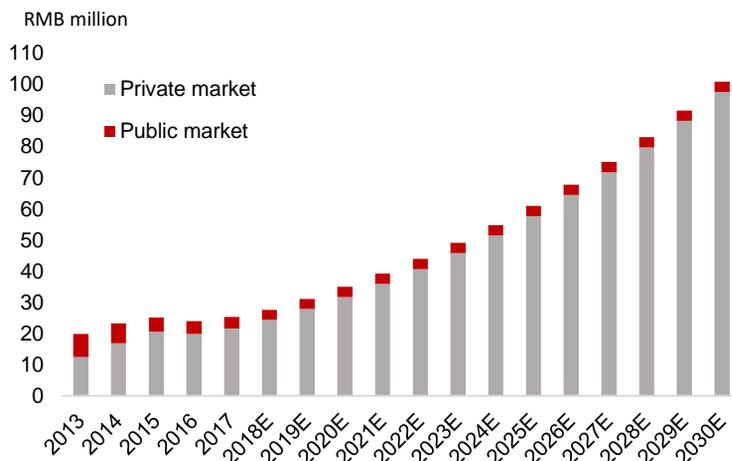
## Healthcare

### Vaccination: protection against viruses

Looking within the healthcare sector, vaccine manufacturers are expected to be amongst the first to see a positive impact due to the COVID-19 crisis, given the heightened awareness of prevention against viral diseases. Vaccination has yet to gain popularity in most Asian economies. Taking China as an example, its vaccination rate against influenza is very low compared to developed markets. (2-3% in China vs. 30-50% in developed markets).

### The Chinese vaccination market is expected to grow at a very fast pace

China's vaccine market in terms of sales revenue, 2013-2030E<sup>(6)</sup>



Source:

(5) World Health Organization, data as of May 2020. WHO's comprehensive and comparable database on health spending for 190 countries is updated annually and released in December of each year with a 2-year lag

(6) CanSino Biologics, CIC Asia, data as of March 2019

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# Investment themes

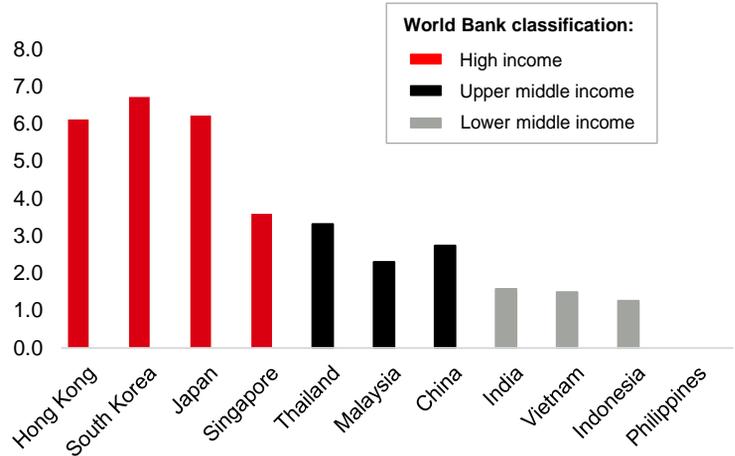
## Insurance

*A yearning for protection in a volatile world*

The level of insurance penetration in an economy is linked to its stage of economic development – generally speaking, as a nation becomes more wealthy, its expanding middle class would have a stronger demand for protection against adverse events that might erode their wealth. Therefore, there is abundant growth potential for the insurance industry in the currently less developed Asian economies where insurance penetration is still very low. The COVID-19 crisis will also facilitate a stronger affinity for health and life insurance products.

### Growth potential in insurance given Asia's low insurance penetration rate

Insurance penetration: premiums as % of GDP, 2018<sup>(7)</sup>



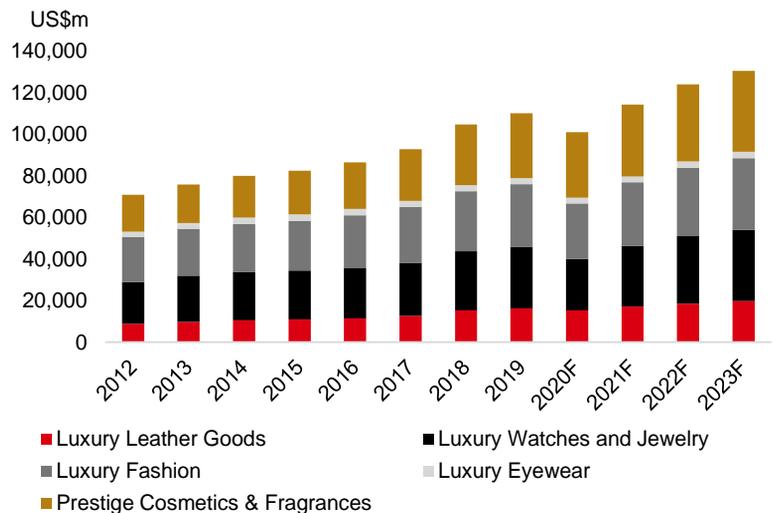
## Luxury goods

*The eye of an economic storm*

The luxury goods market in Asia has historically been resilient during times of economic downturns. Consumers of luxury goods tend to have more discretionary income and would therefore have enough buffer to smooth out their consumption patterns through good and bad times. Even an event as significant as COVID-19 is only expected to slightly dent the revenue growth trend for luxury goods in Asia in 2020.

### The luxury goods market is not taking too big a hit in the currently stressed economic environment

Asia's luxury goods market, projected total revenue<sup>(8)</sup>



Source:

(7) Swiss Re Institute, data as of July 2019

(8) Statista (forecast adjusted for expected impact of COVID-19), data as of April 2020

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# Investment themes

## E-commerce

### *A digital economy on the rise*

In China, the traditional economy is giving way to the digital economy more quickly than in the more developed world. A key driving force behind this faster transition is that China's traditional marketplace and payment infrastructure were less developed and convenient to begin with, resulting in Chinese people being more willing to opt for purchasing goods and services online. The same dynamic is also present in other developing Asian countries. Recent social restrictions due to COVID-19 are also incentivising people to participate more in the digital economy.

### An increasing proportion of retail sales in China are being made online

Chinese online economy as % of total economy<sup>(9)</sup>



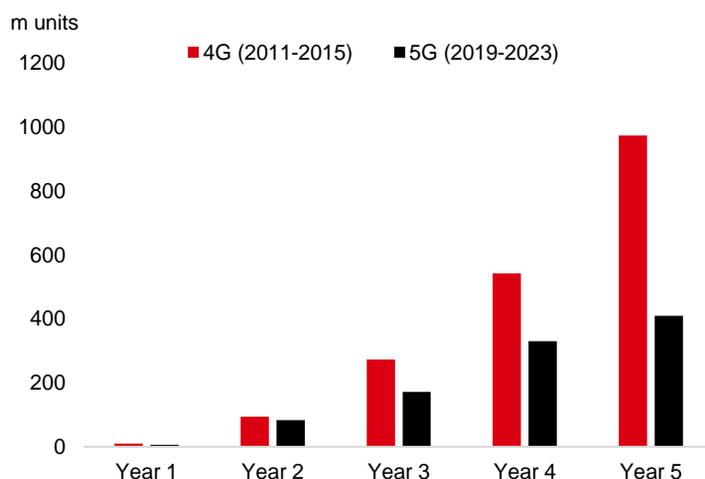
## 5G

### *A revolution in mobile technology*

The rapid increase in the consumption of data in Asia – a trend that is being strengthened by people spending more time at home due to COVID-19 – will accelerate the rollout of 5G in the region. The increase in demand for 5G-compatible network infrastructure and 5G smartphones will benefit certain Asian economies that are key contributors to the 5G supply chain – namely Taiwan, South Korea and China. That said, 5G adoption will be off to a slower start than 4G because the power and speed of 5G is in excess of what many existing 3G and 4G customers currently need.

### The adoption of 5G is projected to be off to a slower start than 4G....

Projected 5G smartphone volume over time (vs 4G)<sup>(10)</sup>



Source:

(9) Goldman Sachs Research, data as of May 2020

(10) ICD, Nomura Research, data as of March 2020

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