

The changing face of Asia's economic growth

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"Asia's aggregate GDP surpassed that of America at the end of 2018 and a new cycle is starting. The Asian Century has begun."

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China has risen fast and accomplished much in 70 years of the People's Republic, but nothing rises smoothly. Colossal tension besets the domestic economy and external relations. The Belt and Road Initiative has resuscitated the Silk Road and should, in time, reap trade benefits, but it has spread heavy debts.

Domestically, trade wars and restructuring are biting into an economy already slowing hard. With the official fiscal deficit already 4% of GDP (possibly up to 10% if local governments' obligations are included), room

to stimulate is limited. Debt has breached 300% of GDP and China now spends 39% of annual GDP on debt repayment, making the central bank reluctant to encourage more lending.

The rebalancing of the economy is real: China has mastered cutting edge technologies, from spaceships to 3D-printed human organs, offering phenomenal investment opportunities longer term. Shorter term? Chinese stimulus since June 2018 has equalled that of 2009, but its piecemeal nature means it has not yet hit home, and tight political control and capricious censorship do not usually raise innovation to the next level. China is rising, but the way investors can best benefit may lie elsewhere.

The real beneficiary of China's expensive wages and harsh control, as manufacturing flees south and supply chains re-shape, is south-east Asia. Foreign direct investment flows to Thailand and Vietnam have risen over 800% and 1000% year to date respectively, accelerating development and boosting exports to the US.

Perhaps India will succeed where China has struggled. With good monsoon rains behind him, Prime Minister Narendra Modi launched a moon-shot - literally - and seized public imagination with a dramatic cut in corporate taxes and a reorganisation of public sector banks to shift business to the more efficient private sector. In tandem, the Reserve Bank of India has cut rates 110bps this year and exporters are enjoying a weaker rupee. Although India now also finds itself with a 4% national fiscal deficit (10% if the state governments are included), the drama of Modi's intervention may have jump-started sentiment.

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Asia's aggregate GDP surpassed that of America at the end of 2018 and a new cycle is starting. The Asian Century has begun. 'Times change and power passes.'^{*}.

^{*}Quotation from 12th Century Chinese poet Li Qingzhao

Bull points

- Relocation of supply chains is catalysing a new economic cycle

in south-east Asia, offering many opportunities

- India's audacious approach to economic rejuvenation, coupled with good monsoon rains, looks highly promising

Bear points

- Although China's systemic slowdown will take time to resolve, it is determined to build future dominance

- Conflict between China and America is nascent and will continue overshadowing the global outlook

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