



# ASEAN: Finding Growth in a Slowing Global Economy

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*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.

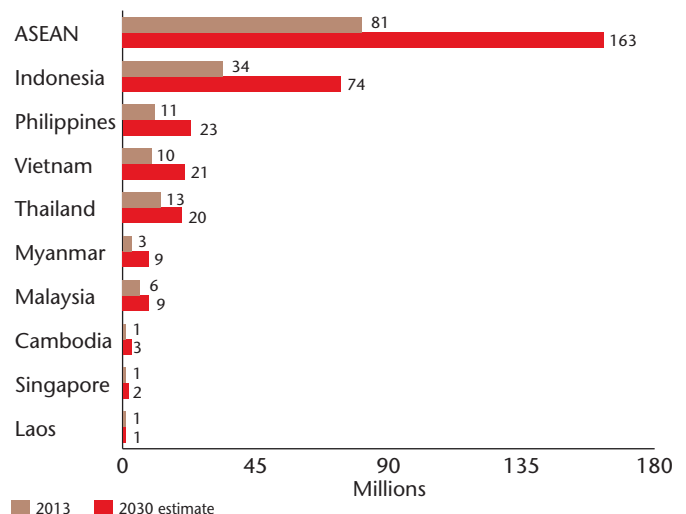
Southeast Asia has made strong, if uneven, progress in the nearly half century since ASEAN was founded, with the region growing at an average annual pace of approximately

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.

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**FIGURE 3. LISTED STOCKS GROUPED BY MARKET CAP**

