

6 Reasons why Asia may be full of opportunity

Members of the Walter Scott research team outline several reasons why they think Asia is rich in opportunity for global companies tapping into growth across the region.

Walter Scott says for much of its almost 40-year history, Asia has proved a fertile hunting ground for stock pickers. Looking forward, the team is equally optimistic. From Vietnam's young population through to Japan's automation and China's technology, the Walter Scott research team says it is rarely short of ideas across the region. Here, the team delves into some of the key themes and sectors that underpin its outlook.

Japan's automation

According to Walter Scott, one theme at play in Asia is demographics, particularly in Japan. With an average age of over 48 yearsⁱ, Japan's ageing population is well known and usually couched as a negative. However, according to Walter Scott investment manager Jamie Zegleman, the impact of Japan's demographic profile has been to innovate.

"This is a country that has long faced the challenges of an ageing population," he says. "But, in part, because of that, it has many of the world's leading factory automation businesses."

In this space, Walter Scott investment manager Maxim Skorniakov flags SMC, a Japanese manufacturer of pneumatic components used in automation. Skorniakov says SMC's technology is helping to improve labor productivity both internally and for its customers across an increasing number of global industries.

Vietnam's young population

In contrast to Japan, Walter Scott's analysts note Vietnam's young and growing population, with an average age of 31.9 years and 30% of the population under the age of 20 yearsⁱⁱ, which they say is helping to build an important manufacturing industry in the country. It is for this reason Walter Scott investment manager Des Armstrong heralds Vietnam as "one of the most exciting economies within the Asean region."

"It has a very young workforce, with young people who are very determined to make a success of themselves," Armstrong says, adding that combined with a pro-business government, Vietnam is in a strong position to take advantage of supply chains becoming more diversified within the region.

China's technology

Walter Scott notes the Chinese government's success in promoting internal innovation to advance the country's aims of self-sufficiency in key technologiesⁱⁱⁱ. Investment analyst Sasha Thompson says one potential industry likely to benefit is synthetic biology and here the team has identified China's WuXi Biologics as "a clear demonstration of market leadership and ambition."



Walter Scott investment manager Matthew Gerlach says there are leading companies across Asia whose technology everyone has come to rely on. Taiwanese semiconductor manufacturer TSMC is a well-known example, while less well-known is Hoya whose mask blanks^{iv} are a key component of TSMC's semiconductors among numerous other important chip manufacturers.

Additionally, the Walter Scott team likes Japanese electronic components manufacturer Murata whose minute capacitors, inductors and filters it says are critical for 5G deployment.

Digitalization

Gerlach says the digitalization trends in China, South Korea and Taiwan have been "incredible", thanks to how tightly integrated mobile phone use has become with everyday life. Digitalization in Asia is even leapfrogging the West, he adds, with western business leaders looking to Asian firms as a blueprint for digital integration.

"In China we have seen many new business models emerge over the past decade and it has been fascinating to hear from western management teams how they look to these developments for opportunities and risks for their own businesses in the future," says Gerlach.

He adds the Walter Scott team sees these trends in the emerging countries of Southeast Asia where companies have been "battling ferociously" for the next wave of consumers who think of doing business via mobile means first.

Insurance

Elsewhere, the Walter Scott research team thinks increasing wealth in Asia is likely to act as a tailwind for the region's life insurance market and one that will persist for many years. Walter Scott investment manager Fiona Macrae notes it is estimated by the end of this decade around 1 billion people will join the ranks of the Asian middle class^v. This is likely to mean these individuals will have rising incomes and increased wealth, and will seek insurance products to protect these assets, she adds.

The group's co-head of research Alan Lander argues one way to quantify this tailwind is to look at the gap that would need to be filled by life insurance if the major breadwinner in a household dies and that household wants to maintain its existing living standards. This is known as the mortality protection gap and "if you sum it up across all households in Asia by the end of the decade the value is expected to reach US\$110 trillion^{vi}," he says. "That is a huge shortfall and one that is only expected to rise as living standards increase and the need for protection grows."

Walter Scott investment manager Fraser Fox notes another way of gauging the opportunity in the life insurance sector is the correlation between GDP per capita and insurance penetration. "There tends to be an inflection point at GDP per capita of between US\$10,000 and US\$20,000 when insurance penetration really takes off", he says, adding "much of Asia is still early in that journey today."

Consumer goods

Another area of opportunity across Asia is the growth of its consumer goods market, according to Walter Scott investment manager Lindsay Scott. This, she adds, is also being driven by the



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region's burgeoning wealth generation and its favorable demographics, as well as the dominance of ecommerce and social media platforms.

Scott thinks these factors will support growth in western brands such as L'Oréal or Estée Lauder while also noting luxury goods brands have turned their attention to the region^{vi} and delivered exceptional growth numbers as Asia has moved out of the pandemic. "Asia will continue to be a hugely significant market for consumer goods brands," Scott believes.

ⁱ WorldData.info. The average age in global comparison. Accessed September 2022

ⁱⁱ Ibid

ⁱⁱⁱ FT. Fortress China: Xi Jinping's plan for economic independence. September 15, 2022

^{iv} Mask blanks are a core part of the semiconductor lithography process. (Source: SKC.kr)

^v Bloomberg. More than 1 billion Asians will join global middle class by 2030. September 2, 2021

^{vi} Swiss Re Institute. Closing Asia's mortality protection gap. July 2020

^{vii} Savills.com. Luxury brands pivot to Asia-Pacific markets. November 2022



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