

COMMENTARY

The Asian consumption story

PAUL HO

Most of you must have read about the growing income levels of Asians in the past few years from research reports or from the media. However, the impact of the rising affluence in Asia is not immediately observable — until you come face to face with it.

In my last trip to Hong Kong, I found it strange that it has become harder to get a taxi on the street. All the restaur-

rants were fully booked and shopping malls were packed. We have come a long way from the bleak days of the SARS outbreak back in 2003 where there was a feeling of gloom in Asia and most of the shops and hotels were empty.

So what has really changed over the past eight years? One could point to many factors for the dramatic economic recovery but I think one of the very important changes that happened was the signing of the mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on June 29, 2003. It was the first free trade agreement concluded between the mainland of China and Hong Kong.

CEPA opened up huge markets for Hong Kong goods and services. More importantly, the Chinese government implemented the Individual Visit Scheme (IVS) in the same year in a bid to stimulate the Hong Kong economy. The result was a surge in tourists from China.

When I talk to companies on my research trips, they are only too happy to point out that Chinese tourists now make up anything from 50 to 80 per cent of their business. It might surprise you, too, that the Chinese tourist typically spends three to four more times than a local customer.

The demand for luxury goods by Chinese consumers appears seemingly insatiable. Anecdotal evidence gleaned from my interviews with luxury car dealers suggests that luxury cars have waiting lists that are more than half a year long. Luxury watches and jewellery sales are also booming. In fact, Asian consumers are becoming such important markets for luxury goods makers that Prada is even planning to list in Hong Kong.

We believe that the trend is here to stay and we are really just seeing the initial stages of this huge structural shift towards greater consumerism in Asia. The domestic demand story has received quite a bit of attention from the media and from policy-makers as well, since the Lehman crisis. Asian governments

have come to realise that we have been over-reliant on the export markets in the past and that domestic consumption had remained a relatively small percentage of Gross Domestic Product (GDP), unlike the West where more than two-thirds of their GDP comes from private consumption. Some countries, like China, have even gone as far as to formulate policies to stimulate domestic consumption such as giving rebates for the purchase of cars and electric appliances.

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The good news for the man in the street is that he, too, can profit from all these exciting developments. That is, if he believes this is a sustainable structural development in Asia for the next few years.

As the Asian consumer story unfolds, we believe there will be more investment opportunities available. Many of the well-known Western brands such as Coca-Cola or Nike started out as smaller companies and eventually went on to become dominant companies globally over a few decades. The same experience was replicated in Japan with the Sonys and Toyotas after the '50s and, more recently, with the emergence of Korea consumer companies such as Samsung, LG Electronics, Hyundai and Kia. Given the size of the Chinese and Indian economies, we should not be surprised to see similar local brands catapulting into the world stage in the next decade or so. ■

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