Imagining Asia 2020

MAKE WAY FOR THE ASIA GIANT

The rapid growth of past decades is written into the landscape.



















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Foreword: Imagining Asia 2020



By Lim Say Boon Chief Investment Officer Group Wealth Management

At the turbulent heart of the ongoing financial market volatility is a global economy in transition - an imbalanced world searching for a new equilibrium.

And Asia ex-Japan, with its sheer size. youthful population, and financial resources, will be critical to any new balance in global economies and even politics.

Transition brings challenges and arguably, the markets are now pricing in the expected pain of change. But change also brings opportunities, particularly in Asia, where yet higher consumption growth is an integral part of the solution to the world's problem of demand deficiency.

The West appears to have hit a peak in its capacity to leverage and spend. In the US, consumer credit as a percentage of gross domestic product (GDP) has gone through three distinct phases since the Second World War. A period of rapid expansion of leverage from 1946 to 1965 was followed by an 18-year pause during which consumer credit flat-lined relative to GDP. Coinciding with the end of the Great Bear Market of 1968 -1982, consumer credit expanded aggressively from 12% of the economy to over 18% by 2009. Consumer credit has now entered a period of decline relative to the economy. Meanwhile, debt ceilings and deficit reduction programs mean the US government has exhausted its ability, politically, to leverage and spend. In the periphery of the Euro area, both government and household balance sheets are in crises.

China, by contrast, is roughly where the US was in the 1940s, in terms of its household debt to GDP ratio. And the government

has huge financial resources at its disposal to spend – the result of years of surplus and reserve accumulation. Although the most important, China is not the only economy in Asia ex-Japan with financial resources and room for policy manoeuvre.

Asia is in the midst of changing its growth model. The previous almost single-minded focus on investment and production for exports is shifting towards domestic consumption and infrastructure development.

And there is tremendous potential in terms of economics and profits in just the sheer scale of the societies that have been plugged into the global supply chain. The US, European Union and Japan collectively account for some 57% of the global economy but only 14% of the world's population. China, India and Indonesia account for only 12% of global GDP but speak for 40% of the world's population.

Much of Asia ex-Japan is relatively poor in per capita income terms. But literacy rates are high and open economies attract capital flows that enable the labour force. The sheer numbers involved in half the world's population – and a relatively young one at that - moving up the income ladder will have tremendous impact on the global economy. Indeed, they will impact their own economies in profound ways, from housing to consumer goods to healthcare.

There are cycles but there are also trends. Even in the midst of the volatility of the past four years, the trend is clear - the West is stagnating economically while many in Asia ex-Japan recovered earlier from the "great recession" of 2008, rebounded

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faster, and have broken above pre-crisis levels. There are likely to be more business cycle challenges ahead for Asia. But the trend from year 2003 of outperformance by our economies and stock markets – coupled with strengthening currencies – is likely to continue.

Over the coming decade, we see opportunities in Asian agribusiness, food retailing, automobiles, housing, environmental solutions, and energy.

The focus of this report is on the sectors/ industries which will ride the structural growth of Asia. As more young Asians enter the workforce, rising disposable income will create incremental demand for staple and discretionary items. The dream of owning that first car and home will come within reach for hundreds of millions across Asia. Urbanisation and industrialisation will also drive demand for energy and environmental solutions.

Food demand will more than double by 2020, to nearly US\$3 trillion per year. Asia will consume nearly 80% as much food as the US, up from 45% at present. We estimate that total food consumption within the Asean-5 will grow by US\$25 billion per year to US\$606 billion by 2020, up from US\$351 billion in 2010. Food consumption in China will more than double to around US\$1.48 trillion by 2020, up from US\$676 billion in 2010. There will be business and investment opportunities in food retailing, particularly in groceries.

Healthcare expenditure per person will more than double between now and 2020. People talk about healthcare expenditure in the US growing out of control. But expenditures in Asia will grow by nearly as much between now and 2020. A significant part of that (70%) will come from China and Indonesia.

In the automobile industry, China has become the largest market in the world (in terms of sales volume), overtaking the US, with some 18 million vehicles sold last year. Rising disposal income, increasing urbanisation and aggressive new model roll-out strategies by automakers will continue to drive automobile consumption in China. By 2020, vehicle sales are expected to reach around 30 million units, translating into compounded annual growth of 5.3% from 2010.

Urbanisation will also drive intense demand for housing, particularly in economies with low home ownership levels. And with that, total housing loans in Asia will likely grow by 2.2 times to \$3.7 trillion by 2020.

And urbanisation will compete with industrialisation for environmental solutions, with opportunities in sewage treatment, water recycling and alternative energies.

The changes in Asia ex-Japan are profound and historic, rivalling the great cycles that drove the US and Europe after the Second World War and Japan in the three decades from the 1960s. Money has been made. And money will likely to continue to be made, despite cyclical turbulence.

We invite you to join us in "imagining Asia" in 2020.

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Lim Say Boon

US\$606 billion

Food demand in Asean-5 by 2020

30 million

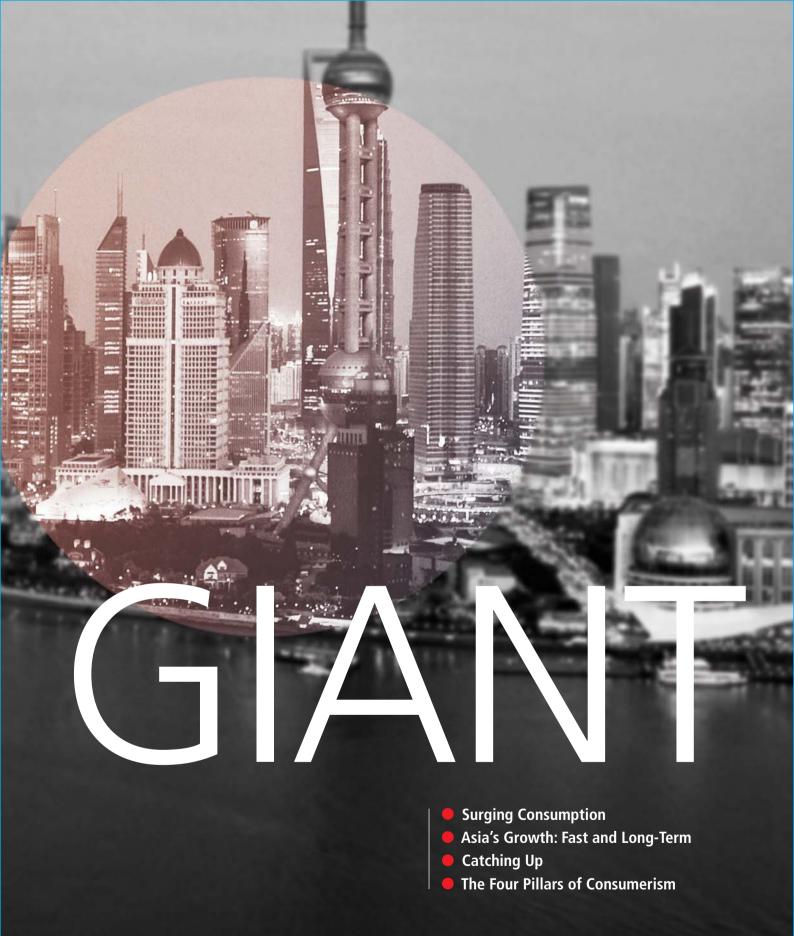
Car sales in China by 2020



SECTION ONE

MAKE WAY FOR THE ASSIGNATION OF THE ASSIGNATION OF

In Asia, the rapid growth of past decades is written into the landscape. Economic growth has transformed cities, raised income levels, spurred urbanisation and technology: changing the way we live. And just as the transformation of the region has generated a tremendous amount of wealth for Asians over the past decade, the developments of the coming decade are likely to generate new investment opportunities. More wealth will likely be generated as a result of demographic changes, urban and infrastructure growth, the continued rise of the middle class, and the expansion of Asian consumerism in the foreseeable future.



⋈DBS

Asia ex-Japan has also been demolishing stereotypes over the past decade. It has gone from being just the "factory of the world" to the "millionaire factory of the world," with more wealth and high net worth individuals being created here than in any other region.

Even in sports – for example, soccer and cricket – the balance of spending power is shifting from the West to the East. Over the coming years, Asia will play an even more influential role in the global economy, as its economic engine switches gear from production to consumption.

Just last year, Asia overtook the US as the main driver of global growth, generating more new demand.

The US has been limping along since the global financial crisis. The Europeans and the Japanese have also tightened their purse strings. Spending has slowed to a trickle in the G3 countries (US, Europe and Japan), growing by less than 1% since September 2008. ▶

Note:

References to Asia and the rest of the world in this report adhere to the following conventions:

Asia-10 :	China (CH), Hong Kong SAR (HK), Taiwan (TW), Korea (KR), Singapore (SG), Malaysia (MY), Indonesia (ID), Thailand (TH), Philippines (PH), India (IN).
Asia-9 :	Asia-10 less IN.
Asia-8:	Asia-10 less IN and CH.
Asean-5:	SG, MY, TH, ID, PH.
Asean-4:	Asean-5 less SG.
EU-Big 3: (EU-B3)	Germany (GE), France (FR), United Kingdom (UK).
EU-17:	Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain.
G3:	United States (US), EU-B3, Japan (JP).
G4:	US, JP, EU-B3, Asia-10.

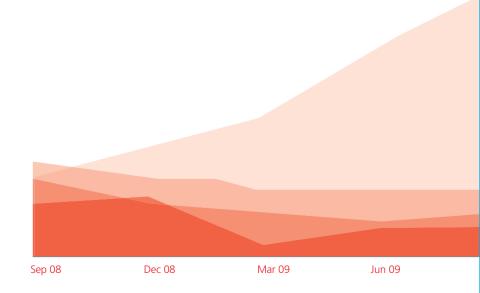
Surging Consumption

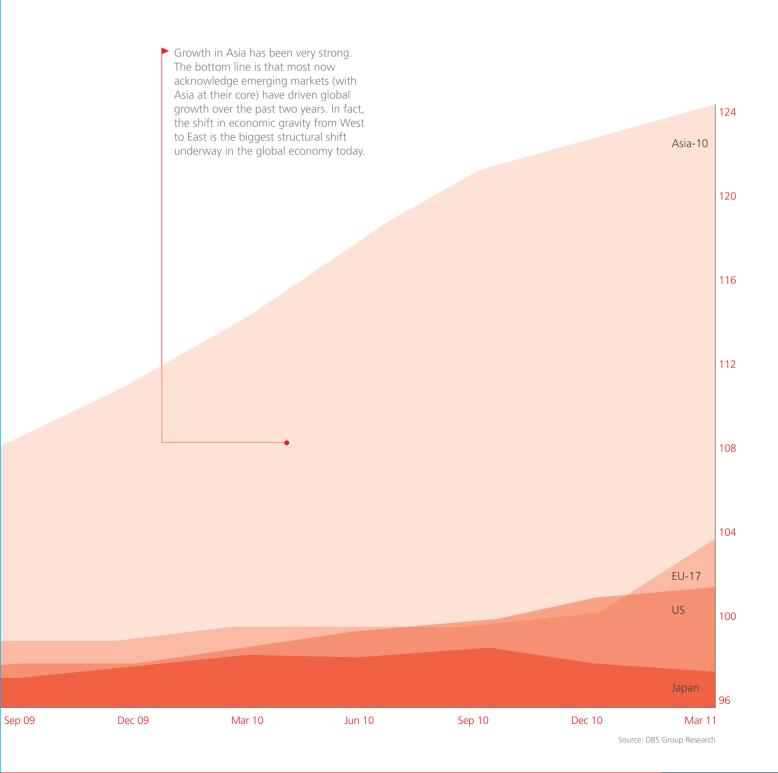
In contrast, Asia is consuming 25% more than it did at the start of the crisis. This has propelled gross domestic product (GDP) growth rates to double-digit levels. From 2008, GDP has grown 18% in Singapore and Indonesia, 14% in the Philippines, 10% in Hong Kong, Taiwan, Korea and Thailand, 25% in India and 29% in China. The US GDP is still not back to pre-crisis levels. ▶

REAL GLOBAL CONSUMPTION

3Q08 = 100, seasonally adjusted







Asia's Growth: Fast and Long-Term

So what can we look forward to in 2020? For starters, Asia-10's GDP will be US\$22.4 trillion by the end of the decade, US\$11.5 trillion larger than it is today. The US economy will have grown only by US\$4.5 trillion. Asia will have put 2.5 times more new demand on the global table than the US, becoming twice the economic driver that the US is.

Between now and then, the magnitude of growth in Asia will be about 80% of the current level of GDP in the US. That is to say, Asia will "add four-fifths" of a United States economy to its own economy by 2020. A significant portion (or 64%) of the new dollars of demand will come from China, another 17% will come from India, while 6% will come from Indonesia. Together, these three countries will account for 87% of the growth in the Asia-10.

GDP

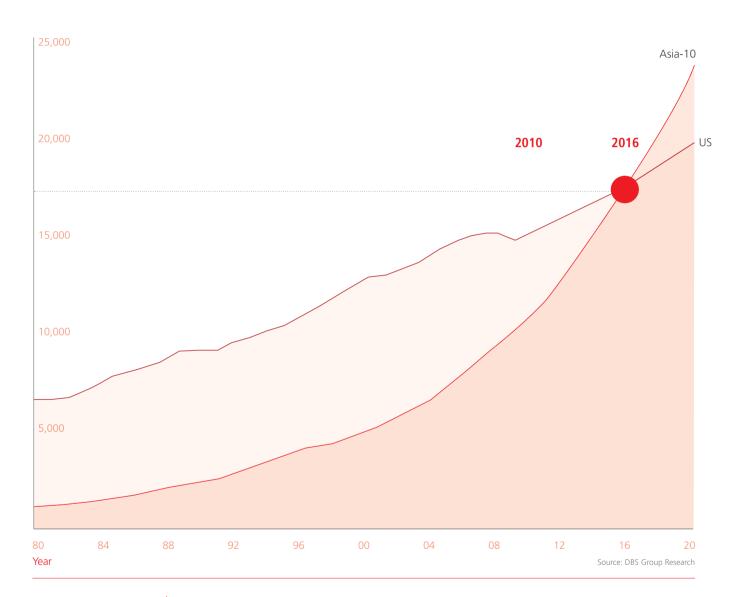
Constant 2010 US dollars (billion)

	2010	2020	Change	% Contril to A-10	bution) Growth
China	5,825	13,168	7,343	63.7	
Hong Kong	224	342	117	1.0	
Korea	1,014	1,494	480	4.2	
Taiwan	432	664	232	2.0	
Singapore	223	354	131	1.1	
Malaysia	238	406	168	1.5	
Thailand	319	557	239	2.1	
Indonesia	707	1,384	677	5.9	
Philippines	189	330	141	1.2	
India	1,721	3,716	1,995	17.3	
US	14,660	19,214	4,554		
Japan	5,461	6,449	988		
EU-B3	7,939	9,583	1,644		
A-10	10,892	22,417	11,525	100	

Source: DBS Group Research

GDP - US AND ASIA-10

Constant 2010 US dollars (billion)





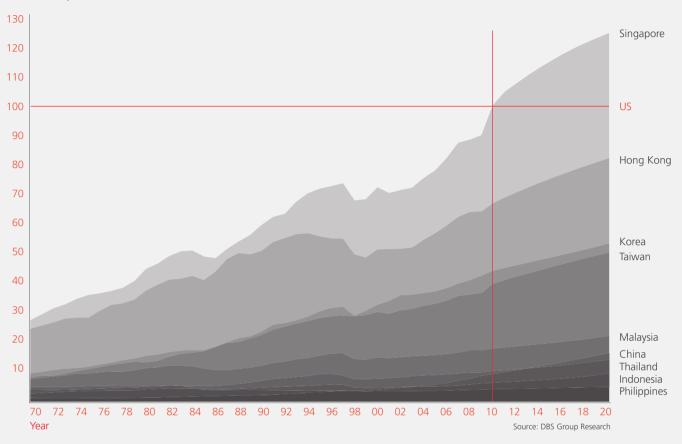


Asia-10's GDP has converged rapidly on the US, growing from about 40% of the size of the US in 2000, to 80% in 2010. The catching up process is expected to continue. By 2016, Asia-10's GDP will equal the US at about US\$17 trillion in today's dollars. From then on, Asia's GDP will exceed that of the US. And by 2020, Asia-10 will be 17% bigger than the US.



ASIA - GDP PER CAPITA RELATIVE TO US

US=100, constant 2010 US dollar terms



Catching Up

So where is all this growth coming from? The huge population of Asia accounts for some of it. The main thrust however, is driven by increasingly higher levels of wealth among Asians.

Per capita income, or average income levels in Asia, have been inching closer to US levels over the years. In 1970, the average income in Singapore and Hong Kong was a quarter of that in the US. Today, on average, Singaporeans earn as much as they would in the US. And by 2020, their income is expected to be 25% higher than those of their American counterparts.

Outside of Singapore and Hong Kong though, per capita income remains low. The average income in Korea and Taiwan is still only about 40% of that of the US. In China and Thailand, income is about 10% of US levels.

To be sure, many Asian countries have experienced income growth of 6-7% for the last 25 to 30 years. At a growth rate of 7%, income levels double about every 10 years. By this measure, between the mid-1960s and today, income levels in most Asian countries have grown by 5 to 8 times.

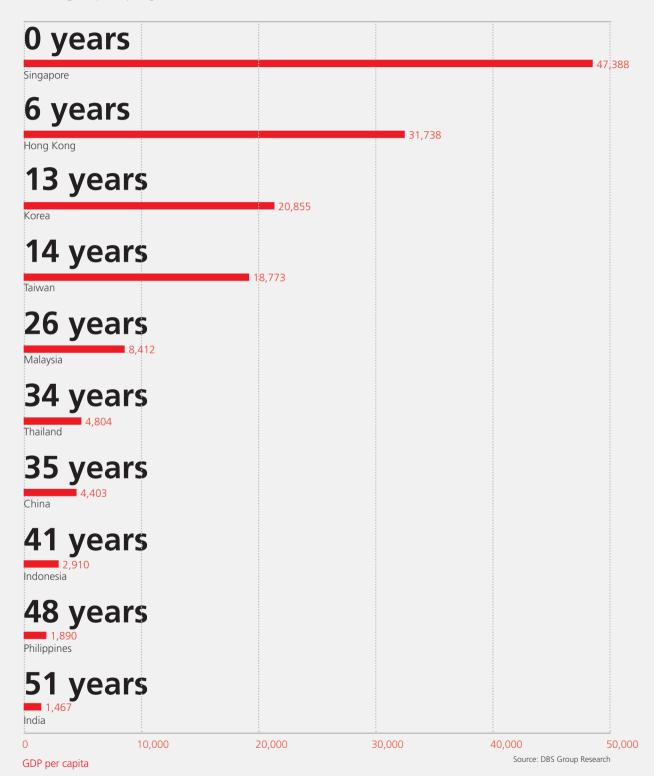
Still, income in most of Asia is 25 to 50 years behind the US, which means that fast growth in Asia should be able to continue for a long time.

One way to explain this would be to look at the number of years it would take for a country to "catch up" with income levels in a particular country. For example, if per capita income in Hong Kong grows at 6% per year, it would take 6 years to "catch up" to where the US or Singapore is today. Bear in mind though that Singapore's income levels would presumably have grown higher too.

Average income levels for Taiwan and Korea have run neck and neck for 40 years, but Korea looks to be one year ahead of Taiwan at the moment. China and Thailand are both about 20 years behind Taiwan and Korea, and about 35 years behind Singapore. Indonesia is now 6 years behind China and 41 years behind Singapore. At a 6% per capita income growth rate, India is 16 years behind China and 51 years behind Singapore.

ASIA – PER CAPITA GDP TIMELINE

Approximate number of years to reach US GDP per capita (assuming 6% per capita growth rate)





The Four Pillars of Consumerism

Stronger consumer spending invariably follows rising income levels. With that, the four pillars of consumerism – food, healthcare, housing and energy are already firmly established.

Across the board, consumption in Asia will reach 80% of the US level by 2020, up from 48% in 2010. Asia will add an additional US\$5.5 trillion in growth over the same period, while the US will only generate an extra US\$2.9 trillion.

Asia will add an additional **US\$5.5** trillion in growth by 2020, while the US will only generate an extra US\$2.9 trillion.



Food

There will be plenty of people looking for a good meal in Asia, or rather more people being able to afford to do so. Demand for food is expected to more than double by 2020 to nearly US\$3 trillion per year. Asia will consume nearly 80% as much food as the US, up from 45% at present.

2.0_x

US\$
TRILLION

40%

Healthcare

Apart from eating more, Asians will also increase spending on healthcare as they enjoy longer life spans and deeper pockets. Medical expenditure per person is expected to more than double between now and 2020 to almost equal levels with the US.

Housing

Total housing loans in Asia will grow 2.2 times, to US\$3.7 trillion by 2020. While Asia has only one-tenth as many housing loans as the US today, mortgage expansion in Asia will nearly equal growth in the US between now and 2020.

Energy

Deepening industrialisation and rapid urbanisation will feed Asia's growing demand for oil. By 2020, it is expected to expand by 40%, at which point Asia would account for 78% of the G4's new oil demand.







- People Power
 The Rise of the Middle Class
- **Urbanising Asia**



People Power

By 2020, the teeming streets of Asian cities such as Shanghai, Mumbai, Jakarta and Bangkok will be even more crowded, as they find room for another 290 million people. That is close to adding an entire US population to one of the most densely inhabited regions in the world in less than a decade, with most of the people added in India and China.

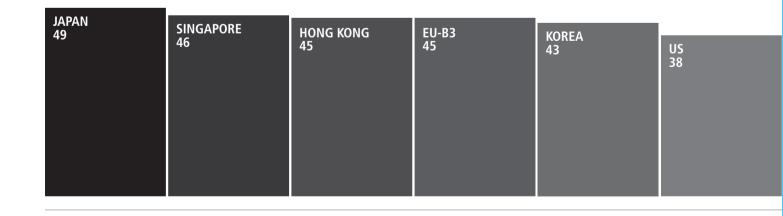
Population growth however, is no guarantee of economic success and GDP growth. It will not ensure that these billions in Asia will live and eat well, get a good education and own a car. Rising income (along with greater purchasing power) probably will.

In this respect, the changing population profiles of most Asian countries place them in good stead. Asian countries are gradually getting older and are benefiting from this change in the age structure of their population.

Due to steeper declines in their fertility rates over the years, China, Vietnam, Thailand and Singapore currently have a far larger segment of their population within the working age range than other Asian economies (see Total Fertility Rate chart).

GLOBAL – MEDIAN AGE PROJECTIONS 2020

YEARS OF AGE





TOTAL FERTILITY RATE

	China	India	Indonesia	singapore	Malaysia	Thailand	Vietnam	Philippins
1950-1955	6.11	5.90	5.49	6.61	6.23	6.14	6.20	7.42
1955-1960	5.48	5.90	5.67	6.34	6.23	6.14	6.76	7.27
1960-1965	5.61	5.82	5.62	5.12	6.23	6.13	7.33	6.98
1965-1970	5.94	5.69	5.57	3.65	5.21	5.99	7.38	6.54
1970-1975	4.77	5.26	5.30	2.82	4.56	5.05	7.15	5.98
1975-1980	2.93	4.89	4.73	1.84	3.93	3.92	5.89	5.46
1980-1985	2.61	4.47	4.11	1.59	3.73	2.95	4.93	4.92
1985-1990	2.63	4.11	3.40	1.70	3.59	2.30	3.96	4.53
1990-1995	2.01	3.72	2.90	1.84	3.42	1.99	3.23	4.14
1995-2000	1.80	3.31	2.55	1.58	3.18	1.77	2.18	3.90
2000-2005	1.70	2.96	2.38	1.33	2.96	1.68	1.93	3.70
2005-2010	1.64	2.73	2.19	1.25	2.72	1.63	1.89	3.27

Source: United Nations Development Programme (UNDP) 2011

CHINA	THAILAND	INDONECIA			
37	36	INDONESIA 32	MALAYSIA 30	INDIA 28	PHILIPPINES
					26

Source: DBS Group Research



DEPENDENCY RATIOS FROM 2005-2040 (PERCENTAGE)

▶ This means that for each working adult, there

demographers refer to as the dependency

dependency ratio is better as it essentially

means that there are fewer young children

and aged (who cannot be part of the active

labour force) relying on each working adult.

However, these countries (China, Vietnam,

dependency ratios are at the tail end of their

which are projected to close by 2015. After

this, their dependency ratios will start to rise,

"demographic window of opportunity,"

due to their greying populations as more

people retire from the workforce as they

grow older.

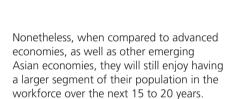
Thailand and Singapore) with low

ratio (see Dependency Ratio chart). A lower

are fewer children or aged dependents; what

	2005	2010	2015	2020	2025	2030	2035	2040
China	42	38	38	40	42	45	52	59
Thailand	44	42	41	42	45	49	54	58
Vietnam	50	42	41	42	42	43	45	49
Indonesia	51	48	46	44	43	44	46	49
India	59	55	52	50	49	47	47	46
Malaysia	58	54	51	50	51	52	53	53
Singapore	39	36	36	41	51	61	71	76
Philippines	68	64	60	57	56	55	54	52

Source: World Population Prospects, The 2010 Revisions. United Nations (UN)



For India, Indonesia, and Malaysia, dependency ratios will fall markedly over the next 20 years or so, as an increasing number of young people reach the working age, without the same number of children being added to their populations. In other words, these countries' fertility rates will continue to fall.

This bodes well for emerging Asia, as they find themselves replicating the same virtuous pattern of declining fertility and increasing income – attributes, which demographers have pinpointed to be responsible for the "East Asian miracle".



40%

China's dependency ratio in 2020

57%

The Philippines' dependency ratio in 2020

DECLINING FERTILITY AND INCREASING **INCOME ARE ATTRIBUTES WHICH DEMOGRAPHERS** HAVE PIN-POINTED TO BE RESPONSIBLE FOR THE "EAST ASIAN MIRACLE".



Europe

Year	Population (million)	Share of world's middle class		
2009	664	36%		
2020	703	22%		



Year	Population (million)	Share of world's middle class
2009	338	18%
2020	333	10%

The Rise of the Middle Class

With more and more people in Asia being able to earn and keep their income (as a result of having fewer dependants), the most exciting development in Asia is the rise of the middle class.

There is no standard definition or measurement for the middle class in Asia, be it by income or consumption. For instance, MasterCard International estimated the size of the Asian middle class, or the number of 'discretionary spenders,' at more than half a billion today, based on an income of more than US\$5,000 per year.

Others have approached it by looking at spending: from as little as US\$2 per person per day to more than US\$10.

Even by the more stringent measure of including only individuals who only spend more than US\$10 as the middle income class, Asia today has a middle class of 525 million people, representing 28% of the global middle class. However, this middle class is projected to expand significantly, by more than three times its current size, to 1.74 billion over the next decade. That would make up about half of the world's middle class population by 2020.



Central and South America

Year	Population (million)	Share of world's middle class
2009	181	10%
2020	251	8%

World

Year	Population (million)	
2009	1845	
2020	3249	

Middle East and North Africa

Year Population Share of world's middle class
2009 105 6%
2020 165 5%

Source: Homi Kharas, The Emerging Middle Class in Developing Countries. Organisation for Economic Co-orporation and Development (OECD) Working Paper No. 285. Jan 2010

Note: Totals may not sum due to rounding

Asia Pacific

Year	Population (million)	Share of world's middle class		
2009	525	28%		
2020	1740	54%		

Sub-Saharan Africa

Year	Population (million)	Share of world's middle class
2009	32	2%
2020	57	2%

As Asia's middle class grows, so will its demand for goods and services. Globally, demand from the middle class is projected to expand from US\$21 trillion to US\$35 trillion by 2020. Over 70% of the growth in demand will come from Asia.

The rising middle class will be a significant factor in reshaping national economies. They will be an influential and profitable market segment thanks to their size and emerging buying power.

How would they do so and what would they be buying?

Many characteristics of a household are shaped by its living standards. These include urban/rural residence, geographical location, family size and education.

One would therefore expect the middle class to produce fewer children and invest more in healthcare, nutrition and schooling than the poor.

Asia's middle class is no different. It is disproportionately urban, better educated and has smaller families. These attributes will influence how their money is being spent.

For instance, smaller households will shape the nature of housing demand. Having fewer children would give middle class parents greater ability to afford quality education for their children. More women would also be more likely to rejoin the workforce. Additionally, families would have more opportunities for savings and personal consumption.



Expanding markets for consumer durable goods

Asia's expanding middle class, like its Western counterpart, will seek to enjoy a better quality of life. This will drive the sale of durable goods such as refrigerators, cars, televisions, and mobile phones.

China has some 780 million mobile phone subscribers. In India, there has been significant growth of 66% in the number of mobile phone users from 2000 to 2010. Astoundingly, these figures represent only about 55% of the population in these countries, which means that China and India still have substantially untapped markets.

In some Asian countries, mobile phone ownership is even higher. Some 74% of people in the Philippines and 80% in Vietnam use mobile phones.

780 million

Mobile phone users in China

80%

Population that use mobile phones in Vietnam

Frugal innovation

It is important to note that middle class Asians from the emerging economies are coming in from a fairly low base. Even when a relatively modest spending threshold of US\$4 -10 per day is used to define the middle class, it does not currently form the majority of the population in any of the developing Asian countries except for Malaysia and Thailand (where those spending more than US\$4 make up 54% and 56% of the populations respectively).

As a matter of fact, when the higher cutoff of more than US\$10 expenditure per day is used, the "middle class" becomes an even smaller percentage of the total population.

Over the next nine years, Malaysia and Thailand will see a significant increase in the number of people who will spend more than US\$10 a day. The growth of the upper middle class in China will be impressive in terms of sheer size, from 80 million in 2010 to 208 million people in 2020.

While the higher middle income group (those spending more than US\$10 per day) is expected to grow over the next decade, the more impressive expansion will occur at the lower range of US\$4 -10, especially for the emerging economies of Indonesia, Vietnam, India and China.

Asia's new middle class will therefore not be as wealthy as the middle class in New York or Paris. Many are only just starting to make their way up the economic ladder. Their disposable income is growing, but has not reached the same level as their counterparts in the US.

The comparatively less wealthy profile of this group will drive the search for innovative solutions that are easy on the wallet. The refrigerator produced by Indian manufacturer Godrej, which sells for US\$70, as well as cheap mobile phone rates and very affordable locally manufactured cars, are some examples of this.

International firms have spotted this gap in the market too. Swiss food maker Nestle sells single servings of instant coffee and stock cubes in Asia. In the Philippines, Anglo-Dutch personal care firm Unilever has tapped into the market by selling starter packs of shampoo and conditioner, costing about 10 US cents each. These products are good revenue generators which have quickly come to account for almost one-third of the company's entire turnover in the country.

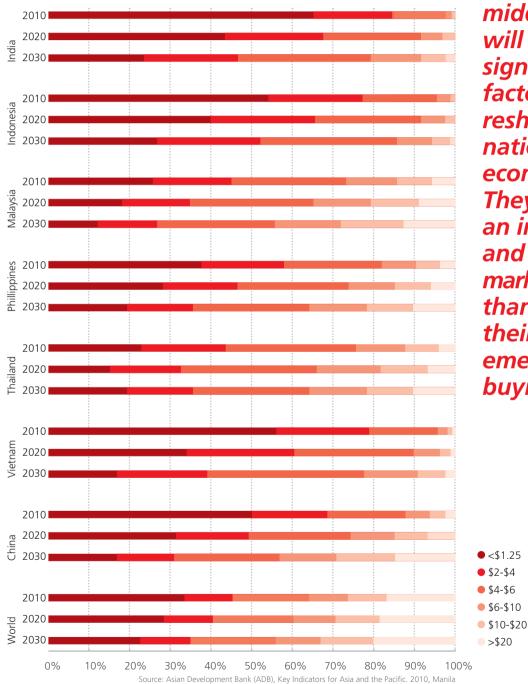
Demand for education/ healthcare and other services

The middle class is likely to be more willing to spend on quality education for their children. They have also demonstrated a willingness to spend a higher proportion of their household budget on healthcare. The middle class in Thailand, for instance, spends twice as much on healthcare and education than the lower income class (4.0% versus 1.8%). The Chinese spend the highest portion of their income on healthcare and education.

This is driven partly by the struggle of healthcare and education systems to keep up with demand. India, for example, only has 0.7 hospital beds per 1,000 people, compared to the global average of 2.6.

Middle class individuals want better quality public service and are willing to pay for it. When the government cannot deliver, they will increasingly turn to the private sector.

ESTIMATED AND PROJECTED PERCENTAGE OF POPULATION IN EACH INCOME GROUP BASED ON DAILY EXPENDITURE IN US DOLLARS (\$)



The rising middle class will be a significant factor in reshaping national economies. They will be an influential and profitable market segment thanks to their size and emerging buying power.



Urbanising Asia

The Asian middle class is contributing to the region's rapid urbanisation as they overwhelmingly choose to lead their lives and spend their money in cities.

From an economic standpoint this is a good thing. According to development experts at the World Bank, countries cannot grow economically and develop without industrialisation and urbanisation. To achieve economic growth, higher densities, shorter distances, and fewer divisions are needed.

Urban centres offer economies of scale and make it more efficient to provide services such as education, healthcare, clean water and safe sanitation. Better access to such services improves the levels of health and education of the population, as well as their productivity. A skilled labour force attracts investments that generate more employment and prosperity, setting off a virtuous cycle of economic gain.

In China, there will be 131 cities with more than a million people by 2020. Of these, seven are mega-cities of more than 8 million people (Beijing, Chongging, Guangzhou, Shenzhen, Shanghai, Tianjin, and Wuhan). Many of the other cities will be home to 1 to 2 million people.

Apart from the well-known capital cities and metropolises of Southeast Asia, well over 20 secondary cities in Indonesia, Malaysia, the Philippines, Thailand, and Vietnam will have more than a million people each by 2020. On average, each of these secondary cities will be home to 1 to 2 million people. However, for these countries, it will be in 2025 before at least half of their population move to a city. In comparison, 50% of the world's population has been "urbanised" since 2007.

Infrastructure as a key growth area

For urban Asians, who have experienced first hand the stresses rapid growth has placed on infrastructure, traffic congestion is the norm. Commuters pass slums on

their way to work, crowded with new arrivals from rural areas jostling for a place to live.

Cities like Bangkok, Jakarta, Manila, and Ho Chi Minh City have not stayed ahead of the growing demand for infrastructure and services. Their investment needs are immense, and will run into billions of dollars.

Urban areas will need roads, water, electricity, railway lines, ports and airports to promote economic growth. People will need improved water supplies and sanitation, education, and healthcare facilities to reduce poverty and increase productivity. They will also need mass transit systems and better solid waste management to improve the living environment.

Urbanisation will also drive housing demand from lower-middle and middle-income families. More private sector developers, as well as better financing options mean that both supply and demand will increase. However, many

MEAN PERCENTAGE SHARE OF HOUSEHOLD EXPENDITURE SPENT ON EDUCATION AND HEALTH BY PER CAPITA INCOME CLASS IN US DOLLARS

	<\$2	\$2-4	\$4-10	\$10-20	>\$20
China	12.0%	15.0%	15.8%	15.4%	9.6%
India	6.0%	8.2%	7.8%	5.6%	0.6%
Indonesia	2.9%	3.2%	3.8%	2.8%	0.2%
Thailand	1.8%	2.4%	4.0%	5.8%	3.8%
Philippines	3.0%	3.6%	5.0%	4.2%	1.0%
Malaysia	2.0%	2.4%	2.8%	3.5%	3.0%

Source: Asian Development Bank, Key Indicators for Asia and the Pacific. 2010, Manila

INFRASTRUCTURE EXPENDITURE NEEDS (2006-10) IN US DOLLARS

	Total	Urban Sector (basic infrastructure) (\$ million)	Urban Sector (basic + other) (\$ million)
Indonesia	19,353.9	1998.7	4772.9
Malaysia	2,429.9	279.3	670.3
Philippines	7,299	1043.7	2504.9
Thailand	5,756.3	266.7	640.1
Vietnam	3,883.3	455.4	1093
China	116,307	10,458	25,099.2
India	51,264	6,628.6	15,908.6

Source: Asian Development Bank, Managing Asian Cities. 2008, Manila

The demand for both hard and soft infrastructure will grow as the pace of urbanisation deepens for these emerging Asian cities.

cities and towns in Southeast Asia still face a substantial housing shortage for the low – and middle – income groups. As these countries urbanise, there will be a greater demand for housing.

On top of housing, rapidly developing cities will also need 'soft' infrastructure such as banking systems, educational institutions, medical facilities, technological readiness, and business sophistication. Emerging Asian cities fall behind the rest of the world in these areas, ranking low on the Global Urban Competitiveness Index.

The demand for both hard and soft infrastructure will grow as the pace of urbanisation deepens for these Asian cities. If governments continue to fall behind in adopting adequate urban planning, the opportunity to create urban pockets of wealth may be affected.

The private sector will step up to fill some of the gaps left by the government. Urban upper middle-class families in Jakarta, Manila, Bangkok and elsewhere live in gated communities, guarded by private security firms rather than the police. They drink water from a bottle, not a tap. Commuters drive on privately-operated toll-roads rather than congested public roads, and enjoy days out at private malls, rather than poorly maintained public parks. People send their children to private schools and private universities, and if they fall ill, seek medical assistance at private hospitals.

The needs of Asia's middle class present a wide range of lucrative investment opportunities for sawy investors who understand long-term trends and who have a nose for opportunity. The potential for growth is clear. The challenge however, is in finding companies that can successfully fulfill these needs.

GLOBAL URBAN COMPETITIVENESS INDEX RANKING (2009-2010) OUT OF 500 CITIES

Rank	New York
8	Singapore
205	Mumbai
210	Jakarta
276	Bangalore
302	Ho Chi Minh City
335	Chennai
337	Hanoi
369	Ahmedabad
371	Medan
378	Hyderabad
383	Pune
383	Phnom Penh
438	Jaipur
440	Lucknow

Source: Global Urban Competitiveness Project, 2009-10







Consumption

Burgeoning consumption in Asia is visibly on display as global companies make a beeline for the fastest growing region in the world. This comes as no surprise, as the region will be home to more than half of the world's middle class by 2020.

SECTORS IN FOCUS:











Much of what they will be spending on will be regarded in the developed world as everyday necessities for an urbanised, modern life. But what is notable is the sheer number of people in Asia who will be in the position to make such purchases for the first time. Rising incomes combined with the rapid growth of main and secondary Asian cities will also create new and more sophisticated markets where none existed before.

Asians are expected to spend significantly more. They will at least double their level of consumption to reach US\$8.6 trillion by 2020. This translates to a rough annual growth rate of 8% over the next 10 years, which is significantly higher than growth from the US at 2.5%.

PRIVATE CONSUMPTION – SIZE OF MARKET IN US DOLLARS (BILLION)

Private Consumption	2010	20201	CACROLO
Asia-9	3,964	8,622	8.1
Asean-5	908	1,559	5.8

Source: DBS Group Research, BMI. Assume constant USD



Food, in particular grocery retailing, looks set to continue on its spectacular growth trajectory.

Given where income levels are currently situated, a good part of this spending will go towards food consumption. This is especially applicable to Asians in the emerging markets, where food bills will account for about 26% of household spending in the Asia-9 countries.

By 2020, Chinese consumers would have increased their spending on food to US\$1.48 trillion, and be responsible for more than half the combined market size of the Asia-9 economies,

Indonesia, with its quarter of a billion people, will account for 56% of the Southeast Asian food market size.

The way food is being consumed will also change, influenced by rising disposable incomes and increasingly urban preferences. Food, in particular grocery retailing, looks set to continue on its spectacular growth trajectory. In ASEAN-5, mass grocery retail spending is destined to grow to US\$180 billion by 2020, an increase of over 200% from 2010.

FOOD CONSUMPTION – SIZE OF MARKET IN US DOLLARS (BILLION)

Food consumption	2010	20201	CACIROIO
Asia-9	1,146	2,257	7.0
Asean-5	351	606	5.6
China	676	1,475	8.1
Indonesia	191	339	5.9
Philippines	66	99	4.1
Thailand	59	106	6.0
Malaysia	29	49	5.4
Singapore	6	13	8.0

Source: DBS Group Research, BMI. Assume constant USD

FOOD RETAIL INDUSTRY

Emerging Asia provides ample expansion potential for food retailers. Within Asean-5, the food retailing industry is largely fragmented, with a few big chains controlling a fair chunk of the market. In Hong Kong and China, there are a handful of large players and well-established global giants such as Wal-Mart and Carrefour. The China food supply scene is also underdeveloped in comparison to advanced economies.

Food retailers stand to gain a bigger piece of the pie by extending their customer base through opening more outlets and varying their product offerings. This customisation is particularly important for the Chinese market, as regional tastes and preferences still differ widely across the country.

With size on their side, these food retailers will be able to harness the benefits of sourcing power and operating scale to rival traditional wet markets in terms of pricing.

Competition in this sector will remain keen, as Asia continues to grow and global players look to establish or expand their presence. Excessive food inflation could affect customer demand. The rising bargaining power of major brands along the value chain could also impact returns.

Higher costs in Asia, including rentals and staff expenses, could trim profitability, especially for smaller retail chains, which have less bargaining power. Still, as consumer demand grows, so too will the food retail sector.





The fastest-growing and largest car manufacturing centres in the region are China, Malaysia, Indonesia and Thailand.

China's car market is now the largest in the world after it overtook the US in 2009. Last year alone, 18 million units were sold in the country. Car ownership is likely to grow with rising disposable income, more roads, and aggressive new model roll-out strategies. By 2020, two out of 10 Chinese people will own cars. Total sales are expected to exceed 30 million units by 2020, assuming an annual sales growth of 5.3% in the next decade. We believe that our estimated growth rate is reasonable, as even the US (a much more mature automobile market), experienced less than 2% annual growth in vehicle sales between 1981 and 2007.

Long-term growth prospects are even rosier for Indonesia, Malaysia and Thailand. Car ownership is only about 9%, and as people grow wealthier, vehicle demand is expected to expand at 10.5% per year from 2010 to 2020.

MARKET SIZE FOR CARS

CHINA

AUTOMOBILE	2010	2020t	CACIF
Annual sales (million units)	18.0	30.2	5.3
- passenger vehicles (million units)	13.7	23.6	5.6
- commercial vehicles (million units)	4.3	6.6	4.4
New-energy vehicle sales ('000 units)	10	5,000	86.2
Sales revenue# (US\$billion)	335	843	10.0
Penetration rate (per 1,000 people)	58	215	

ROAD SYSTEM

Total operating length of roads ('000 km)	3,984	4730	1.7
Expressway operating length ('000 km)	74	252	5.4

[#] Based on sales revenue of 17 major auto groups

Source: CHINA – CAAM, MOC, PRC Government, DBS Vickers

0/0

CAR OWNERSHIP

SE ASIA (INDONESIA, MALAYSIA & THAILAND)	2010	2020E	CVEGS 0/0
Annual sales (million units)	2.2	5.9	10.5
Total Registration (million units)	29.4	65.8	8.4
Penetration rate (per 1,000 people)	89	169	

Source: ASEAN – CEIC, KAMA, Gaikindo, DBS Vickers



China's car market is now the largest in the world after it overtook the US in 2009.

ASIAN MOTORCAR INDUSTRY

The Chinese car manufacturing sector is dominated by state-owned enterprises (SOE) that have teamed up with international car brands. The top five car manufacturing partnership-groups account for 70% of all vehicles sold in 2010. Listed car-making giants have the financial muscle needed to develop new models. They can also enhance localised production strategies, and takeover smaller players to strengthen their market position. The Chinese government has also announced its plan to consolidate the industry, which is to the larger manufacturers' benefit.

In fact, automobile companies are faring well in China. Large, listed state-owned auto groups have posted average revenue growth of 40% per annum over the past five years. It is expected that their rate of expansion will therefore be consistent with the expansion trend in the industry.

Rising urbanisation and investment in better road infrastructure, especially in secondary Chinese cities, will further fuel the demand for cars. Still, it is a cutthroat business, with major car manufacturers expanding production capacity to gain a larger part of the market. With competition driving down prices and inflation driving up costs, profit margins are being squeezed. This creates a real risk of a supply glut. Additionally, hikes in crude oil prices could also potentially dampen demand.

Public efforts to get car owners to switch to energy efficient vehicles have been challenging. Only 9,200 units of alternative energy cars were sold in China last year, an insignificant fraction of the 13.7 million regular passenger vehicles delivered. The government, however, hopes that the New-Energy Vehicle Development guidelines will reverse the trend. It has targeted the sale of 5 million alternative-energy vehicles, with a budget of RMB100 billion earmarked for the initiative.

By 2020, the market value of these car makers will be 1.6 to 1.9 times larger than what it was in 2010, as their revenues grow by 10 to 12% over the coming decade.

Among Southeast Asian countries, the automotive sector is characterised by joint-ventures with Japanese partners. Cheap local cost of materials, along with high margin-financing schemes to boost sales have put these partnerships in an advantageous business position.

The key risk to this optimistic outlook is a sudden drying up of the abundant credit currently available. About half the cars sold in the region are still purchased on credit. The rising, but still modest, middle class does need some help augmenting their purchasing power on new costlier expenditures such as cars. With concerns about rising inflation levels, higher interest rates will eventually kick in to curb price increases. This could somewhat restrict the flow of available credit and hurt effective demand. Nonetheless, the rapid urbanisation of Indonesia at least, will be a strong growth driver for the car industry.

By 2020, the leading Southeast Asian vehicle manufacturers will be valued at 2 to 2.4 times more than they were in 2010. Their revenues are expected to grow annually by 12-15%, and profits by 14% over the coming decade.

18 million

Units of vehicles sold in China in 2010

30 million

Projected units of vehicles to be sold in China in 2020





Over the past decade, economic growth, urbanisation and rising incomes have come together to create intense demand for housing across Asia.

Hong Kong, Singapore, Thailand, Malaysia, Indonesia and China take up 24% of the world's population. Among these, home ownership ranges from as low as 50% in Hong Kong to 88% in Singapore.

9.8 million residential properties were sold in 2010, of which 95% were in China and Indonesia. The remaining 5% was shared between Thailand, Singapore, Hong Kong and Malaysia.

Housing demand is projected to grow to a combined market value of US\$1 trillion by 2020. This expected 16.5 million property deals will be driven by population, household growth, urbanisation and infrastructure development. Meanwhile, rising affluence will lead buyers to seek out better quality housing. This will enable housing suppliers to broaden their product offering.

The pace and pattern of this growth will vary according to market development and demographics in each country. Volume growth will be the main driver in Indonesia and Malaysia in view of the fact that the 'under-25s' make up 46% of the total population.

In China, low ownership levels, urbanisation and a relatively high incidence of people falling in the home-owning age range will ensure robust demand for housing.

Singapore is the only market where the government plays a dominant role as a housing provider, accounting for 80-85% of the market. Home ownership levels are atypically high. Room for growth is therefore likely to remain modest, with demand coming from new families, and people opting for better quality housing.

In Hong Kong, a slightly older cohort (26-44 years old) accounts for 33% of the market, while the 'under-25s' account for 26%. Home ownership is low at 50%. A two-tier housing market could develop where private developers would focus on building luxury homes with higher value, while the government introduces public housing over the next few years to cater to lower-income buyers.

SIZE OF MARKET - RESIDENTIAL PROPERTY

Annual sales (unit)	2010	2020E	CAGRO10
China	9,300,000	15,600,000	5.3%
Hong Kong	12,504	16,000	2.5%
Indonesia	280,000	564,000	7.3%
Malaysia	72,837	96,003	2.8%
Singapore	35,256	42,507	1.9%
	95,840	150,000	4.6%
Thailand	93,040	,	
Thailand Total	9,796,437	16,468,510	5.3%
	9,796,437	•	5.3%
Total	9,796,437	•	5.3% 4.8%
Total Sales value in US dollars	9,796,437 s (million)	16,468,510	
Total Sales value in US dollars China	9,796,437 s (million) 647,059	16,468,510	4.8%
Total Sales value in US dollars China Hong Kong	9,796,437 s (million) 647,059 16,560	16,468,510 1,029,411 24,501	4.8%
Total Sales value in US dollars China Hong Kong Indonesia	9,796,437 s (million) 647,059 16,560 4,700	16,468,510 1,029,411 24,501 15,600	4.8% 4.0% 12.7%
Total Sales value in US dollars China Hong Kong Indonesia Malaysia	9,796,437 s (million) 647,059 16,560 4,700 5,000	16,468,510 1,029,411 24,501 15,600 9,700	4.8% 4.0% 12.7% 6.9%

Source: DBSV Estimates based on primary transaction data. Assume constant USD







Not only is Asia a major consumer of agricultural products, it is also one of the world's largest producers. Asia's agribusiness industry spans a wide range of products and activities from aquaculture, poultry and feed mills, to seed producers and industrial forestry.

Asia's dominance in the global agribusiness market is clearly evidenced in palm oil and rubber production. It will be home to 86.3% of the 81.7 million tons of global palm oil supplies, and 95% of the 15.5 million tons of global natural rubber supplies over the next eight years.

However, global demand for both commodities may exceed supply due to the rising affluence of emerging economies. Growing consumption in Asia, such as the demand for cars for instance, will boost rubber demand by 3.7% per year until 2020.

Rubber is mostly cultivated by small independent farmers, whereas palm oil estates are typically managed by large commercial entities. In both cases, Southeast Asian nations such as Indonesia, Thailand and Malaysia dominate the market.

Unsurprisingly, there are very few of these small rubber producers listed on stock exchanges. In contrast, the larger commercial palm oil companies are well-represented on regional bourses (19% of total palm oil planted area).

Both palm oil and rubber producers are primarily 'price-takers,' meaning that they follow the prices that are set by market forces and do not engage in much product differentiation.

In their attempts to gain a competitive advantage over peers, producers should focus on upstream and downstream expansion, overseas investment, finding cost efficiencies, yield intensification, and diversification into other crops.

Demand is projected to outstrip supply. This together with competition for limited land, capital and labour, will lead to keener competition. Larger suppliers are likely to take over the market share of smaller players, through efficiencies and economies of scale.

In general though, all competitors may face problems of increasing production. Erratic weather caused by global warming, rising bio-fuel demand because of carbon emissions reduction targets, and the removal of subsidies will crimp supplies. Mechanisation and genetic engineering will eventually be needed to bolster productivity.

Companies with the foresight to pursue new growth areas, geographically and across the value chain, will be the most successful in the agribusiness sector. This is because they will be able to minimise costs by securing the most efficient locations for operations.

Asia will be home to 86.3% of the 81.7 million tons of global palm oil supplies, and 95% of the 15.5 million tons of global natural rubber supplies over the next eight years.





Between now and 2020, demand for all types of energy is expected to increase in the emerging Asian countries.

Generally, developing countries will account for 93% of the projected increase in world energy demand, with Asia being responsible for most of it. By 2035, China will take up 36% of this growth and account for 22% of global demand, up from 17% today. India will be the second largest contributor, responsible for 18% of the increase.

The large share of fossil energy consumption by developing countries is partly explained by the expected decline in demand for coal and oil in the developed countries, which have pledged to lower greenhouse emissions.

The G20 countries – a grouping of the world's largest economies – are looking at phasing out traditional energy subsidies that distort markets and impede investment in clean energy. If implemented, the rate of growth for world energy demand will fall from its historic 2%, to an average of 1.2% for the period between 2008 and 2035.

Carbon dioxide emissions can also be reduced through renewable energy. As a result, energy sources such as hydro, wind, solar, geothermal and biomass have been forecast to triple between 2008 and 2035. Renewables, which provide 19% of current global energy needs, will account for about a third of energy usage over the same period.

Oil will still remain as the dominant fuel source. Asia consumed 6,874 million barrels of oil in 2010. China and India are the largest guzzlers at 3,055 million and 1,173 million barrels respectively.

SIZE OF MARKET - OIL CONSUMPTION IN ASIA

	Units (million barrels/yr)		Value (US dollars billion/yr)			
	2010	2020	CACE O/O	2010	2020	(ACR olo
China	3,055	4,358	3.6%	243	479	7.0%
India	1,173	1,599	3.1%	93	176	6.5%
Korea	821	920	1.1%	65	101	4.5%
Indonesia	399	638	4.8%	32	70	8.3%
Thailand	336	470	3.4%	27	52	6.8%
Singapore	320	415	2.7%	25	46	6.0%
Taiwan	331	357	0.7%	26	39	4.1%
Malaysia	195	258	2.9%	16	28	6.2%
Hong Kong	131	155	1.7%	10	17	5.0%
Philippines	113	146	2.6%	9	16	5.9%
Asia-10	6,874	9,316	3.1%	547	1,025	6.5%
US	6,989	7,484	0.7%	556	823	4.0%
EU-B3	2,119	2,199	0.4%	169	242	3.7%
Japan	1,614	1,724	0.7%	129	190	4.0%

Source: US Energy Information Administration, DBS Group Research. Assume constant 2010 USD

Coal demand will also continue to be high in Asia, and is expected to grow at an average of 8% per year until 2020. Asia currently accounts for 65% of world coal demand, primarily because of the energy needs of fast growing India and China.

Gas is set to play a key role in meeting the world's energy needs. It is the only fuel for which demand outside of Asia is going to be higher in 2020 than in 2008. The International Energy Agency forecasts that gas demand should increase by 44% by 2035. China's demand will grow the fastest by almost 6% annually, accounting for more than one-fifth of the increase in global demand by 2035. There is potential for Chinese gas demand to grow even faster.

Unconventional gas accounts for 35% of the increase in global supply. The main driver comes from lower prices, which lead to stronger demand for gas. Furthermore, when compared to the other fossil fuel types, gas is friendlier on the environment.

ENERGY INDUSTRY

China is the biggest coal producer at 42%, followed by Australia at 37% and Indonesia at 16%. However, the coal sector in China is very fragmented with the top four players accounting for only 20% of the country's coal production. In Indonesia on the other hand, the top five producers account for 62% of coal output.

While China is the world's biggest consumer of fossil fuels, it has also made the greatest strides in investing in alternative cleaner energy. China is one of the world's leaders in the production of wind turbines and solar modules. In terms of wind equipment, China boasts 4 of the world's top 10 companies. In the solar sector, Chinese companies make up over 50% of the global supply.

Renewable energy, is however not likely to have a meaningful impact in Asia by 2020. Coal power plants are still estimated to account for more than 70% of power generation because coal is cheap and easily available for Asian countries.



THE VISION OF DRIVING GROWTH BASED ON ASIAN CONSUMPTION AND INVESTMENT WHICH MAY HAVE ONCE LOOKED LIKE A PIPE DREAM IS NOW BECOMING A VIABLE REALITY.

From Imagination to Reality

The vision of driving growth based on Asian consumption and investment, which may have once looked like a pipe dream, is now becoming a viable reality. To be sure, there is still a long way to go, in terms of income and consumption growth. Even as Asia-10 catches up with the US in terms of absolute GDP by 2016, for most Asian countries, their per capita incomes are still 20-40 years behind.

Armed with these facts and figures, and more, we attempted to make some educated guesses on how this anticipated 'reality' could

unfold over the next 10 years, and what this unprecedented broad-based Asian demand and consumption would look like.

And how these trends and developments would benefit business sectors such as agribusiness, automobile and housing by 2020.

We hope the trends, tipping points and trajectories we have identified would have not only informed but intrigued you to gain a deeper understanding of the region and the exciting opportunities it offers.



Asia 2020: Burgeoning opportunities in our own backyard

An exclusive interview with our head of wealth management, Tan Su Shan, on how shifts in demographic and income trends will affect Asia's wealth management in the future.

Q: Asia's growth has been largely driven by its rising middle class. More Asians are entering the workforce and their incomes are rising. Do you think that the wealthy in Asia understand these phenomena sufficiently?

Tan Su Shan (TSS): I think the whole world is well aware that Asia is outperforming the West – look at the speed of wealth creation in China where

159 millionaires are born every day! In the 1970s and 80s, Asia used to be largely dependent on exports for growth. However, in the last few years, and in the next few years, Asia has and will become less dependent on exports and more driven by domestic consumption. There will be significant growth in domestic sectors, in particular, sectors related to investments and infrastructure. This shift in the key driver of growth will change





▶ the colour and the texture of the wealth creation which will become more domestic in nature. Similarly, the way that we advise our clients will be towards managing their wealth in an Asia-centric manner.

This is why DBS has an Asia-centric CIO office, and a very Asia-centric asset allocation model. We believe that the opportunities of wealth creation over the long term lie in our own backyard. And if your backyard is booming, shouldn't you focus on it? That's why our clients want a very Asian flavour to their asset allocation. They want their assets to be in a market they understand, in a currency that they require, and also to benefit from the longer term growth in Asia.

Q: So basically you think your clients are well aware of these changes and they are actually following the smart money?

We believe that the opportunities of wealth creation over the long term lie in our own backyard - Asia. And if your backyard is booming, shouldn't you focus on it?

TSS: Earlier this year we came out with our Asia Asset Allocator fund, which has garnered strong attention. Unlike the traditional Western-style asset allocation model, which has a greater percentage in the US, Europe and other developed markets, our asset allocation for our Asian clients has a higher weightage in Asia ex-Japan equities or Asia fixed income. It is a very Asia-centric model portfolio.

For now, equities is still the most developed of the asset classes in Asia when it comes to wealth management. While Asians are now increasing their exposure to Asian currencies like the Singapore dollar, renminbi (RMB) and the Australian dollar (and increasingly the Indonesian rupiah and the Indian rupee as well), the currency market is still fairly controlled.

The fixed income market is quite nascent, but has been developing well over the past few years. I remember saying three years ago that we don't have enough of a Singapore dollar bond market. But now, not only do we have a strong domestic Singapore dollar bond market, even foreign issuers are issuing in Singapore dollars. So the Singapore dollar has fast become an increasingly international currency. Another example is the offshore-traded renminbi



or the CNH, which was born just over a year ago. The market capitalisation for the "dim-sum bonds," or CNH-bonds issued in Hong Kong is RMB 188 billion right now and has been growing at an exponential rate. To us, the CNH has every potential to be the new currency of choice for Asia.

The speed at which Asia is creating wealth and the speed that wealth management industry is growing within Asia – our booming backyard – have been tremendous.

Q: Speaking of the rising middle class in Asia, they are spending, but not so much on luxurious items. Do you think businesses are doing enough to meet their needs?

TSS: The long-term trend for the emerging middle class is something we cannot ignore. You can break their needs into four buckets: healthcare, education, domestic travel and domestic consumption. The emerging middle class is one of the key drivers of this whole urbanisation process taking place in China right now. A large number of individuals in the middle income class are either living in or moving to cities. So you have to give them affordable housing and healthcare in the cities. That's the first bucket.

If they have children, they will have fewer children, and will tend to spend more money on their kids. So investing in educational facilities for their children is the second bucket. There are great stories of the boom in this sector because of the sheer numbers we are talking about.

The new Asian wealthy like to travel. A lot of them travel domestically, such as within China, using railways and staying in motels or hotels. The benefits from increased domestic travel are overflowing to businesses near the major connection points like train stations and airports. While the emerging middle class have a spending pattern which is not luxurious in nature, it is "massive" and it is "high cash-flow generating." That makes domestic travel the third bucket.

Finally, the last bucket is pure domestic consumption. That is why the likes of L Capital, a private equity fund owned by Louis Vuitton Möet Hennessy (LVMH) have recently invested in a Singapore ladies' shoes manufacturer and retailer – Charles and Keith. So here's an example of a luxury brand investing in more mass-market brands.

These stories and trends reveal a lot about the consumption pattern of the new Asian wealthy.

Q: To what extent would problems in the West, which look pretty systemic and long-lasting, affect Asia's success? Will they derail the growth trajectory Asia is on?

TSS: We can't avoid that murkiness (surrounding the Western economies) from hitting us. It has and it will. I do note that equities markets have reacted badly to news out of Europe, which tells us that no matter how little we are exposed to the European debt crisis, capital markets here still remain extremely intertwined. So, I think that the short-term outlook certainly looks murky for equity markets.

And that's why we're thankful that Asia's bond market has come up to speed in terms of growth. Both the sovereign Asian debt and corporate high-grade Asian debt markets have been seeing burgeoning growth. Just last year, the growing Asian bond market was able to effectively absorb some of the liquidity that our clients have (denominated in Singapore dollars). All of us know that cash makes us no money. With inflation rates so high, putting money in cash deposits effectively gives you a negative real interest rate. So when you have high-grade corporate, or high-grade government bond issues, then that gives our clients a run-for-theirmoney (in comparison to keeping monies in cash deposits) especially during times of strong volatility in risky assets.

In the long term, we expect Asia to outperform the West for all the reasons outlined in the Imagining Asia: 2020 report. They are primarily: consumption growth, middle income growth, infrastructural spending and rapid urbanisation. It's just sheer numbers. You can't fight more than 3 billion people, can you?

You certainly can't move from an export driven economy to a consumption economy overnight, but China has definitely moved along very quickly. So while we can't engineer changes overnight, every Asian economy has been working hard to boost their intra-regional trade, and to try and boost incomes and job opportunities for the middle class. So, I think we are lucky- we don't have 9% unemployment in this part of the world. Instead, we often grumble about a shortage of talent.

However, one concern is that inflation figures are getting too high. So this slowdown may not be exactly unhealthy in a way, because it gives us a pause from what was very hot growth, and a pause from potential bubbles in high-end properties and the property market for example.



In the long term, we expect Asia to outperform the West for all the reasons outlined in [this] report. They are primarily: consumption growth, middle income growth, infrastructural spending and rapid urbanisation. It's just sheer numbers. You can't fight more than 3 billion people, can you?

Q: Could increased income and consumption exacerbate the inflationary environment in some of the fast growing economies?

TSS: Inflation is always a big problem for booming emerging markets. And that's a critical issue as it causes problems for social unrest as well as for your currency. I think the Chinese government for instance, has been very aware of this issue. They have been very sensitive to inflation numbers, proactive in ratcheting up the reserve ratio requirements, curbing liquidity, and tightening bank lending. They have also been trying very hard to limit the growth of money supply. The Monetary Authority of Singapore (MAS) has allowed currency appreciation to occur as fast as it has to absorb all the inflationary pressures. So, I think that the Asian governments understand and are sensitive to this issue.

What worries me slightly is the rapid rise in consumption. The longer-term implications that I worry about are more environmental. There are also issues of productivity growth and sustainability.

Q: It is interesting that you have pointed out these concerns when the general prevailing outlook in Asia is essentially very rosy. What other structural challenges are there?

TSS: Well, one key structural challenge comes from inflation, where the poor can't afford basic necessities. The divide between rich and poor has just become so great in these high-growth emerging markets. And it's not just a Chinese issue. I'm sure it's a Brazilian issue, an Indian issue and an

Indonesian issue. So governments have to address these issues before they grow out of proportion, and for that, we have to rely on the political and social leadership.

The sustainability of it all comes from the economics. We're doing a lot too guickly and at costs that need to be addressed. In some cases, unplanned rapid urbanisation has led to problems like bad sanitation, contaminated water, pollution and poor health. These are all longer term issues we need to be aware of. Many governments are working to overcome these problems and I think everyone is trying to do their bit to make businesses a little more sustainable and socially responsible. You hear interesting stories of how government policy gives tax breaks if you go from being just a manufacturer to an energy-saving manufacturer. If you produce energy saving LED lights you might get some tax rebates, or if you're into solar panels you get research grants. I think that's the way forward, but it will not happen overnight.

I also think ageing is an issue. But it's a global, and not just an Asian issue. Because the demographics in Asia are so good, we don't really see the ageing issue yet. But sooner or later it will hit us. It will hit developed cities like Singapore and Hong Kong first.

For the "new wealthy in Asia," I think there will be a growth of more sophisticated investment products coming to Asia very quickly. That will give the capital markets here a lot more depth and create a lot more cross-border financial activity. The fact is that more global companies are issuing equities and bonds in Asia. Just recently, Manchester United applied to list in Singapore. So you've

got a lot of companies who want to be global and realise that if they want to be global, it's no longer just about NASDAQ or NYSE or London Stock Exchange. It's about listing on the Hong Kong or Singapore exchange, and it is potentially about issuing in RMB, Hong Kong or Singapore dollar. This is great news but I think our financial centres of Singapore, Hong Kong and Shanghai, which have evolved very quickly, will continue to evolve and each one of them will and find its niche in a particular area of the capital markets.

Q: As you have pointed out there is a lot of wealth creation taking place right now in Asia, how would you ensure that the wealth created today is preserved for the future?

TSS: We just completed our "Next Generation Education Programme" recently. Unlike the global banks, we really gave the young of the wealthy in Asia a sense of ownership of what they need to do for their own future. They need to recognise that their parents created this wealth fairly recently and this is wealth that they may choose to take over or not. They need to start thinking for themselves. The "Gen Y" or "Z" that we met said to us that they want responsible investing, and socially responsible actions. So that's good to hear. So while European and US wealth can be classified as "old wealth," Asia has "new wealth." Most of the wealth creation right now in Asia has been in businesses, and a lot of Asian parents have high hopes for their children to carry on their legacy.

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