NAPLES GLOBAL ADVISORS

TRAVEL INSIGHTS

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EPICENTRUM OF GROWTH

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For decades, the dominant player in foreign capital markets was China, but in the last five years there has been a significant change. The negative sentiment associated with Chinese markets first began in 2018 with the now ongoing U.S.-China Trade War. Since then, the laundry list of issues has grown to include China's "zero COVID" policy, U.S. restrictions on Chinese public listings, privacy concerns, and real estate bubbles, all of which create worries about the validity of investing in Chinese companies. While we haven't completely abandoned China (after all, its economy is still projected to grow in the 5% range), we have certainly reduced our investment exposure. As a result, we have been looking near and far to replace China's emerging market growth potential for our client investment portfolios.

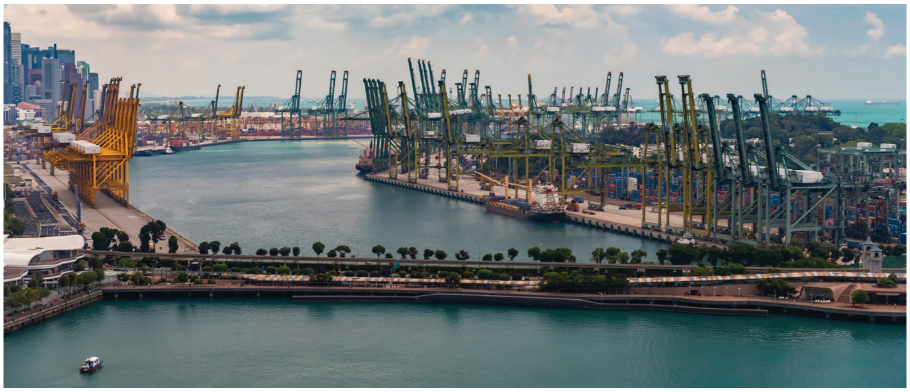
Southeast Asia, or the ASEAN (Association of Southeast Asian Nations) region as more commonly referred to in Asia, is a natural place to look as it is one of the fastest growing regions in the world – highlighted by 5.5% GDP growth in 2022 (compared to 1.9% for the U.S.). Supported by a heavy tilt towards capitalism relative to other emerging markets and a young, growing population (half are under 30 years old), we have always been attracted to the area. But with a broad spectrum of "investable" countries comprising the opportunity set, we narrowed our focus and ventured to the largest and most immediate candidates: Singapore and Indonesia.

Travel data would tell you inbound visitor arrivals to Southeast Asia have yet to recover to 2019 pre-pandemic levels. That said, every plane we boarded was full, and the airports we traveled through were crowded, suggesting some return to normalcy. The buzz persisted on the ground in Singapore with heavy commercial construction activity exacerbated by final preparations for the Formula 1 Singapore Grand Prix which was run in mid-September. While the race is an annual event, Singapore clearly caters to both the working population and the wealthy (see the 2018 movie, *Crazy Rich Asians*, for a characterization).

Singapore attracts workers, the wealthy, and investors for some of the same basic but powerful core reasons: political and economic stability, capitalism, and reasonable taxes. These attributes have cultivated Singapore into a major financial hub punching above its weight. As a result, many of our meetings were focused in the financial sector. In particular, the banking sector is so strong that three of the fifteen World's Safest Banks are Singaporean.[i] It's no wonder Singapore feels like the Switzerland of Asia – just a lot more humid.

The evolution of Singapore's economy over the last five decades from an emerging market to the third richest country in the world (on a GDP per capita basis) has been described as a miracle, yet all the companies we visited are still looking forward. Singapore has matured into a developed economy with moderate GDP growth, and as a result, native operators recognize the need to expand beyond their local roots to fully capitalize on their geographical advantages.

And this is where our sentiment transformed to Singapore being more than an "Asian Switzerland." In a way, it can be thought of as the gateway to Southeast Asia. This gateway imagery is undeniably evident when looking out over the Singapore Strait as the ships in the harbor extend beyond what the eyes can see. With Singapore's shipping dominance naturally comes a strong commodity footprint. Roughly 1,000 ships pass through the Strait each day, carrying oil from the Middle East, iron ore into China, and coal to India. The immense volume of shipping and commodity activity is hard to fully grasp.



Ultimately, every company with which we met, ranging from stock exchanges to precision manufacturers, believe their Singapore base establishes a unique position to fulfill a role as connective tissue between developed Western nations and the ASEAN emerging markets. The combination of political stability, a strong banking presence, and a commodity focal point confirmed our belief that Singapore will have a seat at the table as the Southeast Asia growth story unfolds.

Next, we trekked to Jakarta, Indonesia, which was hosting the biannual ASEAN Summit – a political and economic gathering equivalent to the West's NATO Summit. The theme for the summit was *ASEAN Matters: Epicentrum of Growth*, a fitting tag line for a region that is projected to have approximately 5% real GDP growth in the coming years.[ii] These economic growth rates are particularly impressive when taking into consideration the size of Indonesia which has 278 million people. It is easy to leave the islands of Indonesia off your list if asked to name the most populous nations, but it is currently fourth overall trailing only India, China, and the U.S.

Between the ASEAN Summit and the 34 million metro population in Jakarta (that's four times more than the five boroughs of NYC!), we certainly noticed a strain on the existing roads and infrastructure. In this bustling city, our last half-mile commute translated into a one-hour slog. So, it is no surprise that when we asked locals what they like to do outside of work, we repeatedly heard "Bali" – the picturesque province just one short ferry ride away serves as a deserved reprieve from the commuting lifestyle Jakarta imposes.

While the immense population creates near-term pressure on infrastructure, it also represents a vast opportunity to profit from a growing consumer base. Indonesia's annual GDP per capita is expected to grow from $5,000 currently to $7,000 by 2028.[iii] That may not sound like much to an American, but it's a robust 40% jump which creates additional purchasing power for Indonesian citizens that cascades through the economy. Shifting consumer preferences as incomes increase can catalyze strong demand growth for a wide swath of businesses. As an example, we visited the largest instant noodle manufacturer in the world that sells their award-winning, premium instant packs for 20 cents (think ramen noodles). With the average Indonesian eating just one pack a week, it's easy to envision expanding company profits from either higher population consumption or increasing sale prices (or both). It's just noodles, but we can't help but salivate at these types of growth opportunities!

While Singapore and Indonesia are at very different stages of their respective evolution, both offer investment opportunities to capture future growth of the Southeast Asia region. As we departed, we left highly encouraged about the economy runway throughout the ASEAN region. If you would like to hear more about our trek to the Far East and how it translates to your investment portfolio, please reach out to any of our Naples Global Advisors professionals.

Sources:

[i] "World's Safest Banks 2022." Global Finance Magazine, www.gfmag.com/magazine/november-2022/worlds-safest-banks-2022

[ii] Economic Outlook for Southeast Asia, China and India 2023 - OECD, www.oecd.org/dev/asia-pacific/economic-outlook/Overview-Economic-Outlook-Southeast-Asia-China-India.pdf

[iii] IMF, www.imf.org/external/datamapper/NGDPDPC@WEO/IDN/SGP?year=2023&yaxis=log

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