eastspring investments

A Prudential plc company

Asia 2.0

Investing in an era of new opportunities

invested in insights

Foreword

Asia's significant economic potential and rising importance within global supply chains are well acknowledged. Yet its economic prominence often contrasts with the more modest role it plays in global investor portfolios. Through a combination of a survey, interviews and in-depth research, Eastspring Investments and PwC Singapore have developed this whitepaper that examines the different dimensions of Asia's next transformation and the opportunities for investors.

As global business leaders look to leverage on the region's expanding digital infrastructure, improving supportive business environment and increasing connectivity, we believe that Asia's next economic transformation will present investors with differentiated alpha opportunities.

This transformation will be different from the last – it will be more innovative, more technologically advanced, higher value-added and greener. This will present new opportunities for investors in both traditional and new economy sectors, which can potentially translate into more sustainable and attractive earnings growth, and therefore returns.

By presenting the diverse opportunities within Asia, the whitepaper provides useful information for global investors seeking greater diversification and rebalancing strategies. It also highlights the opportunities for Asian investors beyond their home markets. As global growth slows, Asia remains a high growth region where the movement from traditional bank lending to capital market financing continues. Asia offers deep and well-developed markets as well as less mature markets, each presenting its own set of unique opportunities.

We hope that the insights from this whitepaper will create greater awareness and interest for investing in Asia. As experts in Asia with investment teams in 11 Asian markets, we look forward to exploring with you the role Asia can play in your portfolios and how you can participate in this era of new opportunities.

Bill Maldonado
Chief Investment Officer
& Interim Chief Executive Officer
Eastspring Investments

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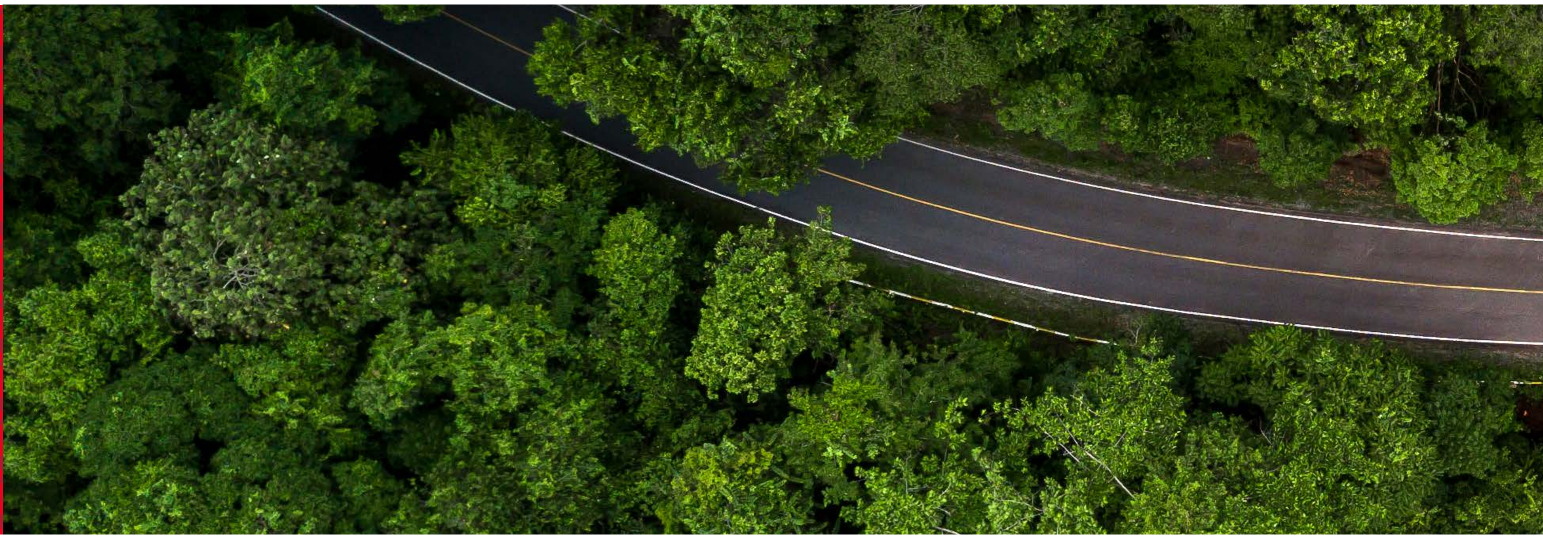
Executive summary



This whitepaper examines the different dimensions of Asia's next transformation and the opportunities that will emerge for investors. Section 1 considers Asia's development and the opportunities it presents, concluding with key considerations for investors to participate in Asia's transformation. Section 2 provides a deep-dive into nine selected Asian markets – detailing the key drivers of each market's transformation and their high opportunity sectors.

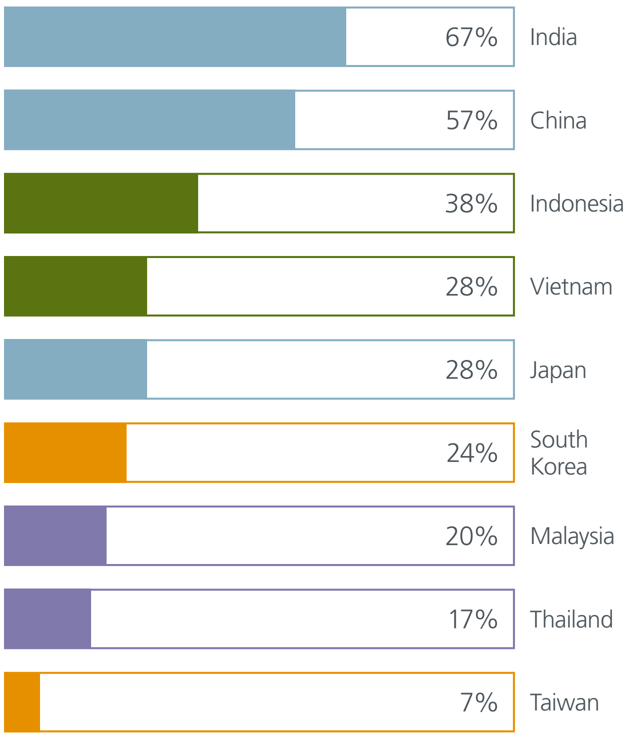
As part of this whitepaper, we conducted a pulse survey among 100 C-suite level executives across the United States, Europe and Asia and across multiple industries to seek their views on the opportunities they see in the region, the key challenges they face, as well as the initiatives they are prioritising to expand in Asia. We also interviewed several global business leaders in the region on their take on the high opportunity sectors in Asia.

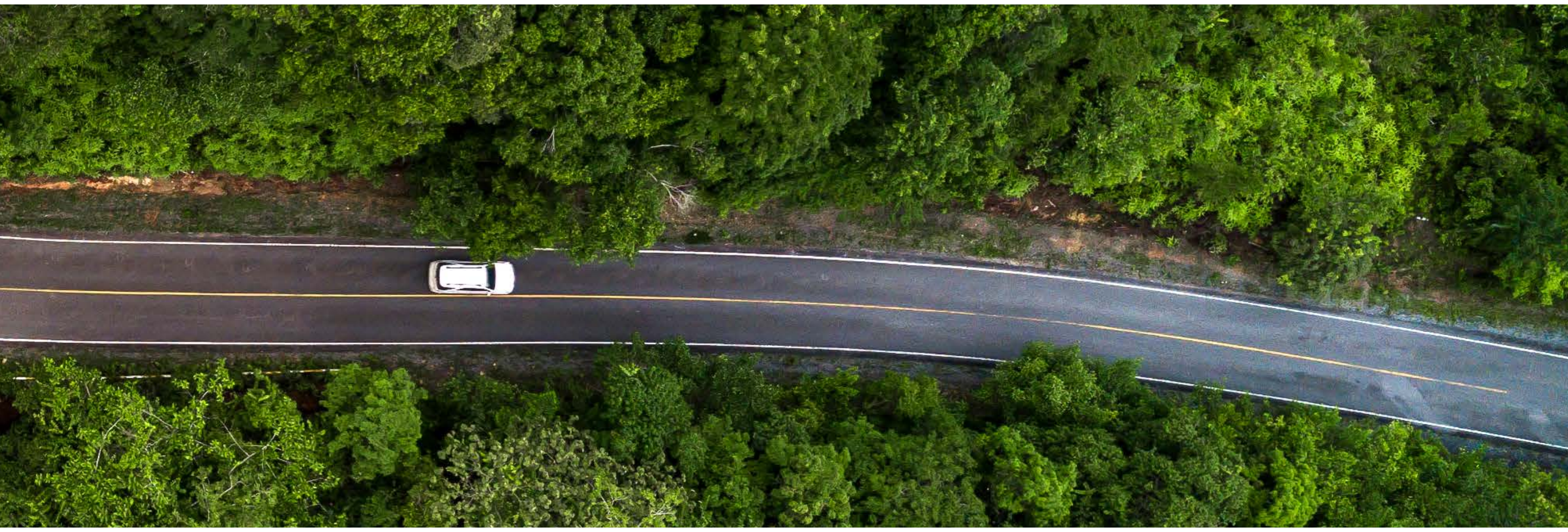
As global growth slows, investors and businesses are renewing their focus on Asia for opportunities and risk diversification. The region's dynamism will provide investors with differentiated alpha opportunities that are unparalleled elsewhere.

Business leaders see India as having the most potential for transformation opportunities

We asked business leaders where they see the most potential for growth and transformation opportunities amongst the nine selected Asian markets. Singapore and Hong Kong were separately positioned as financial hubs. Most respondents believe India has the most potential, followed by China and Indonesia.

Respondents mentioned Asia's leading role in Electric Vehicles (EV) production, rising consumer wealth and the potential for e-commerce expansion as some of the factors behind this optimism.





Asia's transformation is generating new opportunities in traditional and new economy sectors

Asia's transformation has led to innovation across traditional sectors, such as manufacturing, healthcare and financials, and also generated opportunities across new economy sectors, such as the digital economy, renewable energy and EVs.

- **Manufacturing**
- **Healthcare**
- **Financials**
- **Digital economy**
- **Electric vehicles**
- **Renewable energy**

Asia's next transformation will be supported by key enablers.

- **Expanding physical and digital infrastructure**
- **Educated and skilled workforce**
- **Improving operating business environment**
- **Supportive government policies and incentives**
- **Enhanced tech capabilities**
- **Connectivity and access to markets**

Investors require a tailored approach to capitalise on Asia's differentiated alpha opportunities

It is imperative that investors understand the nuances across different Asian equity markets before constructing their portfolios and strategies.

1 Develop
An understanding of Asia's complex and diverse markets

2 Define
Needs and constraints

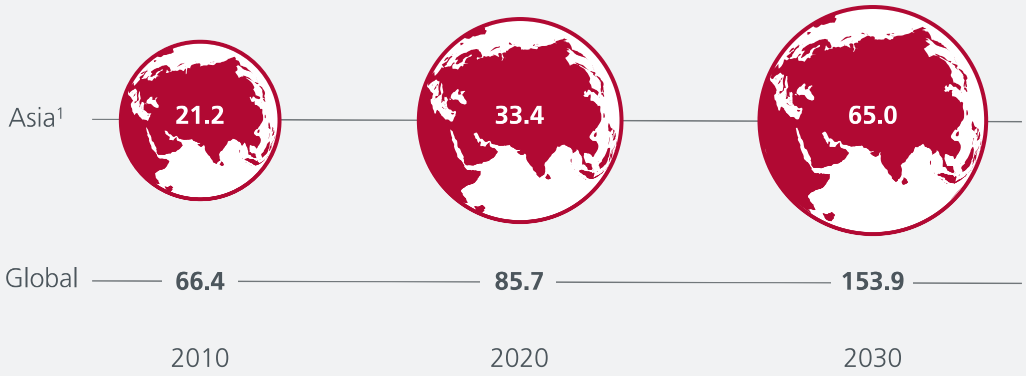
3 Determine
Implementation and strategy

The choice between an active or passive strategy will depend on cost considerations and market maturity. Thematic investing can allow investors to benefit from structural trends, and quantitative solutions can exploit market inefficiencies to generate greater alpha.

To help investors better understand Asia's differentiated opportunities, we have provided deep-dive market perspectives on nine selected Asian markets.

Asia's transformation

Fig 1. Nominal GDP
USD trillion, 2010 - 2030



Source: Fitch Solutions

Driven by supply chain rebalancing, a growing consumer class and innovation

There is a renewed focus towards Asia[1] as businesses look to rebalance their footprint in view of geopolitical concerns, pandemic-related shocks, and slower global growth.

Asia has demonstrated strong economic growth over the last decade. Rebounding strongly from the pandemic, the region is set to see even faster growth going forward. Asia is expected to account for over 40% of the world's GDP by 2030. It will be important not to neglect this potential and the opportunities it brings.

Asia is undergoing significant transformation – demographic shifts, higher consumer spending, technological advancements, and widespread innovation, alongside a vibrant start-up scene – which positions it as an attractive region for investors.

A combination of developed economies with advanced technology ecosystems and emerging high-growth economies offers possibilities that are unparalleled elsewhere. Increased digitalisation, alignment with global ESG taxonomies, and deepening regional partnerships also bring forth an array of unique opportunities.

[1] Asia includes economies as per United Nations Statistics Division's geographical classification of Asia, including Taiwan.

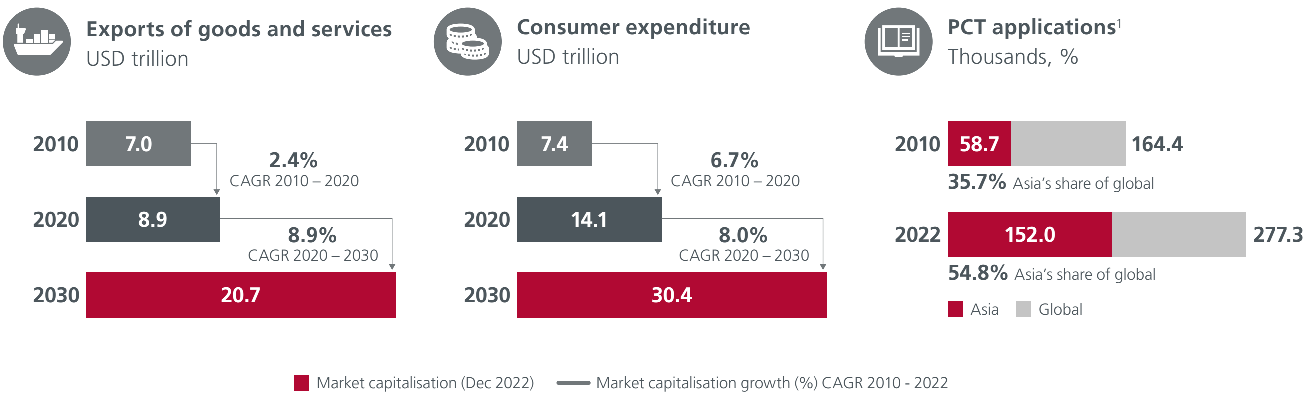
Asia is already a very important player within global and regional supply chains. In 2010, the region accounted for 37% of global exports, amounting to USD7 trillion which subsequently grew to USD8.9 trillion in 2020. Despite the recent trend of reshoring and nearshoring, exports from Asia are expected to increase further and reach USD20.7 trillion by 2030, more than doubling in ten years. By 2030, Asia will account for 42% of global exports.

At the same time, Asia is amassing substantial wealth. Consumer expenditure increased by 6.7% p.a. from USD7.4 trillion in 2010 to USD14.1 trillion in 2020. As Asia's population becomes wealthier, this trend is expected to continue with consumer spending growing at a faster rate, reaching USD30.4 trillion by 2030.

Widespread innovation is also underpinning Asia's long-term growth. The region accounts for more than half of the global patent applications filed under the Patent Cooperation Treaty (PCT) in 2022.

Asia's financial markets provide a gateway to tap into the region's growing economies, exports and consumer wealth. In 2010, total capitalisation across 11 selected Asian markets was nearly USD15 trillion, which doubled to USD30 trillion by 2022. In 2022, proceeds from Asia Pacific's Initial Public Offerings (IPOs) exceeded the Americas for the first time since 2018, with 802 IPOs raising USD108 billion. China remains a key market for investors but there are growing opportunities from other markets that offer differentiated alpha drivers.

Fig 2. Exports, consumer expenditure and total patent applications across Asia



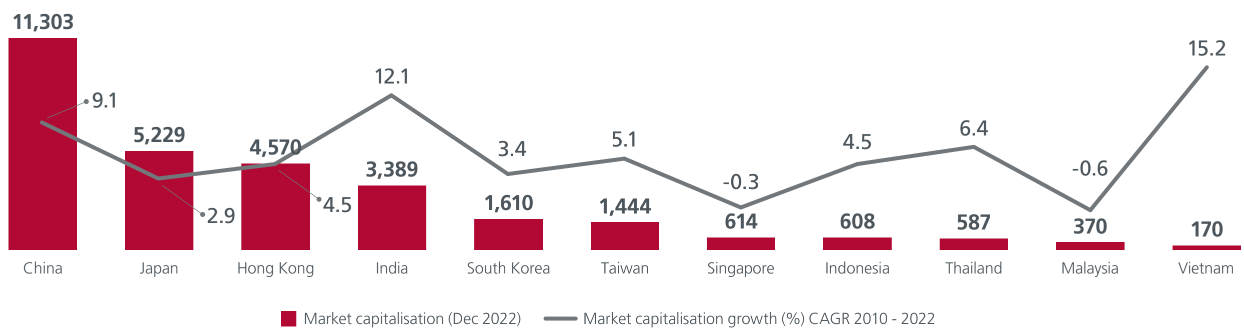
Source: Fitch Solutions

Source: Euromonitor

Source: WIPO

Fig 3. Market capitalisation[2]

USD billion



Source: CEIC, NSE

[1] Total PCT applications within the calendar year by filing date originating from Asia.

[2] See Appendix for detailed information on market capitalisation.

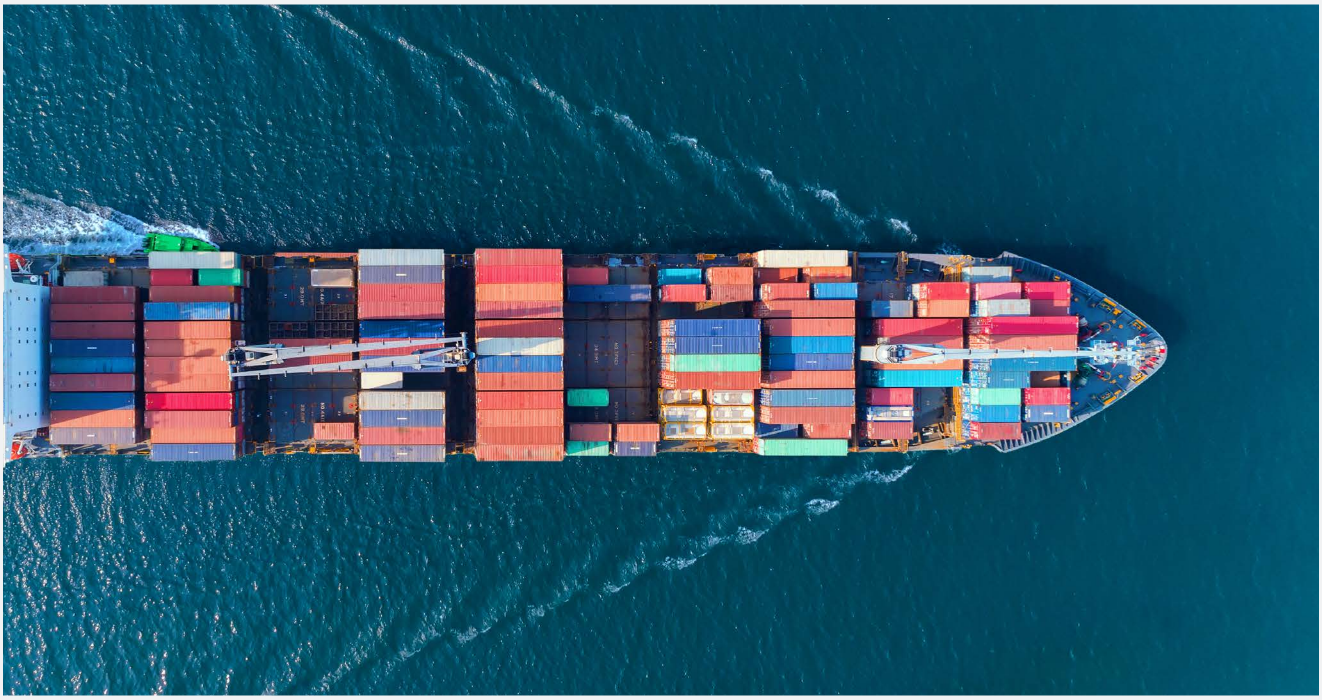
Asia's deepening connectivity

Seamless integration across value chains via regional and global networks

Asia's uniqueness and potential stems from connectivity being at the heart of its transformation. Over the years, Asia has strengthened intra-regional and global trade links, and is now well connected to major economies both within the region and outside. Trade facilitation has been a key instrument in lowering transaction costs, allowing Asia to benefit from greater regional and global supply chain integration. According to the Asian Development Bank (ADB), the Regional Comprehensive Economic Partnership[3] (RCEP) can add USD245 billion to the regional economy by 2030. Asia's deepening connectivity also allows for the seamless integration of supply chains across borders.

Historically, Asia has always been the linchpin of global manufacturing; but today, it is no longer just the traditional manufacturing hub it used to be. Technological development, knowledge transfer and accelerating innovation are reshaping the region as a critical exporter of higher-end, hi-tech goods and services.

Moreover, Foreign Direct Investment (FDI) inflows to Asia have been on the rise. In 2010, FDI flows to Asia was about USD471 billion. Over a decade, this increased by 3.5% CAGR to USD691 billion in 2021. As Asian economies open up further to foreign investors and continue to mature, businesses pivoting towards Asia will stand to benefit from the region's increased trade liberalisation and activity.



[3] The Regional Comprehensive Economic Partnership (RCEP) is a Free Trade Agreement among 15 countries: Australia, Brunei Darussalam, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, Vietnam.

Fig 4. Asia's trade agreements

Source: Asia Regional Integration Centre, Government websites

Key:

- - **Bilateral agreements***
-·· **Multilateral agreements***
— **Bilateral and Multilateral agreements***

*non-exhaustive list of trade agreements or economic partnerships:

Three dimensions of change

Contents

Across different economies and sectors, supported by key enablers

Asia's transformation is happening across three key dimensions. First, the different stages of economic development within the region can support businesses in rebalancing and building new growth models. Next, there are also opportunities across multiple industries – both in traditional and new economy sectors. Finally, improving infrastructure, government initiatives, and a growing skilled talent pool are some of the enablers facilitating these opportunities.

Economies

Asia is undergoing a fundamental transformation. In view of geopolitical developments and supply chain disruptions, businesses are looking towards the region to diversify their footprint. The economies we have identified in this whitepaper show immense potential to fulfil businesses' needs for rebalancing.

Sectors

Technological advancement, innovation and the region's green transition are creating opportunities in traditional sectors, such as manufacturing, healthcare and financials, as well as in new economy sectors, including digital economy, EVs and renewable energy.

Enablers

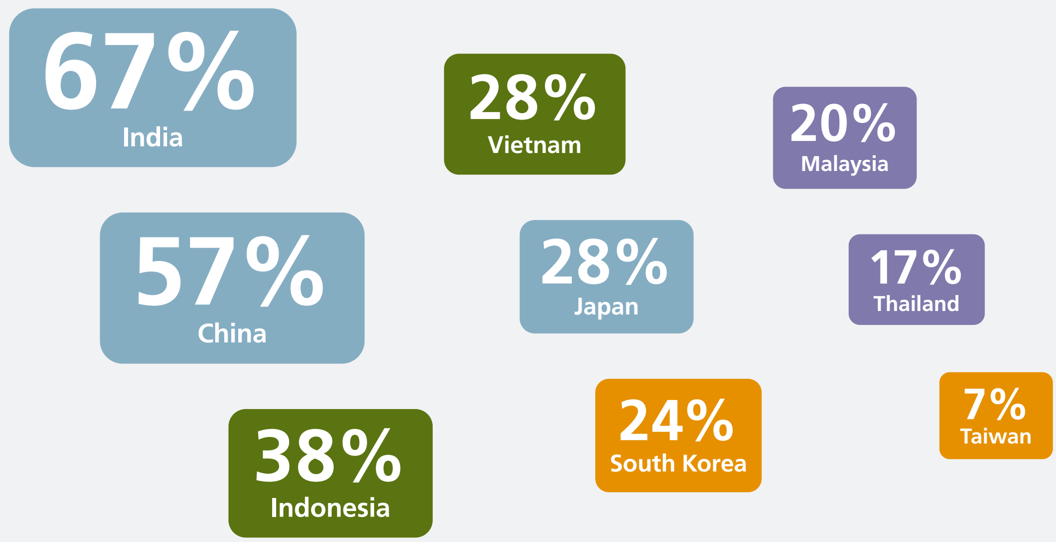
Improved digital infrastructure and technological capabilities, supportive government policies and incentives, and an increasingly friendlier business environment – supported by Asia's growing skilled talent pool – will serve to accelerate the region's transformation.

Outside of Taiwan, China and India are the two largest markets in Asia for us. We already have operations in China and are looking to expand in India, to be closer to where our largest customer segments are.

Senior executive of one of the world's largest fabless semiconductor companies

Global business leaders are looking to Asia for opportunities with India in the lead

Markets which business leaders believe hold the most potential[1]



Based on our survey, 67% of business leaders believe that India holds the most potential for expansion or transformation opportunities, followed by China (57%) and Indonesia (38%).

According to the United Nations, India is the world's most populous nation. As the expanding population and rising income levels fuel increased demand, India's total consumer expenditure is expected to reach USD4.8 trillion by 2030, from USD2.1 trillion in 2022.

In addition, China has been a longstanding global power and by 2030, the country is expected to account for 20% of the world's GDP and 12% of global exports. China's large consumer market will be the main driver of economic growth going forward. Consumer expenditure is expected to increase from USD6.7 trillion in 2022 to USD11.2 trillion in 2030.

Moreover, China's leading role in EV manufacturing and renewable energy presents an opportunity for investors to leverage Asia's green transition.

Indonesia offers tremendous potential from its growing population and middle class. According to Euromonitor, the country's middle class will expand to 23 million households by 2030, which will drive demand and spending. Total disposable income in Indonesia is expected to increase from USD731 billion in 2022 to nearly USD1.4 trillion in 2030. Consumer expenditure is also expected to rise from USD683 billion in 2022 to USD1.3 trillion by 2030. With its vast natural resources in transition metals, alongside its ambitions to establish an integrated EV supply chain and a greener economy, there will be diverse opportunities across multiple sectors in Indonesia.

[1] We asked survey respondents in which markets they see the most potential for growth / transformation opportunities. Values indicate the percentage of respondents who indicated the option as one of their top three choices. Singapore and Hong Kong are not included in this question as we focused on their position as financial hubs in the Asia Pacific region. See pages 20 and 22.

Economies

The unique opportunities across the region through a thematic lens

We have categorised 11 selected Asian economies, based on their profiles as well as size and liquidity / market accessibility, to showcase the unique and diverse opportunities across the region.

Economic powerhouses

China, India, Japan

These economies have the largest GDP in absolute terms. Both China and Japan have well-established, liquid and accessible financial markets. India's fast-growing market is becoming too big to ignore.

East Asia cornerstones

South Korea, Taiwan

These are economies with a strong tech bias. South Korea and Taiwan are the largest semiconductor players in Asia Pacific, and deeply embedded in global supply chains. Both also have deep, liquid financial markets.

Financial hubs

Hong Kong, Singapore

Both economies are renowned financial hubs. Hong Kong has a higher market capitalisation and provides access to China. Singapore's geographical advantage allows it to be well integrated across the ASEAN region.

Regional contenders

Malaysia, Thailand

These are relatively smaller economies in absolute GDP terms, but market capitalisation as a percentage of GDP is relatively high. As these economies continue to grow, their financial markets will grow in tandem and present more opportunities.

Emerging players

Vietnam, Indonesia

These economies are expected to enjoy rapid GDP growth, but market capitalisation as a percentage of GDP is currently low. This leaves significant room for financial markets to mature, although accessibility may be a challenge in the short term.

Fig 5. Market capitalisation and GDP[1]

	China	India	Japan	Taiwan	South Korea
GDP, 2022	USD17,768 bn	USD3,391 bn	USD4,232 bn	USD761 bn	USD1,726 bn
Market cap., 2022	USD11,303 bn	USD3,389 bn	USD5,229 bn	USD1,444 bn	USD1,610 bn
Market cap. as % of GDP	63.6% of GDP	100.0% of GDP	123.5% of GDP	189.6% of GDP	93.3% of GDP

	Malaysia	Thailand	Indonesia	Vietnam	Hong Kong	Singapore
GDP, 2022	USD406 bn	USD487 bn	USD1,319 bn	USD404 bn	USD361 bn	USD426 bn
Market cap., 2022	USD370 bn	USD587 bn	USD608 bn	USD170 bn	USD4,570 bn	USD614 bn
Market cap. as % of GDP	91.2% of GDP	120.6% of GDP	46.1% of GDP	42.1% of GDP	1,266.1% of GDP	144.0% of GDP

[1] See Appendix for more details on market capitalisation.

Financial hub

Singapore

In 2022, Singapore was ranked Asia's top financial centre (and 3rd in the world), according to the Global Financial Centres Index.

The city-state's stable government and business-friendly environment are key to cultivating foreign investments and domestic growth. FDI inflows to Singapore grew from USD57 billion in 2010 to USD75 billion in 2020, and GDP grew from USD236 billion to USD345 billion over the same period. By 2030, nominal GDP is expected to hit USD710 billion with real GDP growth per annum at 3.3%. Singapore also has a liquid financial market. Market capitalisation stood at USD614 billion in 2022, amounting to 144% of GDP.

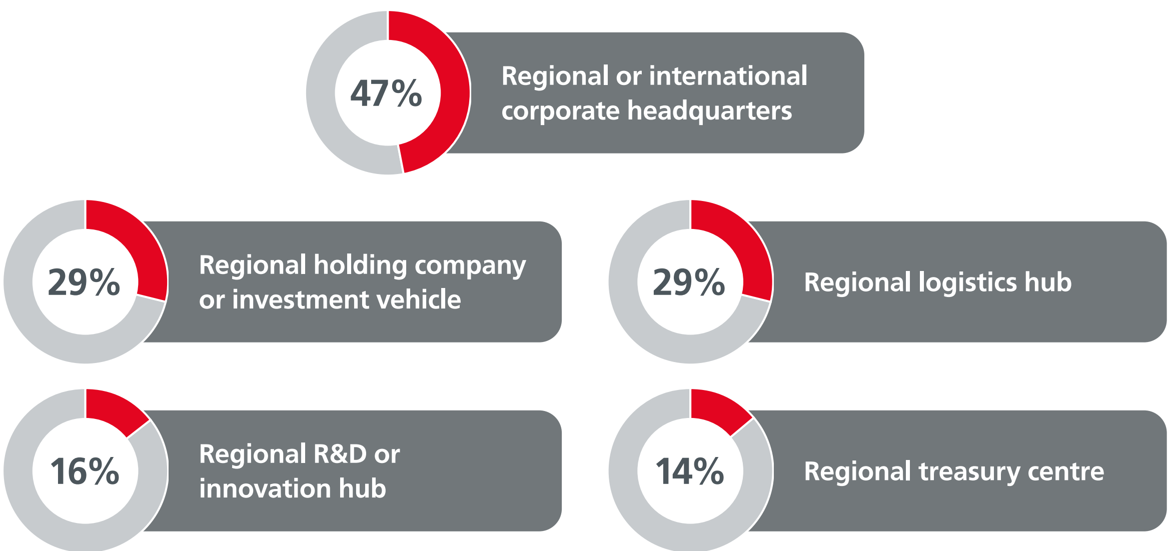
The population is also becoming wealthier, presenting a growing consumer base with higher spending power. Annual disposable income per capita in Singapore rose from USD23,000 in 2010 to USD28,000 in 2020, and is expected to reach USD47,000 by 2030. Consumer expenditure is forecasted to grow at 5% p.a. from USD112 billion in 2020 to USD190 billion by 2030.

Singapore remains a leading trade centre. 47% of business leaders surveyed have their regional or international corporate headquarters in the city, while 29% of them have a regional logistics hub based in Singapore.

With its advanced technological and digital infrastructure, Singapore also serves as a hub for innovation. Many Fortune 500 companies' Research & Development (R&D) labs and start-ups are located in Singapore. In line with efforts to grow Asia's carbon offset ecosystem, Singapore also intends to establish itself as a carbon trading hub.

Singapore is well-positioned for both companies and investors to leverage its geographical advantage, developed infrastructure and economic connections for growth and investment opportunities.

How global business leaders view Singapore's role in the region:[1]



[1] Values indicate the percentage of respondents that indicated their company has a presence in Singapore and selected the corresponding option.

Hong Kong

The Global Financial Centres Index ranked Hong Kong the 2nd top financial centre in Asia, and 4th in the world. As one of the world's leading financial centres, the city is a prime location for financial services and home to many financial institutions. Market capitalisation in Hong Kong in 2022 was USD4,570 billion – 1,266% of its GDP; the highest market capitalisation as a percentage of GDP in the region.

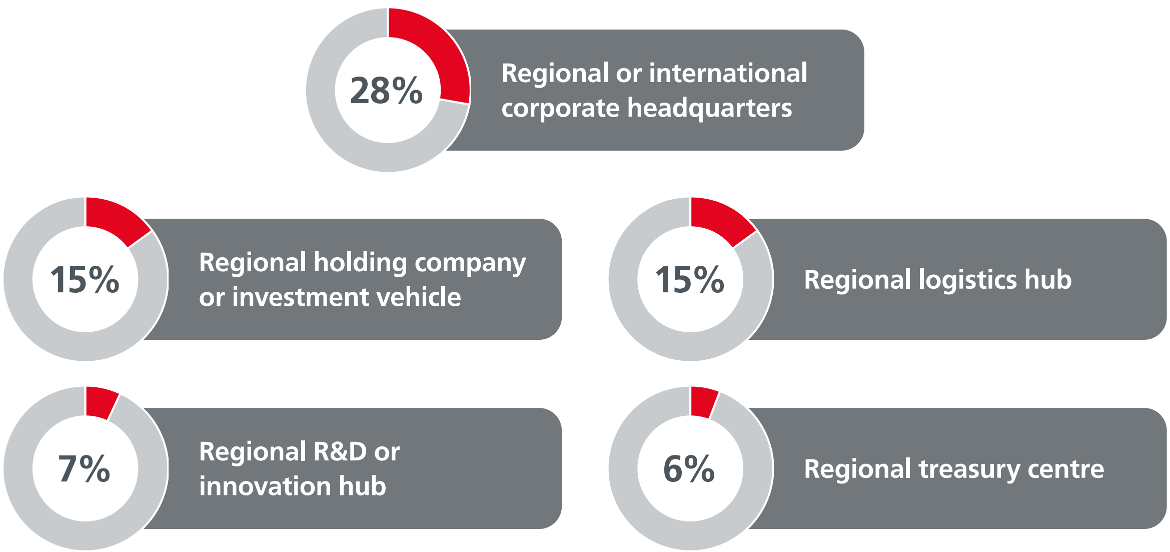
Moreover, Hong Kong's financial integration with China allows it to function as a dominant gateway to the latter and a global hub for offshore renminbi (RMB) businesses. The city's robust financial infrastructure remains essential in facilitating portfolio and investment flows between China and Hong Kong.

28% of businesses with a presence in Hong Kong indicated that the city functions as a regional or international corporate headquarters, while 15% see Hong Kong as their regional holding company or investment vehicle.

The city's business-friendly environment has also attracted significant FDI inflows. Among the 11 selected Asian economies, Hong Kong was the 2nd largest recipient of FDI, receiving USD135 billion in 2020, having grown at 7% CAGR from USD71 billion in 2010. Nominal GDP is forecasted to reach USD505 billion by 2030, with real GDP growth at 2.1% p.a. from USD361 billion in 2022.

More recently, Hong Kong has announced new tax concessions among other measures to attract wealthy family offices and maintain its appeal as a premier financial hub.

How global business leaders view Hong Kong's role in the region:[1]



[1] Values indicate the percentage of respondents that indicated their company has a presence in Hong Kong and selected the corresponding option.

Sectors

Asia's evolving consumer base and green transition will pave the way for new investment opportunities

From our survey, most business leaders (77%) noted that they are looking to Asia for expansion or transformation opportunities primarily because of the region's expanding and evolving consumer base. Consumer expenditure across the 11 selected Asian economies has grown from USD6.4 trillion in 2010 to USD12 trillion in 2020. An expanding middle-income class is expected to almost double consumer expenditure to USD23.2 trillion by 2030.

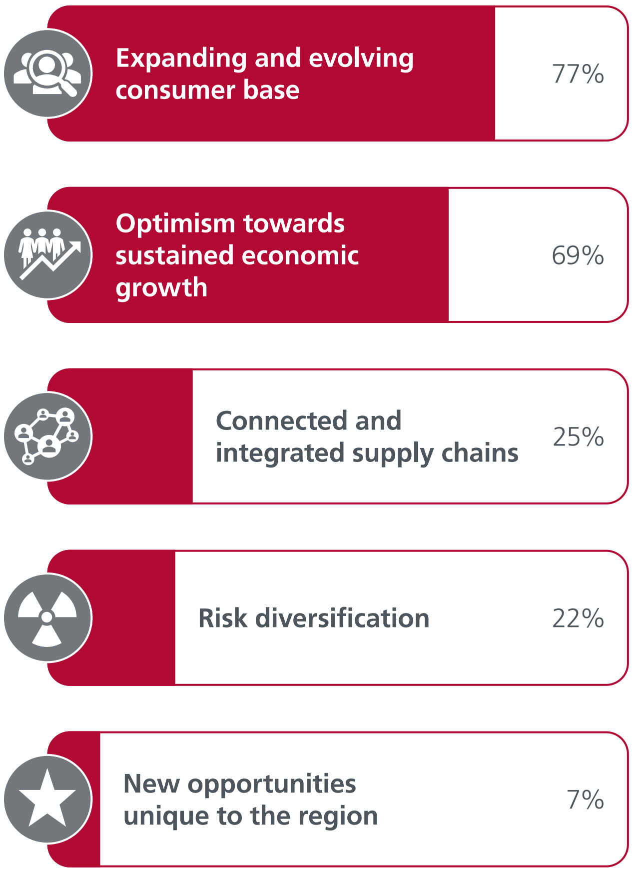
Meanwhile, 69% of business leaders are confident that Asia will see sustained economic growth in the future. Indeed, as mentioned earlier, Asia is expected to account for 40% of the world's GDP by 2030. 25% of business leaders are looking to expand in Asia because of its connected and integrated supply chains. Favourable demographics, new manufacturing capabilities, digitalisation and supportive policies have helped Asia expand its share of global manufacturing over the years.

Businesses also highlighted the unique opportunities they see in the region. Given Asia's rapidly increasing internet penetration, the rise in mobile and live streaming e-commerce is expected to generate new channels of consumption and opportunities. Across the 11 selected economies, internet users grew from 750 million in 2010 to 1.9 billion in 2020 and is projected to reach almost 3 billion by 2030.

Others see Asia playing a leading role in the world's transition to net zero, especially given the region's manufacturing expertise in EVs. By 2030, the same 11 economies are expected to account for 52% of global passenger EV sales.[2]

Beyond EVs, increased investments in green infrastructure and technology will likely lead to new opportunities. Renewable energy capacity among the 11 selected Asian economies is expected to reach 2.3TW by 2030, up from 1.1TW in 2022, accounting for 54% of global renewable energy capacity.

Why businesses are looking to Asia for expansion or transformation opportunities[1]



[1] Values indicate the percentage of respondents who indicated the option as one of their top two choices.
[2] Refers to passenger electric vehicles sales. Data for Taiwan and Vietnam not available.

Business leaders were asked to elaborate on the unique opportunities they see in Asia

- Increasing number of global customers with Asia presence
- Asia's leading role in EVs
- Asia's growing high-net-worth consumer market
- Partnership opportunities with local stakeholders
- Rise in mobile and live streaming e-commerce in Asia

Asia's transformation is creating opportunities in traditional and new economy sectors

TRADITIONAL

Manufacturing

The presence of established sectors, such as semiconductor manufacturing and industrial machinery, supported by innovative developments in advanced manufacturing, will make Asia a major supplier for industrial goods and services. Both Japan and Taiwan are key exporters of industrial machinery and are heavily investing in R&D to increase automation and productivity to mitigate the effects of their ageing populations. Separately, Malaysia has prioritised digital adoption to enhance its manufacturing sophistication in producing advanced semiconductor equipment.

Healthcare

Asia is primed for a transformation in healthcare, given shifting demographics, rising consumer expectations and technological innovation. Collectively these factors will redefine healthcare delivery and management. Healthcare expenditure across the 11 selected Asian economies is expected to reach USD4.3 trillion by 2030, growing at 9% CAGR from 2022. The region's digital healthcare market is also expanding with increased demand for tele-healthcare and wearables. Asia's evolving healthcare industry will thus open doors to diverse opportunities going forward.

Financials

The financials sector has been and will remain a cornerstone in Asia's transformation. Accelerated digitalisation has facilitated the growth of digital banking and fintech. In Japan – the major shift towards cashless transactions, especially in government and financial services will generate investment opportunities. Thailand and Indonesia's active fintech start-up scene and growing consumer demand will also create opportunities across the industry, from digital payments to insurance and mutual funds.

NEW ECONOMY

Digital economy

Fast-growing internet penetration, higher purchasing power, and changing consumer behaviour are enabling Asia's digital economy to flourish. While COVID-19 accelerated digital adoption, not all of the region's economies have captured their full digital potential. There is an estimated USD2.2 trillion upside if Asia fully captures the benefits of its digital economy by 2030.[1] With high population growth in economies such as India, alongside widespread digital adoption, Asia's financial and information technology sectors are likely to benefit.

Electric vehicles

According to the International Energy Agency, EVs are expected to account for 60% of global vehicle sales by 2030. EV manufacturing thus signals a paradigm shift in the automotive industry. From Indonesia's vast resources in transition metals to South Korea's advanced technology in automotive manufacturing and China's leading position in the EV battery supply chain – Asia is well-positioned to capitalise on the opportunities along the EV value chain.

Renewable energy

In view of Asia's sustainability targets over the next few decades, there will be notable opportunities in energy and infrastructure. The region's growing population will fuel higher energy demand, which is expected to drive large-scale investments in green infrastructure and technology. China remains a leader in solar and wind energy while South Korea is building capabilities in hydrogen fuel cell technology, and India is looking to buttress its manufacturing capabilities in solar equipment.

[1] See Access Partnership's Prosperous APAC: Digital economy enablers. The 11 APAC economies included in the study were: Australia, **India, Indonesia, Japan, Malaysia,** Pakistan, the Philippines, **Singapore, South Korea, Thailand**, and **Vietnam.**

Growing ESG focus across Asia

As Asian governments commit to sustainability targets over the next few decades, the business leaders in our survey say that their companies have an increased focus on sustainability. There is growing awareness of the need to align their company operations with these targets to stay relevant in the long run. 64% of them have prioritised the setting of ESG standards across their supply chain ecosystem with 57% indicating that their choice of suppliers will be determined by ESG-related considerations.

30% of business leaders considered ESG risks as a key challenge to grow and transform in Asia. Over two-thirds considered limited awareness about current ESG exposure across the supply chain as the topmost ESG risk for their expansion in Asia. This is not necessarily an Asia-centric issue; carbon emissions that are in a company's value chain come from upstream (suppliers) and downstream (customers) and is always the hardest to measure. Just over 60% indicated that possibly disruptive new legislation would be a key risk.

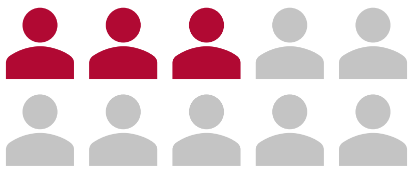
ESG-specific focus areas for companies in the next two to three years[1]

64%
ESG standard setting

58%
ESG monitoring and reporting

57%
Supplier selection with ESG in mind

30%



Of business leaders indicated ESG risks as a key challenge to their growth and transformation in Asia[2]

Specific ESG risks that business leaders identified[3]

Limited awareness about current ESG exposure across the supply chain	69%
New regulations that could disrupt existing business models	61%

[1] Respondents were asked which ESG initiatives they implemented or are planning to implement to stay relevant/ profitable in the long run. Values reflect the percentage of respondents who ranked the option within their top three choices.

[2] Respondents were asked to rank up to three key challenges with respect to their growth and transformation in Asia. Values reflect those who ranked ESG risks within their top three choices.

[3] Respondents were asked to select the top two most important ESG-related risks for their company's operations in Asia. Values reflect the percentage of respondents who selected this option as among their top two choices.

We recognise that responsible investing requires a patient approach and an understanding that improvement in corporate behaviour can support investor value over time. We believe that companies that adopt sustainable business practices are more likely to deliver better value in the long term.

Joanne Khew, Director - ESG Specialist, Eastspring Investments

Enablers

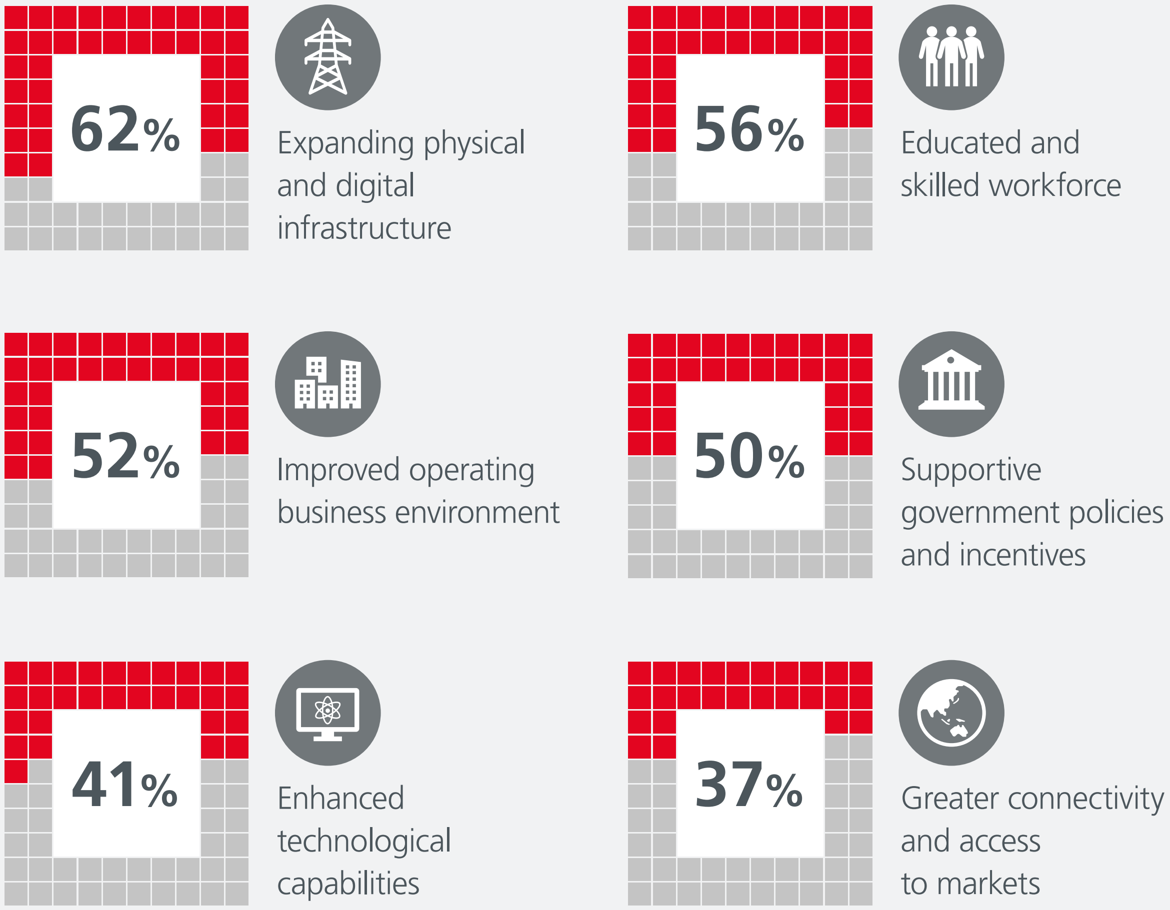
Asia's transformation will be supported by key enablers

Asia is developing new capabilities and skill sets, built upon a foundation of improved physical and digital infrastructure. Its vibrant start-up scene, coupled with the presence of leading multinational companies, is facilitating the region's significant headway in developing emerging technologies that will shape its transformation.

Government policies and incentives to develop targeted sectors, initiatives to establish a friendlier business environment, and the region's deepening connectivity will facilitate foreign direct investment inflows.

Finally, Asia is a melting pot of global talent; its increasingly educated and skilled workforce underpins the region's innovation and growth.

Key enablers that business leaders expect will drive Asia's transformation in the future[1]



[1] Respondents were asked what they thought would be the key enablers for Asia's transformation now and in the future. Values reflect the percentage of respondents that selected the option as one of their top three choices.

Better physical and digital infrastructure

Recognising the critical role that connectivity plays in driving economic growth and innovation, Asia has made vast improvements in its physical and digital infrastructure. By 2030, 45% of global internet users will be from the 11 selected economies in Asia.[1] To sustain this momentum, governments and private companies have committed resources to expand and upgrade Asia's transport and technology infrastructure (roads, wireless networks, data centres, etc). Between 2022 and 2025, mobile operators in the Asia Pacific region are set to invest around USD227 billion in 5G deployments. Enhanced physical and digital infrastructure will complement Asia's growing manufacturing sophistication and generate opportunities in the EV, digital economy, and renewable energy sectors.

Improved operating business environment

Besides supporting targeted sectors, governments are looking to improve the overall business environment to encourage expansion in Asia. For example, India is reforming its labour market, enhancing insolvency and bankruptcy resolution, and simplifying its tax regime; Indonesia has relaxed regulations regarding foreign investments and business permits, while Vietnam is trying to streamline administrative procedures to reduce compliance costs for businesses.

In addition, emerging equity markets such as Thailand and Indonesia are relaxing requirements for IPO listings, to encourage companies – especially high-growth start-ups in the technology sector – to list on the stock exchange, making it easier for such companies to raise capital.

Enhanced technological capabilities

The region is increasingly becoming a hotbed for innovation and is driving development in emerging technologies such as Artificial Intelligence (AI) and Cloud Computing. Asia's PCT applications[2] rose from 58,714 in 2010 to 152,010 in 2022. Japan, Singapore and South Korea are well-established technological hubs, but other economies are also making strides in technological development.

[1] The 11 markets are: China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

[2] Total PCT applications within the calendar year by filing date originating from Asia.

Educated and skilled workforce

Historically, Asia's sizeable population and competitive wages made it an attractive destination for low-tech manufacturing jobs. However, with more of Asia's eligible workforce gaining higher educational qualifications and a growing emphasis on R&D, the region's labour market is changing. According to the 2021 Times Higher Education World University Rankings, nearly one-third of the top 200 universities are based in Asia, compared to 26% in 2016. Moreover, public-private partnerships between multinational corporations and government agencies to promote digital skills, can pave the way for Asia to become a regional hub for skilled talent to support growth in new and existing sectors.

With greater intra-regional connectivity, many markets in Asia are easing foreign immigration rules to attract skilled professionals. For example, Taiwan, Hong Kong and Singapore have all introduced new visas or relaxed regulations to attract highly skilled global talent.

Supportive government policies and incentives

Governments in Asia have introduced several policies to encourage domestic expansion and FDI across the region. An example is India's USD2.3 billion Production-Linked Incentive (PLI) scheme which aims to increase domestic and foreign investments in local manufacturing. Inter-governmental partnerships are also increasingly common, such as Thailand's Memorandum of Understanding (MoU) with Japan to increase industrial cooperation.

Greater connectivity and access to markets

Broadly, Asia has forged closer trade ties through trade agreements, such as RCEP, to strengthen intra-regional trade and supply chain networks. Asian manufacturers stand to become more competitive with increasingly integrated supply chains, while lowered barriers or tariffs reduce logistics costs, and encourage greater trade and FDI flows.

Business leaders see the need to evolve to succeed in Asia

According to PwC's 26th Global CEO survey, 53% of CEOs in Asia Pacific (14% more than global CEOs) believe their current business models need to evolve in order to stay relevant. As Asia transforms, so must business models, to succeed in Asia.

From our survey and interviews of business leaders, most noted that forging new local partnerships will be key for their businesses to participate in Asia's transformation. They see geopolitical uncertainty as a key challenge for the region.

Key focus areas[1]

64% Forge new partnerships

53% Launch new products and services

44% Invest in talent development

40% Expand capacity

39% Digitalise and automate operations

31% Invest in Research and Development

26% Drive sustainability and ESG

Key challenges[2]

56% Geopolitical uncertainty

55% Regulatory constraints

49% Economic turbulence

43% Cybersecurity and IP

35% Disruptions

30% Unfamiliarity with local market

30% ESG

[1] Values indicate the percentage of respondents who ranked this key focus area among their top three choices

[2] Values indicate the percentage of respondents who ranked this key challenge among their top three choices.

We need to build skills among our talent to support the growth of local small and medium enterprises (SMEs).

President & CEO of a major Malaysian manufacturing company with an extensive global customer base

Key considerations for investors

For global investors, a direct allocation to Asia as a region allows investors to take advantage of Asia's dynamism and diversification benefits to reap significant alpha. For Asian investors, diversifying away from domestic markets reduces home bias and capitalises on the unique strengths in the different Asian markets.

Investing in regional blocs such as Greater China with its technology bias or ASEAN with its growing middle-class population provides investors with exposures playing to specific sector strengths. At the same time, long-term investors with higher risk thresholds can invest in less mature Asian markets and benefit as these markets achieve their full potential. Alternatively, thematic investing allows investors to benefit from structural growth trends such as the ongoing supply chain reconfiguration, changing demographics and the increasing focus on ESG.

Investors can adopt a differentiated approach across Asia. Cost considerations and market maturity will influence the choice between a passive and active strategy. For active strategies, asset managers with on the ground investment teams can help navigate the local nuances in Asia and provide more optimal investment outcomes. Beyond traditional strategies, the availability of good quality data gives investors the option to leverage on quantitative solutions to exploit market inefficiencies.

> **Asia's diverse equity markets and its growing bond universe provide significant room to create bespoke multi asset solutions that can meet the needs of different investors.**
>
> Craig Bell, Head of Multi Asset Portfolio Solutions, Eastspring Investments

1 DEVELOP

An understanding of Asia's complex and diverse markets

- Divergent governance and policy standards
- Varied investor mix
- Different liquidity profiles
- Multiple currencies
- Diverse macro drivers and complex geopolitics

2 DEFINE

Needs and constraints

- Portfolio goals
- Liquidity requirements
- Risk targets
- Diversification needs

3 DETERMINE

Implementation and strategy

- Cost effectiveness
- Desired exposure to specific trends
- Market maturity
- Data accessibility and quality

Market perspectives

Contents

In the previous section, we looked at Asia's transformation and identified the key drivers behind this: infrastructure, technological capabilities, government policies, business environment, regional connectivity, and talent.

- Infrastructure development
- Improved technological capabilities
- Supportive government policies
- Friendly business environment
- Increased connectivity
- Growing educated and skilled workforce

We also considered how these enablers were encouraging innovation across Asia in traditional mainstays, such as manufacturing, healthcare and financials, while also giving rise to opportunities in new economy sectors – digital economy, renewable energy and EVs.

- Manufacturing
- Healthcare
- Financials
- Digital economy
- Renewable energy
- Electric vehicles

To help investors appreciate Asia's dynamism and the key opportunities across the region, we will deep dive into each of the nine selected Asian markets,[1] with each market perspective featuring the key enablers of its transformation. While this transformation creates opportunities across multiple sectors, we have cited two examples of high opportunity sectors for investors to consider.

[1] The nine markets are: China, India, Indonesia, Japan, Malaysia, South Korea, Taiwan, Thailand, and Vietnam.

Economic powerhouse

China

A major economic powerhouse, focusing on innovation and decarbonisation to sustain long-term growth

Economy

Nominal GDP:
USD17,768 billion (2022)

Real GDP growth:
5.2% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD11,303 billion (Dec 2022)

Market cap as % of GDP:
63.6% (2022)

H-shares market cap:[2]
USD755 billion (Dec 2022)

ADRs market cap:
USD459 billion (Jan 2023)

Daily turnover:[3]
USD138 billion (Avg. 2022)

Listed companies:[4]
4,916 (Dec 2022)

Overview and key enablers

As China recovers from the pandemic, the government is accelerating the pivot towards domestic consumption to sustain long-term economic development. Under the 'Strategic Plan for Expanding Domestic Demand (2022-2035), China envisions that breakthroughs in core technologies will foster innovation and consumer demand.

Consumption and innovation are key defining features of China's transformation. From digital payments to online retail, China is seeing landmark changes in consumer habits, and its "hyper-adoptive" and "hyper-adaptive" consumer base enables it to be highly competitive on the global stage. The government's efforts towards China's decarbonisation will generate opportunities in the renewable energy sector for investors.

> **As China transitions to higher quality growth, it will continue to boost innovation to facilitate domestic substitution in both software and hardware.**
>
> Paul Chong, Portfolio Manager, Eastspring Investments

[1] Total market capitalisation (market cap) of the Shanghai and Shenzhen stock exchanges.
[2] Refer to the shares of companies incorporated in Mainland China that are listed or traded on the Hong Kong Stock Exchange.
[3] Value indicates the sum of the average daily turnovers for Shanghai and Shenzhen stock exchanges for the calendar year of 2022.
[4] Companies listed on either the Shanghai or Shenzhen stock exchanges.

Technological innovation to spur opportunities across both traditional and new economy sectors

As China transitions to a new growth model, innovation will be a key focus. R&D expenditure rose from 1.4% of GDP in 2010 to 2.4% of GDP in 2020. This figure is expected to increase further, given the ambitions that the Chinese government outlined in its 14th Five-Year Plan (FYP) from 2021 to 2025. The government aims for an annual increase of R&D spending by 7% over those five years. As China looks to enhance its capabilities in science and technology, manufacturing, and green development – there will be potential opportunities across the EV and telehealth sectors.

The move to develop a common ESG taxonomy will aid China's low-carbon transition and benefit green industries

China has committed to achieving carbon neutrality by 2060; and the World Bank estimates that China will need USD14-17 trillion in additional investments for green infrastructure and technology in the power and transport sectors alone to support this transition.

China is working with the European Union (EU) on a common taxonomy to harmonise definitions of green activities and promote greater ESG disclosure among publicly-listed companies.[5] This can encourage more global investments in Chinese companies. With more relaxed policies towards foreign ownership (e.g., Stock Connect and Bond Connect),[6] there are more avenues for investors to participate in China's green transition.

[5] As of mid-2020, 1,021 A-share companies (i.e. companies listed on the Shanghai and Shenzhen stock exchanges) had published annual ESG reports, up from 371 companies in 2009, according to the World Economic Forum. Of these, 130 had dual listing in Hong Kong – where ESG reports are required.

[6] Stock Connect is a trading platform that enables domestic mainland Chinese stock exchanges to accept shares from international investors and vice versa; Bond Connect is an investment channel that gives overseas investors access to fixed income markets in Mainland China

Economic powerhouse

China

Expanding renewable energy capacity and an increased demand for healthcare services to generate opportunities

High opportunity sectors

Investors can access China via onshore markets – A-shares[1] – and offshore markets – H-shares[2] in Hong Kong and American Depository Receipts (ADRs).[3] A-shares tend to be more influenced by domestic policy and offer greater diversification. It also offers a larger opportunity set of Chinese companies, particularly in fast-growing sectors such as healthcare. Meanwhile H-shares provide different exposures such as the internet platforms.

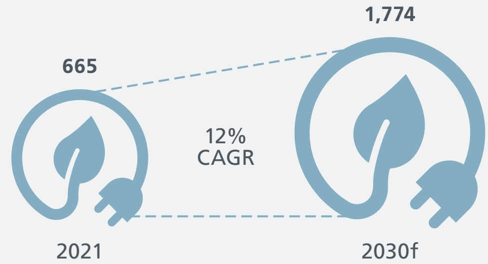
As China transitions toward a consumer-led growth model and greener economy, there are potential opportunities for investors to participate in China's transformation across **two key sectors**: **Renewable energy and Healthcare**.

Renewable energy

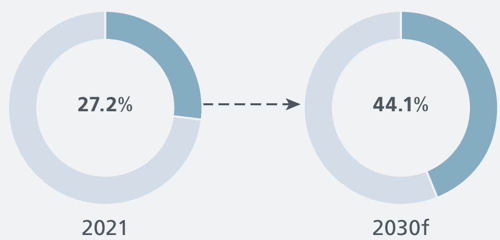
China is a current leader in renewable energy with a 38% share of the global renewable energy capacity in 2022; this is expected to increase further to 42% by 2030. Solar and wind energy will play a major role, accounting for a 43% share of China's total energy capacity in 2030 (up from 29% in 2022).

China's 2060 carbon neutrality target will create opportunities for local companies along the solar value chain, in the production of polysilicon, to wafers, to photovoltaic modules. The International Energy Agency (IEA) estimates that China's share of global polysilicon, ingot and wafer production will reach 95% by 2025. Given China's low-cost advantages, wind turbine manufacturers will continue to benefit from the growth in domestic wind energy capacity and wind turbine exports.

6a. Renewable energy capacity[4]
Gigawatt



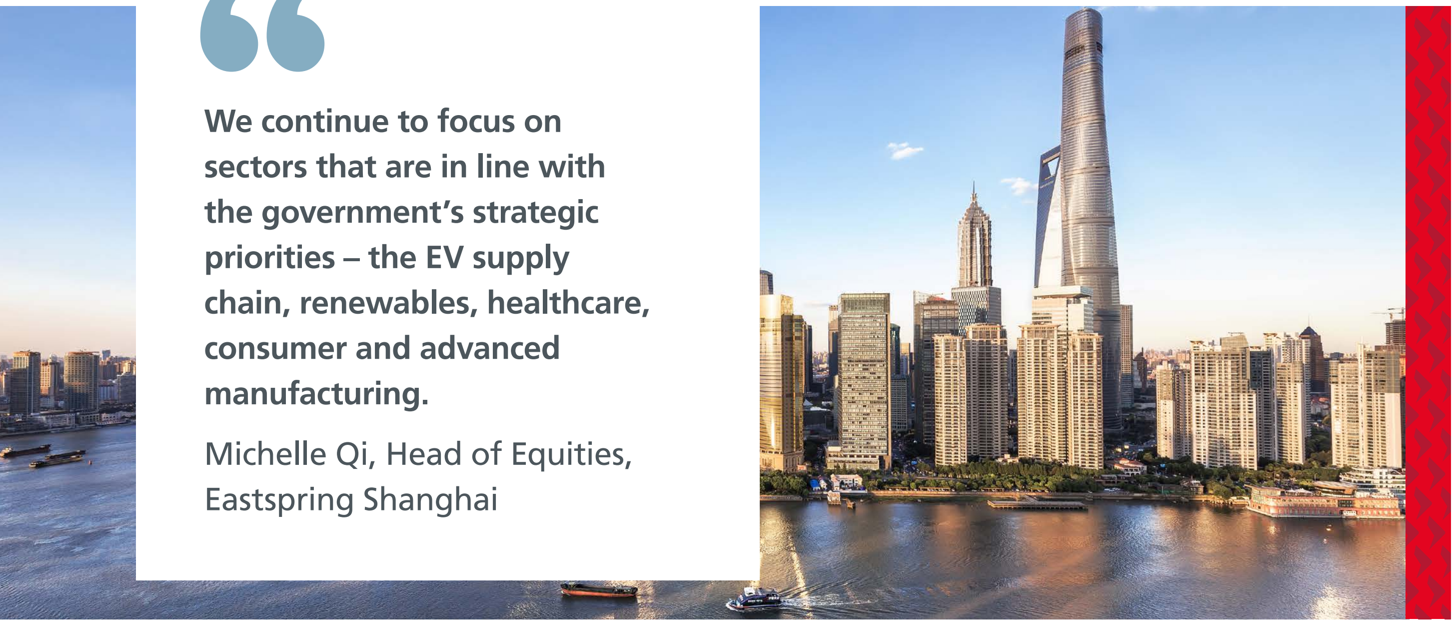
6b. Renewable energy capacity as percentage of total energy capacity[5]
%



Source: Fitch Solutions

[1] China A-shares are the stock shares of mainland China-based companies that trade on the two Chinese stock exchanges, the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE). Foreign investors can access A shares via the Qualified Foreign Institutional Investor (QFII) or RMB Qualified Foreign Institutional Investor (RQFII) schemes. RQFII participants can invest in the same range of investment products as QFIIs, subject to the same restrictions, but RQFII uses RMB to purchase securities, while QFII uses their foreign home currency.

[2] Refers to companies from the Chinese mainland that are listed on the Hong Kong Stock Exchange.



We continue to focus on sectors that are in line with the government's strategic priorities – the EV supply chain, renewables, healthcare, consumer and advanced manufacturing.

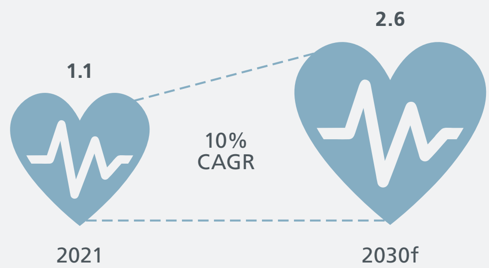
Michelle Qi, Head of Equities, Eastspring Shanghai

Healthcare

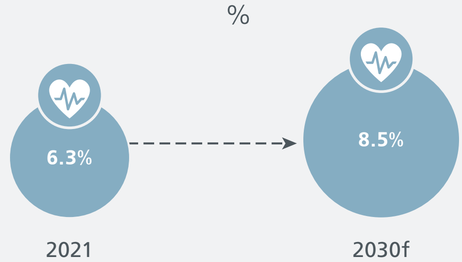
This sector is poised for growth over the next few years, driven by an ageing population and increased demand for healthcare services. Healthcare expenditure as a percentage of GDP is expected to rise from 6.5% in 2022 to 7.5% in 2026.

Within the sector, healthcare development projects can fuel growth for medical device players, with sales forecasted to increase from USD31.8 billion in 2022 to USD45.4 billion in 2026. Moreover, the government's push to enhance China's self-sufficiency in pharmaceuticals will support domestic pharma companies and drive overall sector sales up from USD204 billion in 2022 to USD274 billion in 2026. Finally, telemedicine or digital healthcare companies can benefit from China's accelerated digitalisation and changing consumer behaviours.

7a. Healthcare expenditure
USD trillion



7b. Healthcare expenditure as a percentage of GDP
%



Source: Fitch Solutions

[3] Refers to companies that are registered outside the United States and are traded on American Stock Exchanges.

[4] Refers to the maximum output that grid-connected non-hydro renewables (solar, wind, biomass, marine, geothermal) generating equipment can supply to system load, adjusted for ambient conditions.

[5] Refers to the maximum output that grid-connected generating equipment can supply to system load.

Economic powerhouse

India

A rising economic power, enhancing its infrastructure and upskilling talent to drive growth

Economy

Nominal GDP:
USD3,391 billion (2022)

Real GDP growth:
6.7% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD3,389 billion (Dec 2022)

Market cap as % of GDP:
100.0% (2022)

Daily turnover:[2]
USD7 billion (Avg. 2022)

Listed companies:[3]
2,168 (Dec 2022)

Overview and key enablers

India is the world's most populous country with one of the largest percentage of working age population. To support the demands of a growing and an increasingly affluent society, the government has committed to further developing India's infrastructure and driving greater sustainability. This can generate opportunities for investors across India's digital economy and green industries.

The availability of skilled talent will be a key driver for continued growth, especially in the Information Technology (IT) sector. India will remain a hotspot for technology talent. The government has undertaken several initiatives to further digitalise India and upskill the domestic talent pool in emerging technologies. India's sizeable population and young workforce lay the foundations to further scale its digital capabilities.

> **India has reached a stage where it is too big to ignore – both economically and in terms of market opportunities for investors.**
>
> Anand Gupta, Portfolio Manager, Eastspring Investments

[1] Total market capitalisation of the National Stock Exchange.

[2] Value indicates the average daily turnover for the National Stock Exchange in local currency unit (LCU) for the calendar year of 2022. Value is converted in USD with exchange rate of INR1 = USD0.0120849, as of 31 December 2022.

[3] Companies listed on the National Stock Exchange.

Infrastructure development will support increased consumption and growth

With the vision of a USD1 trillion digital economy by 2025, India's expanding digital infrastructure will be a defining feature of its transformation. The government aims to connect all 600,000 villages in the country with high-speed broadband by 2025 and provide nationwide 5G coverage by 2024. Improved connectivity has facilitated digital adoption in India, creating a new growth engine for the economy, by tapping into the dormant potential of its increasingly affluent population. The World Economic Forum (WEF) estimates that by 2030, more than 40% of purchases in India will be digitally influenced, up from 20-22% in 2019.

Deepening technology talent pool to attract global companies

India has become synonymous with technological innovation thanks to its vibrant start-up ecosystem and the government's push for digitalisation. In 2021, India's technology talent pool was estimated at 3.8 million people, just behind China (4.2 million) and the United States (4.4 million). In addition, several government ministries partnered each other to launch a digital skills programme to train 10 million students in emerging digital technologies, such as AI, blockchain, big data, data analytics, cyber security and cloud computing. Given its deepening digital talent pool, India can bolster its position as a global hub for skilled, technology talent.

Economic powerhouse

India

Investors’ next port of call with opportunities across the digital economy and solar supply chain

High opportunity sectors

With expanding opportunities across sectors, India is becoming an attractive investment destination. India’s weight in the MSCI Emerging Markets Index has grown from 8.3% in August 2020 to 13.2% in February 2023, indicating the growing importance of India’s capital markets, globally.

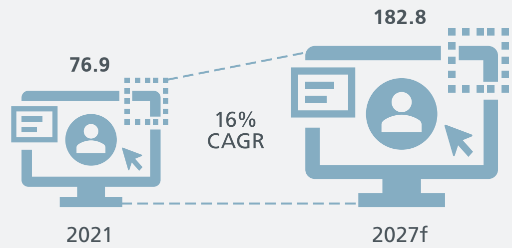
India’s ambitions to establish one of the largest digital economies by 2025 and achieve net zero emissions by 2070 give rise to opportunities across two **key sectors: Digital economy and Renewable energy**.

Digital economy

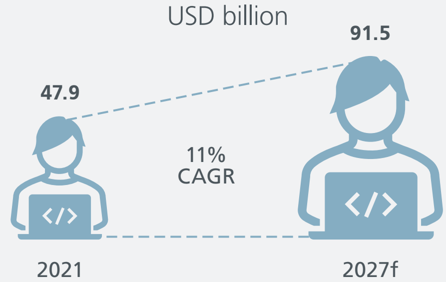
Widespread internet and smartphone penetration has accelerated growth in India’s digital economy. With expanding infrastructure and coverage, mobile internet penetration in India is expected to reach 79.8% by 2030, offering growth potential for companies in the digital sector.

The telecommunications sector is at the heart of India’s digital transformation. Capital expenditure for the sector is projected to increase from USD15 billion in 2022 to USD16.8 billion in 2026, driving growth for telecom infrastructure players. Rising digital adoption and consumption will benefit e-commerce players and digital start-ups/unicorns, as well as those in the fintech and digital payments space. Skilled digital talent will support IT players, with sector growth at 11% CAGR (2021-2027).

8a. E-commerce goods and services retail sales value
USD billion



8b. Information technology market value[1]
USD billion



Source: Euromonitor, Fitch Solutions

[1] Refers to the total market size based on revenue opportunities for IT hardware, software and services. Also known as total addressable market (TAM).

> **We are seeing several Indian companies make commitments to reduce their carbon footprint. That's why building a reliable supply chain and developing new capabilities in these areas would be important for India's transition.**
>
> Senior executive of a Fortune 500 company

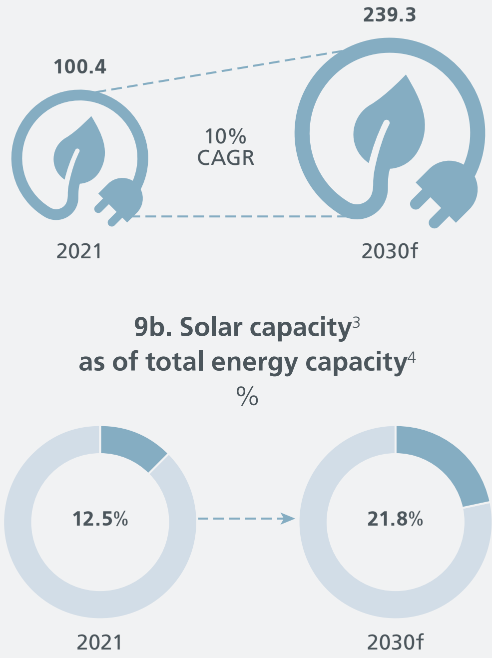
Renewable energy

Rising energy demand and strong government support are furthering growth in India's renewable energy sector. The International Energy Agency (IEA) estimates that domestic energy demand will rise by 25-35% by 2030, from 2019 levels. India is expected to add almost 140GW of renewable energy capacity between 2021-2030.

Solar energy is forecasted to account for more than two-thirds of this capacity increase, and 22% of India's overall power capacity by 2030. Engineering, Procurement and Construction (EPC) companies and domestic Original Equipment Manufacturers (OEMs) along the solar supply chain stand to benefit from this expansion. Anticipating this growth potential, several local companies have announced significant capital investments to bolster their solar cell and module manufacturing capacity.

9a. Renewable energy capacity[2]
Gigawatt

9b. Solar capacity[3] **as of total energy capacity**[4]
%



Source: Fitch Solutions

[2] Refers to the maximum output that grid-connected non-hydro renewables (solar, wind, biomass, marine, geothermal) generating equipment can supply to system load, adjusted for ambient conditions.

[3] Refers to the maximum output that grid-connected solar (CSP and PV) generating equipment can supply to system load, adjusted for ambient conditions.

[4] Refers to the maximum output that grid-connected generating equipment can supply to system load.

Economic powerhouse

Japan

A highly developed and well-connected economy, focusing on digitalisation to shape its future

Economy

Nominal GDP:
USD4,232 billion (2022)

Real GDP growth:
0.9% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD5,229 billion (Dec 2022)

Market cap as % of GDP:
123.5% (2022)

Daily turnover:[2]
USD22 billion (Avg. 2022)

Listed companies:[3]
3,799 (Dec 2022)

Overview and key enablers

The Japanese government is looking to further digitalise its economy and industry. An ageing population underscores the need to raise productivity in Japan. Digitalisation is key to this transformation, and will give rise to opportunities in areas, such as fintech, digital payments and industrial automation. Japan's move towards a more productive and digital economy will require a highly educated and digitally-skilled talent pool. As such, the government has undertaken efforts to reskill workers in digital technologies.

In addition, Japan's strengthened trade connectivity with regional partners – China and South Korea – as well as internationally with Europe and North America, will bolster its position as a key exporter in the global economy, especially in high-technology goods such as industrial machinery and robots.

> **Japanese corporates have significantly improved their underlying profitability in recent years, yet this hasn't been fully recognised by international investors and Japanese stocks are currently cheap versus other developed markets.**
>
> Oliver Lee, Client Portfolio Manager, Eastspring Investments

[1] Total market capitalisation of the Tokyo Stock Exchange.

[2] Value indicates the sum of the average daily turnovers across Prime, Standard, and Growth segments for the Tokyo Stock Exchange between 4 April 2022 and 31 December 2022. Tokyo Stock Exchange was restructured into these three segments on 4 April 2022.

[3] Companies listed on the Tokyo Stock Exchange.

Digitalisation to facilitate opportunities in digital payments, fintech and industrial automation

Despite being a high-tech economy, there is potential for further digitalisation of government services which will increase efficiency in public payments. Digitalisation can also create new customer channels in banking and life insurance. As one of the world's leading manufacturers and the largest producer and exporter of industrial robots, digitalisation can change how products are designed and produced within Japan's automotives, electronics and industrial machinery sectors. To ensure that Japan's digital transition is inclusive and supported by skilled local talent, the government has pledged USD7.5 billion to reskill workers over the next five years.

Expanding trade networks to strengthen its position as a key global exporter

Trade connectivity has been a major focus for Japan's transformation. Over the years, Japan has entered into several major trade agreements, such as RCEP, the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), and the EU-Japan Economic Partnership Agreement (EPA). The RCEP is Japan's first trade agreement with China and South Korea – key destinations for Japanese exports, from electrical goods to machinery to automobile components. The agreement is expected to lift Japan's GDP by 2.7% and create approximately 570,000 jobs. The EU-Japan EPA and CPTPP will facilitate greater trade flows between Japan and the EU and Canada, respectively – cementing Japan's role as a key trade destination and exporter in the global economy.

Economic powerhouse

Japan

Demographic shifts and accelerated digitalisation to generate opportunities in manufacturing and financials

High opportunity sectors

Japan's deep and liquid financial markets have made it an attractive investment destination. Meanwhile, corporate governance reforms have increased dividends and share buybacks, enhancing mid to long-term shareholder value. Japanese companies are at the gateway of Asia ex-China, where they can both facilitate and partake in Asia's growth story via the finance, retail and consumer goods sectors and also by supporting factory automation, infrastructure and energy transition.

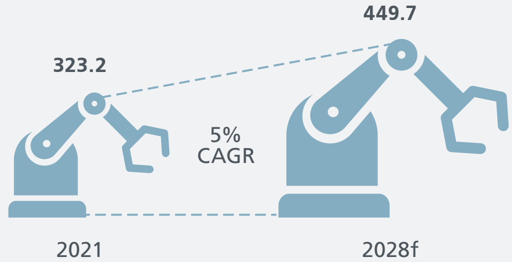
Japan's demographic shift underscores an urgent need for automation to raise productivity and digitalisation, which will generate opportunities across two **key sectors: Manufacturing and Financials**.

Manufacturing

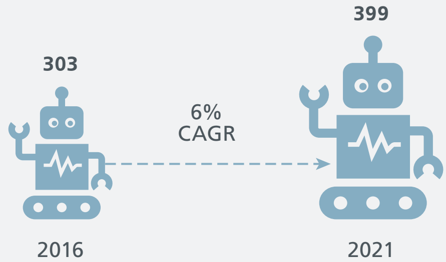
Japan is home to some of the world's leading industrial machinery manufacturers and is the world's leading industrial robot manufacturer, delivering 45% of the global supply.

Solution providers in automation, robotics and Industry 4.0 can benefit from Japan's advanced manufacturing technologies. Industrial robot density in Japan has grown on average by 6% annually since 2016 – ranking 3rd globally. Information and Communication Technology (ICT) verticals stand to gain from Japan's increased manufacturing sophistication, as digitalisation and consumption of online content are driving demand for AI-enabled advanced automation solutions. Electrification, hydrogen and autonomous vehicle trends are also generating demand for hardware, as well as ancillary software and services.

10a. Industrial machinery sector gross output
USD billion



10b. Robot density[1]



Source: IHS Markit, World Federation of Robots

[1] Per every 10,000 employees in the manufacturing industry.

The ongoing positive structural changes, such as the deleveraging of balance sheets, rising dividend payouts, stock buybacks and numbers of contested takeovers are also evident in Japan's small- and mid-caps.

Max Godwin, Portfolio Manager, Eastspring Investments

Financials

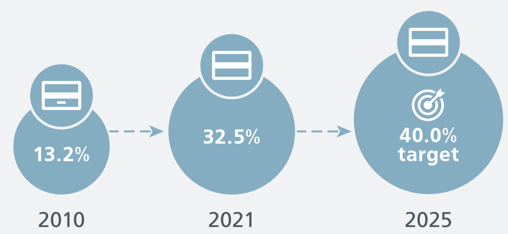
Japan's banking industry is well-developed and well-capitalised. The financial sector as a percentage of GDP is expected to grow from 6.8% in 2021 to 8.4% in 2028.

Digitalisation is transforming the way traditional banks operate. Major full-service banks have announced investments in digital banks and services. Some have partnered with other industry players, such as mobile operators and application services providers to offer services beyond traditional banking, such as financial services through the metaverse. The banking sector's expansion will generate opportunities in fintech, blockchain, digital payments and mobile banking.

Although digital banks account for less than 3% of deposits now, they are seeing rapid growth (up from 1.6% of deposits in 2017). The listing of virtual banks are potential new opportunities for investors.

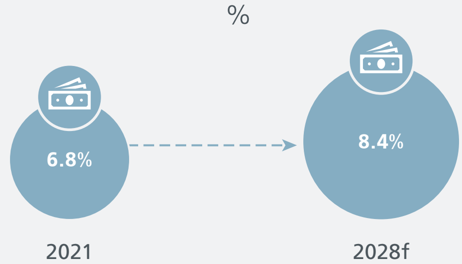
11a. Cashless payments as a percentage of all payment transactions

%



11b. Financial sector as percentage of GDP[2]

%



Source: World Economic Forum, IHS Markit, Fitch Solutions

[2] Financial sector gross output divided by nominal GDP.

East Asia cornerstone

Taiwan

A high-tech market, focusing on innovation and attracting skilled global talent to transform its industries

Economy

Nominal GDP:
USD761 billion (2022)

Real GDP growth:
2.8% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD1,444 billion (Dec 2022)

Market cap as % of GDP:
189.6% (2022)

Daily turnover:[2]
USD8 billion (Avg. 2022)

Listed companies:[3]
971 (Dec 2022)

Overview and key enablers

Taiwan is moving towards higher-value added goods and services by developing new capabilities in smart machinery, green energy and biotechnology. The government is also keen to strengthen regional R&D collaboration under the umbrella of its New Southbound Policy (NSP), which will open doors to cross-border investment opportunities.

Similar to Japan, Taiwan's industrial transformation will heavily rely on skilled talent. Taiwan has introduced policies to attract global talent, such as preferential visas or employment cards, in particular targeting highly-skilled professionals in industries, such as semiconductors, blockchain, finance and renewables. In addition to the critical role Taiwan already plays in the global semiconductor industry, Taiwan's industrial innovation will present new opportunities for investors.

> **Supportive government policies to promote industry-specific education and attract global talent will be a key driver of sector growth. Government initiatives to develop local infrastructure and connectivity will also be critical in supporting Taiwan's industrial transformation.**
>
> Senior executive of a top chip design company

1 Total market capitalisation of the Taiwan Stock Exchange.
2 Value indicates the average daily turnover for the Taiwan Stock Exchange for the calendar year of 2022.
3 Companies listed on the Taiwan Stock Exchange.

Innovation to transform Taiwan's industries and create opportunities across multiple sectors

The '5+2 Innovative Industries Plan' lays out Taiwan's forward-looking ambitions to transform its industry and forge a new model for sustainable development. The plan focuses on smart machinery, green energy, biomedicine and biotechnology, and the circular economy, with a focus on high value-added goods and services. Leveraging Taiwan's strengths in the semiconductor industry, this plan creates opportunities – both in industrial mainstays such as electronics and manufacturing, and in new economy sectors such as renewable energy and the digital economy. Under the NSP, Taiwan is also looking to foster collaboration in innovative industries with ASEAN[4] countries, through promoting R&D and capacity building.

Government keen to attract global skilled talent to support industry transformation

To fulfil its ambitions to transform its industry, Taiwan will need skilled global talent to complement its domestic workforce. The government hopes to attract more global professionals in view of its ageing population. A segment of these special professionals will qualify for work in sectors such as semiconductors, blockchain, finance, and offshore wind power. To this end, Taiwan enacted the Act for Recruitment and Employment of Foreign Professionals – under which it introduced 'employment gold cards' for highly-skilled global talent.[5] The 'gold card' facilitates greater global mobility by providing foreigners more flexibility to leave and re-enter Taiwan. Moreover, the Act also provides foreigners that have obtained permanent residence in Taiwan, retirement, insurance and tax benefits.

[4] Association of Southeast Asian Nations (ASEAN): Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

[5] Launched in 2018, the Taiwan Employment Gold Card is a 4-in-1 card that includes a resident visa, work permit, Alien Resident Certificate (ARC), and re-entry permit, which allows the card holder to leave and re-enter Taiwan multiple times over the course of one to three years.

East Asia cornerstone

Taiwan

A strong expertise in semiconductors will facilitate Taiwan's pivot to advanced manufacturing

High opportunity sectors

Taiwan boasts of a highly liquid capital market, with deep expertise in technology. To increase market accessibility, the Taiwan Stock Exchange Corporation (TWSE) has simplified the registration process and related documentation required of foreign investors. In March 2020, the TWSE implemented a new trading system to enhance market transaction efficiency and information transparency that will benefit investors.

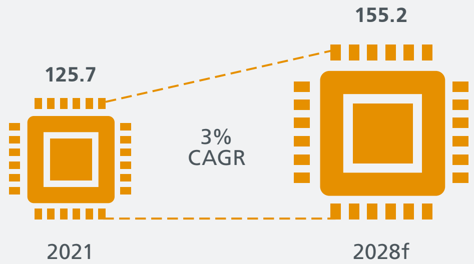
Taiwan's semiconductor sector will continue to play an important role in the market's overall growth. Against this backdrop, Taiwan's industrial development and focus on innovation will create opportunities across **two key sectors: Semiconductors and Manufacturing**.

Semiconductors

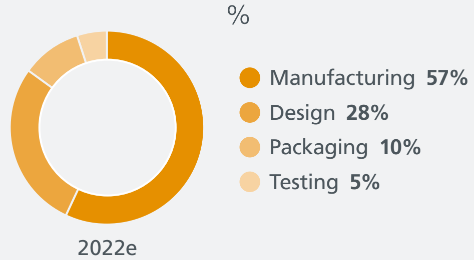
Taiwan's semiconductor industry is well known for its Integrated Circuit (IC) design and wafer fabrication. Most of the world's semiconductor manufacturing capacity is concentrated in Taiwan. Gross sector output was the 2nd largest in the world in 2021, and Taiwan controls more than 80% of the market for chips with the smallest and most efficient circuits.

Within the sector, wafer foundry manufacturers can benefit from the strong demand for 5G, IoT, high-performance computing and automotive applications for chips. Growing demand for consumer electronics will also boost growth for those in IC fabrication and design. Given the high degree of integration along the domestic supply chain, downstream packaging and testing firms, and material suppliers will also experience further growth.

12a. Semiconductor sector gross output
USD billion

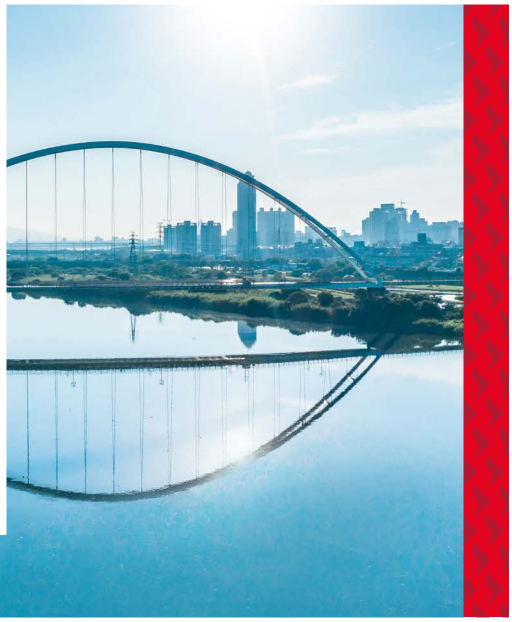


12b. Semiconductor industry revenue breakdown
%



Source: IHS Markit, Taiwan Semiconductor Industry Association

> **Taiwan is not only home to Tier 1 foundries, chip packaging and integrated design companies, it also has other small and mid-cap companies within the semiconductor ecosystem which can provide investors with attractive opportunities.**
>
> Rebecca Lin, Head of Investments, Eastspring Taiwan

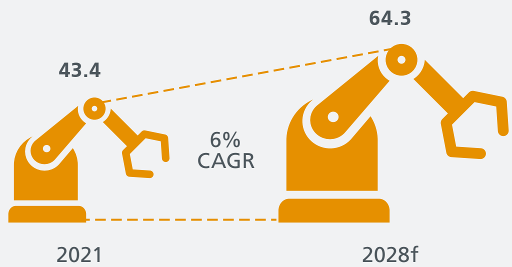


Manufacturing

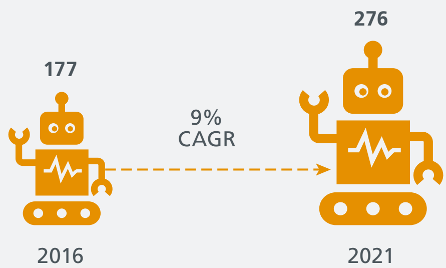
Taiwan is Asia's 4th largest exporter of industrial machinery. Gross sector output is projected to increase at 6% CAGR (2021-2028f), supported by Taiwan's increased focus on smart machinery.

From high-precision Computer Numeric Control (CNC) cutting machines to power presses and machine tools, to industrial automation and collaborative robots – there is a myriad of players across Taiwan's manufacturing industry that can benefit from the economy's pivot towards higher-end, smart manufacturing. Upstream component suppliers that support smart machinery implementation can also leverage the industry's growth.

13a. Industrial machinery sector gross output
USD billion



13b. Robot density[1]



Source: IHS Markit, World Federation of Robots

[1] Per every 10,000 employees in the manufacturing industry.

East Asia cornerstone

South Korea

One of the world's most important manufacturers, focusing on innovation to drive a digital and green transformation

Economy

Nominal GDP:
USD1,726 billion (2022)

Real GDP growth:
2.4% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD1,610 billion (Dec 2022)

Market cap as % of GDP:
93.3% (2022)

Daily turnover:[2]
USD12 billion (Avg. 2022)

Listed companies:[3]
2,437 (Dec 2022)

Overview and key enablers

South Korea manufactures a range of products from consumer electronics to automotives. The government has stressed the importance of innovation to bolster the country's manufacturing edge.

As such, South Korea has not only invested heavily in R&D – especially in the latest digital technologies – but also in skills development and training for domestic talent. In particular, the government is keen to equip the local workforce with knowledge of smart manufacturing and green technologies, which will lend support in growing the EV and renewable energy markets.

> **We are investing heavily in R&D to create new products that are biodegradable and more eco-friendly. As it stands, the market is changing, and we are gradually transforming our business to reduce carbon emissions.**
>
> C-suite level executive of a leading petrochemicals company

[1] Total market capitalisation across the KOSPI and KOSDAQ segments of the Korea Exchange.
[2] Value indicates the sum of the average daily turnovers across KOSPI and KOSDAQ segments for the Korea Stock Exchange for the calendar year of 2022.
[3] Companies listed on either KOSPI or KOSDAQ segments on the Korea Exchange.

Government push to upskill workers will create jobs

The Ministry of Environment aims to create over 80,000 green industry jobs by 2025, where 25% of workers will be trained in green convergence technology. Separately, the government has also announced the 'Comprehensive Plan to Nurture Digital Talent' to widen digital education and add a million people to the country's digital workforce by 2026. As part of this initiative, the government will introduce digital and information education at the primary and secondary school levels, while introducing postgraduate courses in AI, metaverse, cybersecurity and big data. Both digital and industry-focused training will provide South Korea with needed skilled talent to support expansion in both traditional and new economy sectors.

Innovation to bolster South Korea's strength in strategic technology sectors

South Korea is an economic powerhouse, with a technological edge in manufacturing and hardware-based industries. More recently, the government has heavily emphasised R&D, particularly in high-growth sectors such as hydrogen, battery materials and storage, and EV manufacturing. In October 2022, the government announced the 'National Strategic Technology Nurture Plan', which fosters innovation across 'strategic technologies' in semiconductors and display, secondary cells, hydrogen and nuclear energy. The plan provides policy and investment support, while strengthening talent initiatives and international cooperation to drive innovation in these areas.

East Asia cornerstone

South Korea

South Korea's push for innovation and leading role in hydrogen technology to generate growth across green industries

High opportunity sectors

The tech-heavy Korean equity market has a high degree of exposure to semiconductors, EVs, batteries and battery materials. The government plans to deregulate the local stock market and make it more accessible to foreign investors; measures include disclosing information in English and allowing foreign investors to use their passport numbers/globally standardised legal entity identifier (LEI) to trade Korean stocks.

Given South Korea's manufacturing sophistication and push for innovation, there are **two key sectors** that stand to benefit from the country's transformation: **Renewable energy and EVs**.

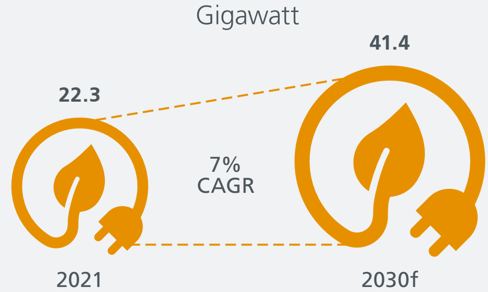
Renewable energy

The 9th Basic Plan for Long-Term Electricity Supply and Demand 2020-2034 outlines South Korea's aim to increase its renewable energy mix from 15.1% in 2022 to 40% by 2034. Solar and wind will drive most of this increase, with offshore wind playing a major role (40% of project pipeline).

Photovoltaic (PV) cell/module manufacturers and offshore wind developers will benefit most as South Korea continues to develop solar parks and build the world's largest offshore wind farm.[1]

Already accounting for half of the world's installed capacity of utility-scale stationary fuel cells, South Korea is leading the transition to hydrogen. Its hydrogen industry is forecasted to reach USD20 billion by 2030, driving growth for those in the hydrogen ecosystem – from fuel cell manufacturers to chemical/industrial companies building hydrogen refuelling stations.

14a. Renewable energy capacity[2]
Gigawatt



14b. Roadmap for hydrogen economy by 2040

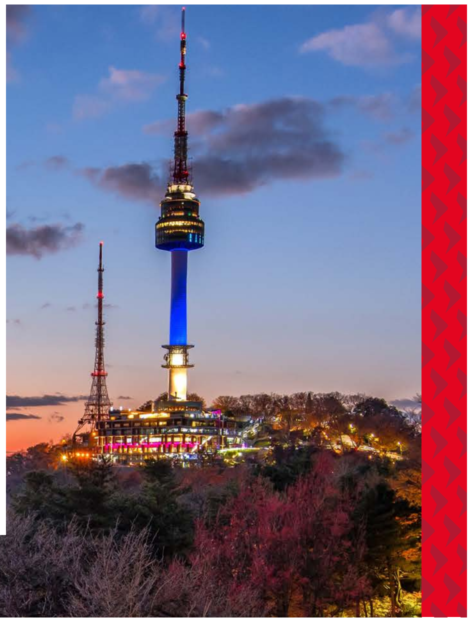
	2022	2040f
Hydrogen vehicle (units)	81,000	6,200,000
Fuelling stations (units)	310	1,200
Fuel cells used for Industrial (GW)	1.5	15.0
Fuel cells used for Household (MW)	50	2,100

Source: Fitch Solutions, Ministry of Trade, Industry and Energy

[1] The 8.2-GW project is nearly seven times larger than the current largest operating offshore wind project, the UK's Hornsea (1.2 GW).

[2] Refers to the maximum output that grid-connected non-hydro renewables (solar, wind, biomass, marine, geothermal) generating equipment can supply to system load, adjusted for ambient conditions.

> **We are seeing ample investment opportunities in companies in the traditional sectors such as chemical, energy, and metals. Many are combining their long-established manufacturing edge with the new technologies to become major suppliers in the global renewable energy and EV supply chain segments.**
>
> Paul HJ Kim, Head of Equities, Eastspring Korea



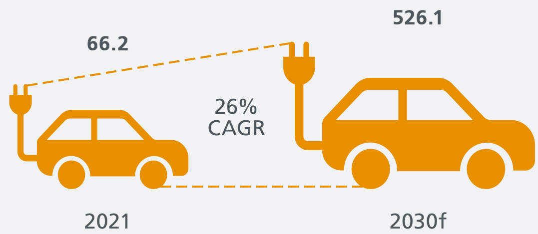
Electric vehicles

EVs will play a key role in South Korea's green transition. Domestic passenger EV sales is expected to grow by 26% CAGR to over 520,000 units in 2030. Global demand for EVs is also expected to boost exports, which have doubled in value from 2019 to USD7 billion in 2021.

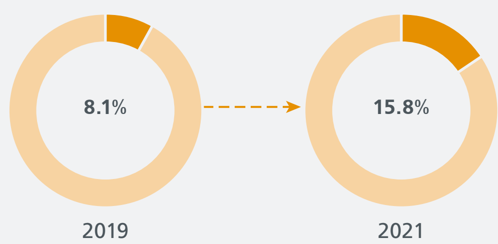
The government has announced tax incentives and other measures (amounting to USD66 billion) to double EV production, and aims for a 12% share of the global EV market by 2030.

Local EV battery manufacturers will benefit from this expansion, with government subsidies to encourage R&D spending. Fuel Cell Electric Vehicle (FCEV) automakers will also see growth given the trend of rising exports and governmental support.

15a. Passenger electric vehicle sales
Thousands



15b. EVs as percentage of all automotive exports
%



Source: Fitch Solutions, The Korea Herald

Malaysia

A key economy focusing on increasing digital adoption and strengthening trade links to lift competitiveness

Regional contender

Economy

Nominal GDP:
USD406 billion (2022)

Real GDP growth:
4.0% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD370 billion (Dec 2022)

Market cap as % of GDP:
91.2% (2022)

Daily turnover:[2]
USD473 million (Avg. 2022)

Listed companies:[3]
972 (Dec 2022)

Overview and key enablers

Malaysia aims to grow its economy by fostering innovation in technology-based industries. Malaysia's 2023 budget of USD86.8 billion aims to accelerate its economic growth and encourage investments in key industries such as electrical and electronics via enhanced tax incentives. The budget continues to emphasise the development of the digital economy through investments in automation, connectivity and cloud services.

Malaysia is also looking to modernise its manufacturing capabilities. The government is encouraging local manufacturers to adopt Industry 4.0 solutions, to automate and develop smarter processes. This will boost the industry's growth and productivity, while enhancing Malaysia's manufacturing competitiveness on the global stage.

> **There are tremendous opportunities for Malaysia's semiconductor industry if we can further strengthen our position as a key regional hub by attracting high quality investments.**
>
> Doreen Choo, Head of Investments, Eastspring Malaysia

[1] Total market capitalisation of 'Bursa Malaysia Main Market: Ordinaries Shares'.
[2] Value indicates the average daily turnover for the Bursa Malaysia for the calendar year of 2022.
[3] Companies listed on the Bursa Malaysia.

Government initiatives to digitalise and transform the manufacturing industry

Under the aegis of Industry4WRD, Malaysia envisions to have a transformed manufacturing industry by 2025. This policy has driven growth for the manufacturing sector, leading to an increase in sector gross value added (GVA) from USD77.2 billion in 2018 to USD99.3 billion in 2022. To further digitalise its industry and raise its manufacturing competitiveness, Malaysia has also introduced several financing schemes and grants to support companies automate their production processes. With these measures, domestic manufacturers can strengthen their technological capabilities, allowing them to venture into high-technology, value-added segments.

New trade agreements to enhance manufacturing competitiveness

Malaysia has forged key trade links to attract investments and provide companies with greater access to international markets. In September 2022, the government ratified the CPTPP.[4] According to local government estimates, this trade agreement can boost Malaysia's GDP by USD56.5 billion between 2021-2030. Similarly, RCEP, which came into force in January 2022, is expected to increase exports by USD200 million. The country's manufacturing sector will benefit from these multilateral partnerships – with the reduction in tariffs and the removal of non-trade barriers boosting Malaysia's regional competitiveness.

[4] The Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTTP) is a Free Trade Agreement among 11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

Regional contender

Malaysia

Malaysia's focus on high value-added products to generate opportunities in semiconductors and manufacturing

High opportunity sectors

Malaysia's capital market is maturing, with market capitalisation at 91.2% of GDP. The country also has a prominent Islamic capital market, accounting for 27.7% of assets under management of Islamic funds globally in 2021. Over 80% of equities on Malaysia's stock exchange were Shariah-compliant as of November 2022. Investors wanting exposure to Shariah-compliant securities will find Malaysia attractive.

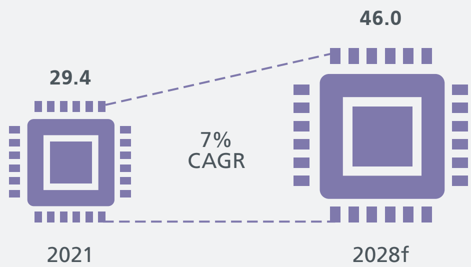
The manufacturing industry contributes nearly 25% of the country's GDP and is closely integrated with global value chains. As Malaysia strengthens its manufacturing capabilities and trade links, there are opportunities across **two key sectors: Semiconductors and Manufacturing**.

Semiconductors

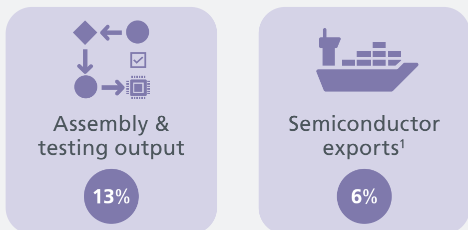
As a well-established assembly and testing hub, Malaysia plays a key role in the global semiconductor supply chain. The sector's gross output is forecasted to grow at 7% CAGR to reach USD46 billion in 2028.

Outsourced Semiconductor Assembly and Testing (OSAT) vendors and ancillary companies that provide support services (e.g., precision cleaning, refurbishment, etc) and testing equipment will benefit from the rise in global demand for semiconductors. In addition, the growing presence of Malaysia's OSAT players in China is expected to unlock further growth opportunities.

16a. Semiconductor sector gross output
USD billion



16b. Malaysia's share in global semiconductor sector in 2021
%



Source: IHS Markit, Malaysian Investment Development Authority, ITC

[1] HS Codes 8541 and 8542 were used to calculate semiconductor exports.

Malaysia is seeing tremendous foreign direct investment inflows as it enhances its manufacturing capabilities. Smart systems will be the key to success; robotics, machine learning and AI will create many opportunities for companies like ours.

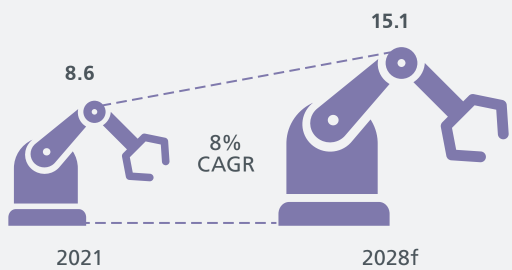
President & CEO of an award-winning manufacturing company

Manufacturing

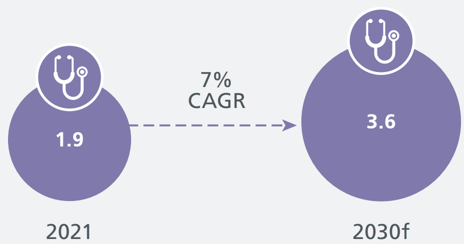
Smart industrial machinery manufacturers will see new growth opportunities arising from the push to adopt Industry 4.0 solutions in sectors such as automotives, electrical and electronics, and medical devices.

For medical device manufacturers specifically, government efforts to modernise healthcare facilities and promote production of high-end equipment will generate new growth opportunities. Those making implantable devices, such as pacemakers and intra-ocular lenses, patient monitors and imaging equipment, will see further growth, driving medical device sales up from USD1.9 billion in 2021 to USD3.6 billion by 2030.

17a. Industrial machinery gross output
USD billion



17b. Medical devices sales
USD billion



Source: IHS Markit, Fitch solutions

Regional contender

Thailand

A major export economy, leveraging government support and greater connectivity to create value-based industries

Economy

Nominal GDP:
USD487 billion (2022)

Real GDP growth:
2.8% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD587 billion (Dec 2022)

Market cap as % of GDP:
120.6% (2022)

Daily turnover:[2]
USD2 billion (Avg. 2022)

Listed companies:[3]
612 (Dec 2022)

Overview and key enablers

Thailand's business-friendly policies and well-connected infrastructure have laid the foundations for its economic development. Going forward, innovation will be a key defining feature of its transformation. Thailand's 4.0 economic blueprint seeks to promote digitalisation and support R&D/infrastructure investments to create more value-based industries.

Thailand's high mobile internet penetration provides an attractive platform for digital banking to thrive. Government policies to promote virtual banking services will introduce new players and new customer segments. Also home to innovative food start-ups, Thailand is well positioned to capitalise on shifting consumer trends toward plant-based alternatives. As a major food exporter, stronger trade links and a rise in global demand for more innovative food products will drive growth in Thailand's Food and Beverage (F&B) industry.

> **On the back of innovation and digitalisation, Thailand's 4.0 blueprint will help unleash a major transformation force for the Thai economy.**
>
> Bodin Buddhain, Head of Investment Strategy, Eastspring Thailand

[1] Total market capitalisation of common stocks of the Stock Exchange of Thailand.
[2] Value indicates the average daily turnover for the Stock Exchange of Thailand for the calendar year of 2022.
[3] Companies listed on the Stock Exchange of Thailand.

Government is pushing growth in digital banking and alternative foods

To establish a value-based industry, the government intends to increase R&D expenditure to 4% of GDP. This will benefit the agriculture, food, tourism, digital, robotics, and logistics sectors. The Thai authorities are also developing a taxonomy to gear financial flows towards sustainable development, promoting regulatory sandboxes to better oversee new technologies, particularly in Central Bank Digital Currencies (CBDCs). In addition, the government envisages Thailand being a major player in the 'Future Food' industry. Government agencies are supporting local farmers with agri-tech to increase productivity, and encouraging R&D to produce new food-tech products that cater to varied consumer demands.

Greater connectivity to entrench Thailand's position as a major food exporter

Thailand's agri-food sector holds an established position globally and in Asia. Rising awareness about health, environmental challenges and animal welfare are shifting consumer behaviour towards plant-based dairy and meat alternatives. Plant protein has always featured strongly in Asian diets. Rising affluence is also driving demand for such products. As a major food exporter, increased regional connectivity via trade agreements (e.g., RCEP, CPTPP), allows Thailand to tap the growing potential in the region and globally.

Regional contender

Thailand

Improved market access and innovation will allow investors to capitalise on opportunities in financials and alternative foods

High opportunity sectors

In 2022, Thailand's IPO proceeds amounted to USD3.4 billion, which was the highest within Southeast Asia. To encourage greater foreign participation, the Stock Exchange of Thailand (SET) has announced a strategic plan (2023-2025) to improve market access for investors and make fundraising easier for new economy companies and start-ups.

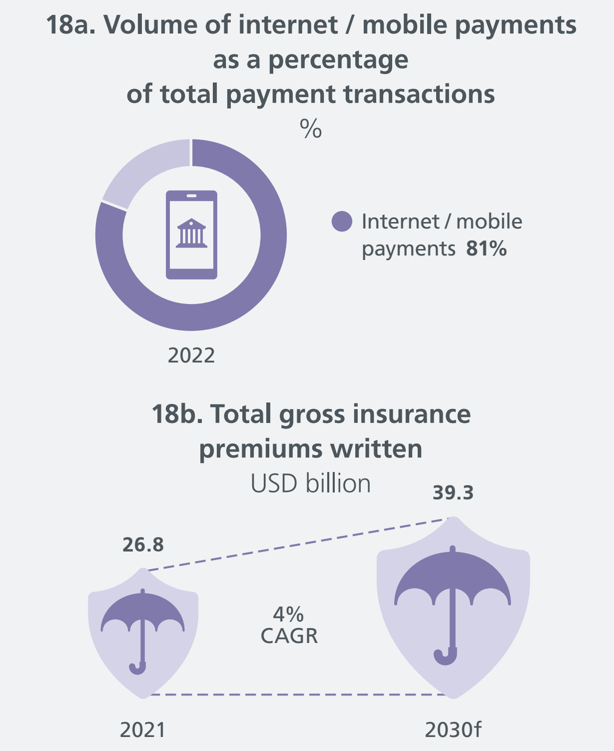
Thailand's emphasis on R&D and innovation will drive growth in **two key sectors: Financials and, Food and Beverage (F&B)**.

Financials

Thailand is a hotspot for emerging fintech services. It has over 300 fintech start-ups and the volume of payments transactions via internet/mobile grew more than fourfold from 5.5 billion to 22.7 billion between 2019 and 2022.

Anticipated regulatory changes will introduce new players into the mix, as the Bank of Thailand (BoT) will allow virtual banks to offer financial services from 2025. Supporting this, high levels of mobile internet penetration will pave the way for an increased uptake of digital banking services. Local small and medium businesses will also benefit from easier loan access and data-centric solutions provided by digital banks, such as big data analytics to generate insights on customer behaviour.

The rise of insurtech and more innovative products will also benefit insurance providers and create opportunities for intermediary players (e.g., web aggregators and online distributors) to enter / grow the market.



Source: Bank of Thailand, Fitch Solutions

> **Thailand has been and will continue to be a key ASEAN market. The investment pipeline has been exciting, and we are expecting more to come.**
>
> Daniel Lum, Portfolio Manager, Eastspring Investments

Food and Beverage

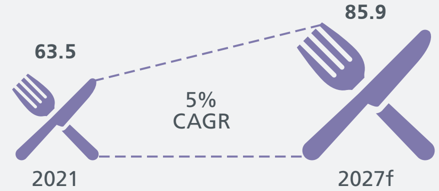
The F&B industry is an integral part of Thailand's economy, accounting for over 20% of GDP[1] and 13% of exports. Thailand has a well-established food supply chain, with over 128,000 companies in agriculture, processing, ingredients and packaging. Domestic food sales are expected to rise from USD63.5 billion in 2021 to USD85.9 billion by 2027.

A major shift in consumption towards convenience food will benefit food processing and packaging companies. Food packaging volumes are forecasted to increase from 23 billion in 2022 to 28 billion units in 2027.

In addition, rising global interest in technology-based food solutions, such as plant-based alternatives to meat, seafood, milk and eggs, will benefit local innovative food start-ups and food manufacturers. Sales of dairy and meat alternatives are expected to remain on a positive trajectory.

19a. Domestic food sales[2]

USD billion



19b. Thailand's ranking and share of global food exports

2nd Largest food exporter in Asia

2.3% Share of global food exports

Fig 19. c Sales and growth forecast for dairy and meat alternatives

	Sales, 2022 (USD million)	CAGR 2022-2027
Plant-based dairy	569.5	6%
Tofu and derivatives	22.4	10%
Meat and seafood substitutes	11.3	13%

Source: Fitch Solutions, National Food Institute, Euromonitor

[1] GDP contribution across the value-chain, including agricultural production, F&B manufacturing and F&B distribution.

[2] Indicates value of household domestic consumption of food.

Emerging player

Indonesia

An emerging economic force, focusing on structural reforms and infrastructure to facilitate industrial transformation

Economy

Nominal GDP:
USD1,319 billion (2022)

Real GDP growth:
4.9% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD608 billion (Dec 2022)

Market cap as % of GDP:
46.1% (2022)

Daily turnover:[2]
USD946 million (Avg. 2022)

Listed companies:[3]
828 (Dec 2022)

Overview and key enablers

Indonesia is the largest economy and consumer market in Southeast Asia. The country's transformation will be defined by improved infrastructure and a friendlier operating environment for businesses and foreign investments. Besides reforms to reduce red tape and streamline regulations, Indonesia is also introducing progressive policies such as regulatory sandboxes to allow businesses to test and launch innovative products.

Indonesia has committed substantial resources to strengthen infrastructure and connectivity. The government allocated an infrastructure budget of USD26 billion in the 2023 budget, an increase of 7.8% from the previous year, to improve the provision of basic services, and productivity through connectivity and mobility infrastructure. This will facilitate the country's industrial transformation as it develops downstream industries in mineral processing and battery production.

Indonesia owns large reserves of nickel and cobalt which are key inputs used in the batteries in electric vehicles. The development of new industries where it has comparative advantages, will structurally transform its economy and support the next stage of economic growth.

Kong Qian Liew, Head of Equities, Eastspring Indonesia

[1] Total market capitalisation of the Indonesia Stock Exchange.

[2] Value indicates the average daily turnover for the Indonesia Stock Exchange in local currency unit (LCU) for the calendar year of 2022, based on information declared by the IDX Yearly Statistics. Converted to USD at IDR1 = USD0.0000643404, as of 31 December 2022.

[3] Companies listed on the Indonesia Stock Exchange.

Structural reforms to attract foreign investors and bolster Indonesia's regional competitiveness

In an effort to increase FDI inflows and make Indonesia more competitive on the global stage, the government has enacted several structural reforms, including legislation to improve Indonesia's labour market. In the past few years, the government has introduced new laws that provided greater flexibility on foreign labour, particularly in technology-based industries. There are also amended provisions for licensing and land acquisition. To attract foreign investments, the government now allows for 100% foreign ownership in certain sectors (e.g., EVs) and offers various tax incentives to businesses. Regulatory sandboxes have also been set up to encourage R&D in various areas, such as fintech.

Infrastructure development to lift integration across supply chains

In the long run, infrastructure development outside of Java can bring forth additional gains, beyond the key provinces and major cities. Since 2020, Indonesia's infrastructure industry has grown by 12% reaching USD88 billion in 2023. Digital infrastructure development will also be a priority, as 25% of the country's population still remains offline. As Indonesia builds its downstream manufacturing capabilities, especially in EVs – robust digital and physical infrastructure will play a critical role in ensuring seamless integration across supply chains.

Emerging player

Indonesia

A dynamic equity market with opportunities in financials and the EV supply chain

High opportunity sectors

In 2021, Indonesian regulators relaxed rules for new IPO listings to encourage more local companies to go public. Technology companies in particular will be allowed to issue multiple voting classes of shares and need not meet the usual asset and profit requirements. This will open doors for companies in new economy sectors – such as ride-hailing, e-commerce, and fintech – to be listed on the stock exchange, creating a differentiated and diverse set of opportunities for future investors.

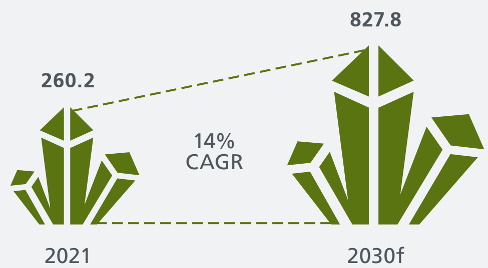
As Indonesia looks to develop an integrated EV supply chain and promote greater financial inclusion, there will be opportunities in **two key sectors: EVs and Financials**.

Electric vehicles

Indonesia is looking to leverage its abundant reserves in transition metals (nickel, cobalt, etc.) to develop downstream EV sectors. In 2020, the government banned exports of nickel ore to attract FDI in mineral processing, which is expected to boost domestic refined nickel production in the next few years.

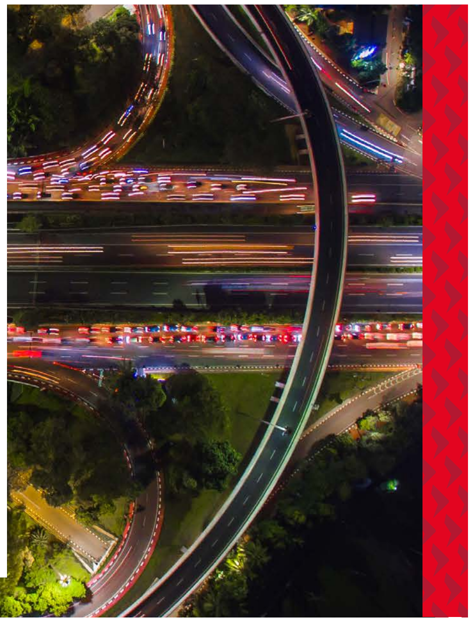
Mining companies and those in downstream sectors such as mineral processing, battery production and EV manufacturing can benefit from Indonesia's vision to establish an integrated EV supply chain, and from greater demand for EVs. Indonesia aims to produce 140 GWh of battery manufacturing capacity, 13 million electric motorcycles and 2.2 million electric cars by 2030. In 2018, there were already close to 120 million motorcycles in Indonesia, offering a large market ripe for electrification.

20. Nickel refined production
Thousand tonnes



Source: Fitch Solutions

> **Indonesia has mass market potential for EVs with a population of over 270 million people. The regulatory environment will be critical in supporting businesses to capitalise on opportunities in the market. Attracting talent and building user-friendly industrial parks will facilitate development of Indonesia's integrated EV supply chain.**
>
> Executive Chairman of a leading mining company

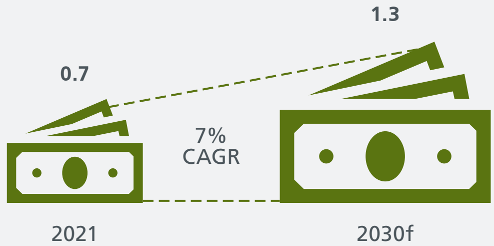


Financials

Indonesia has a large and vibrant financial services industry and the largest fintech ecosystem in ASEAN – with close to 800 fintech companies operating in the country at the end of 2021. Widespread adoption of digital banking services has enabled the sector to flourish.

Yet, over 90 million adults[1] remain unbanked (~50% of the population), highlighting the significant potential for growth in banking services. An expanding middle-class is expected to strengthen the demand for more sophisticated financial products, such as insurance and mutual funds. Moreover, low credit penetration and a large portion of underbanked consumers provide an opportunity for fintech players that offer mobile or e-wallets and Buy Now Pay Later (BNPL) services.

21a. Total banking assets[2]
USD trillion



21b. Percentage of adult population unbanked in 2021
%

Source: Fitch Solutions, World Bank

[1] Age 15 and above.

[2] Analogous to the combined balance sheet assets of all commercial banks in Indonesia. They do not incorporate the balance sheet of the central bank of Indonesia. In aggregate it is the sum of 'client loans', 'bond portfolio' and 'other assets'.

Emerging player

Vietnam

A fast-growing economy, leveraging improving digital infrastructure and rising private sector participation to drive transformation

Economy

Nominal GDP:
USD404 billion (2022)

Real GDP growth:
6.8% (CAGR 2022-2030)

Financial Market

Market capitalisation:[1]
USD170 billion (Dec 2022)

Market cap as % of GDP:
42.1% (2022)

Daily turnover:[2]
USD732 million (Avg. 2022)

Listed companies:[3]
458 (Dec 2022)

Overview and key enablers

To sustain its economic performance, Vietnam is looking to enhance its digital and transport infrastructure. The government aims to have the digital economy contribute to 30% of GDP by 2030. Improvements in digital and transport connectivity can help businesses lower logistics costs and make Vietnam more competitive, globally.

Vietnam is also keen to develop its private sector. The government sees private enterprises as key to sustaining the country's economic growth and is enacting favourable policies to support businesses. A flourishing private sector will create more opportunities for investors, as it bolsters IPO activity and expands Vietnam's capital market.

Vietnam's growth story will continue to be strongly reinforced by favourable global mega trends in supply chain relocation, digitalisation, and net-zero targets, on top of the government's efforts to leverage the country's inherent advantages.

Nguyen Thi Bich Thao, Head of Equities, Eastspring Vietnam

[1] Total market capitalisation of the Ho Chi Minh Stock Exchange.
[2] Value indicates the average daily turnover for the Ho Chi Minh Stock Exchange for the calendar year of 2022.
[3] Companies listed on the Ho Chi Minh Stock Exchange.

Expanding digital and transport infrastructure to boost access to online services and lower business costs

Vietnam introduced the National Digital Transformation Programme (NDTP) in 2021, aimed at helping businesses digitalise their administration and production activities. The programme includes a roadmap for production facilities and offers businesses a 50% reduction in consultancy costs. The NDTP also envisions that by 2025, 50% of banking operations by customers will be fully online, and 70% of customer transactions will be made through digital channels.

To achieve these goals, the government is looking to improve Vietnam's digital infrastructure by expanding its 5G and broadband network, and enhancing its domestic transport system via investments of up to USD65 billion by 2030. Improved physical and digital connectivity will strengthen Vietnam's capabilities in e-commerce, retail and logistics.

Supportive initiatives to accelerate private sector participation will drive growth and increase opportunities

As Vietnam's economy continues to grow, the private sector will be a key driving force. According to the General Statistics Office of Vietnam, the country's private sector accounts for about 83% of the workforce. The government hopes to raise private sector contribution to GDP from 42% in 2018 to 60% by 2030.

To this end, the government has introduced various measures to level the playing field for private investors. These measures will bolster the competitiveness and productivity of Vietnam's private sector. A thriving private sector can create a pipeline of companies to maintain the dynamism of Vietnam's stock market and generate future opportunities.

Emerging player

Vietnam

A frontier market experiencing rapid growth, offering opportunities in financials and consumer goods

High opportunity sectors

Aspiring to upgrade its stock market to 'emerging economy status'[1] from 'frontier market' in at least one major index by 2025, Vietnam has introduced several reforms such as increasing transparency and shortening transaction times to improve accessibility for foreign investors. Vietnam's market capitalisation and liquidity are currently the lowest in Southeast Asia, with banks accounting for a third of the stock market capitalisation. Early investors can benefit from first mover advantage as the market develops, but local knowledge will be key to successfully leverage the country's transformation opportunities.

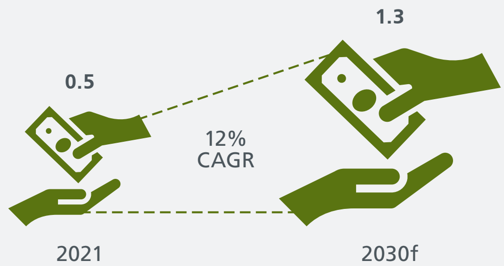
Vietnam's strong focus on infrastructure development and initiatives to bolster private sector participation will create opportunities in **two key sectors: Financials and Consumer goods**.

Financials

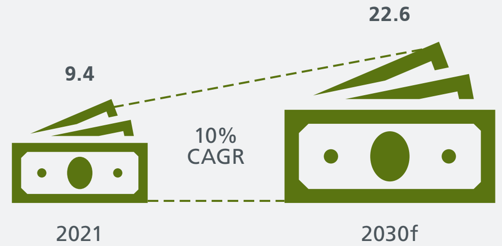
Vietnam's financial sector is well placed to benefit from its positive long-term economic outlook and rising income levels.

Banks will continue to play a key role within the sector. Total loans are forecasted to grow at 12% CAGR between 2021 and 2030. Vietnam's insurance market also offers strong potential given the current low penetration rate (<4%). Digitalisation can establish new sales channels for insurers. Total gross premiums written is forecasted to more than double to USD22 billion by 2030. Meanwhile, the number of fintech players has quadrupled from 39 in 2015 to 154 in 2021. Regulatory sandboxes for innovation and testing, alongside a high smartphone penetration rate will create new opportunities for them.

22a. Bank loans
USD trillion



22b. Gross premiums written
USD billion

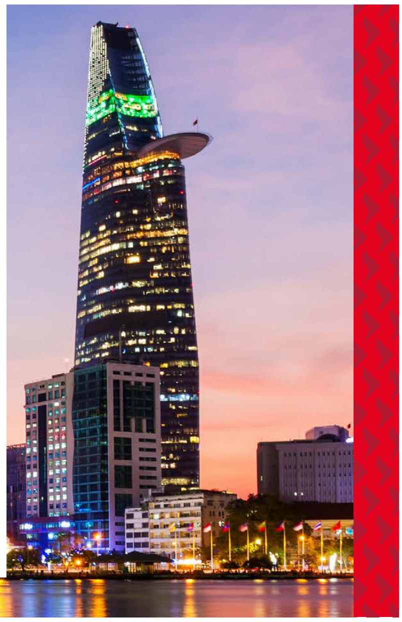


Source: Fitch Solutions

[1] Based on the MSCI Market Classification Framework, which considers economic development, size and liquidity requirements, and market accessibility as criteria. See here for more details.

The Vietnamese banking sector should continue to enjoy double-digit growth. There is strong corporate loan demand as the manufacturing sector continues to benefit from the "China plus one" strategy within global supply chains. The penetration of retail banking products and services is also rising as the middle-income segment expands rapidly.

Sang Hoon Lee, Portfolio Manager, Eastspring Investments, GEM & Regional Asia Value Equities

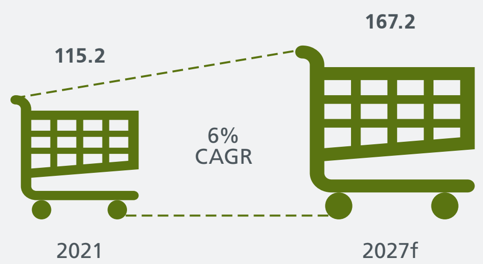


Consumer goods

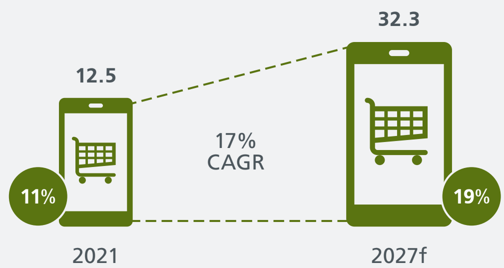
The World Bank forecasts that Vietnam's middle class will double from 13% of the population to 26% by 2026, and reach 40% by 2030 (~17 million households). The country's rising middle income class will drive consumption growth, with total retail sales value expected to increase at 6.4% CAGR (2021-2027f), reaching USD167 billion by 2027.

With higher incomes, demand for quality products and services have also increased. Consumers are more conscious about health and food safety. Modern retail stores, such as supermarkets and convenience stores offering higher levels of safety and convenience will stand to benefit from this consumer trend. Fast-moving consumer goods (FMCG), particularly packaged food manufacturers, and e-commerce companies will also see additional growth opportunities, as consumers increasingly shift towards online sales channels and more convenient food options.

23a. Retail sales value
USD billion



23b. E-commerce sales
USD billion, % of retail sales



Source: Fitch Solutions

Appendix

Methodology for market capitalisation, daily turnover and number of listed companies

Economy	Stock Exchanges Considered	Market capitalisation	Daily turnover	Listed companies
China	Shanghai and Shenzhen stock exchanges	Sum of market capitalisation of the Shanghai and Shenzhen stock exchanges as at end-Dec 2022	Sum of cumulative daily turnover of Shanghai and Shenzhen stock exchanges in calendar year 2022 divided by number of trading days in the year	Sum of number of listed companies on Shanghai and Shenzhen stock exchanges as at end-Dec 2022
India	National Stock Exchange	Market capitalisation as at end-Dec 2022	Cumulative monthly turnover in calendar year 2022 divided by number of trading days in the year	Number of listed companies as at end-Dec 2022
Japan	Tokyo Stock Exchange	Sum of market capitalisation of Prime, Standard and Growth segments as at end-Dec 2022	Sum of cumulative daily turnover of Prime, Standard and Growth segments in calendar year 2022 divided by number of trading days in the year[1]	Sum of number of listed companies on the Prime, Standard and Growth segments as at end-Dec 2022
Taiwan	Taiwan Stock Exchange	Market capitalisation as at end-Dec 2022	Sum of cumulative daily turnover in calendar year 2022 divided by number of trading days in the year	Number of listed companies as at end-Dec 2022
South Korea	Korea Exchange	Sum of market capitalisation of KOSPI and KOSDAQ segments as at end-Dec 2022	Sum of cumulative daily turnover of KOSPI and KOSDAQ segments in calendar year 2022 divided by number of trading days in the year	Sum of number of listed companies on the KOSPI and KOSDAQ segments as at end-Dec 2022
Malaysia	Bursa Malaysia	Market capitalisation as at end-Dec 2022	Cumulative daily turnover in calendar year 2022 divided by number of trading days in the year	Number of listed companies as at end-Dec 2022

[1] Values between 4 April 2022 and 31 December 2022 were used to calculate the daily turnover figure as the Tokyo Stock Exchange was restructured into Prime, Growth and Standard segments on 4 April 2022.

Economy	Stock Exchanges Considered	Market capitalisation	Daily turnover	Listed companies
Thailand	Stock Exchange of Thailand	Market capitalisation as at end-Dec 2022	Cumulative daily turnover in calendar year 2022 divided by number of trading days in the year	Number of listed companies as at end-Dec 2022
Indonesia	Indonesia Stock Exchange	Market capitalisation as at end-Dec 2022	Average daily turnover in calendar year 2022 as provided by Indonesia Stock Exchange	Number of listed companies as at end-Dec 2022
Vietnam	Ho Chi Minh Stock Exchange	Market capitalisation as at end-Dec 2022	Cumulative daily turnover in calendar year 2022 divided by number of trading days in the year	Number of listed companies as at end-Dec 2022
Hong Kong	Hong Kong Stock Exchange	Market capitalisation as at end-Dec 2022	Not shown	Not shown
Singapore	Singapore Exchange	Market capitalisation as at end-Dec 2022	Not shown	Not shown

Key sources

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Government websites and various news sources

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