

Moving Forward: A Global & Asian Economic Perspective

10th World Chinese Entrepreneurs Convention, 20 November 2009

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COMMENTARY TEXT FOR SLIDE PRESENTATION

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- Dr. Lucio Tan, Overall Chairman of the 10th World Chinese Entrepreneurs Convention,
- Dr. Alfonso Uy, President of the Filipino-Chinese Chambers of Commerce and Industry and Overall Vice Chairman of the Convention,
- Mr. Francis Chua, Organizing Committee Chairman,
- Distinguished Guests from overseas,
- Friends, Ladies and Gentleman,

Good afternoon.

First, I would like to thank Dr. Tan and the organizers for giving me the opportunity to address this gathering of successful entrepreneurs who I give credit to for the emergence of Asia as the world's new engine of economic growth, the theme of my presentation today.

I would also like to warmly greet our visitors from all over Asia and other parts of the world. Welcome to the Philippines and I hope you will enjoy the warm hospitality of the Filipinos during the few days you are here. I also hope that many of you will come back to explore investment opportunities in the Philippines and share your capital, know-how and market access with our own Chinese and non-Chinese Filipino entrepreneurs.

When I was assigned the topic for this presentation, the most obvious thing for me to do was to speak on how well Asia has performed during the crisis and its prospects in the next 12-24 months. I am sure, however, that many of the other eminent speakers will already give you many perspectives on this. Furthermore, it is a topic that is already well-analyzed, well-covered and well-represented in media and business conferences such as this.

I have, therefore, decided to provide you instead a discussion on the same issues but with a more medium to long term perspective including trends in the next 5-10 years or longer.

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The format I would like to use is to focus on the major themes that I believe will shape the economic future of Asia and the rest of the world. These themes are as follows:

1. It is clear that the global economic and even political power is moving towards what we know as emerging markets, the most important and dominant part of which is Asia Pacific.
2. Many still believe that Asia particularly China is just a large factory for the rest of the world with its cheap labor. I believe that Asia today is also fast becoming a center for innovation, research and development, information technology, and Asian businessmen are becoming innovators and not just imitators or producers of someone else's design or branded products.
3. Asia is still at the early stages of its economic development, still way under-built, and has massive need for infrastructure.
4. While the global crisis has revealed governance weaknesses even in the western economies, this should not make us feel in Asia that we have already addressed our governance challenges. We still have a lot to do in this regard.
5. Asia is more than half of the world's population and it is a population that is aging in many parts of the region including China. This demographics is creating demands on our soft infrastructure such as education, health care, and other social safety nets. It is also a population that is experiencing growing prosperity and with it a growing middle class and personal consumption.

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Let me start on the first theme.

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One good outcome of the global crisis is the recognition of the new world economic order that provides for a greater voice from the emerging economies and, in particular, Asia Pacific. While most of us grew up in a world dominated by the western economies and effectively governed by the G7 or G8 countries where Asia had one vote, the economic future is now in the hands of what we call G20 where Asia is represented by 6 members.

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Non-Japan Asia together with other emerging economies used to be one-third of the world economy in 2000. By 2008, it was already contributing almost half of the world's output. With the contraction in the US and EU last year and early part of this year and Asia's positive growth, this contribution continues to expand.

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Can we continue to support Asia's growth with the needed capital? Asia, today, already owns two-thirds of the world's foreign exchange reserves and continues to cover for fiscal and trade deficits of the western economies particularly the US. At the beginning of this crisis, Asian investors were, in fact, instrumental in partly funding the capital needs of some major global financial institutions that kept them alive. What the region needs to do is to establish more mechanisms to re-channel Asia's savings and capital to support Asia's own capital needs by allowing the freer flow of capital amongst the region's financial markets, have more businesses exchanges like this convention, and work towards a more integrated economic community.

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A pillar of Asia's resiliency during the crisis is the growing domestic consumption in many of our economies. As early as last year, more cars were already sold in China than in the US. While the US continues to be the biggest consumer market today, our economists at Credit Suisse believe that China will already have a biggest share of the world's consumption in just ten years. China, together with the rest of Asia, would replace the West as the world's biggest consumer market. The region's middle class with growing purchasing power is creating demand for all sorts of consumer products and services and lifestyle offerings. As more safety nets are established in economies like China, the potential of a decline in the region's high savings rate can only accelerate this consumption pattern.

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Aside from its new economic position, Asia through China is also expanding its geopolitical influence and it is conceivable to see the emergence of a G2 platform on political issues in the foreseeable future. After all, as we know, cash is as potent as the most sophisticated armaments.

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Let me move on to the second theme.

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One factor that is accelerating the ability of Asia to move up the production chain from manufacturing to R&D is education. Not only are we sending more children to US and European universities where they are consistently excelling, we have also been expanding our educational institutions in the region. In the last ten years, universities in China and India have more than doubled in number. We are producing more engineers, IT professionals, scientists, and others by the millions in Asia every year.

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Our enrollment at tertiary level is still way below the levels in US and Europe but it is very quickly growing in the last two decades. The potential is, therefore, even greater.

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In the last ten years, innovators from emerging economies have begun to make a difference in the development of new products as shown by patents being filed in the US. It is still relatively small but the pattern is becoming very clear.

Related to innovations, I believe that Asian businesses will also start developing Asian brands globally and not rely on merely acquiring and producing western brands. We have demonstrated this in Japan decades ago in the auto and electronic sectors with iconic brands like Toyota and Sony and successfully followed by the Koreans with global brands like Samsung and Hyundai. In the future, it is not inconceivable to see American kids wearing Li Ning sports shoes in US gyms instead of Nike or Adidas or people around the world driving Nano cars instead of Volkswagen Beetles or Cherry sedans instead of BMW's.

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Much of the Asia's economic miracle in the past has been attributed to influx of Foreign Direct Investments or FDI's and the contribution of western multinational companies who founded many of our industries. Today, Asian companies have become the new MNC's and are actively investing within Asia and outside the region. Last year, Credit Suisse advised Temasek on the sale of its three power generating companies in Singapore. Unlike previous years when such opportunities for acquisitions would have been dominated by US and European power companies and private equity funds, the three companies were acquired by a Chinese company, a Japanese consortium, and a Malaysian conglomerate with all transactions involving several billion dollars. This is a clear indication of the newly-found capital, management competences, innovation capabilities, confidence and ambitions of Asian companies.

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Let me now turn to the third theme on infrastructure.

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Some of you were probably in Singapore last week to attend the conferences surrounding the APEC meetings. I did. One of the events organized was a two-day Infrastructure Summit co-hosted by the Singapore government and the World Bank. The list of speakers and panelists represented the who's who in international finance, industry, and several of the finance ministers from the APEC members. The Summit served to highlight one of the biggest issues still facing our region, that is, how to finance the expected infrastructure requirements of the region be it in power, water, roads, airports, ports, telecommunications, and many others. The ADB and IMF estimates that in the next ten years, the region will have as much as US\$8 trillion (yes, 8 trillion) of infrastructure investments needed for both new capacities and replacement of existing facilities.

A key solution to this massive need is the partnership between the public and the private sectors. Governments by themselves will be unable to support these requirements and private businessmen such as yourselves can play an active role as designers, contractors, operators, lenders, and shareholders of such projects.

A big part of Asia's economic growth has been from investments. With the under-built infrastructure, investments can continue to play a big part of its future growth.

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The fourth theme is on governance as a continuing challenge for the region.

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It is easy to point out from the causes of this global crisis that poor governance whether in the private or public sector is not a monopoly of developing economies as the Asia financial crisis of the 1990's may have indicated. We can now point the finger at regulators, financial institutions, sophisticated investors and many others from the West as the culprits in this current crisis. This should not, however, lull us into complacency. As shown in many surveys, Asian economies continue to rate poorly on many governance aspects. This includes issues such as the level of corruption and red tape, predictability of policies and regulations, ability to enforce contracts, insider dealings, and many others. If we are to sustain our growth, we need to work with our respective governments and business communities to continue to address these weaknesses.

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Let me now go to the final theme in my presentation.

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While we still have economies in Asia with relatively young population, this is a trend that is beginning to go the other direction. Most of us know about Japan's aging population but may not be as aware that this is also developing in China. The slide you see illustrates this point as forecasted by the Population Division of the United Nation. Such a trend will present both challenges and opportunities for the region. Economies like China will have to quickly address the shortage of social safety nets in areas like pension, housing, healthcare, insurance, etc. These, on the other hand, will also lead to new businesses particularly in the financial sector.

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I do not want to end this presentation without sharing some ideas with you on how the themes I have discussed can be converted into business opportunities. Given my expectations on the continuation of high economic growth in the region, the growing middle class with its purchasing power, the significant gap in infrastructure, and the large but aging population, it is not surprising that some of the sectors that should generate exciting business and investment prospects include the following:

Infrastructure, Natural Resources, Leisure, Luxury, and Consumer Products, Pharmaceutical and Biotech, and Financial Services.

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Two hundred years ago, more than half of the world's GDP was being contributed by Asia with China and India being the biggest contributors. With the industrial revolution in the United Kingdom in the late 1800's and the emergence of the US at the turn of the last century, Asia had taken the back seat. My dear friends, Asia has re-emerged and this recent global crisis has only served to highlight its growing strength. It is for all of us to take it to its full potential and allow history to repeat itself. The dragon has awoken and eager to take its rightful place.

Thank you very much for your kind attention and good afternoon.