Asia, as an investment region, is no longer a sleeping giant. However, despite the promise of economic growth, there are negative aspects to the market — as shown in this view, presented just before the world share market crash.

Formerly, because of high transport costs, long distances, poor communications and other factors, manufacturing companies did not have the option of establishing production facilities in different parts of the world in order to maximise efficiency and minimise cost.

Today this has changed. Because of instant communication, enormous progress in sea and air transport, free trade and international laws, multinational corporations can choose from a wide range of countries in which to manufacture. Likewise, while it may have been difficult or impossible 20 years ago for an investor to purchase shares in India, Taiwan, Hong Kong, Chile or Brazil, today capital is quite free to flow wherever opportunities appear to be most promising.

A major problem in determining whether to invest in Asia or to seek opportunities elsewhere is that the various countries which make up Asia are full of stark contrasts: contrasts of race, social classes, mentality, climate, natural resources, levels of economic development, education, religion, political systems, per-capita income, standards of living, traditions, customs, etc.

This diversity becomes particularly apparent if we think of the disciplined, extremely well-educated, tidy and well-organised Japanese who lives in a modern society, regularly invests in new technologies, rides in ultra-modern trains at over 150 miles an hour, buys a golf-club membership for $US2 million and plays the stock market through Nomura Securities, whose market capitalisation at $US60 billion exceeds the total market capitalisation of Singapore, Malaysia, Thailand and the Philippines. Not far away from this “Nihonjin”, we find in the jungles of the Philippines and Indonesia tribal societies who live on the level of lake dwellers. Or think of Australia, a continent which has a larger population of kangaroos, sheep and cows than human beings. But Australia, while being 7,000 times larger than Hong Kong, is populated by only three times as many people as the six million Hong Kong feliners.

Nothing is typical in Asia. Everything is unbelievably different and the enormous diversity in geography, economy and level of cultural as well as social development from country to country hardly allows for any general comments.

Nevertheless, let us crystallise some economic, social and political factors which may be particularly favourable or unfavourable in Asia as compared to the rest of the world in order to reach some investment decisions.

First, we shall consider favourable factors; then also weigh developments which could affect Asia negatively.

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Growth
Two thirds of the world’s population lives in Asia. The Asian population is still rising rapidly and therefore, hand-in-hand with its increase, the economy has a built-in growth.

Large market potential
In Asia, there exists huge market potential, as is evidenced by the number of cars per 1,000 people. In the US, with 472 cars per 1,000, the automobile market would appear to be saturated. However, there is a huge market potential in Taiwan and South Korea where there are only 45 and 15 cars per 1,000 respectively. Even more impressive are the figures for China where we have only one car for 10,000 people and where only 0.1 percent of the urban population owns a refrigerator. Taking this low market penetration into account, it is evident that in such countries strong, long-term economic growth can be expected.

Labour force
The large population of Asia offers a huge, unexploited reservoir of labour. The Asian worker is not spoiled, seldom organised through unions, and hard working. His work ethics are extremely high. I recently returned from an extended trip through Latin America and I can assure you that there is an enormous difference between the attitude towards work in South America and Asia. However, also in this respect there are exceptions which we shall discuss later.

Low cost
In many South-East Asian countries, social contributions are low. Furthermore, environmental costs hardly exist.

Political stability
Asian countries are today politically quite stable. This is particularly true when compared to African, Central American and Latin American countries.

Furthermore, I do not believe that third world countries should be compared with political yardsticks used in Western countries of the twentieth century. In Europe, governments change through the democratic process. In Asia, government seldom change through elections. Frequently, the ruling body does not change at all, as in Singapore and Taiwan. Sometimes it changes through military coups as in Thailand and until recently in South Korea, but then only the highest echelon changes and everything else remains more or less the same after the change.

At this point, I should also like to stress that overseas investors frequently overestimate or badly assess the political risk of a foreign country. This has to do with the fact that foreigners are often badly informed about local political and social conditions. The Soriano family, for instance, who still control the beer monopoly in the Philippines, have survived at least 15 government changes in the past 40 years because they stayed out of politics.

In Europe, governments change through the democratic process. In Asia, governments seldom change through elections.

I do not expect a major military conflict in Asia. However, local unrest should be expected from time to time.

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Large foreign debts, low inflation
With the exception of the Philippines and to a lesser extent of Indonesia, South-East Asian countries do not suffer from large foreign debts like most Latin-American countries do. In addition, we have in Asia relatively low inflation rates and the currencies are quite stable.

While high inflation countries such as Mexico, Brazil, Argentina offer stock investors, once every few years, unusual opportunities, such countries are less attractive for direct investors because in the long run profits are often eroded by a depreciating currency.

Japan — rich uncle
As a child one always wishes to have a rich uncle. For the development of South-East Asia, the current Japanese economic miracle is of great importance. Japan’s wealth cannot be invested sensibly in Japan. Therefore capital is being exported to South-East Asia for large investments in plant, equipment and agriculture.

Such capital investments have an extremely favourable impact on the growth of many countries in Asia. Furthermore, as Japanese standards of living have been rising rapidly Japan has become a major importer not only of food and natural resources but also of finished products from South-East Asia.

Japanese tourists will play an important part. I remember how in Europe in the 60s and 70s the newly rich Germans discovered and developed entire coastal areas of Italy, Yugoslavia, Spain, and Portugal. These tourists brought impoverished fishing villages a revival in their economic life. The same will occur in Asia. With growing prosperity, the Japanese (and also other Asians) will enjoy more leisure time and will spend their holidays with increasing frequency in South-East Asia where everything is a bargain in comparison with Japan.

No wars
I do not expect a major military conflict in Asia. However, local unrest should be expected from time to time.

Increased foreign trade
This point seems to me to be of enormous importance. The economist David Ricardo established that the more economic conditions in two or more countries are different, the more mutually profitable foreign trade is. There is economically hardly any value added, if in Germany someone purchases a French car and, across the border, a Frenchman purchases a German car. However, it is a different matter if Japan produces some hi-tech products, sells them to Indonesia and in turn, purchases from Indonesia oil, lumber, and food. Here there are benefits for both countries.
Because of the tremendous economic disparities which prevail in South-East Asia — technology in Korea and Taiwan; services in Hong Kong and Singapore; copper and sugar in the Philippines; meat, wheat and corn in Australia; a flood of workers in China and India — there is an unbelievable potential for increasing the wealth of Asia through a further expansion of foreign trade. I wish to add here that Asian companies should also look at expanding their ties to Latin-American. Chile, for instance, has enormous resources, forestry, copper, agriculture, fishery, etc. It is already a major exporter of lumber products, fish meal, copper and food to Japan and China, but additional trading and investments between Asia and Latin-American could be most beneficial.

Against all these favourable factors for economic growth and investments, there are some problems which need to be discussed.

**Poverty**

Widespread poverty in the third world remains, in my opinion, one of the most pressing economic problems. Unfortunately, there is not much hope for a solution. The per-capita income of China or India amounts to roughly 1/40 of the per-capita income of the United States. The slums of Manila, Jakarta and Calcutta are comparable to the well-publicised slums of the South African city of Soweto. India has a population of 800 million but produces only 100,000 cars per year. Ninety per cent of Asia's population has no purchasing power.

**Social unrest**

While in developing countries the masses live in misery, some families enjoy a wealth known to many of us only from fairy tales. By monopolising entire industries or through the control of important necessities of life or raw materials, such families can frequently exploit large segments of the population. Not surprisingly such conditions can lead to political tensions and unstable governments.

The problem for economies in countries like Indonesia, India, Malaysia and the Philippines is that, because of the political instability, the liquid wealth which accumulates to a few families is reinvested only to a very small degree in the domestic economy. The bulk of such wealth frequently flows to Swiss banks and is used for the purchase of luxurious homes in Beverly Hills, New York and London.

The result of this vicious circle of quasi monopoly systems — wealth of a few, poverty of the masses, political tension and the resulting capital flight (including sometimes weakening currencies) — is slower economic growth and often even a decline in the real income of the poor.

The phenomenon of capital flight is even more predominant in some African and Latin-American countries, where in some cases the ruling class has virtually bankrupted the countries. It is not surprising that such countries do default on their foreign debt and are repeatedly threatened by communist or socialist takeovers, such as occurred in Nicaragua.

Further, high inflation rates such as we find in Brazil, Mexico and Argentina...
tend to breed tremendous social tensions as the poor and the middle class are essentially wiped out while the wealth accumulates in the hands of a very few.

**Great expectations**

In rapidly growing countries such as Hong Kong, Singapore, Taiwan and South Korea, expectations for higher wages, better working and living conditions and more political rights have risen hand-in-hand with economic progress. Should one day a recession occur, labour discontent could lead to some violence. When in Europe in the late nineteenth and early twentieth century workers were laid off, violence broke out and entire factories were burnt down. I am sure that along Asia’s path to prosperity we shall see more and more social and political frictions which will temporarily dampen investors’ enthusiasm. create tremendous volatility and open opportunities in the various Asian stock markets.

**Protectionism**

Exports are the driving force of Asian economic expansion. Without exports to the US and Europe, the high economic growth rates of Japan, Taiwan, South Korea, Hong Kong and Singapore would not be possible. Should Asian exports be contained or even decline because of protectionism, countries such as Japan, Taiwan and South Korea which did benefit most from favourable trading positions could get hurt quite badly.

Protectionism can take different forms. The US could impose trade barriers or just drive down the dollar to a level where Asia’s cost advantages in manufacturing would disappear. Clearly, the current size of the US trade deficit will not last forever. Someday, somehow, it must shrink.

**Nationalism**

With few exceptions (such as Japan and Thailand), South-East Asian countries are young nations which grew out of colonies. Young nations grow frequently through a period of storm and stress during which strong nationalistic considerations take priority over pure economic considerations. Frequently, foreign investments are not welcome or made difficult by allowing foreigners to own only minority stakes. For instance, in the currently impoverished Philippines, American military bases are a boon to the local economy. Many Filipinos, however, would prefer to have the Americans abandon their country because of deep-rooted, nationalistic feelings. In fact, in many third world countries, excessive nationalism has inhibited progress and retarded the economic development which these countries need so badly.

The history of civilisation is characterised by continuous and ever-repeating changes. Civilisations emerge from darkness, rise to economic power and military glory, become mature and then gradually fall into decay. When nations grow powerful and successful, their societies become complacent, comfortable and self-content. When a civilisation matures, the environment becomes ripe for new powers to emerge on the world’s stage. Accordingly, the way is paved for the displacement of the old order by people who are younger, who work or fight harder, take bigger risks and are more dynamic.

Having travelled quite extensively in my life, I can assure you that the energy and dynamism of the Asian economies can only be compared to a volcano which is erupting. In the future, the center of the world will gravitate towards Asia. This will occur in three stages — first economically, then politically and militarily, and at last culturally.

At the beginning of this century, America became the dominant economic power of our world. Not necessarily in the years to come, but quite certainly around the turn of the century, I believe the Asia-Pacific countries will push the existing Western powers into oblivion.

While history is marked by a series of big changes such as the discovery of the Americas in the sixteenth century, the Industrial Revolution and the removal of the feudal systems in the nineteenth century, the rise of socialism and communism etc., such big changes never occurred without tremendous frictions and disturbances which sent shock waves through the established social systems and world order.

I therefore should like to warn you not to expect the Asian countries to overtake the West economically and later also in terms of political clout without a very tough fight. We are not talking about a military fight but rather Western resistance which will manifest itself in the form of protectionism, racial discrimination and possibly a policy of self-isolation on the part of America.

Most Asian economies still depend on the purchasing power of the West to keep the export stream flowing. Therefore, it is likely that during the transition period, when power shifts from the West to the East, rather unpleasant economic confrontations will be the order of the day. The result will be at least temporarily a disturbance of economic growth.