



The Real Costs of Populism

A thoughtful piece on the latest megatrend.

Enjoy. Comments or questions of Robert Lloyd George welcome.

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Investment Outlook

The Real Costs of Populism

Writing in the first week of April, we are still not certain about the outcome of Brexit, or of the US-China trade deal. Our assumption is that Britain will, indeed, go out of the European Union, (perhaps with a long delay) but, hopefully, with an agreement rather than without, but that there will be economic costs and damages to the nation. In fact, there already are such costs apparent, in the closure of 3 large automobile plants, the departure of many high-level city jobs to other European centers, and the general economic malaise and lack of decision-making, which has led to a fall both in Sterling and in the value of London property. All of this could become very much worse if Jeremy Corbyn becomes Prime Minister in the next year.

Likewise with the US-China trade deal, much of the damage has already been done, even if there is, at the end of April, a triumphant announcement by President Trump, that he has now agreed terms with China, and there will not be any further tariffs on trade, that the Chinese market for many sectors, such as finance and autos, will be opened up, and that China will attempt to redress its large trade surplus by making major purchases of US energy, food, and other products. The costs of populism, in both cases, are now coming home to roost; and the ordinary voter and citizen can begin to appreciate what folly it is to upset the benefits of globalization and free trade, which have given us all such prosperity over the past 30 years.

Nowhere is this more true than in Asia, where there is much less opposition to globalization because nearly all voters and citizens have benefited from the spread of trade and hundreds of millions have been raised out of poverty in China, in Indonesia, and in India. In both India and Indonesia, elections are being held in the next two months which will almost certainly result in the re-election of the existing governments, precisely because they have generally delivered



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the economic goods, as well as attempted to clean up corruption and enable more foreign investment and trade.

Although China does not have elections as such, the Beijing government is both sensitive and responsive to popular demands. It is therefore determined to maintain 6% GDP growth, and to continue to boost infrastructure development, providing US\$650 billion of new credit to the financial system in January. This has resulted in a 30% jump in the Shanghai Index in the first three months of the year. (Our Bamboo Asia strategy is 50% weighted in China and Hong Kong, and has outperformed strongly year-to-date.)

The Chinese Yuan has remained steady, if not strong, against the US dollar. In fact, we liken the US-China trade deal today to the US-Japan Plaza Accord of 1985, which led to a revaluation of the Japanese Yen, and to a 5-year boom in Japanese stocks and property. With over US\$3 trillion of reserves trapped in China, and private savings in China exceeding that figure by more than 2 times (50% of GDP), we expect that China A-shares will continue to surprise global investors with strong earnings, improving corporate governance, and a catch-up of market cap to GDP from its current level of 50%, to 100% within 2 years. In sum, we expect China will be one of the best performing markets in the world between now and the end of 2020.

Asia's Switzerland

We are interested in Southeast Asia because we see the consequence of the US-China trade war as being of great benefit to Vietnam, Indonesia, Philippines, Thailand, and, eventually, Singapore. We highlight Singapore because it is at the center of this increasingly wealthy ASEAN region, and has the unique characteristic of a strong and clean government and currency; and it has become, in effect, the banking centre of Southeast Asia, or its "Switzerland."

In the chart below, we show the comparison between banking deposits in Switzerland and Singapore, and their growth rate. Singapore has always benefited from the inflow of capital flight from Indonesia and Malaysia and, further afield, from China and India. It offers permanent residency to wealthy Indians and Chinese, and attracts their families by offering a



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clean, healthy lifestyle, low taxes, and a good legal system. Now that Hong Kong is becoming increasingly absorbed into, and dominated by, China, Singapore does indeed have a unique *raison d'être* in attracting capital as well as talent from all over Asia.

Metric	Switzerland	Singapore
Population (m)	8.48	5.64
GDP per Capita (US\$)	80,189	57,722
No. of Banks	327	119
Total Bank Deposits (US\$ bn)	1,874	475
Bank Deposit Growth 2019 (Feb YoY)	3.09%	6.29%

Source: Swiss National Bank Datasets, Monetary Authority of Singapore and Bloomberg

We have had elections in Thailand, which have produced a continuation of the status quo, namely military (or semi-military) government, despite the protestations of Mr. Thaksin. This will be followed in May by the coronation of the new king. Likewise in Japan, we will enter a new era, “Reiwa,” from the beginning of April with the accession of the new emperor. We expect this will be symbolized by the Tokyo Olympics of Summer 2020 when Japan will also, (as it did in 1964), present itself as a new, modern and open-minded nation which will counter the demographic effects of aging and diminishing population by being much more open to immigration, especially from China, Korea, and Southeast Asia. Japan can, in fact, present itself as a democratic alternative to China’s totalitarian system. Japan already offers capital investment in South Asia and Southeast Asia to counter the enormous gravitational pull of the “One Belt One Road” program of China, which is now encountering some resistance in Pakistan, Sri Lanka, Malaysia, and even Thailand. Nevertheless, Xi Jinping recently made a successful visit to Rome where Italy has now signed up as another participant in the “One Belt One Road” scheme. It is clear that the US and China (like the US and the Soviet Union in past decades) will compete and come into conflict over the allegiance of many countries, not only in Asia but now increasingly within Europe. The case of the Huawei 5G is already a cause célèbre in which Germany and Britain, for example, have to choose between security risks and economic benefits.



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Our investment conclusion remains clear-sighted, long-term, and steady in its analysis that China, India and Southeast Asia, in an appropriately weighted portfolio (around 30% in each region) will provide investors with the best long-term total returns, including dividend income. This is one reason why we have emphasized Singapore and Southeast Asia, because of the stability and high yields on offer. We remain positive on the outlook for Asia this year, especially in our call for the re-election of Mr. Modi to a further 5-year term of office in May, which will boost returns from Indian shares and strengthen the Rupee. Our equally positive assumption, that free trade will prevail over nationalism and ideology, is another reason why we think Asia, with its high economic growth and productivity, will prove to be a rewarding region for investors over the next 5 years.

Robert Lloyd George
8 April 2019
Hong Kong

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