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Doubling down on Asia

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COVID-19 has inflicted major pain on Asian economies but the effects on countries and sectors are not uniform. The tech sector in China could yet present investment opportunities

According to the United Nations, the global economy stands to lose some US$4 trillion due to COVID-19's impact on tourism. Within Southeast Asia, the ASEAN-5 economies (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) are forecast by the International Monetary Fund (IMF) to record a six percent income per capita drop in 2024 vis-à-vis pre-COVID levels, such is the depth and breadth of the economic impact.

Singapore saw a 5.4 percent dip in GDP in 2020, its worst full-year recession since gaining independence in 1965. Some sectors, however, fared better than others.

"COVID-19 and the whole pandemic has really shown the wide range and variance of impact both at the individual level, at company level, country level and regional level," observes **Olivier Lim**, Chairman of Certis CISCO, one of the island's largest integrated security companies that is also a leading provider of physical security. "One of our big service provisions is with Changi Airport. When COVID hit, it impacted that business materially and very rapidly but very quickly we started getting other types of business such as quarantine operations and assisting the government in other related fields.

"On the face of it, if you were to estimate what the impact on CERTIS was going into the crisis, you would think last year would be a terrible year; it turned out to be better than expected. The negative impact will be felt over the next 12-24 months as COVID related business drops and air travel comes back very slowly."

That scenario was mirrored at Raffles Medical Group where Lim serves as Director, where "there were much fewer international patients but other activities in support of the government's COVID actions made up some of the shortfall".

He adds: "It was very difficult to predict upfront, and it required a huge amount of agility by companies and individuals in their daily lives and, this is unusual, for policymakers too. You usually have years to develop policies but in this case it had to be done in months."

Lim made those observations as a panelist at the recent SMU International Advisory Council (IAC) Virtual Dialogue, "Doubling Down on Asia". Fellow panelist **Arif P. Rachmat**, Executive Director of PT. Triputra Investindo Arya and Member of SMU IAC Indonesia, pointed to bright spots in the region's largest economy.

"Commodity prices have skyrocketed, from coal to palm, which is Indonesia's main export," notes Rachmat, whose company is involved in coal, palm oil, and rubber. He adds that, before the latest wave of COVID-19 infections swept the archipelago, "the sales of durable goods like motorcycles and automotive, which are good indicators of consumer discretionary spending, were almost at pre-COVID levels".

But it is the Indonesian tech sector that is catching his eye.

"If you look at the tech sector, we are churning out decacorns," says Rachmat, listing names such as media giant Emtek, digital bank Bank Jago, ecommerce platform Bukalapak, and the US$18 billion Gojek-Tokopedia merger that could make it Indonesia's super app. "If it's successful, it will be listed at 30-40 billion dollars, adding to the capitalisation of the Indonesian stock exchange.

"While the COVID picture doesn't look too good, in the economic view, and especially the technology sector, I see a bright light."

TECH IN CHINA: RISKS...AND OPPORTUNITY

Over in China, the government's tech sector crackdown is perhaps the most significant development in the country's recent history. From enacting anti-monopoly legislation to warning against "disorderly expansion" of capital, Beijing's recent moves have injected a sense of uncertainty amongst investors and the public at large.

David Su, Founding Managing Partner of Matrix Partners China, has investments in a wide range of Chinese tech companies including Didi, which incurred the wrath of Chinese authorities for choosing to list on the New York Stock Exchange (NYSE). The Beijing-based Singaporean venture capitalist is taking a big-picture view of the recent developments.

"Beijing's goal is to allow the market economy to bloom and for the big tech companies to grow, but at the same time consider social good and the well-being of the masses," he says. "The government doesn't think the tech leaders should dictate the social agenda. You need to look at the recent round of 'crackdown' with this in mind.

"There's a perception that the tech companies have grown too strong too quickly. TenCent and Alibaba are building apps that allow consumers to buy things like vegetables directly from the source. What that implies is that the small and medium businesses, including those at the wet market, would be disenfranchised or displaced. From a government's point of view, they have to consider whether it is a good idea to allow Alibaba complete control over every facet of the market."

He concludes: "I don't think they are out to kill the tech companies because they will continue to be an important part of the economy. At the same time, they want the rules to be set. They want to know how these tech companies are using the data that they have."

While simmering Sino-U.S. tensions provide the context to Didi's NYSE listing controversy, it also represents an investment opportunity. Citing America's 2018 move to place sanctions on companies such as Huawei, there has been an "awakening" to go deeper into fundamental areas of materials science, semiconductors and chipset design, Su points out.

“We have beefed up investments in those areas in that space in the last three years,” he says. “Huawei used to buy chips from everywhere including Japan and the U.S because their only concern then was performance and how good the supplier is. Today, Chinese companies have what they call ‘Plan B’ which is: If you’re a Chinese supplier, and your products may have poorer performance, the big tech companies will still buy 10, 20, or 30 percent of their components from you.

“In the case of Huawei, it’s very interesting. They have 40,000 R&D scientists but they send out hundreds of them to work with their suppliers to help them upgrade their products and technology. This is to build a local ecosystem. It’s what I call举国之力 (“Coming together to lift the country”). We see this as five- to ten-year investment opportunity window.”

Olivier Lim, Arif P. Rachmat, and David Su were panelists at the SMU International Advisory Council Virtual Dialogue, “Doubling Down on Asia” that was held on 13 July 2021.

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