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Adapting to Asia's advantage makes sense for individuals, too

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The rapidly modernising Asian authoritarian model is challenging our liberal democratic ways. Source: Supplied

In their recently published book, The Fourth Revolution, two senior newsmen from The Economist, John Micklethwait and Adrian Wooldridge, discuss the global race to reinvent the state and posit that a rapidly modernising Asian authoritarian model — seen most prominently in Singapore and China — is seriously challenging our liberal democratic ways.

They suggest that whoever wins this contest in modern governance and leadership stands the best chance of dominating the global economy hereafter.

Beyond any abstract or Orwellian interpretations, this work is extremely important for the Australian economy, markets and investors, as it is one of the first and rare contributions that pragmatically explores what a successful China and Asia will look like, not in some theoretical future but indeed soon.

From where we are standing, it is difficult for Australian institutional and ultra high net worth (UHNW) investors to envisage:

● The Chinese renminbi ascending to the status of a global reserve currency, or:

● How decisions made by Temasek Holdings — the investment company owned by the government of Singapore — could seriously affect Australia's terms of trade, purchasing power parity or regional competitiveness in areas such as energy, agribusiness and transport.

But these investors need only look back just shy of a century ago, when it was unconscionable to think that Australia's terms of trade would not rely on the robustness of the British pound, which was backed by gold bullion reserves that were supported at the time by the resilience of the British

Empire.

History teaches us that many investors throughout the Australian community lost significantly when the omnipotence of the British pound was subsequently challenged in the late 1920s and early 30s.

This sea change saw domestic direct and listed investments suffer, life insurance policies pegged to the currency debased and incomes reliant on the convertibility of the Australian to British pound detrimentally degraded.

What this experience teaches us in Australia is that today, although it is likely that the US dollar and economy — at present the world's leading economic powerhouse — will continue to play a leading role, the rise of Asian authoritarian markets should be taken very seriously.

Strong considerations should be made when developing long-term domestic, regional and international investment decisions not only for the economy but also at the individual investor level.

This would not only provide a natural hedge, but also assist in broadening the opportunities that investors could access in the foreseeable future.

In Taiwan this could mean considering equity, debt or credit market investments related to companies such as Chailease Holding (5871: TT), which specialises in direct financing services, such as leasing, instalment sales and trade factoring.

Or companies such as China Life Insurance (2823: TT), which as well as offering traditional insurance solutions, offers life insurance funds such as securities, real estate investments and loan services to Chinese, Cantonese and Taiwanese communities.

Because of the inherent rigid controls on insurance and trade financing solutions across both democratic (Taiwan) and communist (China) jurisdictions, entities such as these enjoy competitive advantages that liberal democratic, free market competitors do not. Airports of Thailand (AOT: TB), for instance, under the current military junta's supervision, is expected by Western and Asian analysts alike to perform well as a risk-adjusted investment in 2014 as the company generates strong cash flows from the opening of low-cost terminals at Don Muang (DMK) airport.

The junta has also introduced measures that will see easier entry into the country for citizens of China with the approval of a special visa-free entry program.

As Chinese are Thailand's fastest-growing tourist base, this autocratic decision is seen as a boon for the DMK airport as well as the Thai economy.

Unlike BHP Billiton, which is looking to dissolve its international holdings to extract greater value within its free market listed vehicle, Chinese domiciled groups such as China Merchants Holdings (144: HK) are looking to "roll up" a greater number of industrial investments, directly and through subsidiaries.

They are looking to do so in areas such as airport cargo handling, port transportation, toll roads, shipping and even divergent businesses such as securities and property investing.

Despite China's President Xi Jinping's reining in of excesses, the future prospects for entertainment in Macau, for example, remain alluring.

Groups such as Melco Crown Entertainment Limited (6883: HK) and MGM China (2282: HK), albeit challenged in the short term, continue to be well placed in the long term in respect to both growth and return on investment.

Of course, it is not only in Asian autocratic economies where such large-scale entertainment complexes can flourish but the unique status of government as a stakeholder in Macau adds a level of permanence that, say, those in Nevada or Atlantic City do not and cannot share.

More holistically, if a successful China and authoritarian Asian model continues to challenge the existing monetary system's status quo, UHNW and institutional investors need to position accordingly today to ensure that their cash investments are "fungible" across a wider collection of currencies.

As Argentina and Russia recently experienced, having corporate and sovereign debt priced and denominated in US dollars has ramifications when jurisprudence, access to markets and geopolitics intertwine. China, which has been blatantly aware of this, has made concerted efforts to allow greater access to the renminbi not only for international trade but also for capital markets.

The Monetary Authority of Singapore, which has wanted to enjoy the best of both worlds, has placed significant resources towards facilitating trade, investment and speculation in multiple denominations, often over the exact same underlying asset or entity. This has meant that, unlike the Reserve Bank of Australia, the Bank of England or Bank of Japan, the MAS has had the capacity to directly support commerce, trade and investment not only at a macro-economic level but even at a company-specific one.

They also tellingly remunerate their top staffers in the vicinity of $US2 million-plus ($2.1m) a year, which is more akin to a top-tier investment banker in the City of London or Manhattan than a public servant working for a ministerial department.

Micklethwait and Wooldridge's conversation is an eye-opener not only for avid readers but for Australian investors too.

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