

Asia Monitor December 2018

Notable Developments

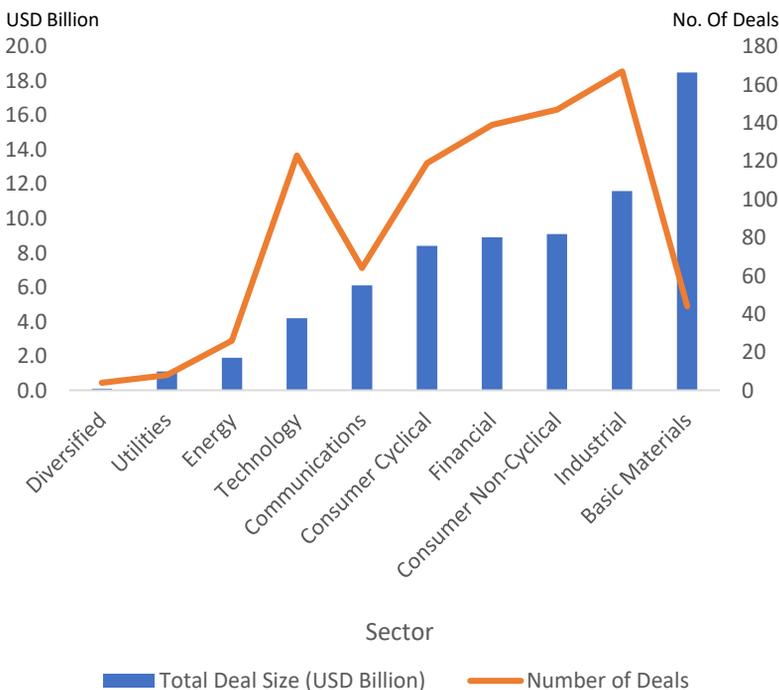
Japan

Japan's coalition government introduced a set of tax breaks to reduce the potential impact of an anticipated recession once the country **raises consumption tax from 8% to 10% in 2019**. Prime Minister Shinzo Abe has implemented **tax cuts for the automobile and housing sectors**. It is estimated that these measures will **cost the country USD1.5 Billion**. It is hoped that these policies will reduce the impact that the proposed rise in consumption tax may have on the purchase of 'big-ticket items' such as new cars and apartments. The increase in consumption tax is aimed to help the country reduce its budget deficit and to raise funds for investment in the public sector.

India

With a general election set to take place in India in 2019, Prime Minister Modi is looking at ways to shore up his support with the **agricultural workforce**, who make up **half of India's workforce**. They have become increasingly disillusioned with his stance, including his failure to help indebted agricultural workers. India's farmers were promised policy changes when Modi was elected in 2014 but there has been little action taken by the Prime Minister to date. The Indian government has resisted attempts by the agricultural industry to raise the minimum price floor for produce, as farmers are claiming that the minimum prices do not cover production costs, resulting in continued losses across the industry.

Total Deal Size and Volume by Sector



Deal Activity

829 M&A/PE transactions (Source: Bloomberg) were completed in December with a total deal value of **USD64.4 Billion**, compared to November which saw the closing of 694 transactions with an aggregate value of USD51.5 Billion originating from Asia.

Notable transactions completed in December included:

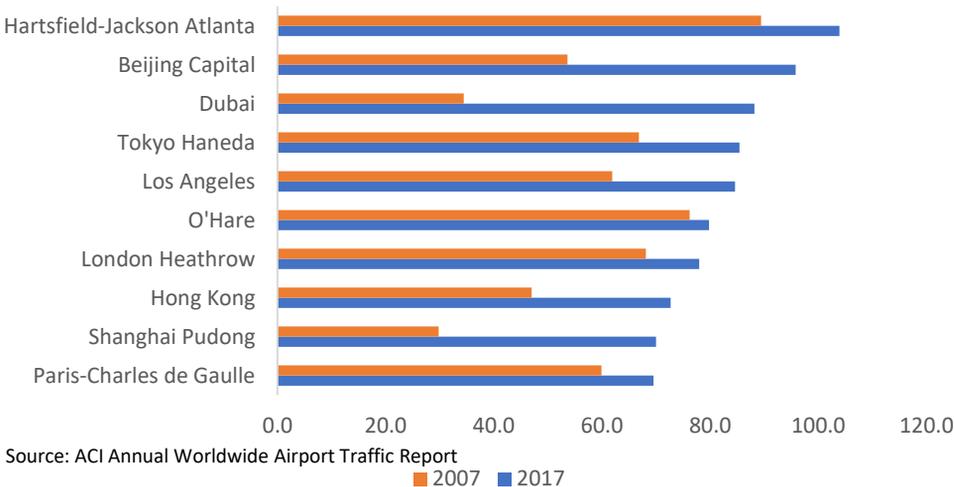
- **Taiyo Nippon Sanso Corporation** acquired the European assets of **Praxair Inc** for USD5.7 Billion.
- **Indonesia Asahan Aluminum Persero PT** acquired 33.0% of **Grasberg Copper** USD3.5 Billion.
- **ARA Asset Management** acquired a portfolio of hotels from **Lone Star Global Acquisitions** for USD700.0MM.

Asia Monitor December 2018

Focus Industry: Aviation

By 2030, it is estimated that the **number of passengers travelling by air in Asia Pacific will exceed Europe and North America combined** as a result of strong economic growth and a rising middle class across the region. The International Air Transport Association expects the **number of air passengers** moving through **Asia Pacific** to reach **4.4 Billion by 2035**, which represents a **100% increase from 2014**. The economic impact is estimated to supply the region with over **72.0 million jobs and contribute USD1.3 Trillion to the region's GDP**. That being said, if the region fails to invest in the required infrastructure to meet demand, it will forego 23.8 million jobs and USD399.0 Billion in economic benefits.

Busiest Airports by Passenger Traffic (MM)



40% of the world's busiest airports by passenger traffic are located in Asia. We expect this number to rise but this is conditional on countries investing in aviation infrastructure.

Furthermore, **India is expected to become one of the largest aviation markets globally** as government initiatives such as its **Regional Connectivity Scheme** concentrate on making air travel affordable through introducing capped fares on regional routes and developing underserved airports.

Recognised international airlines are also seeking to break into the Asian aviation market to capture the financial upside. In **January 2019, Qatar Airways acquired 5.0% of China Southern Airlines** in an attempt to establish a presence in East Asia and increase the choice of routes offered to its customers. **American Airlines** has previously expressed an interest in a **codeshare agreement** with **China Southern Airlines** although little progress was made.

Investment Manager Commentary

- While the governing Bharatiya Janata Party ("BJP") in India lost three key state elections in December, it is not clear if this will translate into wider losses in the general election for Prime Minister Modi due to the opposition, the Congress Party, failing to provide an alternative vision that appeals to voters. However, given significant rural discontent, the Congress Party should concentrate on offering these voters favourable agricultural policies in order secure their support.
- The Asian aviation market has rapidly expanded both in terms of passenger and cargo traffic. Boeing Commercial Airplanes expects half of its growth to be driven by the Asian markets which led to the opening of its first Boeing 737 plant in China in December 2018. Whilst we expect to see governments investing in aviation infrastructure, they should expect challenges in combatting the effects of rising greenhouse gas emissions as a consequence of the number of plane journeys in the region.