

November 27, 2020

Dear Clients and Colleagues:

While vaccine development and the uncertainty surrounding the United States (US) election have dominated headlines, another notable event occurred recently – a new trade agreement was reached this month. It was not widely broadcasted but we believe it will have profound impact on global economics and politics.

On November 15, fifteen Asian countries formed the world's largest trading bloc, covering nearly one third of the global economy, called the Regional Comprehensive Economic Partnership (RCEP). The partnership is viewed as an extension of China's influence in the region.

Why is the RCEP significant?

- It is the first time that China has signed up to a regional multilateral trade pact.
- It will be bigger than both the US-Mexico-Canada Agreement and the European Union.
- Considering the political conflicts between the countries, it is the first trade agreement that unifies China, Japan and Korea in a single free trade group.

What will the RCEP do?

- It is anticipated that it will eliminate a range of tariffs on imports within 20 years.
- Companies located within the RCEP countries have an incentive to look within the trade region for suppliers as parts from every member nation will be treated equally.
- It also includes provisions on intellectual property, telecommunications, financial services, e-commerce and professional services.

You may remember the rival pact called Trans-Pacific Partnership (TPP) that excluded China. TPP became less significant after Trump withdrew the US from it shortly after taking office. So far, President-elect Joe Biden has made little comment on the RCEP or if he will reconsider the US's entry into the TPP.

Although the ratification of the RCEP by all member countries may take time, we believe it was a breakthrough in strengthening the economic integration among a diverse group of Asian countries, big and small, rich and poor.

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Asia is the fastest growing economic region and the largest continental economy by both Nominal GDP and purchasing power parity (PPP) in the world. Let's pause here, and look at some UN data.

- Asia is now home to more than half of the world's population.
- Of the world's 30 largest cities, 21 are in Asia.
- As of 2020, Asian economies are larger than the rest of the world combined, for the first time since the 19th century.
- By 2030, Asia is expected to contribute to roughly 60% of global growth.

Asia's revival began with Japan's postwar economic surge and was further driven by the rise of China and India. Today, smaller countries like Indonesia, Vietnam and the Philippines are also among the fastest-growing economies in the world.

Throughout the coronavirus pandemic, Asia's control measures have been relatively effective. The number of new cases have been rising over the past few days but they remain relatively low in comparison to others. China, Hong Kong and Singapore have less than 100 cases/day, South Korea has about 350 cases/day, and Japan has 2,200 cases/day.

Asia is a very important market for our investments at Global Alpha. It carries about 45% of the weight in the international small cap strategy, and 25% in the global small cap strategy. Our largest holding is a Hong Kong listed company called Kerry Logistics, a leading third-party logistics service provider in Asia. Here is why we have high conviction:

- The trade war between the US and China has benefited Kerry Logistics through the reallocation of global production bases (i.e., from China to Malaysia, Vietnam, Myanmar and Laos).
- The coronavirus pandemic increased the demand for e-commerce and global shipments of medical, essential and stay-at-home products. The company achieved 26% profit growth in the first half of 2020 and forecasts strong sales momentum in the second half based on order intakes.
- Kerry Logistics has won several ESG awards including the ESG Leading Enterprises 2019 Award by Bloomberg Businessweek.

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- Upcoming catalysts include the IPO of Kerry Express Thailand in January 2021, and a few warehouse disposals next year. Unlike many logistics companies that are asset-light, the company owns over 27 million sq. ft. of properties.
- The mid-term focus of the company is on cross-border e-commerce, particularly between Greater China and the Association of Southeast Asian Nations (ASEAN).

Have a great weekend.

The Global Alpha team

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