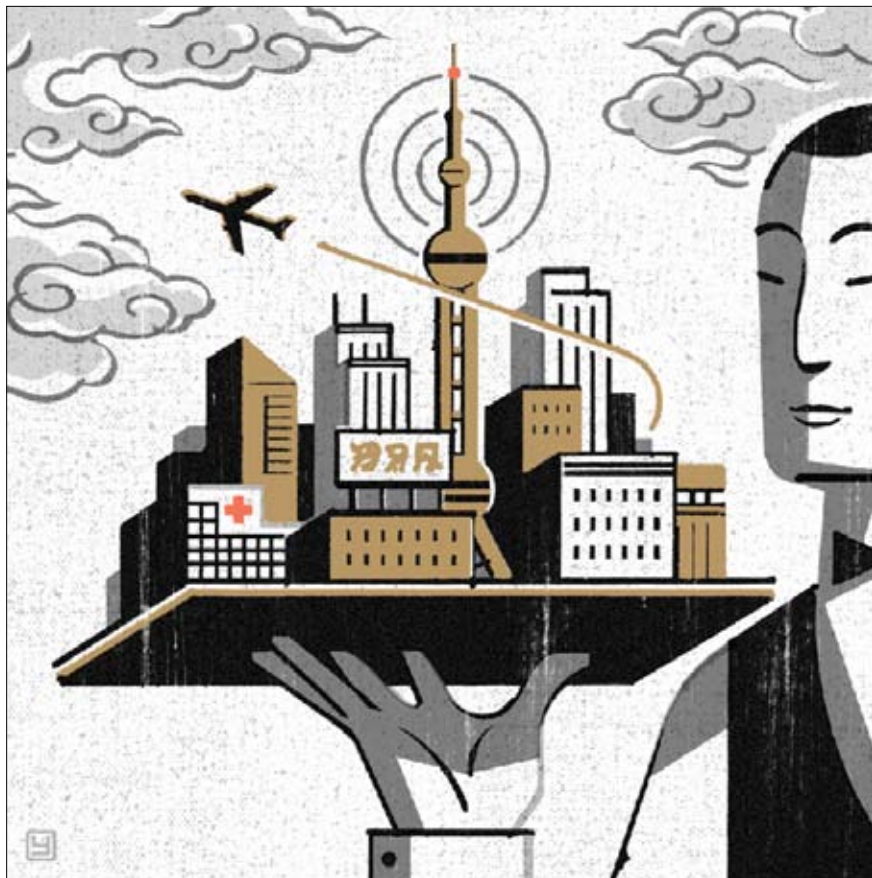


Asia Now

2010

IN THIS ISSUE

- 3 Tourism Takes Off in Korea
- 4 At Your Service: Taking Care of Business
- 7 Information Technology Services: Bringing it Back Home
- 8 Asia's New Media Mix
- 10 China's Changing Media Landscape
- 12 Can an Economy Progress Without the Free Flow of Information?
- 13 Healing China's Health Care
- 16 Discretionary Income Drives Demand For Services



ILLUSTRATIONS BY BRAD YEO

The Services Issue

In the wake of a manufacturing-led economic boom, Asia's service industries are starting to emerge, creating new ground for growth.

For one foreign student in Beijing in the 1980s, trying to withdraw U.S. dollars from his own bank account was daunting. He had to bike 15 kilometers to a specific branch of the Bank of China, hidden in a small alleyway near the Forbidden City. And he always took a book as the wait could take hours. Spending the money was equally challenging, due to the dearth of restaurants, theaters, bookshops or other entertainment in the city. Like other foreigners with the freedom to travel throughout China, he spent most of his money going places. Beijing citizens, in contrast, had to spend most of their money on life's daily necessities.



Matthews Asia®

Investing in foreign securities may involve certain additional risks, including exchange-rate fluctuations, less liquidity, greater volatility and less regulation. Single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of concentration in a specific sector or geographic region. The information contained in this report does not, in any way, constitute investment advice and is not reasonably sufficient on which to base an investment decision. The information does not constitute a recommendation to buy or sell any securities mentioned.

Public demand is turning to services—improved standards of health care, education, business support and media and cultural services.



FAST CASH Withdrawing money in China was once fraught with inconvenience and inefficiency. Now the country's banks are more service-minded, and ATMs are ubiquitous in urban areas.

One measure of wealth is how much people consume beyond their immediate material needs. In Asia's pre-industrial societies, the wealthy enjoyed the services of sedan chair bearers, rickshaw drivers, household staff, dancers and musicians, and hired guns (or more precisely, swords). Wealth, as exemplified by the consumption of services, was concentrated in the hands of the few—the landed gentry and imperial officials. (Or as the broad populace might have said, local tyrants and feudal despots.) The revolutionary movements that swept across Asia in the 19th and 20th centuries—from India to China to Japan and most places in between—crushed this old order. In its place grew a new one, in which strong central governments pursued growth through heavy investment and the mass production of material goods needed to supply the populace with a basic standard of living.

The success of these movements—whether communist, nationalist or royalist in nature—is evident in the growing number of Asians whose basic needs are now satisfied. While poverty is still pervasive in many parts of the continent, notably India, significant segments of the population have experienced a transformation from a life of subsistence to one of consumption beyond everyday needs. Banks across the region, and even in China, not only offer deposit services, but wealth management. ATMs have replaced the interminably slow tellers and professional paper shufflers. And restaurants proliferate in China's cities. Modern media, from MP3 players to personal computers and online gaming, are increasingly popular.

Some Asian states have likewise begun transforming, establishing property rights and more formal legal systems. Autocracies changed into modern democracies in Japan, Korea and Taiwan. The basic duties of government—law, defense and the provision of public infrastructure—have largely been met. Public demand, meanwhile, is turning to services—improved standards of health care, education, business support and media and cultural services. At Matthews, we believe the evolving service sector is poised to experience above-average growth over the next decade. This view has already been borne out in Asia's wealthier societies—Japan, Korea and Taiwan. China, India and Indonesia, while currently less wealthy than the rest of Asia, are growing at rapid rates, and rising incomes are bound to drive the growth of services in those economies as well.

For investors, this raises new opportunities and challenges—many of which are hidden or underappreciated, as the commonly referenced equity indices tracked by most investors more strongly reflect the Asia of the past rather than the Asia of the future.

TOURISM TAKES OFF IN KOREA

A generation ago, tourism and leisure were luxuries barely dreamed of in most parts of Asia, partly for economic reasons, but also largely because of geopolitical tension. During the cold war, for example, any first-time traveler from Korea had to attend the Korean Central Intelligence Agency's education session and was instructed not to contact North Koreans outside of Korea. And China's borders were sealed.

With the easing of tensions in the 1990s, Japan led the growth of outbound tourism from Asian countries. In the wake of its economic boom, the number of outbound Japanese travelers tripled from 5 million

to 15 million between 1985 and 1995, peaking at 17.8 million in 2000. In Korea, full deregulation of tourism began in 1989 when the government lifted the de facto ban on international travel for non-business purposes, launching the overseas tourism industry.

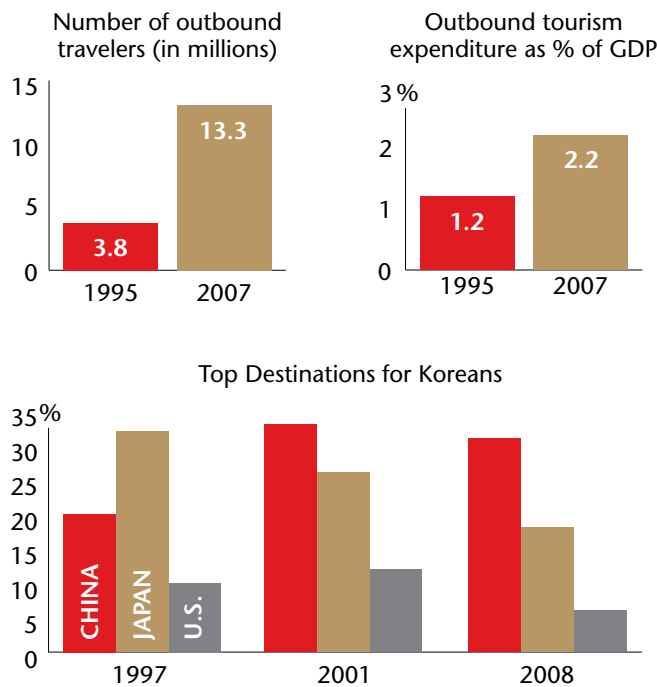
Another catalyst for tourism and leisure was Korea's controversial adoption of the five-day work week in 2003. Until then, Koreans worked on Saturdays and were notorious for working long hours. After a lengthy debate in the National Assembly over the country's competitiveness, the five-day rule was passed. Large employers and government-owned companies are now required to observe it, and all employers will have to comply by 2011.

This rule pumped new life into leisure industries in the former "hermit kingdom." Travel agencies and outdoor apparel makers have enjoyed strong, double-digit growth, even as domestic consumption remained relatively stable. Travel

has long been popular with the retirement set, but today, people 40 and under account for more than half of Korea's outbound travelers. The majority of Korea's international travel is within Asia, while in the U.S., San Francisco, Los Angeles and Las Vegas are favorite destinations.

Outside of Korea, one dramatic change to tourism in the region has been in China's relaxed travel restrictions. Like other parts of China's economy, both outbound and inbound travel figures have been growing rapidly. With more discretionary income in their pockets, Chinese consumers are leading the surge in Asians packing their bags.

KOREA'S CHANGING TRAVEL PATTERNS



Source: United Nations World Tourism Organization, OECD, HANATOUR Services, Inc., Korea Tourism Organization, MICM

GOING PLACES Koreans are taking more trips abroad and spending more on travel. They spent \$23.4 billion in 2007, up from \$6.3 billion in 1995. Overseas shopping and leisure expenditures nearly doubled from 1997 to 2008, with a shift toward individual travel versus packaged group tours.

At Your Service: Taking Care of Business



BRIGHT LIGHTS, BIG CITY Colorful ads compete for consumers' attention on Shanghai's Nanjing Road, one of the world's busiest shopping districts.

Increased internal commerce and competitive pressure to modernize industries are paving the way for a fledgling business services sector in Asia.

When most of the customers for Asia's manufactured goods were in Western countries, business services were a somewhat alien concept in the region. Asian companies made the products. Branding, marketing, logistics and distribution of those products were tasks left to their Western counterparts. With domestic consumption on the rise, however, this relationship has changed. As more and more companies, both foreign and domestic, seek to reach the Asian consumer, they will need marketing support, customer relationship management, logistics and other staples of a strong service infrastructure.

If Asia is to become a more prominent contributor to the global economy, as many observers believe, it cannot rely solely on industrialization and manufacturing. Competitive domestic business services providers will be crucial to the region's long-term growth. And managing "intangibles" requires a very different skill set from managing factories. The good news for those with a stake in Asia's future is that the service sector is developing, although in varying degrees from country to country.

The rise of a domestic consumer market in Asia and increased competition makes advertising a critical business service.

NEW WHEELS Pausing in front of a promotion for the Shanghai Auto Show. Large billboards are a prevalent advertising medium in urban China.



MADISON AVENUE EAST

As Asian companies evolve from marketers of production facilities to marketers of products, branding and marketing present new challenges. The nascent advertising industries in Korea and China illustrate very different paths and some of the obstacles to the development of such services.

In the past, the major ad buyers in Korea were in-house arms of their own companies. They acted primarily as intermediaries between these “clients” and the major print and broadcast media outlets, which were heavily regulated. The prices and time allocation for television spots were fixed by the government, which made the growth of an independent advertising sector virtually impossible.

The situation changed with the proliferation of new media. When cable television was introduced, the government gave more latitude to cable channels for ad slot scheduling and pricing. Gradual deregulation fostered a more market-driven advertising industry. Small creative production companies sprang up. Demand for the less regulated media platform burgeoned. Local ad agencies emerged with superior negotiating power compared to global agencies. Deregulation then continued with the introduction of private media brokers, diminishing the government’s monopoly over television time. Competition is expected to drive consolidation and strengthen the survivors.

In contrast to Korea, China’s advertising industry largely revolves around the management of physical ad channels, such as LCD panels in buildings and big ad screens in airports. There are more than 70,000 ad agencies estimated to be operating in China and ad spending in 2008 reached \$20.7 billion, making it the fifth-largest ad market globally. However, state controlled China Central Television (CCTV) dominates the broadcast landscape with its 19 channels, causing financial woes for local stations that have trouble generating enough advertising volume. And transparency in media buying practices is notably lacking, given volume discounts and off-rate-card (or privately negotiated) deals. These factors are a drag on the development of a viable multimedia advertising industry. (As explained in the next article, however, media reform will likely change the picture.)

While these examples illustrate the challenges of developing Western-style marketing practices in the face of heavy-handed regulation, the rise of a domestic consumer market and increased competition in Asia is a reality, which ultimately makes advertising a critical business service and an industry to watch.

MARCHING ORDERS

Training new migrant factory workers in Shenzhen. Recent labor unrest has been a factor in driving up manufacturing wages.



To remain competitive, Asian companies will need to better utilize technology to enhance productivity and improve the return on human capital.

THE END OF CHEAP LABOR?

Another important driver of business services development is the need for greater efficiency in manufacturing, business processes and human resources. One byproduct of Asia's manufacturing prowess has been a dramatic rise in wages. Just this year, some Chinese manufacturers have raised minimum wages by 20% or as much as 65%. While the goal is to redress high-stress working conditions and worker unrest, more than one observer sees the trend as signaling "the end of cheap labor" in China. To remain competitive, Asian companies will need to better utilize technology systems to enhance efficiency, productivity and scale, ultimately improving return on their human capital.

Enterprise Resource Planning or ERP systems—software that integrates all of a company's departments on a single platform—have been slow to catch on

in China. We believe this may hamper productivity and constrain growth, particularly at small- and medium-size enterprises (SME) that still rely on a lot of manual processes and incompatible software between departments. Like many of China's challenges, however, it is a problem that is being solved from within.

ERP and software development companies are expanding quickly in China. Two of the largest local software vendors dominate the SME segment for ERP, claiming a combined 40% market share. Their products are inexpensive and standardized, eliminating critical barriers to adoption. While ERP penetration has a long way to go to catch up with the West, it's an important step toward making Chinese companies more efficient and competitive.

Another challenge for smaller businesses is expanding their sales channels outside their territory. They often lack the financial resources and the knowledge to identify and locate prospective customers. One enterprising Chinese company addressed this need by developing an online business-to-business marketplace, connecting sellers and buyers and delivering economies of scale that would be impossible for a small company to achieve on its own. What ERP can do for a single company in terms of efficiency, online connectivity can do for an entire sector.

Where China's software companies have lagged is in aftermarket service and maintenance, which is how most U.S. software companies create recurring revenue streams. Instead, many information technology providers are turning to the "Software as a Service" or SaaS model, in which customers outsource all IT functions to them rather than buying and installing software. Thus, IT software providers become IT service

providers and enhance their value to their customers.

China's IT industry is still finding its way, and stands under the long shadow of India's (see sidebar). However, there is little doubt about its long-term potential, if only because the market—and the need—is so vast. As the industry gathers critical mass, it is expected to create good jobs and income growth.

INFORMATION TECHNOLOGY SERVICES: BRINGING IT BACK HOME

Emerging Asian countries have capitalized on the demand for information technology services such as system implementation, integration and maintenance. However, the customers for those services are primarily in developed Western countries rather than Asian domestic markets. Like products sold overseas, IT services that generate revenue from overseas are considered “exports.”

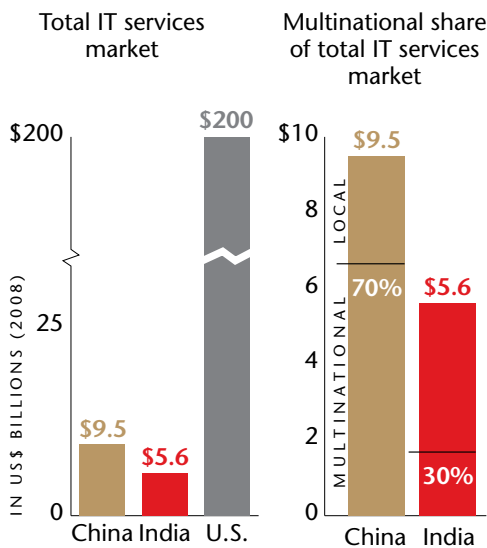
An abundance of cheap yet highly skilled English-speaking labor, notably in India, has historically been the key driver of low-end IT service exports to developed countries. While IT service exports have contributed to the region's employment and wealth generation, there have been some challenges—wage inflation, excessive dependence on a few overseas markets, and backlash from developed countries fearful of “shipping jobs overseas.” Some of these factors have constrained growth in the sector. What's needed is the development of domestic markets, and there are indications that this is happening.

Starting from a low base, domestic IT spending in emerging Asia has been growing faster than foreign spending, although it is still modest in an absolute sense. IT spending in India and China is about 1.5% to 2% of GDP, compared to 3.3% in U.S. and Europe. It is also confined largely to the private sector, whereas the public sector is a bigger factor in the West. Public sector IT expenditure in India is about 5% to 8% of the total spend in the country, compared to the U.S., where government accounts for over 15% of the total IT expenditure.

Developed Asia Pacific countries such as New Zealand, Australia and Singapore have also done better with e-governance, spending \$150 to \$200 per capita (about 0.5% of GDP) on IT services. In India, telecom, banking and manufacturing companies have taken the lead so far in upgrading their IT infrastructure. The government, however has woken up to the fact that more IT investment can enable it to streamline operations, track its welfare programs and better manage internal resources. And government services are moving online—getting a passport, which used to take a year of bureaucratic wrangling, can now be done online in a fraction of the time and with greater transparency.

As companies begin to see IT as a strategic investment, and government sees the rewards in terms of efficiency, the market for IT services within Asia may finally take shape.

EMERGING IT SERVICES MARKET



Source: IDC (2008)

GAINING SHARE While small in absolute terms relative to the U.S., India's IT services market is largely indigenous, while China's is still dominated by foreign multinationals.

Asia's New Media Mix

A combination of rising consumer demand, emerging technology, market forces and gradual regulatory reform is transforming Asia's media landscape.

GATHER 'ROUND

Street dwellers in New Delhi watch television in a shop window. Estimates of television penetration in India understate actual viewership, which is often a communal experience.



Owning a television was arguably emblematic of post-war, middle-class affluence in America. In Asian countries that have only experienced “mass affluence” recently, media consumption is a growing use of leisure time. And consumers want more choices. But first, government must reassess its role in the control of media vehicles and content.

China's mammoth printing industry employed 1.2 million workers in 2008 and generated around \$19 billion in revenue. As in most Chinese industries, however, the state is the dominant player. Provincial and city-level publishers increasingly face a heavy cost burden because of obsolete equipment, substandard production, competition from national players and, as elsewhere, diversion of audiences to the Internet. Coupled with inadequate management skills, many small publishers have been saddled with losses and are living on government subsidies.

Similarly, China's broadcasting industry has been dominated historically by CCTV—the government's official mouthpiece—and heavily regulated by the State Administration of Radio, Film and Television. Since 2001, however, the government has been pushing reform that would ultimately lessen its control and leverage the commercial potential of all media for economic development.

The vision for industry consolidation is the formation of six or seven provincial media conglomerates capable of generating around \$1.5 billion in annual revenue through channels spanning print publishing, television, radio, the Internet and outdoor advertising. A pilot program

of media groups was launched in 2003. These were then organized as newly formed private companies with units in which the government and investment funds hold strategic shares, and domestic investors are allowed to participate through China's public stock exchanges.

This represents a key shift in the mentality of the Chinese government, in which the media become not just propaganda tools but engines of economic growth. As profit-making entities that deliver news, entertainment and cultural enrichment, these emerg-

ing conglomerates are intended to reform the media business model in China, creating jobs at the regional level and cultivating modern management skills. And while reform has been slow, the vision is nonetheless audacious by Chinese standards.

ENTERTAINING INDIA

In contrast to China's policy-driven, cautious approach to media reform, the traditional media marketplace in India has been transformed rapidly by private entrepreneurs and foreign players. Until 1991, the only broadcaster in India was government-owned, and operated just two national channels. In 1992, the government opened up the industry to private competition, and later to foreign, cable and satellite channels. By 2007, India had over 400 channels broadcasting in more than 15 languages, although 45 channels account for 80% of the television audience. Between popular soap operas, dramas and reality shows, television has been gaining viewership at the expense of print.

India's example illustrates how faster liberalization of media can accelerate the industry's economic impact. An estimated 90 million Indian households, or 64% of all television households, have access to multi-channel pay TV services, and television takes about a 40% share of the country's advertising expenditure. Furthermore, new industries have sprung up around the medium, from studios that produce content to audience research and measurement services.

FREEDOM OF EXPRESSION 2.0

If the Internet is shaking up the media landscape around the world, it is doing so all the more in China, where it is putting the government's censorship powers to their strongest test ever (see page 12). Just as Americans turn to the

(continues on p. 10)



PITCH PERFECT The immense popularity of cricket on Indian television led to the creation of the Indian Premier League (IPL). The league was formed only in 2008 and became an instant hit. It quickly generated some \$3.3 billion in revenues from franchise fees and broadcasting rights.

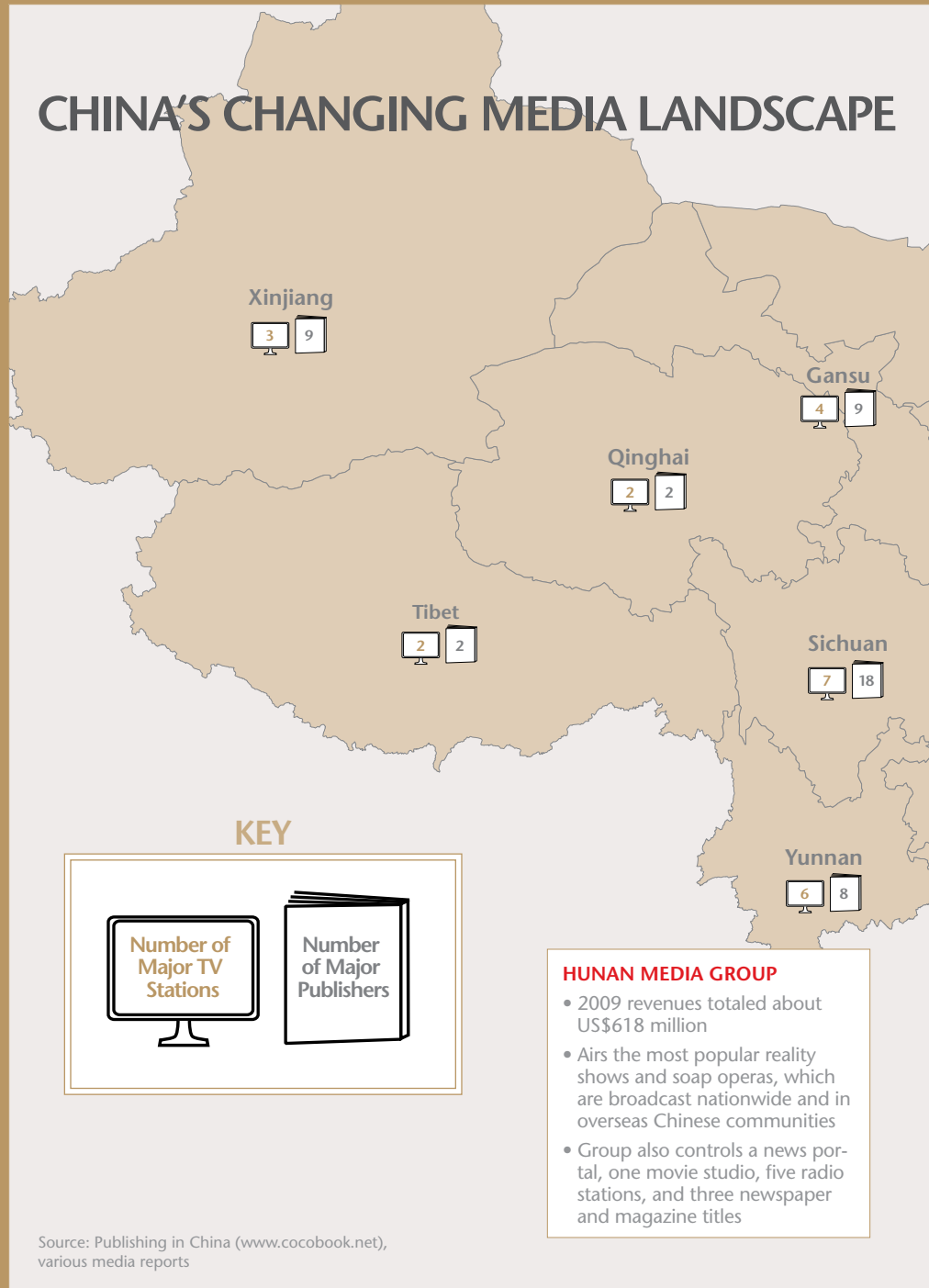
(continued from p. 9)

Internet for information and breaking news, Chinese are increasingly doing so as well. Social networking is becoming a mainstream platform where participants can express themselves more freely in writing, video and music.

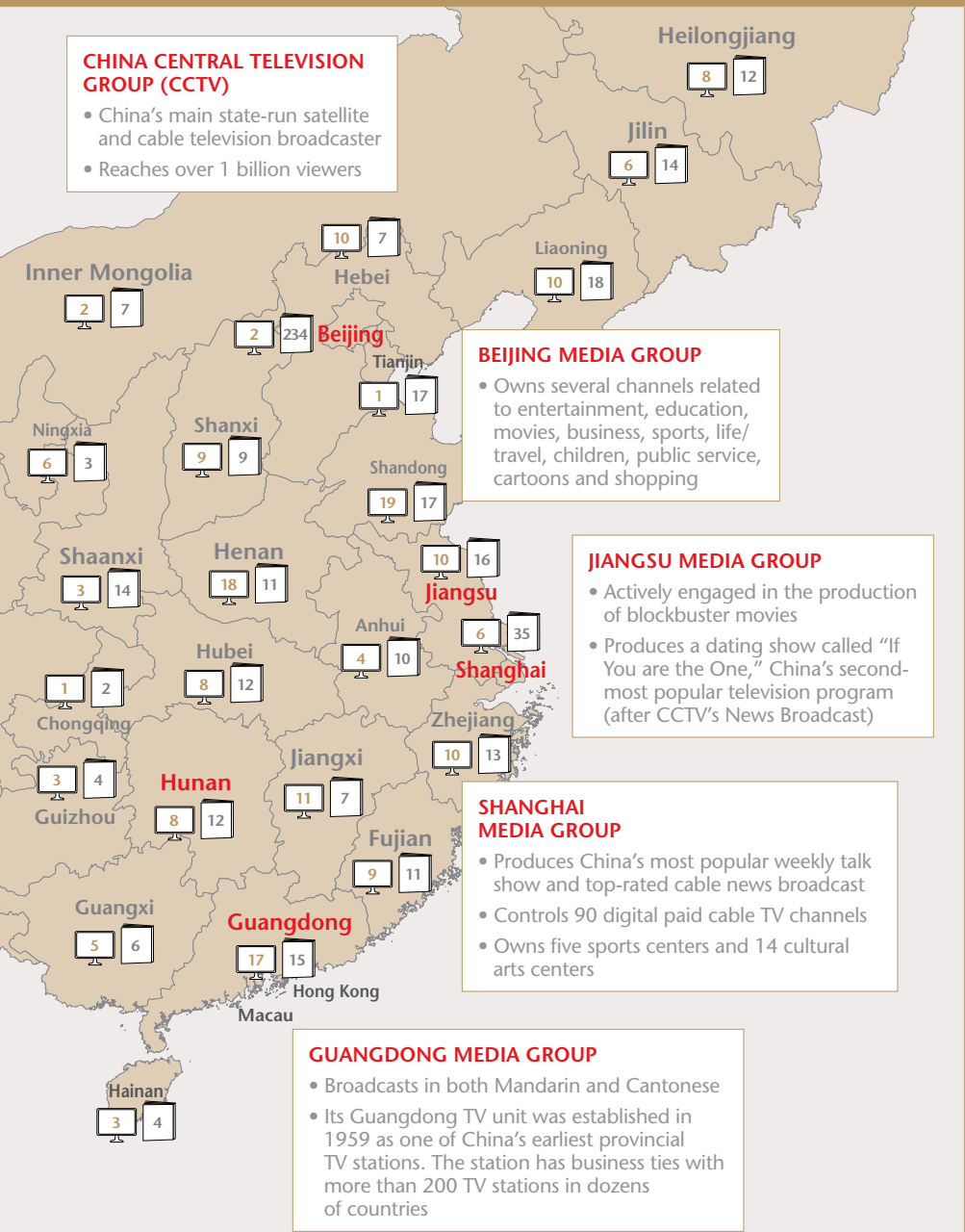
Private Chinese companies are also active in new media, serving China's rapidly growing 384 million Internet users. China's largest Internet company is one that started out as a free instant messaging (IM) service,

China has more than 220 major television stations and over 550 major publishers spread among its 31 provinces, municipalities and autonomous regions. Diversified media conglomerates formed in provincial cities have increased their outreach to national audiences through various distribution channels, breaking the dominance once held by the central government's media bureau in Beijing. Five of the key provincial players, along with China Central Television, are profiled on the map.

CHINA'S CHANGING MEDIA LANDSCAPE



then transformed into the country's most popular social networking site. The secret to its success, unlike its free U.S. counterparts, is the company's ability to monetize the platform by providing community-based interactive entertainment and games for its roughly 550 million active IM user accounts. By recognizing the economic potential of social networking and interactive entertainment, companies like this are leading China toward decentralized media platforms where freedom of expression can progress.



In the new vision of the Chinese government, the media become not just propaganda tools but engines of economic growth.

This map is not intended to be comprehensive, rather it is a snapshot meant to highlight a few parts of a vast and fragmented industry. Figures cited are best estimates based on available data from multiple sources and should not be interpreted as definitive. The media groups listed are all state-owned entities that are not publicly listed.

CAN AN ECONOMY PROGRESS WITHOUT THE FREE FLOW OF INFORMATION?



BREAKING NEWS

Public protests such as this one by journalists would not even have been allowed in China as recently as 10 years ago.



CHINESE IDOL Aspiring pop stars compete on the set of "Super Girl Voice" in Hunan. Viewers vote for their favorites via text messages. As it is the world over, interactive entertainment is a welcome diversion in China.

Google stunned the world in January when it announced it was considering pulling out of China because of Internet censorship. The whole affair focused renewed attention on China's stance on freedom of speech and information. State propaganda and control remain prevalent, and as the Internet rapidly penetrates society, censorship still rules. Web surfers in China have limited access to popular websites such as Facebook, Twitter or YouTube—sites that have a global following in the multi-millions.

In 2008, China took an unprecedented step toward greater openness, enacting laws under which local governments have allowed more transparency on budgets and expenditures. When an entrepreneur in Shenzhen wanted to know how his taxes were being spent, he was surprised when the municipal government granted access to several hundred pages of budget data. In Guangzhou, requests to review the city budget led local officials to post the data online. The overwhelming response from residents caused the site to crash in short order.

While local governments have been more open to debate and public scrutiny, the central government has been far less forthcoming. Despite repeated appeals to release details of the 2009 \$585 billion stimulus spending package, activists have had little luck getting the information. In an effort to curb corruption, however, the government recently disclosed that over 3,000 officials have received grave penalties for misappropriating stimulus funds. This underscores the potential value of transparency in helping to remedy chronic problems that afflict China's bureaucracy.

Progress toward freedom of speech and information is crucial to shaping China's intellectual property framework. As China's manufacturing industries have been so successful over the last two decades, many businesses have embraced a "lowest-cost provider" mentality. The resulting business models place little value on protecting the intellectual capital resulting from research and development. Even the most technologically advanced companies in China spend only a fraction of revenues on R&D.

China's growth can continue without the free flow of information—as Western democracies define it—but only up to a point. Without ready access to fair and accurate information, the country's growth will eventually stagnate. Google's challenge to the government is a reminder that restrictive practices that drive out foreign competition may not benefit local companies. In new and emerging industries, where Chinese companies have a lot to learn from their foreign counterparts, artificial barriers to entry limit the competition essential for innovation and progress.



PICTURE IT

A technician demos an MRI machine at the athletes' clinic prior to the 2008 Beijing Olympics. Improving China's health care standards will require more investment in medical technology.

The government is pouring billions into expanding and upgrading a fractured system.

Healing China's Health Care

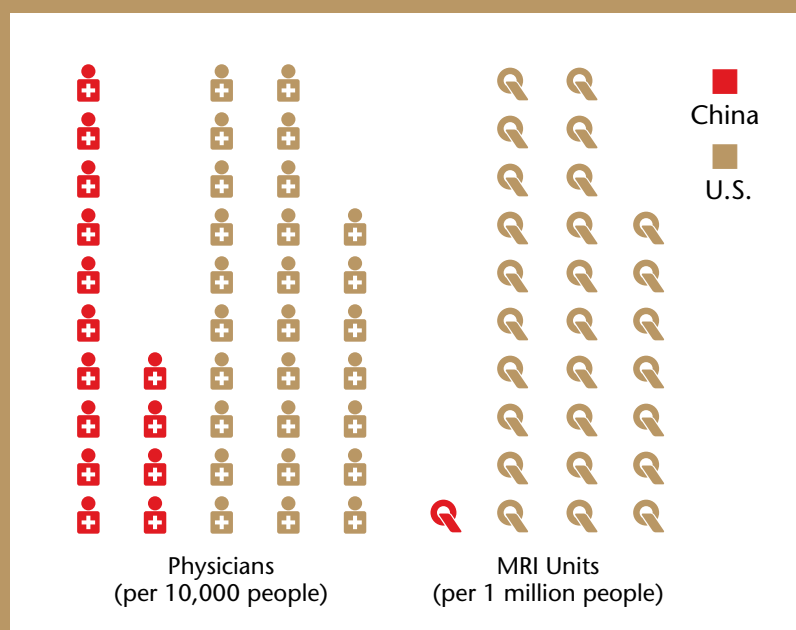
China is going gray. As a consequence of its one-child policy and other demographic factors, the population is expected to age. Average life expectancy at birth has risen from 62 to 73 over the past four decades. People of age 60 and older are expected to reach 23% of China's population by 2030, more than double the current level—putting even more strain on a creaky health care system.

While China's social safety net has improved in recent years, health care remains a weak link, with economic repercussions. The lack of affordable, quality care has compelled Chinese households to save their money for emergencies, which has hindered domestic consumption. Health care reform is one of the top priorities for the current administration, and the outlay required from government coffers is likely to drive long-term growth in the health care industry.

DUAL SYSTEMS

China has historically had two health care systems, one rural and one urban, and both have transformed dramatically as the country has developed. Before the 1980s, more than 80% of the rural population was covered under a collective health system of village and communal medical centers manned by “barefoot doctors”—farmers with limited medical training. However, rural reform abolished farming communes and indirectly dismantled many cooperative medical programs without providing any sound alternatives. For most urban families, health care coverage used to be free, part of the “iron

HEALTH CARE RESOURCES PER CAPITA—CHINA VS. U.S.



Source: World Health Organization, Pan American Health Organization (2008, 2009)

ILL EQUIPPED Though China has nearly 2 million physicians compared to approximately 800,000 in the U.S., it has merely about half as many doctors for every 10,000 people in the population. And China is woefully underequipped in critical medical technology such as MRI machines.

rice bowl” of benefits provided by state-owned enterprises (SOEs) and other government entities. That changed in the 1990s, when the government launched a program to restructure and privatize many SOEs, costing workers their jobs and benefits. Patients’ out-of-pocket expenses as a percentage of total health expenditures surged sharply from 20% in 1978 to about 50% more recently. And health care resources have become more concentrated in urban cities, with only about 25% devoted to rural areas—home of some 60% of the population.

In recent years, the government’s health care agenda has begun taking shape. A new rural cooperative medical system has been established, with premiums of approximately \$15 per year for each individual farmer, of which the government pays 80%. Urban residents who are employed can participate in a basic system funded by a combination of individual and employer contributions.

A separate system exists to cover the unemployed and retired.

In January 2009, the government announced a \$125 billion, three-year plan to expand basic health coverage to 90% of the population. Other objectives under the plan include increasing investment in health care infrastructure, establishing an essential medicine system and restructuring state-owned hospitals. While trying to avoid creating a society that is overly dependent on entitlements, the government has accelerated its plans for both

social and economic reasons, with the goal of establishing a universal health care system by 2020. These initiatives are intended to stimulate the health care industry and should create opportunities for medical services providers, device manufacturers, pharmaceutical companies and drug distributors.

A LONG ROAD

While China is making a real effort to improve its health care system, many issues remain. The system is dominated by insufficiently funded state-owned hospitals. Many hospitals have to rely on sales from drugs and services to generate income. Kickbacks, excessive prescriptions and inappropriate services have become widespread problems in the industry. The lack of transparency in medical treatments also hindered the development of commercial health care insurance, which keeps upfront out-of-pocket costs high. These complex issues make the speed of reform uncertain.

Such challenges notwithstanding, the government has shown a commitment to fixing the health care system and providing basic, affordable health services to its citizens. The path of health care reform will undoubtedly be bumpy, but there is no turning back for a society struggling to take its place in the developed world. From a social perspective, a well-built health care network should help China strengthen its safety net and narrow the gaps among classes. From an economic perspective, a robust medical system is one crucial building block in forming a more balanced society with better living standards.

ASIANOW is a series of Special Reports produced for shareholders of the Matthews Asia Funds.

To receive future issues, please sign up online at matthewsasia.com or call 800-789-ASIA [2742]

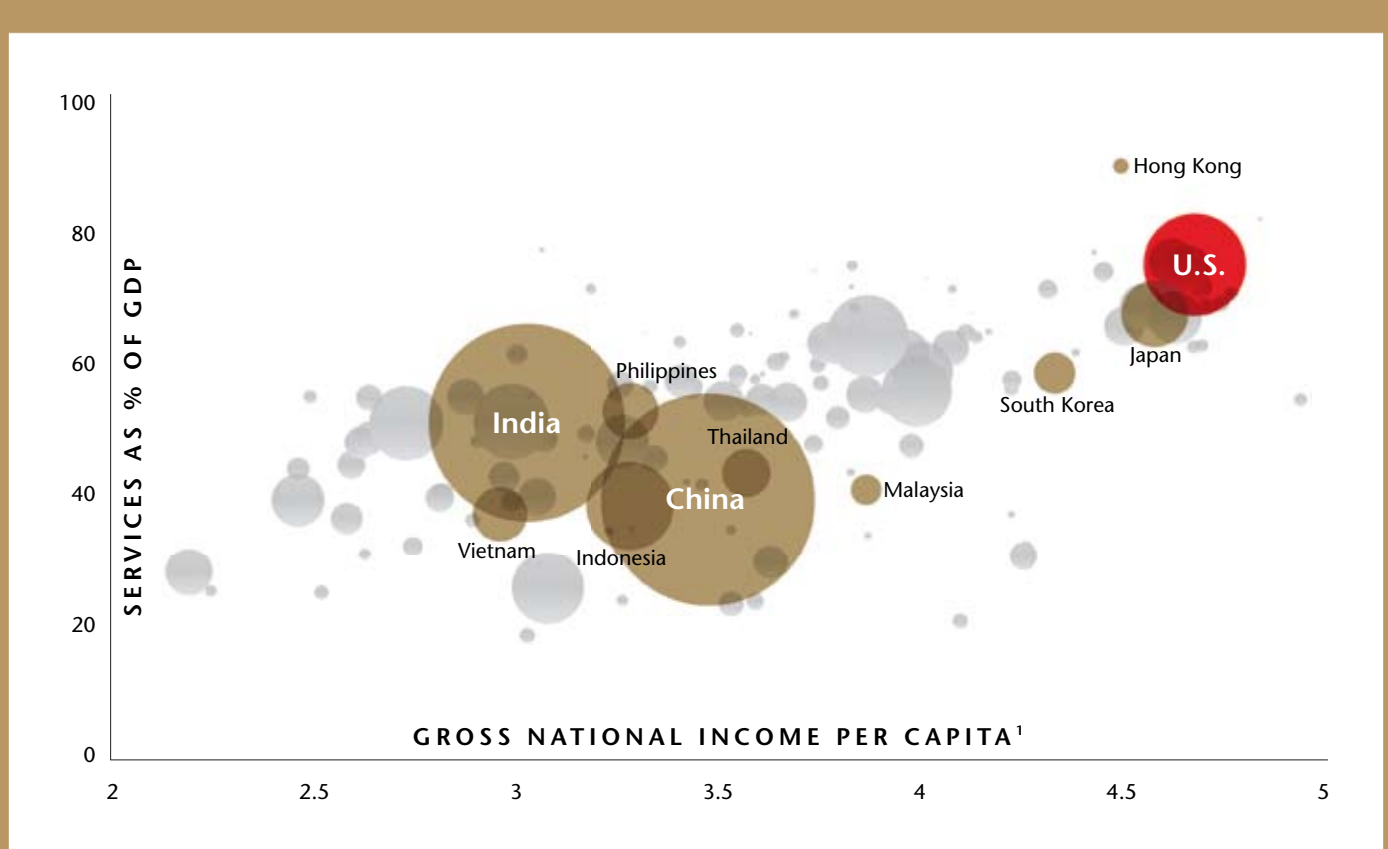
The subject matter contained herein has been derived from several sources believed to be reliable and accurate at the time of compilation. Matthews International Capital Management, LLC does not accept any liability for losses either direct or consequential caused by the use of this information.

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus with this and other information about the Funds may be obtained by calling 800-789-ASIA or visiting matthewsasia.com. Please read the prospectus carefully before investing as it explains the risks associated with investing in international markets.

Distributor: BNY Mellon Distributors Inc., 760 Moore Road, King of Prussia, PA 19406

Discretionary Income Drives Demand For Services

ECONOMIC INDICATORS: SERVICES AS PERCENTAGE OF GDP AND PER CAPITA INCOME



¹Atlas method (log); Size of bubbles indicates relative population; Unmarked bubbles represent all other countries
Source: The World Bank Group, 2008

As countries get richer, there is a tendency for services to be a bigger part of their economies. For example, among the countries represented on this chart, the U.S. has both one of the highest per capita incomes and one of the highest percentages of its GDP generated by service industries. The trend knows no cultural barriers—the position of both Japan and Korea in the chart are indicators that this evolution has occurred in Asian countries.

Along with the growth in wealth of the Asian household, we are likely to see an increased demand for services. As long as Asia continues to increase productivity at rapid rates, wages can be expected to rise. People will have higher disposable incomes to spend on leisure, leading to higher consumption of services: restaurants, hotels, retail and travel. Professional services such as accounting, finance and consulting are likely to grow as well, as companies drive for greater efficiencies and individuals seek financial advice.

Higher productivity and higher wages may also mean a displacement of manufacturing jobs, but they should be replaced by jobs in services. Thus, the “end of cheap labor” in Asia does not spell doom. A new model based on rising wealth and living standards should create new opportunities for different kinds of businesses to thrive.