



The Asian economy will move toward the post-COVID19 era

—The recovery continues, but US policy normalization may hamper it—

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- ◆ In Asia, economic recovery has remained robust in countries/regions such as Taiwan and Vietnam, whose economies are export-led. A faster pace of recovery is expected in export-led countries/regions thanks to the economic recovery of the U.S. in addition to the continuation of China's economic recovery and special IT demand.
- ◆ However, factors such as 1) the accelerated normalization of U.S. monetary policy, 2) the re-expansion of current account deficits in emerging Asian countries, and 3) excessive fiscal and monetary easing in emerging Asian countries may cause market turmoil such as the “Taper Tantrum” that occurred in 2013. Notably, in the Philippines, in addition to Indonesia and India, which are part of the Fragile Five, downward pressure on currencies may increase, which would make the path to full recovery even more challenging.
- ◆ The pressure from Western countries on China has steadily increased. Asia’s high dependency on the Chinese economy could be a risk factor.
- ◆ China is likely to shift from investment-led growth to consumption-led growth as it contains the further spread of COVID19. The real growth rate for 2021 is expected to be +9.0% year on year, with the higher increase due to the reaction from the previous year. However, if the government fails to take appropriate measures to restrain investment, the economy may cool down.
- ◆ In India, the pace of economic recovery will remain slow, as some activity restrictions could remain in place until enough vaccines are provided. A full-fledged recovery is expected only after 2022. In addition, economic downside risks remain, such as financial instability caused by the rise in the NPA ratio of commercial banks.

1.Asia

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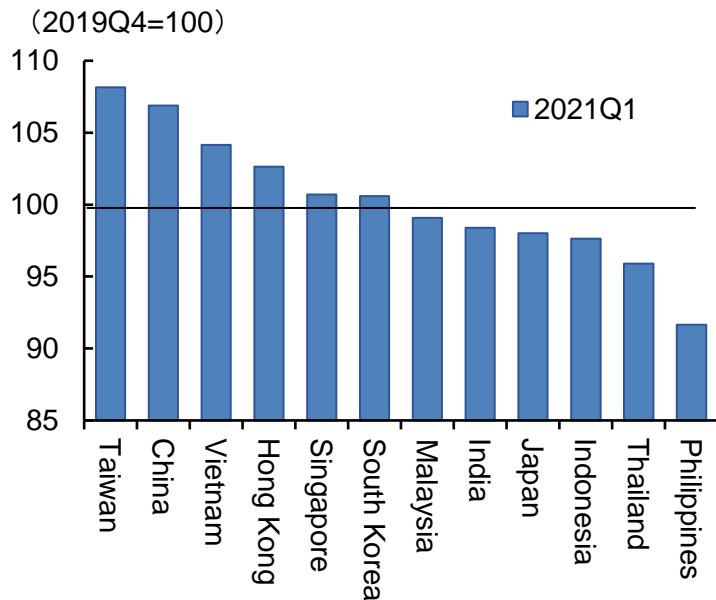
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1.Asia (1) Accelerated recovery in export-driven economies

- Taiwan and Vietnam, whose exports to China and IT-related exports have greatly increased, are recovering rapidly.
- Strong external demand will likely continue to support the growth of these economies. On the other hand, in the Philippines, Indonesia and India, where domestic demand ratios are high, the pace of recovery will remain slow, and a full-fledged recovery is expected only after 2022.

<Real GDP in Asia (Seasonally Adjusted)>



Source: JRI, based on CEIC

<Growth Forecasts for Asian Economies>

	2019	2020	2021 (F)	2022 (F)
Asia	5.4	1.9	8.0	4.8
China	6.0	2.3	9.0	5.1
Korea	2.2	-0.9	3.9	2.2
Taiwan	3.0	3.1	5.5	2.2
Hong Kong	-1.7	-6.1	5.9	2.2
ASEAN	4.8	-3.6	4.4	5.3
Thailand	5.0	-2.1	4.3	5.5
Malaysia	4.4	-5.6	5.9	5.9
Indonesia	6.1	-9.6	4.8	5.2
Philippines	2.3	-6.1	1.8	3.5
Vietnam	7.0	2.9	6.9	6.9
India (Fiscal year)	4.0	-7.3	9.0	6.9

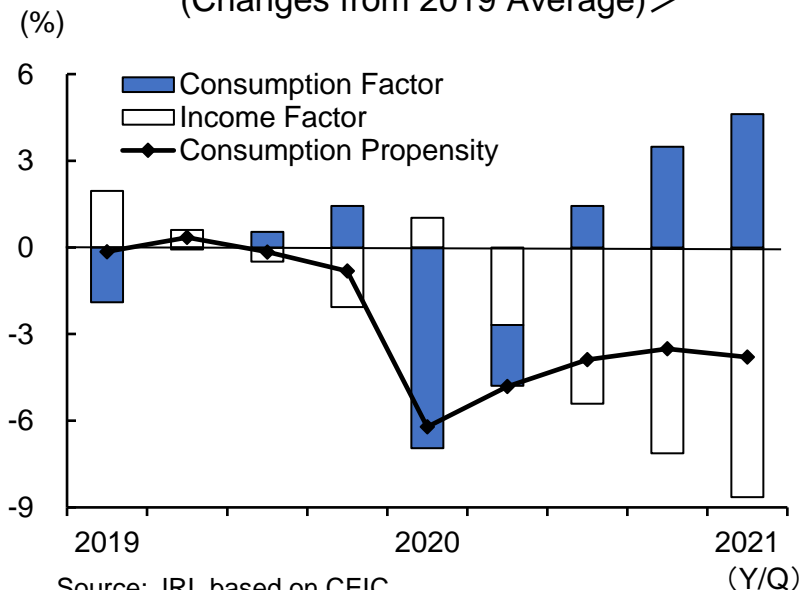
Source: JRI

1.Asia (1) Strong external demand<1> China's economic recovery continues



- Economic recovery continues in China, as the country succeeded in curbing the spread of COVID19.
- The recovery in consumer spending has been slow in the face of a pickup in wages. “Revenge consumption” will be expected to boost the economy further.
- Although the widening income gap may be a medium-term concern, as the income of the top 20% was 6.2 times higher than that of the bottom 20% in 2020, it could mean that demand from wealthy households for durable goods will increase in the near term.

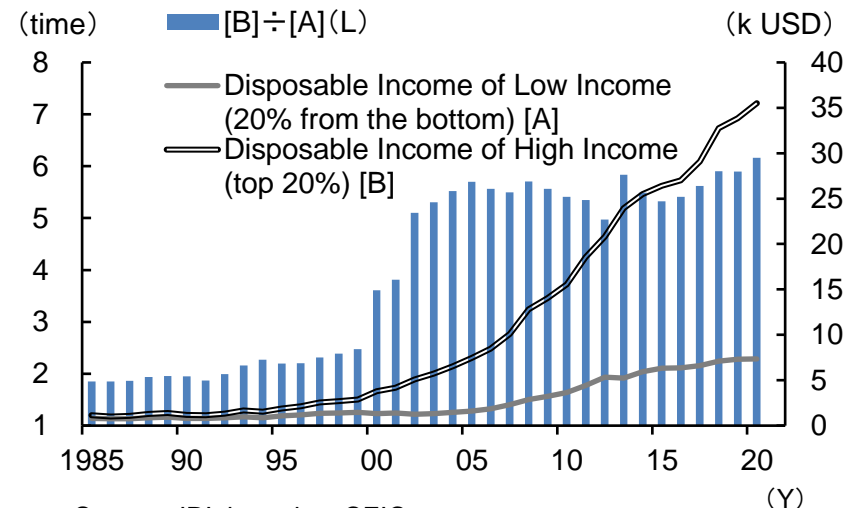
<Consumption Propensity in China
(Changes from 2019 Average)>



Source: JRI, based on CEIC

Note: Consumption Propensity = Consumption Expenditure per Capita / Disposable Income per Capita

<Disposable Income of Urban Households
by Income Level>



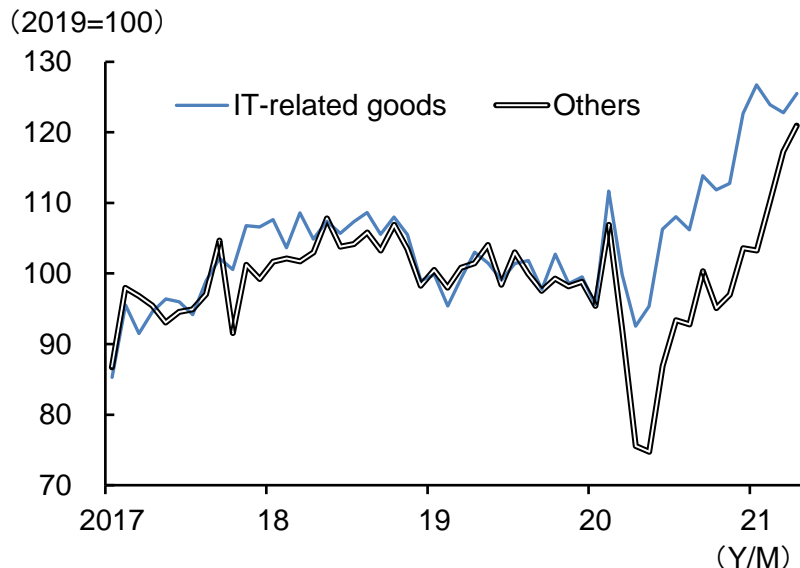
Source: JRI, based on CEIC

Note: Data is the disposable income per household (i.e., the disposable income per person multiplied by the average no. of persons per household).

1.Asia (1) Strong external demand<2> (2) Continued special IT demand

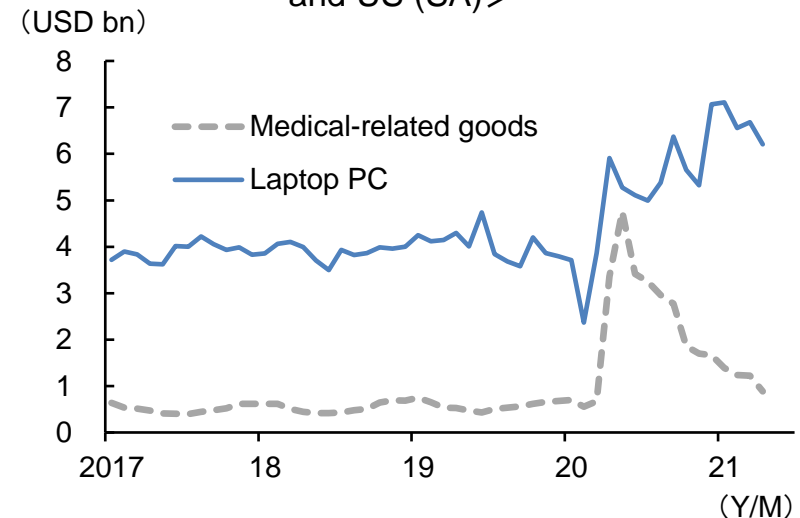
- Special demand related to medical products has peaked out. On the other hand, the IT boom, which has grown to the point where supply and demand for semiconductors is tight, will continue.
- Demand related to IT is expected to remain firm, including demand from telework, 5G, online business, etc.

<Exports of Asia ex China (USD, SA)>



Source: JRI, based on CEIC
Note: IT-related goods are comprised of export goods categories including semiconductors and electrical/electronic equipment.

<Imports of IT/Medical goods from Japan and US (SA)>



Source: JRI, based on MOF, Japan and USA trade online
Note: Medical-related goods include sanitizer (HS:380894), felt /nonwoven clothing (621010), face masks etc. (HS:630790). Laptop PCs are classified as HS:847130. Both are the total value from Japan and the United States.

1.Asia (1) Strong external demand<3> Effects of U.S. stimulus measures

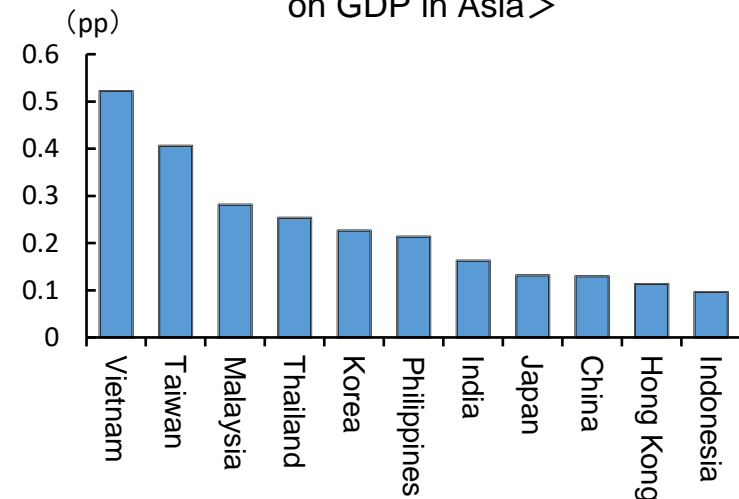
- Exports from Asia to the United States are expected to increase upon the approval of an additional \$1.9 trillion economic stimulus package (American Rescue Plan Act of 2021) in March. The policies to boost consumption will likely boost GDP in the U.S. by around 2%.
- Increases of exports to the U.S. could boost the GDP growth of Vietnam (+ 0.5pp), Taiwan (+ 0.4pp) and other Asian countries.

<The USD1.9trn American Rescue Plan Act>

Measure	USD bn
USD1,400 Stimulus Payment for Households	410
Extending Unemployment Programs (by USD300 through Sep)	246
Support for Local Government	360
Measures for COVID-19 (Support for Vaccination, etc)	123
Expanding Child Tax Credit	143
Education	176
Support for Small Business	59
Others	383
Total	1,900

Source: JRI, based on the Wall Street Journal (11 March, 2021)

<Impacts of the U.S. Stimulus Measures on GDP in Asia>

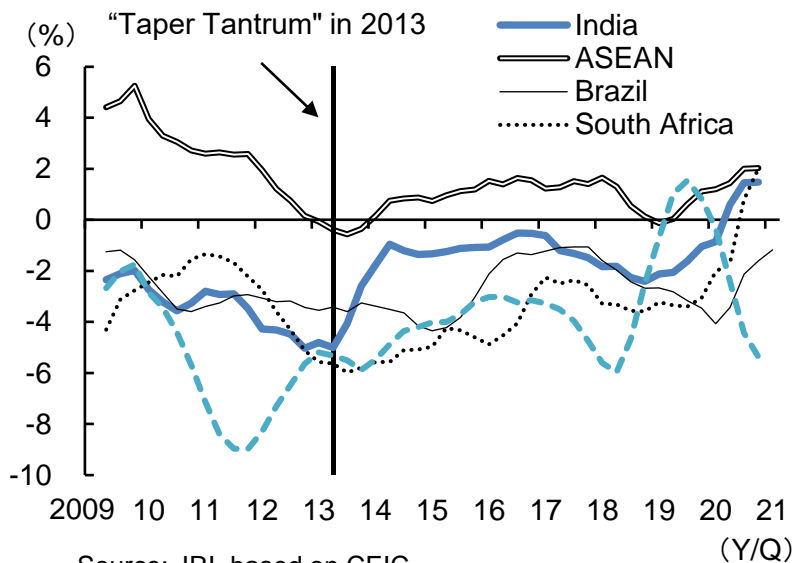


Source: JRI, based on OECD and various media reports
 Note: After estimating economic impacts on the U.S. by the USD 1.9trn American Rescue Plan, we calculated impacts on Asia economies through exports to the U.S. by using data from "Trade in Value Added (TiVA)" and income elasticity of U.S. imports.

1.Asia (2) Post-COVID19 financial stability test

- Normalization of monetary policy in the U.S. could dampen moves toward a full-fledged recovery in Asia by causing market turmoil such as the “Taper Tantrum” that occurred in 2013.
- Currently, the exchange market in Asia is generally stable, supported by a significant improvement in the current account balance.
- Increased foreign exchange reserves due to currency intervention in several countries also contributed to currency stability.

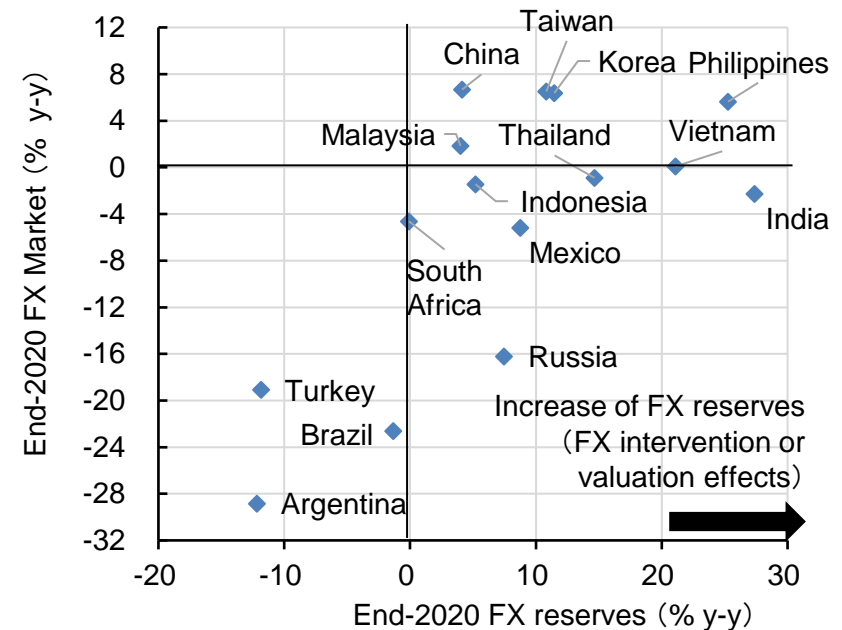
<Current Account Balance in Emerging Economies (% of GDP)>



Source: JRI, based on CEIC

Note: 4-quarter backward moving averages.

<FX Market and Foreign Exchange>



Source: JRI, based on CEIC

1.Asia (2) U.S. monetary policy normalization may hinder recovery

- 1) The accelerated normalization of U.S. monetary policy, 2) re-expansion of current account deficits in emerging Asian countries, and 3) excessive fiscal and monetary easing in emerging Asian countries are risks for Asia's economy.
- Downward pressure on currencies may increase, notably in the Philippines, Indonesia and India.

<Indicators Assessing Stability of the Currency Market>

	Current Account Balance			Fiscal Balance		Inflation	Inflation Target (%)	ARA Metric (%)	
	2013	2020	2021 (IMF forecast)	2013	2021 (IMF forecast)			End-2012	End-2020
Turkey	-5.8	-5.1	-3.4	-1.5	-5.7	16.1	5.0	98.0	74.7
Indonesia	-3.2	-0.4	-1.3	-2.2	-6.1	1.5	2~4	90.1	121.4
India	-2.7	1.3	-1.2	-7.0	-10.0	5.0	2~6	142.9	197.2
Brazil	-3.2	-0.9	-0.6	-3.0	-8.3	6.1	3.75	158.8	160.8
South Africa	-5.8	2.2	-0.4	-4.3	-10.6	3.8	3~6	78.7	74.4
Philippines	4.0	3.6	-0.4	0.2	-7.4	4.5	2~4	256.2	233.8
Thailand	-2.1	3.2	0.5	0.5	-4.9	0.9	1~3	225.7	241.4
China	1.5	1.9	1.6	-0.8	-9.6	0.4	3.5	157.1	74.6
Mexico	-2.5	2.5	1.8	-3.7	-3.4	4.8	2~4	122.9	128.4
Argentina	-2.1	0.8	2.3	-3.3		43.4		69.6	90.3
Vietnam	3.6	5.5	2.4	-6.0	-4.7	1.3	4.0		
Malaysia	3.4	4.4	3.8	-3.5	-4.4	1.5		105.7	118.1
Russia	1.5	2.3	3.9	-1.2	-0.8	5.6	4.0	163.6	360.7
Korea	5.6	4.6	4.2	0.6	-2.9	1.7	2.0	112.5	99.0
Taiwan	9.7	14.0	14.5	-3.2	-2.8	1.4			

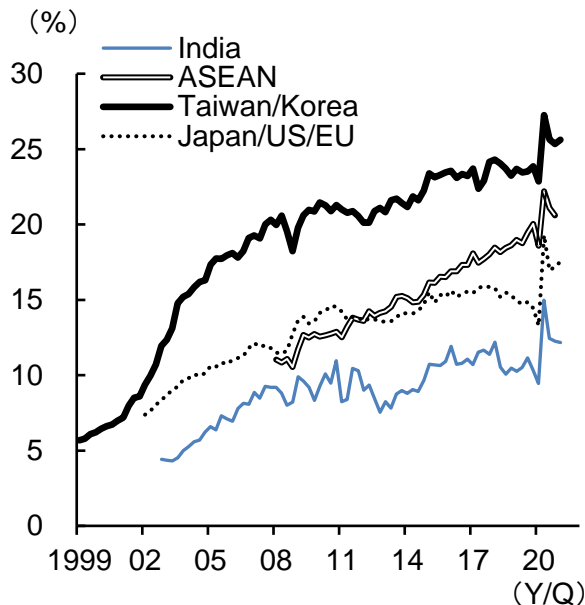
Source: JRI, based on the IMF and CEIC

Note: ARA Metric (Assessing Reserve Adequacy Metric) is the ratio of an actual reserve to a composite of reserves adjacency indicators based on exports, broad money, short-term debt and other liabilities, assessing the appropriate level of FX reserves. The metric for many countries assumes floating exchange rates, but for China, assumes a fixed exchange rate (In the case of floating rates in China, the metric rose to 129.9%). Data at end-2014 instead of end-2012 is used for Argentina.

1.Asia (3) Growing concern over Asia's growth led by China

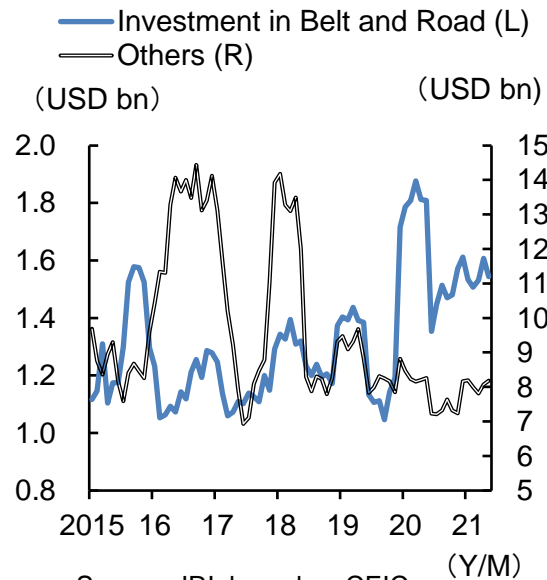
- China has boosted the whole of Asia's economic growth, further enhancing its presence in Asia. Asia has increased trade with China significantly, and RCEP could boost it further.
- China's outward FDI has accelerated in the countries along the Belt and Road Initiative (BRI), which should include large amounts of investment in Asia.
- China has been active in its vaccine diplomacy, and the share of Chinese-made vaccines is increasing, particularly in Southeast Asia.

<Share of Total Trade with China (Seasonally Adjusted)>



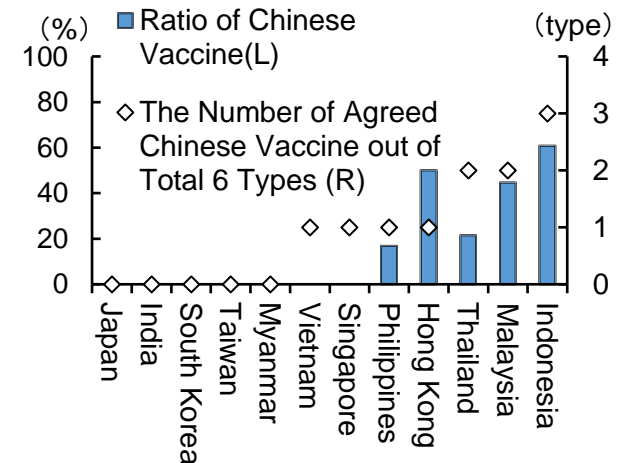
Source: JRI, based on CEIC
Note: Total Trade = Exports + Imports

<China's Outward Investment (Non-Financial)>



Source: JRI, based on CEIC
Note: Six-months backward moving average.

<Asia: Share of Chinese Vaccines in Confirmed Dose Orders>



Source: Duke Global Health Innovation Center
Note: As of 11 June. Ratios are calculated by available numbers, as procurement is unknown for some countries. Chinese vaccines include 6 types: Sinovac, Sinopharm, CanSino, Biologics, Anhui Zhifei Longcom, Chinese Academy of Medical Sciences, Sinopharm (Wuhan).

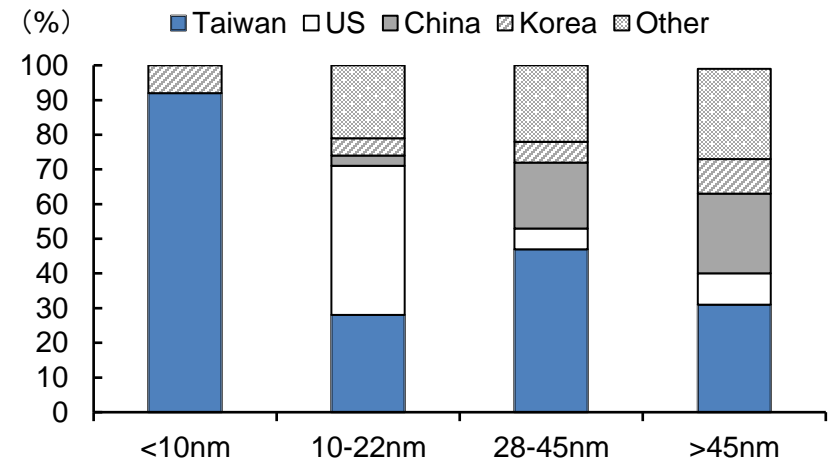
1.Asia (3) Downside risks for China due to Western pressure

- Given the many political and diplomatic problems in China, Asian countries' increasing dependence on the Chinese economy has many potential downsides.
- The U.S. and Europe are increasingly wary of supply chains centering on China from the viewpoint of security. Awareness of the geopolitical risk surrounding Taiwan's semiconductor industry has grown.

<Major Actions to Strengthen Pressure on China>

	Agency	Purpose	Subject to Sanctions	Remarks
Extension of Entity List (EL)	The Bureau of Industry and Security (BIS, US)	Export control	Companies that run counter to U.S. national security or foreign policy	There are more than 1000 listed companies. There were originally many companies in Middle Eastern countries, but in recent years, Chinese companies in telecommunications and semiconductors have also been prominent (60 out of 77 companies added in December 2020 are Chinese companies).
Executive Order on Addressing the Threat from Securities Investments that Finance Certain Companies of the PRC	US Department of Defense / US Treasury Securities	Securities investment regulations	Chinese companies recognized as having ties with the PLA	In June 2021, the scope of companies covered was expanded from the measures introduced by former President Donald Trump in November 2020 (covering 31 companies) to include 59 Chinese companies.
Report on Companies' Links to Forced Labor in Xinjiang Uyghur	Australian Strategic Policy Institute (ASPI)	Pointing out the involvement of Uighurs in forced labor	Companies linked to factories across China where Uighurs are forced to work	A March 2020 report indicated that 82 major multinational companies were involved. This includes more than 10 Japanese companies, mainly apparel companies.

<Global Wafer Fabrication Capacity for Logic (2019)>



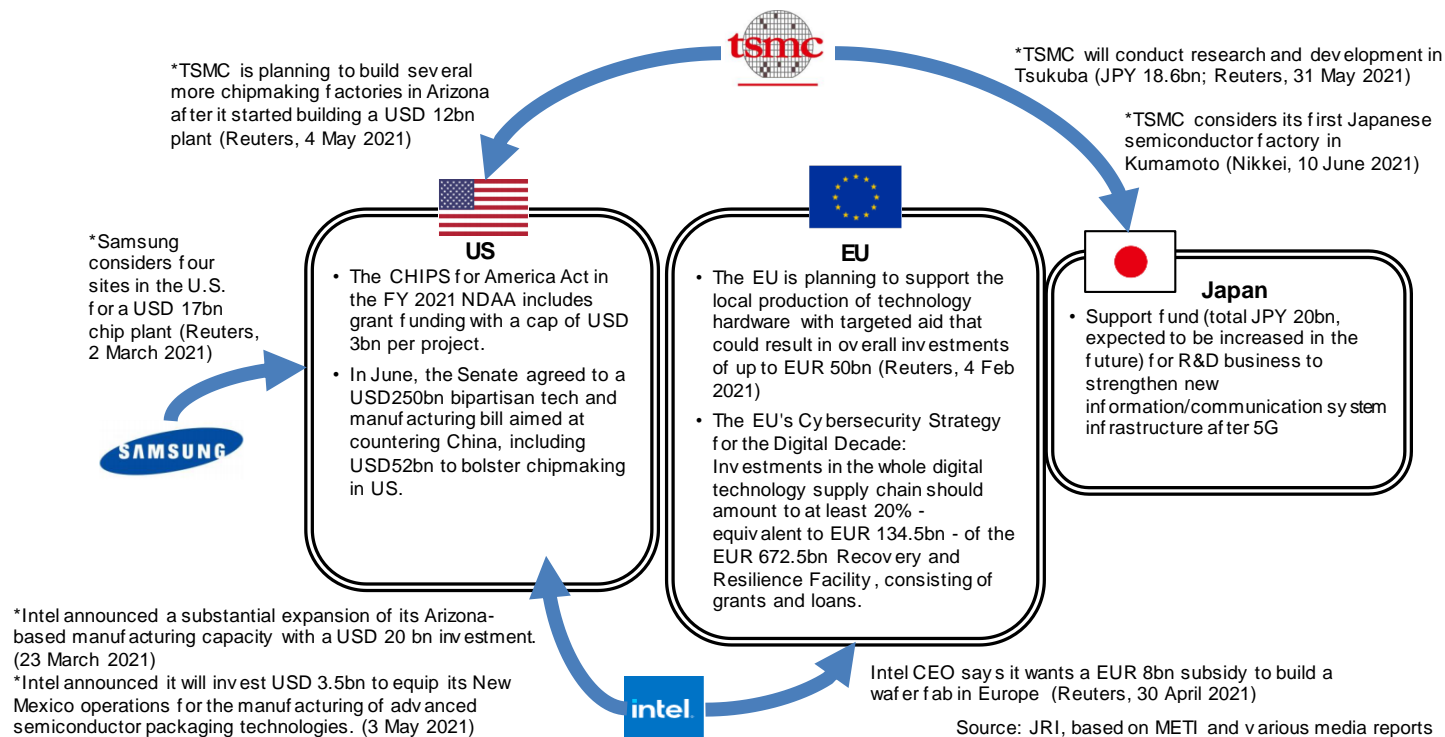
Source: JRI, based on the SIA/BCG Report "Strengthening the Global Semiconductor Supply Chain in an Uncertain Era."
 Note: 5nm, which is used for smartphones, is the most advanced logic, with smaller ones requiring more advanced technology.

Source: JRI, based on several media reports

1.Asia (3) Active move to attract the semiconductor industry

- Western authorities have stepped up efforts to attract the semiconductor industry. The U.S. could be set to pump USD 52bn into the domestic semiconductor industry, and manufacturing has been incorporated into the U.S. Innovation and Competition Bill.
- Three of the world's largest semiconductor manufacturers (Taiwan's TSMC, the US's Intel, and South Korea's Samsung) have started to consider building factories in the United States and Europe in response.

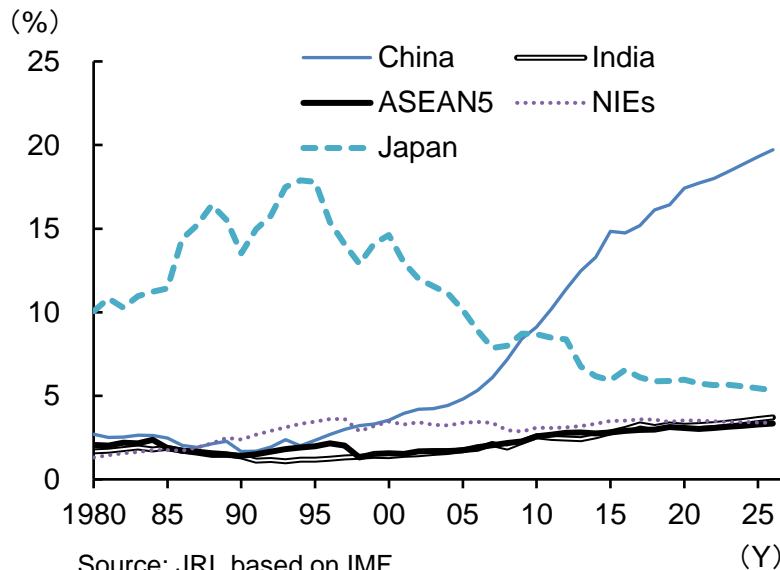
<Major Countries' Policies to Attract the Semiconductor Industry and Recent Actions of Major Chip Makers>



1.Asia (3) China-dependent recovery entails risks

- In Asia, India is expected to become a superpower in the future, and ASEAN is seen as the next 'world's factory' after China, although their economic presence significantly lags behind that of China.
- In order for Asia to continue its stable development over the medium to long term, it is necessary for the Indian and ASEAN economies to regain momentum and become a balanced economic bloc that does not rely excessively on the Chinese economy.

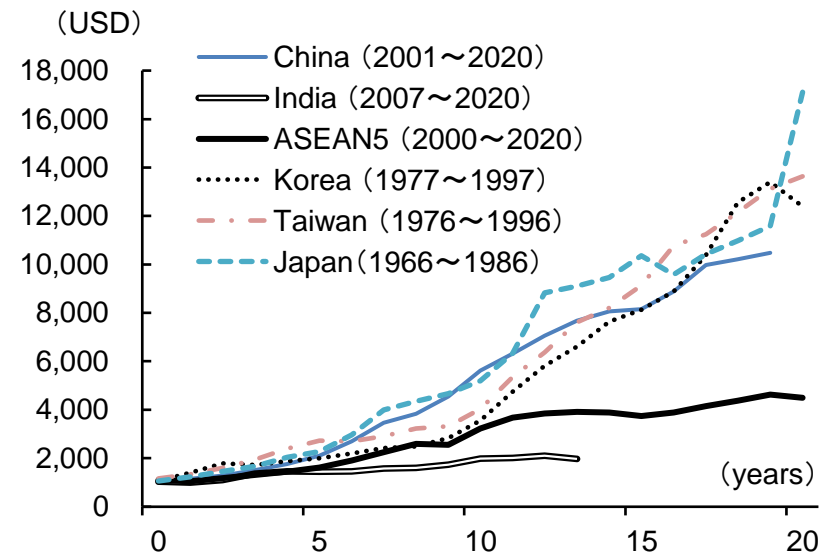
<Share of GDP for Asia Economies (USD)>



Source: JRI, based on IMF

Note: Data after 2021 are forecasts by the IMF. ASEAN5 includes Indonesia, Malaysia, Thailand, the Philippines and Vietnam.

<GDP per capita after achieving USD 1,000>



Source: JRI, based on the World Bank

Note: Year = 0 is the year when GDP per capita reached over USD1,000. ASEAN5 includes Indonesia, Malaysia, Thailand, the Philippines and Vietnam.

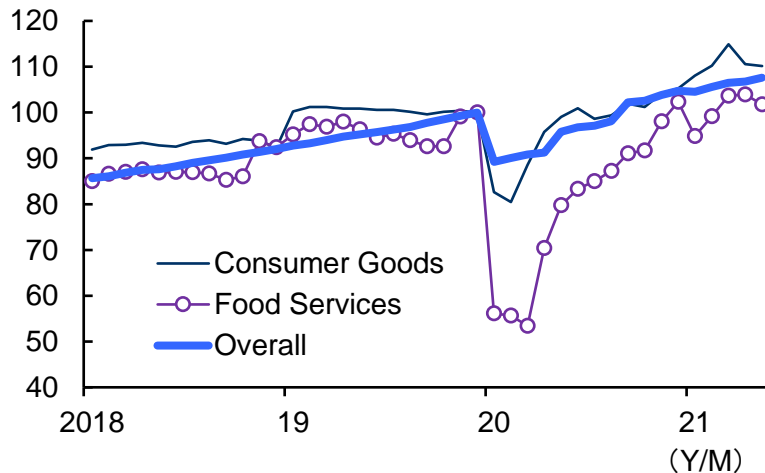
2.China (1)

Economic recovery continues

- Expenditure on goods is growing steadily. Turnout remained high except for some areas supporting demand for services such as the dining industry.
- Fixed asset investment expanded significantly, mainly by private companies. Exports are also expanding, albeit with fluctuations, as the global economy recovers.

<Retail Sales (Seasonally-adjusted) >

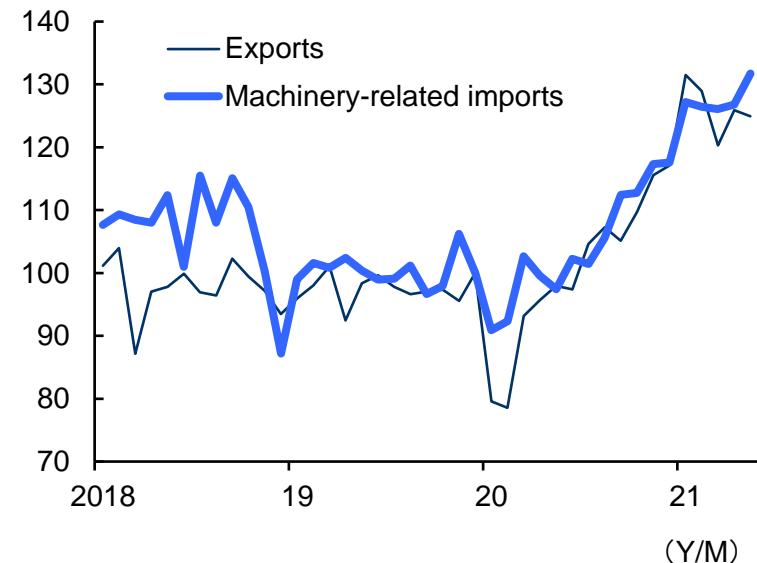
(December 2019 =100)



Source: JRI, based on "Total Retail Sales of Consumer Goods" by the National Bureau of Statistics of China
Note: Overall figures are compiled based on seasonally-adjusted month-over-month data. Others are compiled based on original series.

<Capital Goods Imports and Total Exports in China >

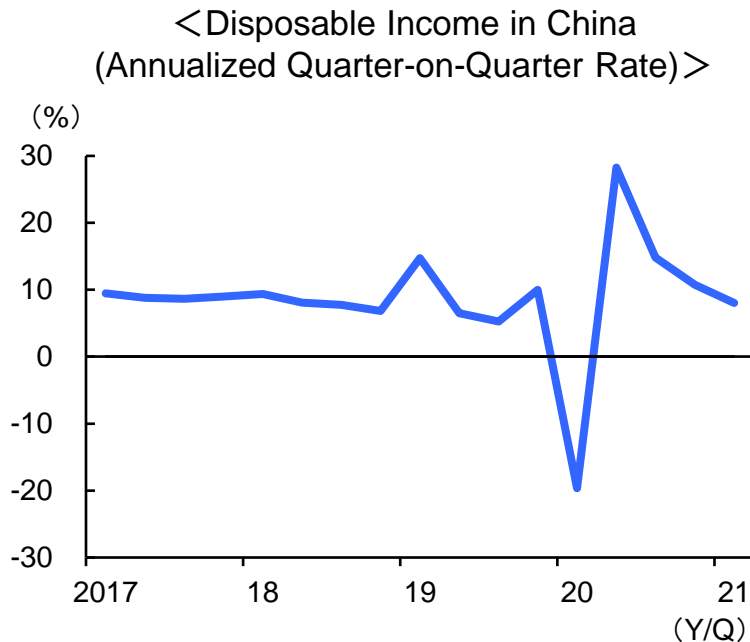
(Dec 2019 =100)



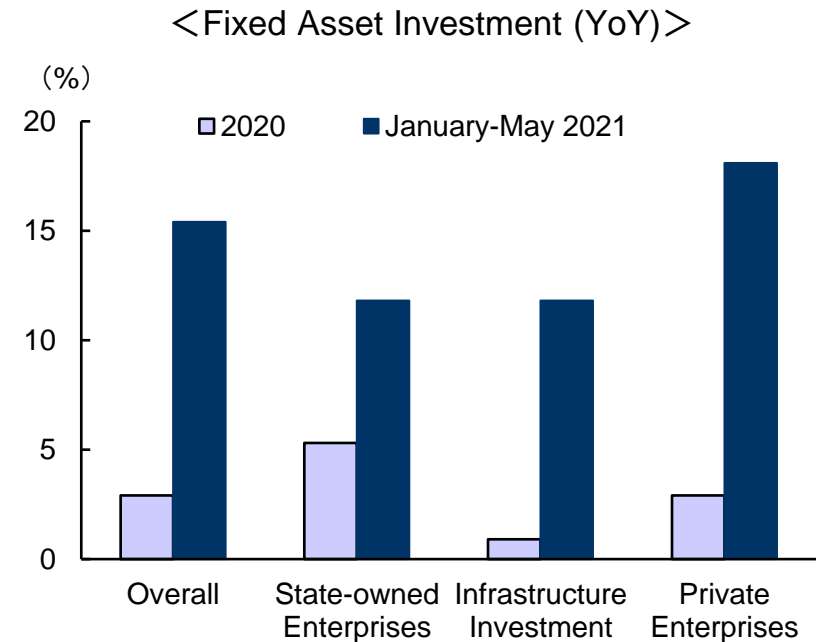
Source: JRI, based on China Customs

2.China (2) Private demand and exports will continue to recover

- Consumption is expected to continue to increase, supported by the improvement in the employment and income environment and government stimulus measures. Exports are also expected to continue to expand, as global demand for goods will likely recover.
- Although investment by state-owned enterprises and infrastructure investment are expected to slow down due to government control, private fixed asset investment will likely continue to recover as the capacity utilization rate improves.



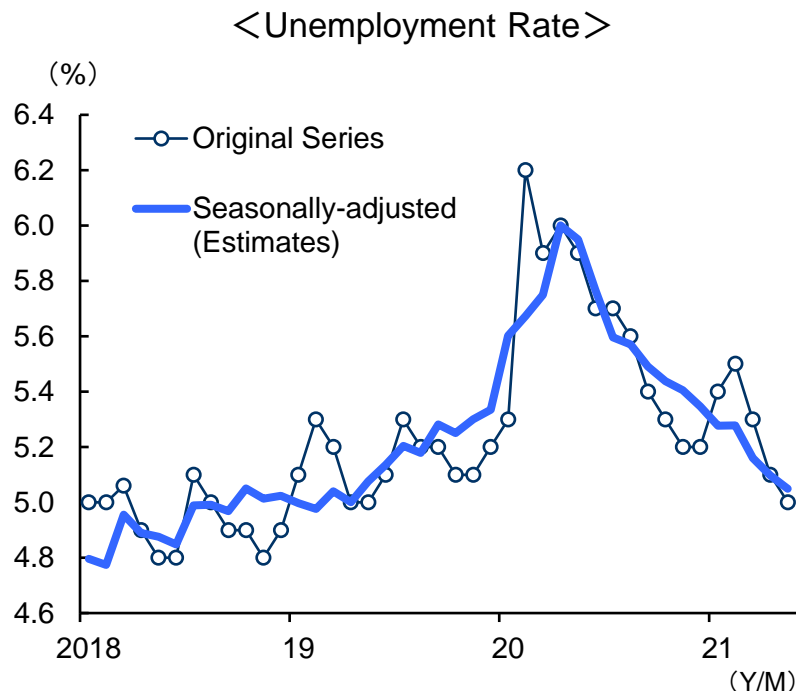
Source: JRI, based on "Per Capital Disposable Income of Chinese Residents" by the National Bureau of Statistics of China
Note: Per capita, nominal basis.



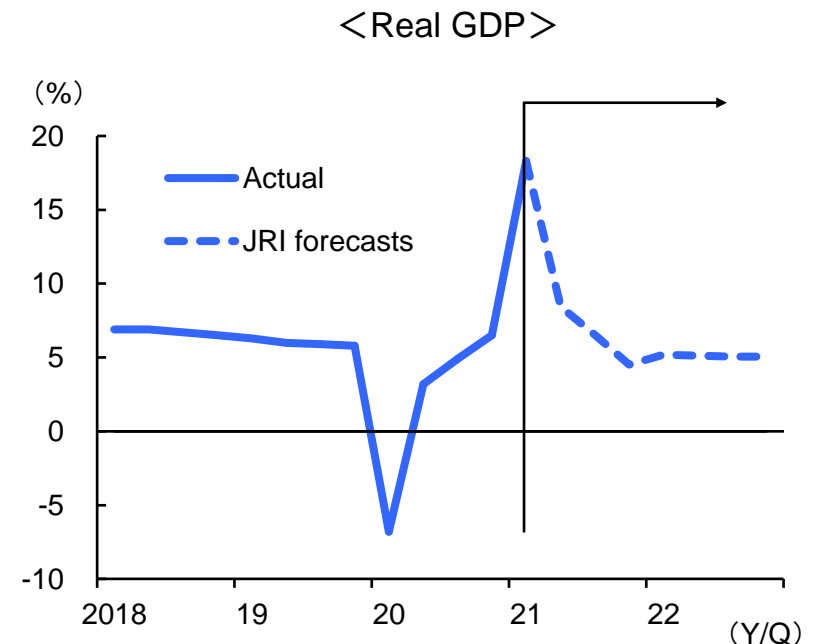
Source: "National Fixed Asset Investment" by the National Bureau of Statistics of China

2.China (3) Higher economic growth in 2021

- We expect the Chinese economy to continue to grow, as private demand and exports will remain solid. The real growth rate for 2021 is expected to be +9.0% year-on-year, with a higher increase due to the reaction from the previous year.
- The real growth rate for 2022 is expected to be +5.1% year-on-year, close to the potential growth rate, due to policy guidance that takes into account the balance between consumption and investment.



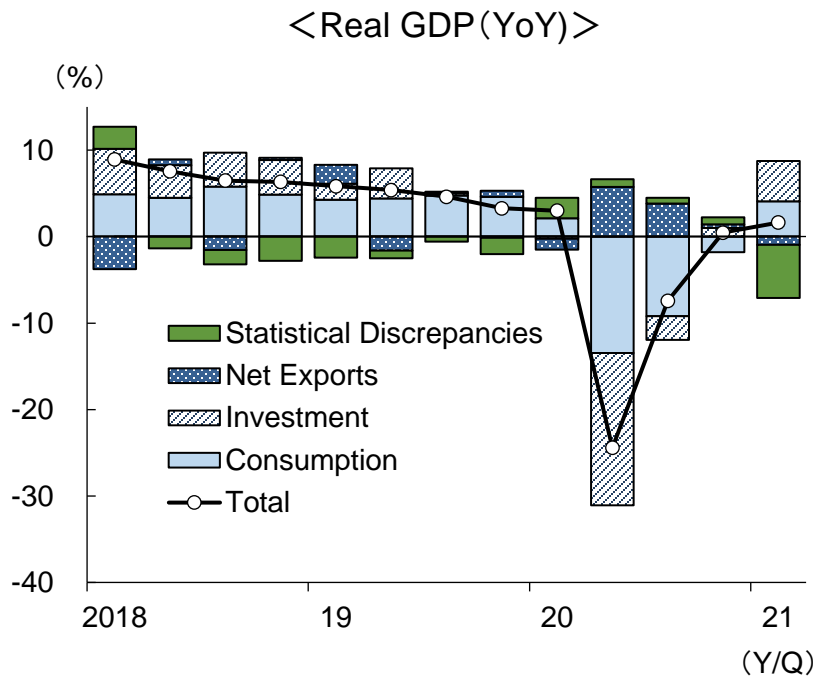
Source: JRI, based on "China Urban Survey Unemployment Rate" by the National Bureau of Statistics of China



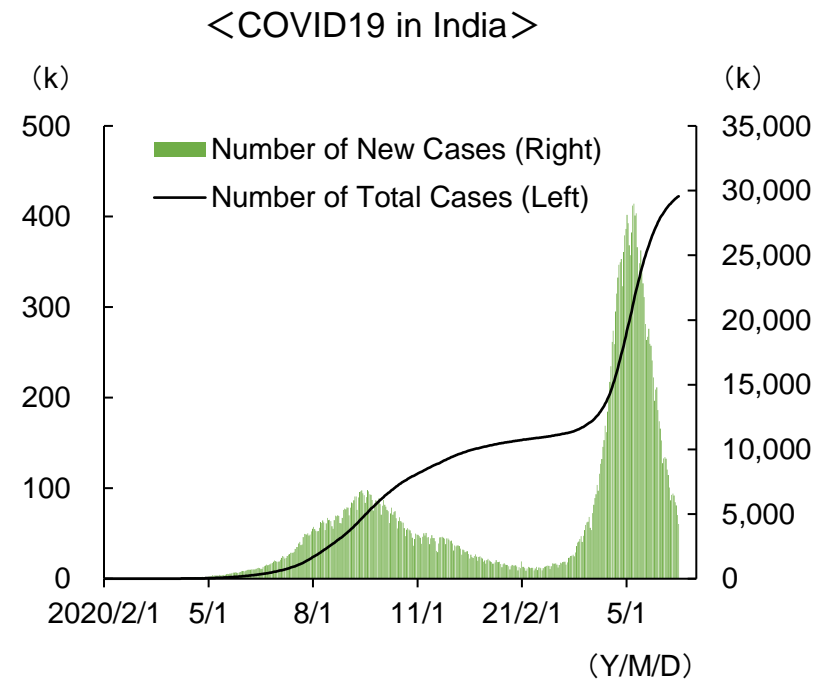
Source: JRI, based on the National Bureau of Statistics of China (NBS)

3. India (1) COVID19 outbreak once again depressed the economy

- India's economy continued to recover from mid-2020 through early spring 2021 following a gradual easing of lockdown measures to curb COVID-19 infections.
- Following India's massive COVID-19 surge since mid-March 2021, the country's economy has once again deteriorated.
- After the daily number of new COVID-19 cases exceeded 400,000 in early May, more severe restrictions on activities have succeeded in curbing the spread of the virus.



Source: Ministry of Statistics and Programme Implementation



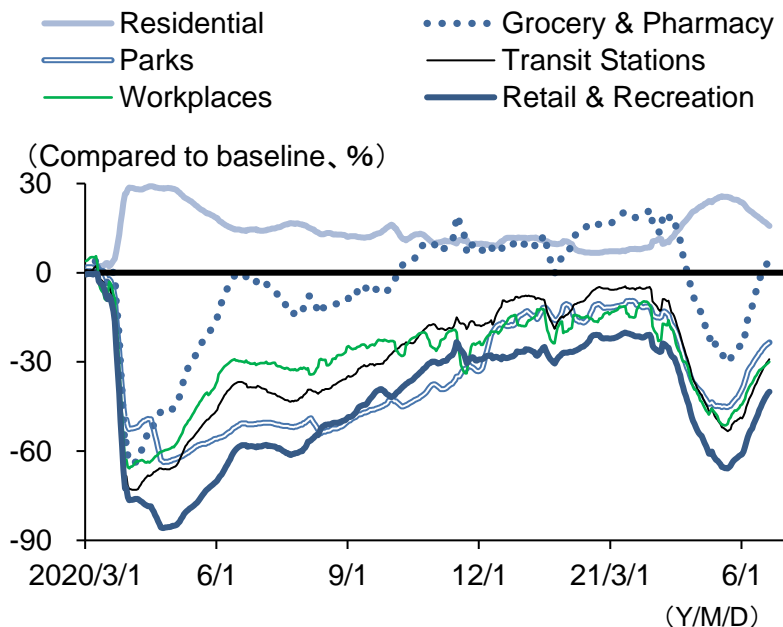
Source: WHO

3. India (2)

Return to a recovery track in late 2021

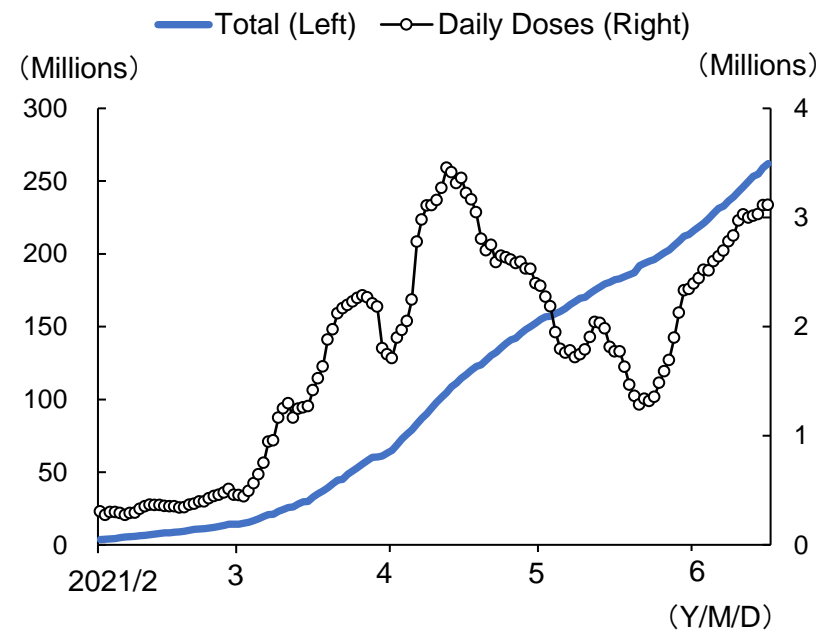
- In light of the government's efforts to reduce the spread of the virus and to ease restrictions on activities once again, the Indian economy will likely return to a recovery track in the second half of the year.
- However, the pace of economic recovery will remain slow, as some activity restrictions could remain in place until enough vaccines are provided.

<Mobility Changes in India>



Source: Google LLC "Google COVID-19 Community Mobility Reports"
 Note: 7 days backward moving averages.

<COVID-19 Vaccination in India>

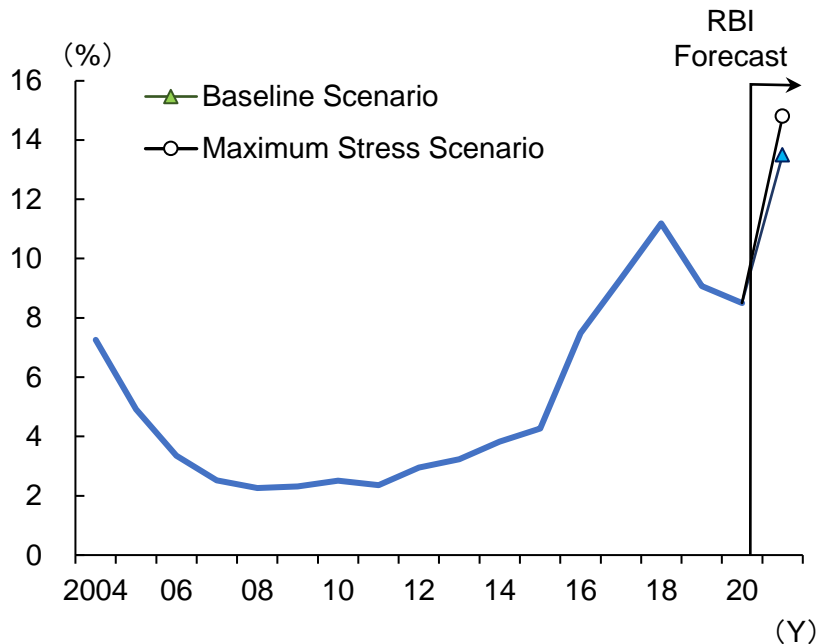


Source: Ministry of Health and Family Welfare

3. India (2) Concern over risk from nonperforming loans

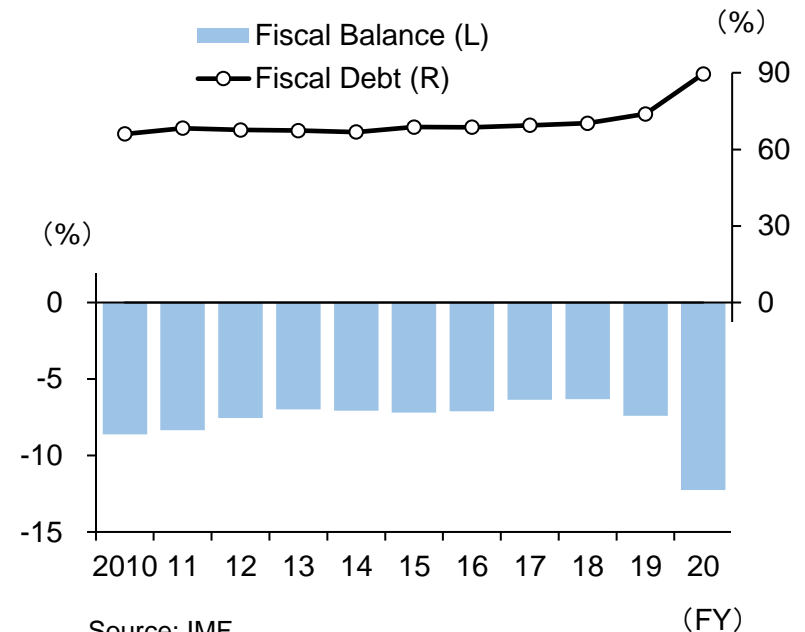
- Risk of instability in the financial system remains due to an increase in the ratio of nonperforming loans held by commercial banks.
- Given the larger general government's budget deficit, the fiscal expansion has limited capacity to prop up the economy.

<Commercial Bank's NPA>



Source: Reserve Bank of India "Financial Stability Report January 2021"

<Fiscal Balance/Debt for General Govt (% of GDP)>



Source: IMF
Note: Data for 2020 are IMF estimates.

**This is a English version of “【アジア経済見通し】ポスト・コロナに向けて進むアジア経済～回復が続くものの、米金融政策正常化がリスクに～ ” in JRI Research Report
(<https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/12741.pdf>)**

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