

[2022-24 Economic Outlook: Asia]

Vol.6 No.1
January 5, 2023

Stable growth will continue in Asia

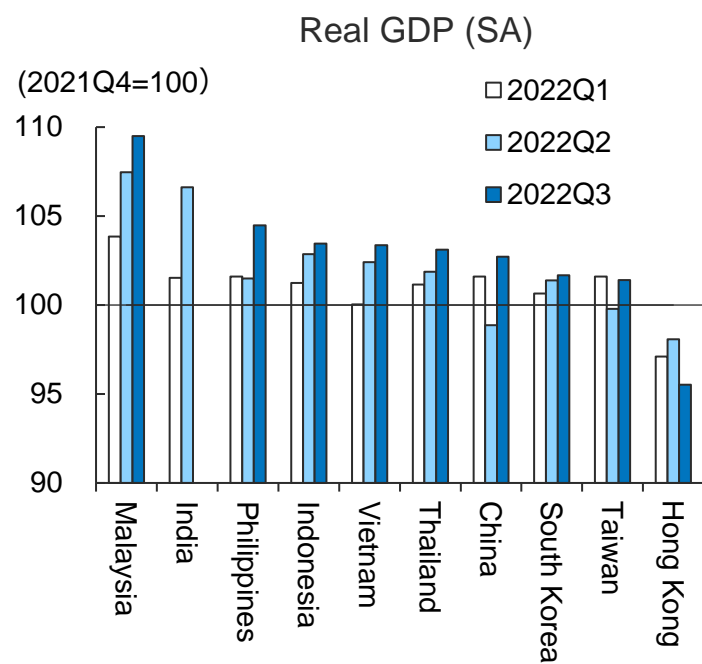
— Supply chain restructuring due to an “Exodus from China” could be a tailwind for economies in ASEAN and India —

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- ◆ Asian economies continued to recover in 2022. China's economic growth will likely remain sluggish, while ASEAN and India may maintain higher growth, as the normalization of economic activities should continue. We expect stable growth in 2023, especially in ASEAN and India, driven by 1) robust growth of goods exports, 2) the recovery of inbound tourism, and 3) solid domestic demand.
- ◆ Stable growth in ASEAN and India and a prolonged slowdown in the Chinese economy are expected to accelerate supply chain restructuring. For ASEAN and India, the trend of an "Exodus from China" by global companies could be an opportunity to boost their long-term growth. However, Asian economies should be wary of the risk that capital outflows could accelerate further if twin deficits and high inflation intensify.
- ◆ In China, the economy is rebounding after bottoming out in Q2 2022, when activity restrictions were tightened. However, economic growth is likely to slow sharply to +3.3% in the full year of 2022, well below the government's target of around 5.5%. We expect the growth in 2023 to remain low at +4.9%, due to a slow recovery after the zero-COVID policy, a depressed real estate market and intensifying U.S.-China conflict.
- ◆ India's economy will likely to grow by +6.5% in FY 2022 as economic activity continued to normalize despite the downward pressure from inflation. Although the pace of economic expansion will slow, we expect the economy to continue growing stably at +5.8% in FY 2023.

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- There were variations among economies in the pace of recovery in 2022. ASEAN and India showed high growth, while the growth of Korea and Taiwan were weak, affected by the slowdown in China and the chip market.
- We expect the Asian economy to continue growing stably at +4.8% in 2023, supported by growth in ASEAN and India, albeit below a pre-pandemic level (2017 to 2019 average: +5.8%).



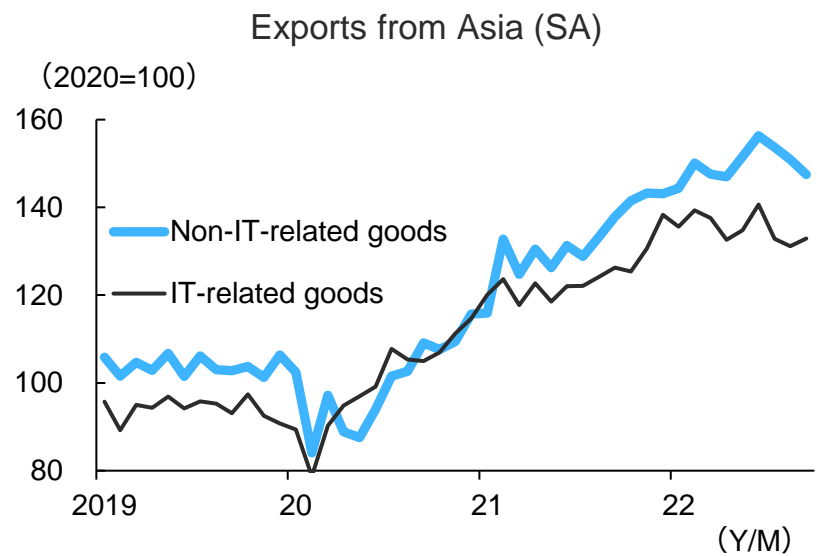
Source: JRI based on CEIC

Asian Economic Growth Rates (%)

	2021	2022 (F)	2023 (F)	2024 (F)
Asia Total	7.2	4.2	4.8	5.1
Northeast Asia	7.7	3.1	4.5	4.7
China	8.1	3.3	4.9	5.1
South Korea	4.1	2.3	1.9	2.1
Taiwan	6.6	2.7	2.0	2.4
Hong Kong	6.3	-3.3	3.0	2.1
ASEAN	3.4	5.6	4.9	5.1
Indonesia	3.7	5.0	4.9	5.2
Malaysia	3.1	7.9	4.9	4.9
Philippines	5.7	6.8	5.7	6.1
Thailand	1.5	3.3	3.4	3.3
Vietnam	2.6	7.8	6.5	6.6
India	8.7	6.5	5.8	6.3

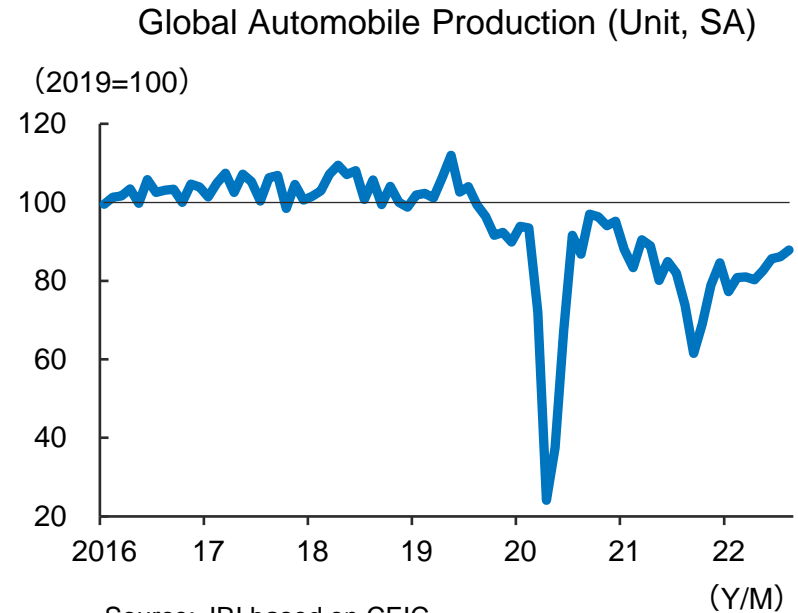
Source: JRI

- In Asia, non-IT export growth remained strong. Fuel exports from ASEAN increased against the backdrop of tight global energy supply and demand.
- In addition, the global auto industry, which had been sluggish in production due to a shortage of parts, is set to recover as supply returns. The exports related to automobiles from ASEAN and India are also expected to increase.



Source: JRI based on CEIC

Note: Exports from China, South Korea, Taiwan, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Figures for IT-related goods were calculated based on items that include semiconductors and electrical/electronic devices.



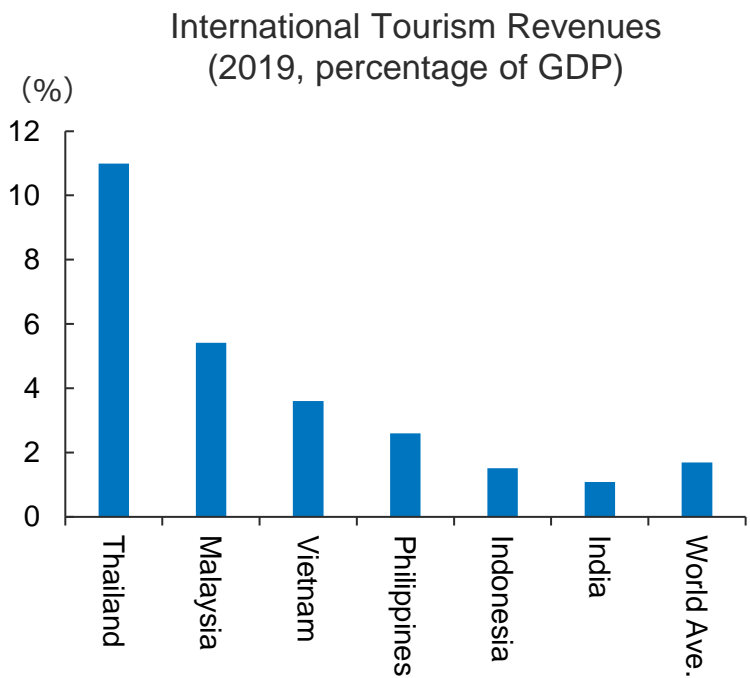
Source: JRI based on CEIC

Note: The data includes the top 10 auto producing countries (excluding China). The data after May 2022 shows estimates without India.

- In ASEAN and India, entry restrictions were eased, which has boosted tourist numbers. The number of visitors from countries other than China is expected to recover to about 80% of the 2019 level in the coming years.
- ASEAN countries have higher international tourism revenues (as a percentage of their GDPs) than the global average and their economies are more strongly impacted by it.

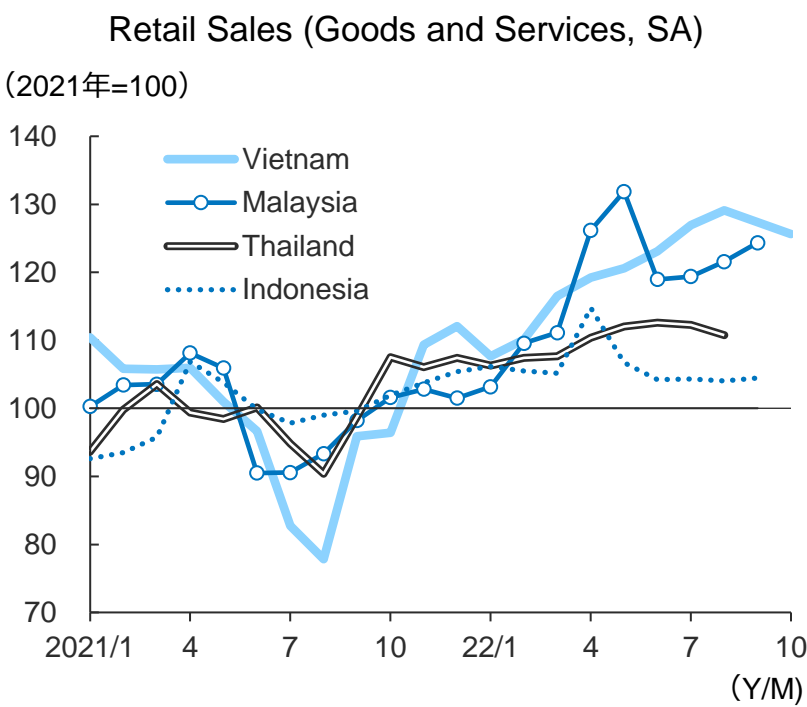


Source: JRI based on various national statistics
Note: ASEAN figures are the total number of visitors to Thailand, Malaysia, Singapore, Indonesia, the Philippines, Vietnam, and Cambodia. Figures for Malaysia from August 2022 are JRI estimates. Figures are three-month trailing moving averages.

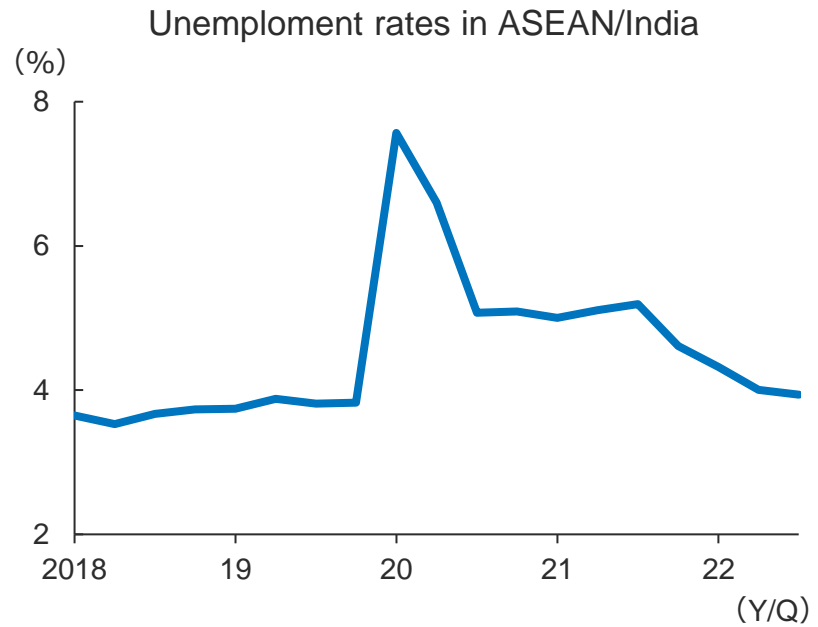


Source: JRI based on UNWTO and IMF

- Retail sales have risen mainly due to the easing of activity restrictions. Service consumption was particularly strong, with growth in dining out and lodging increasing, boosting overall consumption.
- The unemployment rate fell as the labor market improved. Consumption is expected to continue to rise, supported by income growth.



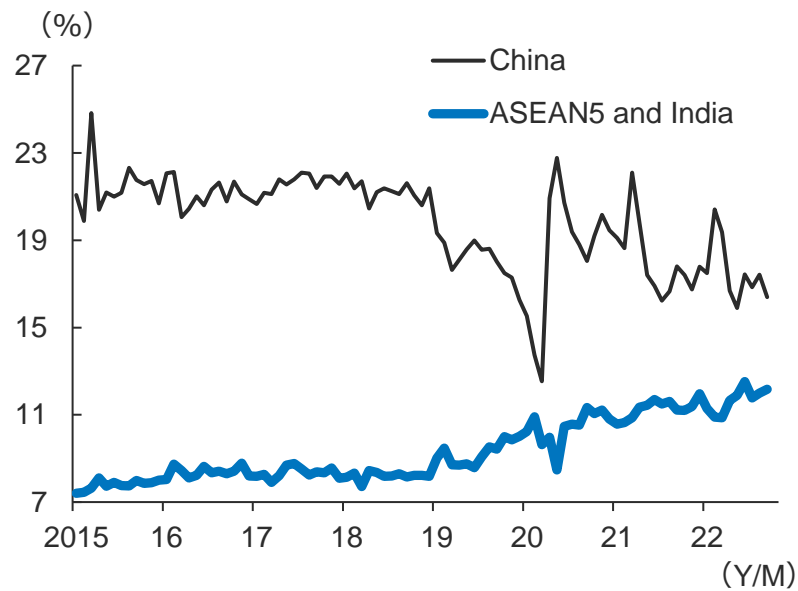
Source: JRI based on CEIC



Source: JRI based on CEIC and other data
Note: The data is a simple average of unemployment rates for Malaysia, the Philippines, Vietnam and India.

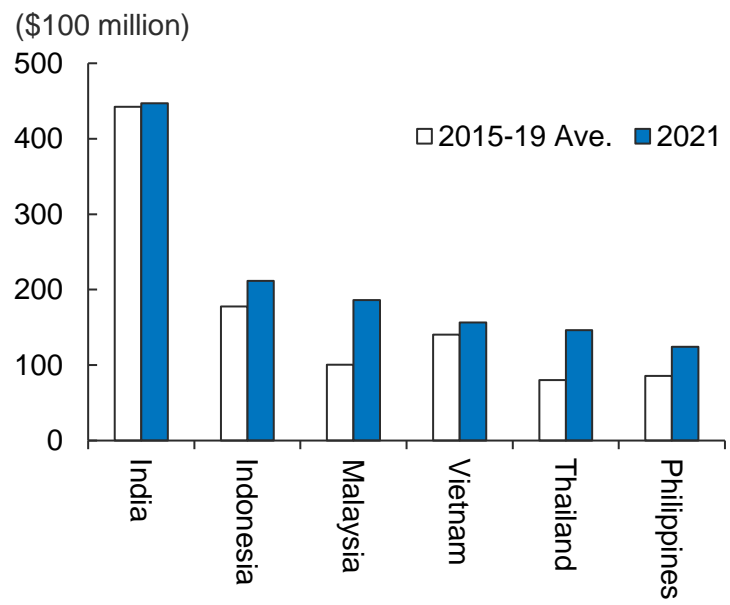
- In China, global companies accelerated toward an “Exodus from China” due to friction with the United States, even after the end of the zero-COVID policy. Indeed, China's share of U.S. imports have declined, while ASEAN and India’s have risen.
- ASEAN and India should become more attractive destinations for shifting production bases, and inward FDI could further accelerate across the board.

Shares of Imports to the United States (SA)



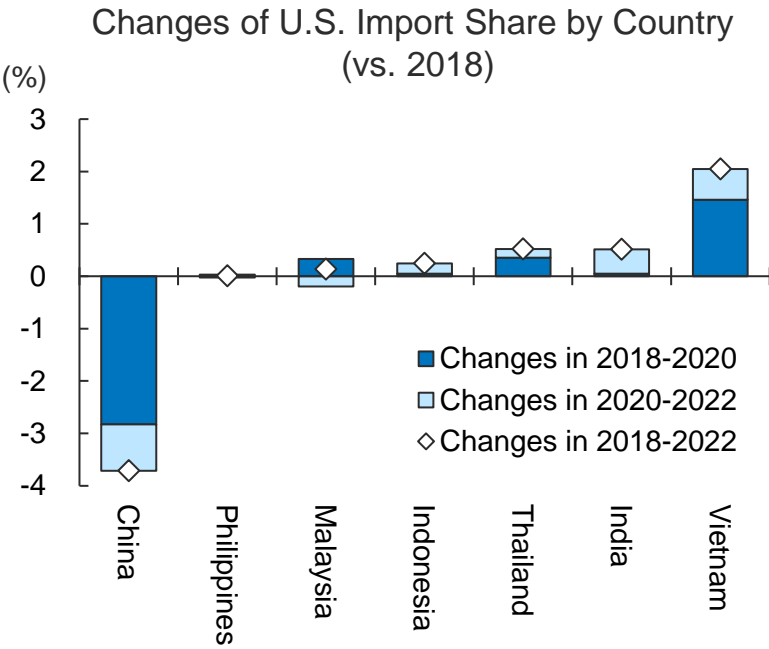
Source: JRI based on the U.S. Department of Commerce

Inward FDI (BOP basis)

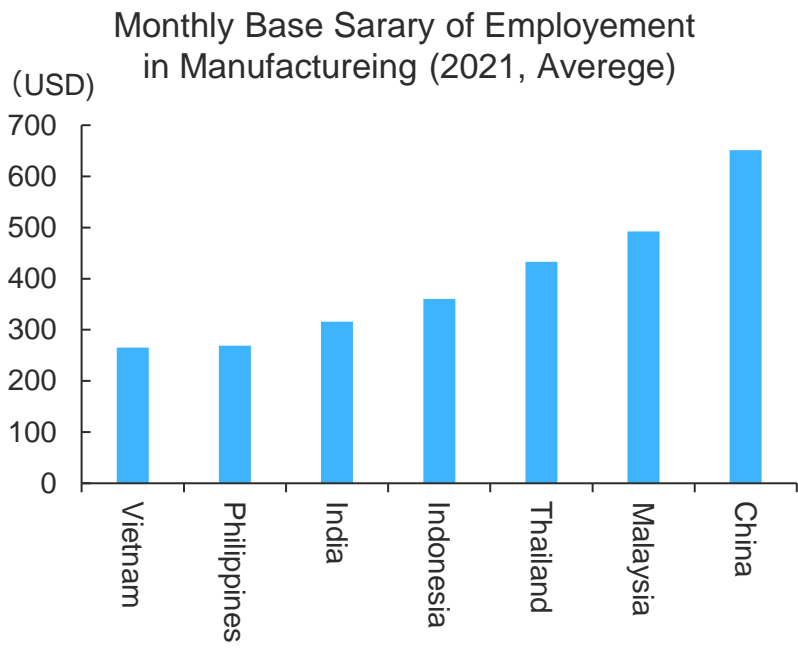


Source: JRI based on IMF

- Vietnam's exports to the United States increased significantly as production bases moved from China in the wake of the U.S.-China trade conflict.
- Vietnam has a strong advantage over other Asian countries in terms of 1) cheap labor, 2) proximity to China, and 3) a better export environment, including many free trade agreements. Investment in Vietnam is expected to grow steadily in coming years.



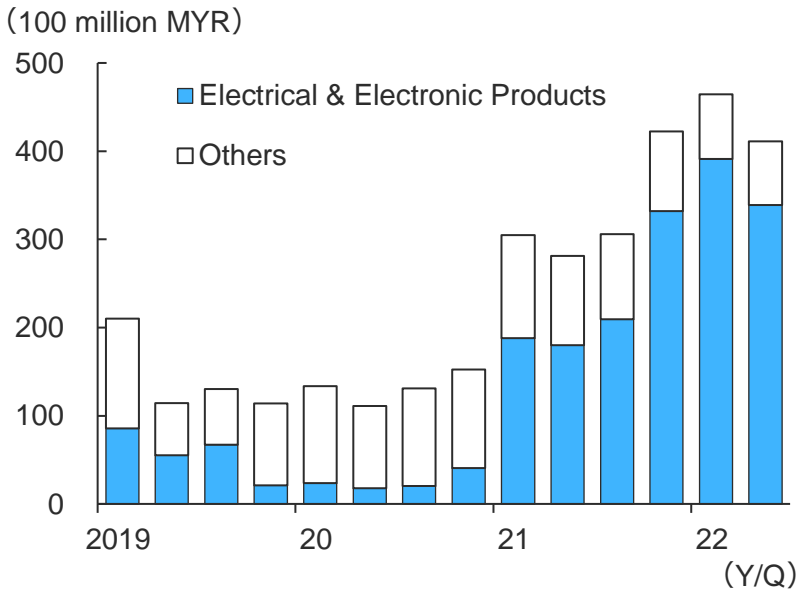
Source: JRI based on the U.S. Department of Commerce



Source: JRI based on JETRO

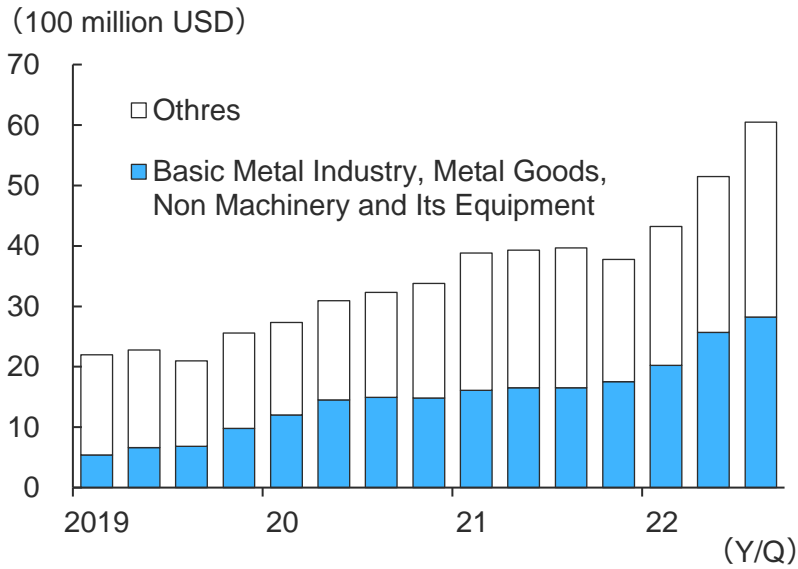
- Due to the U.S.-China conflict, the United States is rapidly rebuilding its semiconductor supply chain. Malaysia has long been successful in consolidating the chip industry, and has become strong in terms of attracting companies.
- As competition for resources intensifies, Indonesia is promoting an industrial strategy that utilizes its own resources. Due to the nickel ore embargo, foreign investment, mainly smelters, increased.

Malaysia Inward FDI (Manufacturing, Approved)



Source: JRI based on Malaysian Investment Development Authority.
Note: Figures are three-quarter trailing moving averages.

Indonesia Inward FDI (Manufacturing, Realization)

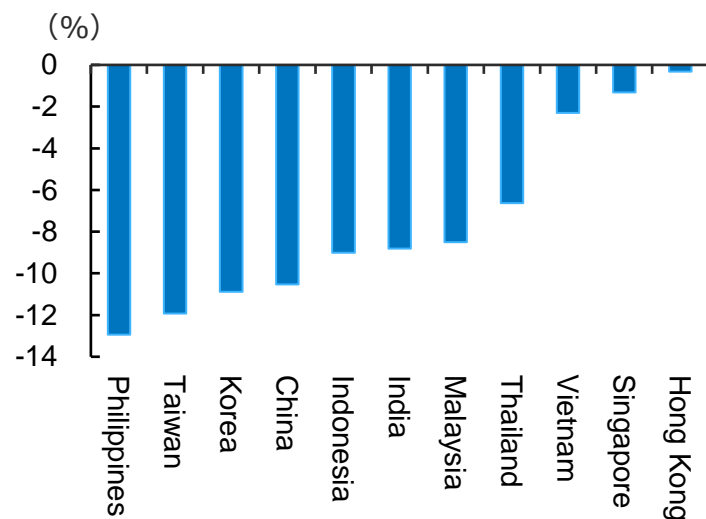


Source: JRI based on Indonesia Investment Coordinating Board
Note: Figures are three-quarter trailing moving averages.

3. Financial risks in Asia

- There is downward pressure on emerging market currencies due to accelerated interest rate hikes in the United States. Many Asian currencies have also fallen around 10% against USD in 2022.
- In the Philippines, Thailand, India, and Vietnam—countries which have current account deficits due to high resource prices, FX intervention to defend their currencies has increased, as currency depreciation pressure intensifies.

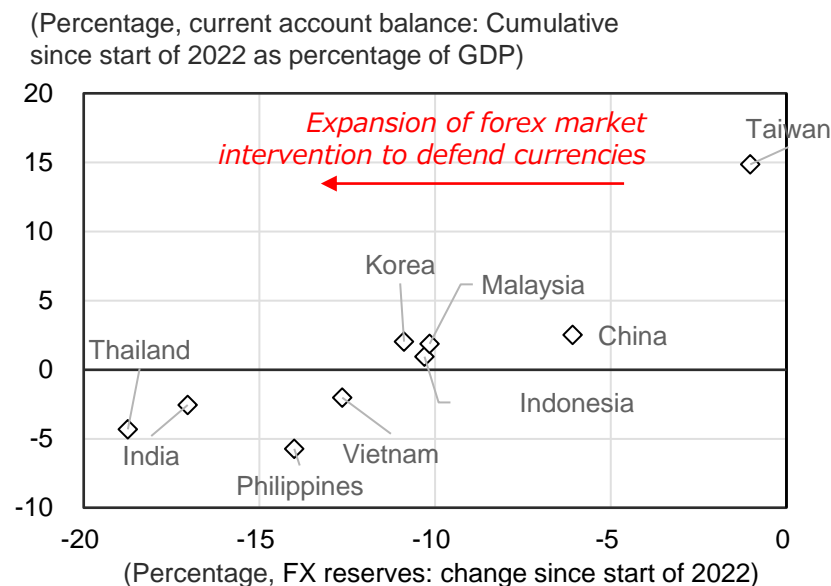
The Changes in Major Asian Currencies
(YTD, against USD)



Source: JRI based on CEIC

Note: Data is from the end of 2021 to November 15, 2022.

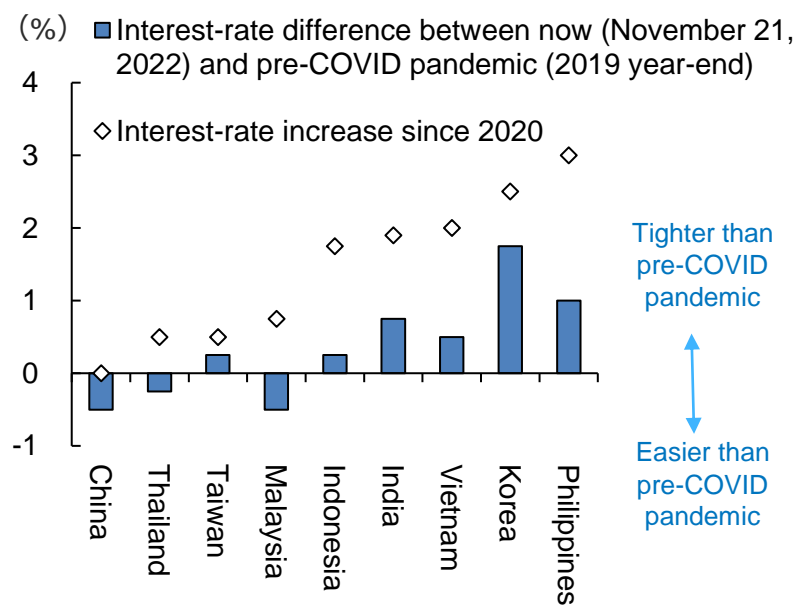
Current Account Balance and FX Reserves in Asia



Source: JRI based on CEIC and IMF

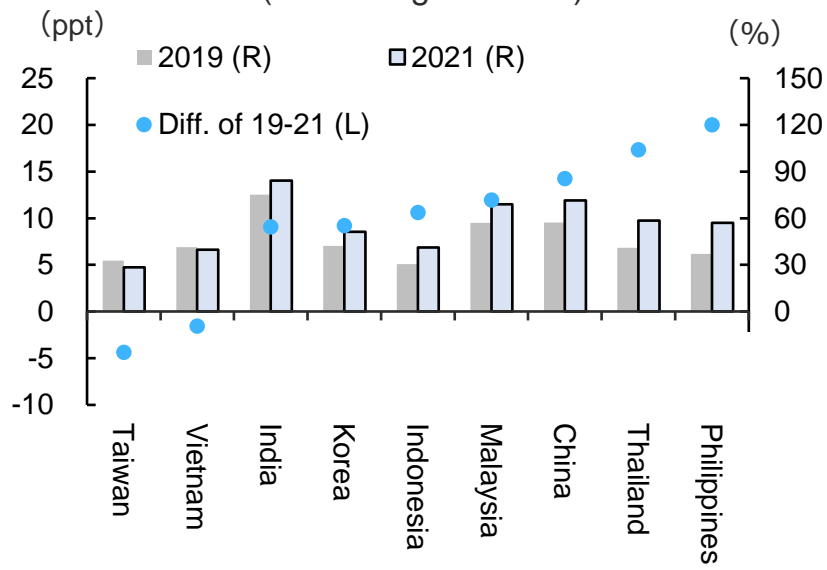
- Asian central banks have raised policy rates at a rapid pace due to currency weakness and inflation overruns. In many countries, policy interest rates have exceeded pre-pandemic levels, tightening the financial conditions.
- Soaring public spending has led to a sharp rise in government debt in China and ASEAN countries. There is a risk of further capital outflows if current account and fiscal deficits intensify in addition to high inflation.

Policy Rates in Asia



Source: JRI based on CEIC

General Government Gross Debt (Percentage of GDP)



Source: JRI based on IMF

This is an English version of “安定した成長が続くアジア経済～「脱中国」による供給網再編はASEAN・インドの追い風に～” in JRI Research Report (The original version is available at <https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/13826.pdf>)

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