



[2023-24 Economic Outlook: Asia]

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Risks originating from the U.S. and China threaten stable growth in Asia — Global economic fragmentation may put downward pressure on growth —

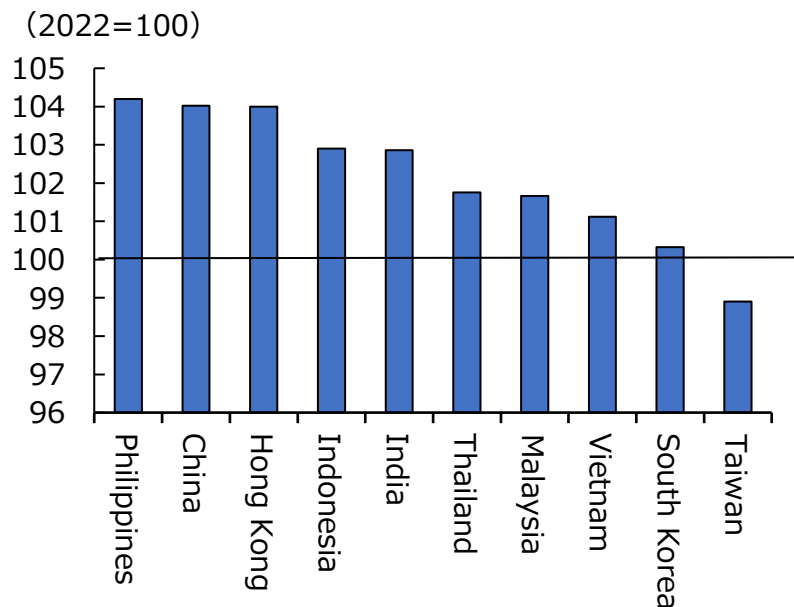
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- ◆ Asian economies will likely continue to recover as (1) recovery in services exports, (2) improvement in the employment environment, and (3) a lull in upward pressure on interest rates will support them. We expect overall Asian growth to be +5.3% YoY in 2023, on a par with the pre-COVID19 pandemic level of +5.0%. However, deterioration of financial markets in the U.S. and the real estate markets in China could pose a risk. If either of these two economies were to fall into recession, Asian economies would suffer a significant downturn.
- ◆ In addition, geopolitical risks stemming from the U.S.-China confrontation remain. If tension between the U.S. and China escalates, Asian economies could be severely affected as the global economy may become more divided. The trend toward reshoring and friendshoring may also will not necessarily all be positive. Attention must be paid to the risk of adverse effects such as economic division and resulting moves toward exclusion and impeded development of emerging countries emanating from industrial relocation that ignores economic efficiency.
- ◆ China: We expect the Chinese economy to recover rapidly due to the lifting of the zero-COVID policy, with growth of +5.6% YoY in 2023, exceeding the government target of around +5.0%. However, from the second half of the year, (1) softness in goods consumption, (2) sluggish external demand, and (3) adjustment in the real estate market will hinder the economy. The government is expected to aggressively implement economic stimulus measures.
- ◆ India: We expect growth in India for FY2023 to be solid at +6.3% YoY, supported by lower inflationary pressures and the expansion of the personal income tax exemption. However, there is a risk that higher energy and food prices due to extreme weather conditions will put downward pressure on the economy.

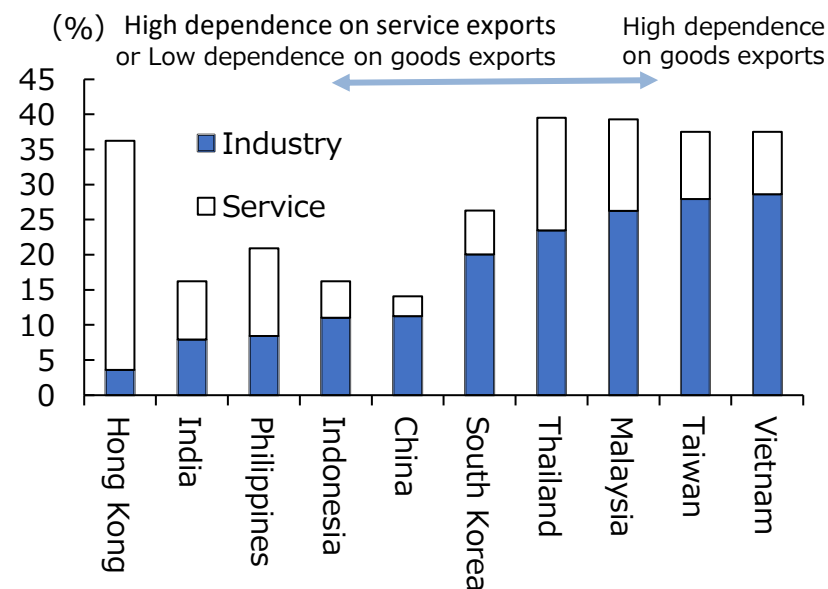
- Countries/regions with a high dependence on foreign demand are suffering due to declining exports of goods in world trade. Taiwan fell into recession. The economies of the Philippines, Indonesia, and India, which have a large share of domestic demand, are relatively strong.
- In China, the reopening of the economy has boosted the economy significantly, notably in the service sector. Hong Kong is also benefiting from this trend.

Real GDP for 2023Q1 (SA)



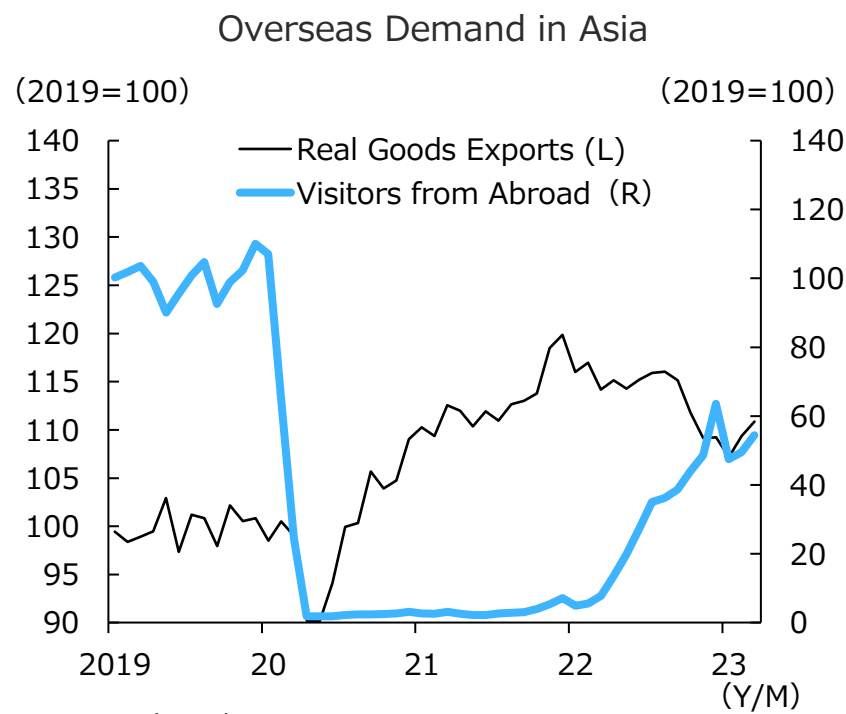
Source: JRI based on CEIC

Domestic value added content of gross exports in Asia (2019, % of GDP)



Source: JRI based on OECD TiVA

- Looking ahead, the economy is expected to continue to recover, supported by the growth of the service sector.
- While exports of goods remain sluggish, exports of services continue to recover as countries/regions ease border entry restrictions. The increase in the number of Chinese travelers in the region is expected to further boost service exports.



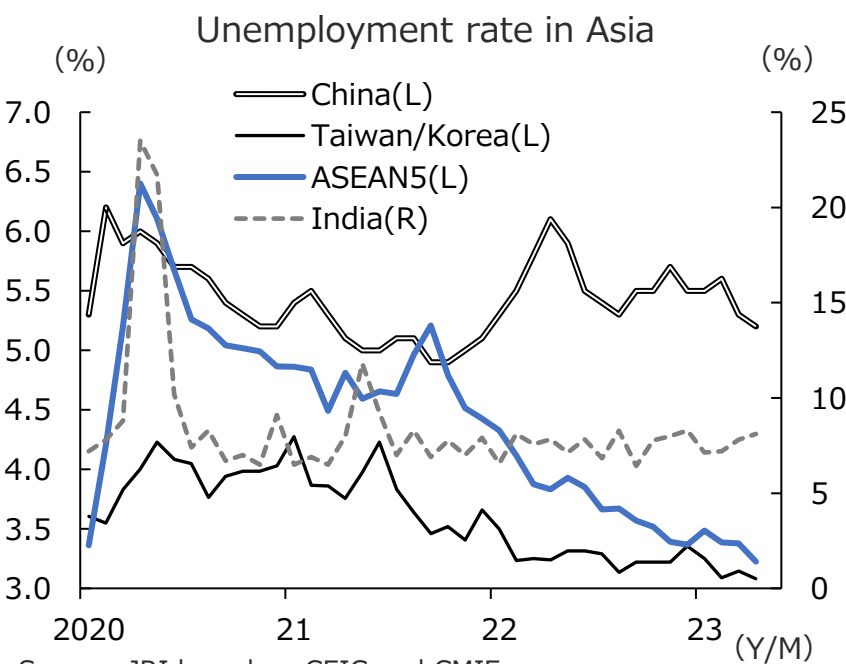
Source: JRI based on CEIC
Note: Totals for ASEAN5, South Korea, and Taiwan

Countries where China Lifted Ban on Group Travel

20 countries, from Feb 6		40 countries, from March 15	
Thailand		Nepal	France
Indonesia		Brunei	Greece
Cambodia		Vietnam	Spain
Maldives		Mongolia	Iceland
Sri Lanka		Iran	Albania
Philippines		Jordan	Italy
Malaysia		Tanzania	Denmark
Singapore		Namibia	Portugal
Laos		Mauritius	Slovenia
United Arab Emirates		Zimbabwe	Vanuatu
Egypt		Uganda	Tonga
Kenya		Zambia	Samoa
South Africa		Senegal	Brazil
Russia		Kazakhstan	Chile
Switzerland		Uzbekistan	Uruguay
Hungary		Georgia	Panama
New Zealand		Azerbaijan	Dominica
Fiji		Armenia	El Salvador
Cuba		Serbia	Dominica
Argentina		Croatia	Bahamas

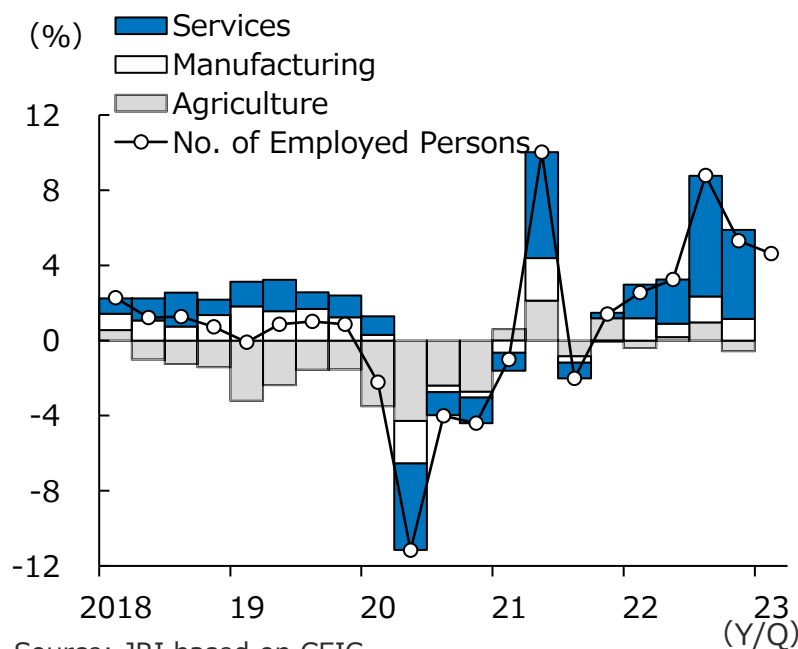
Source: JRI based on China's Ministry of Culture and Tourism
Note: ASEAN is highlighted.

- Improvements in the employment environment support consumption. Unemployment rates have declined with economic normalization such as the easing of restrictions on the operation of restaurants and entertainment facilities.
- The number of service sector employees in ASEAN countries increased significantly. Recovery of inbound demand is driving this trend.



Source: JRI based on CEIC and CMIE
Note: Taiwan/Korea and ASEAN5 are simple averages for each country/region.

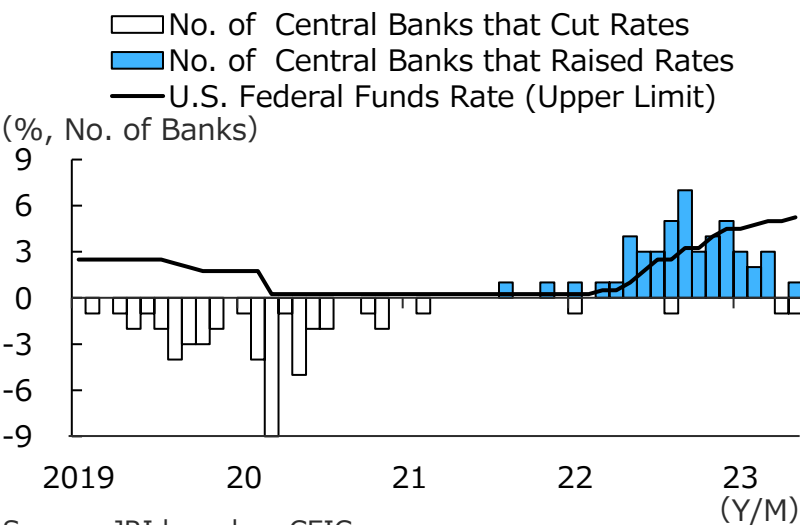
No. of Employed Persons in Major Southeast Asian Countries (YoY)



Source: JRI based on CEIC
Note: Totals for the Philippines, Thailand, and Vietnam

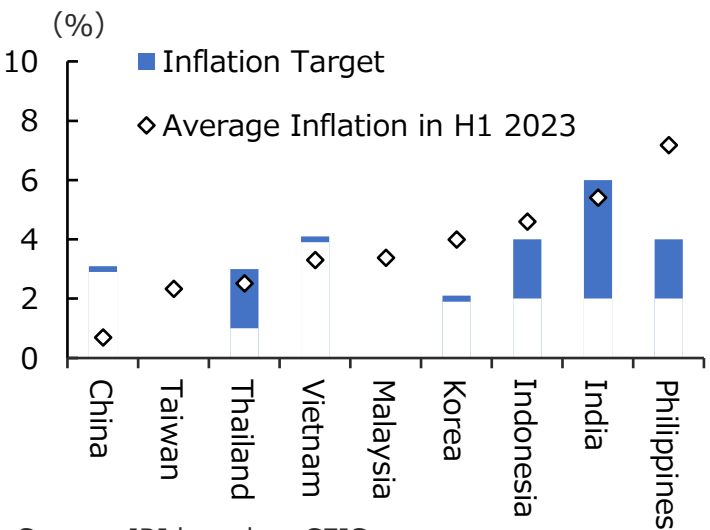
- Since 2022, most central banks in Asia have followed the U.S. in continuously raising policy rates. However, the number of central banks delivering further rate hikes has decreased in 2023.
- Inflation has generally slowed to below targets, except in Korea and the Philippines. The strong upward pressure on inflation from food and beverages and energy is diminishing.

U.S. Policy Interest Rate and Asian Central Bank Moves



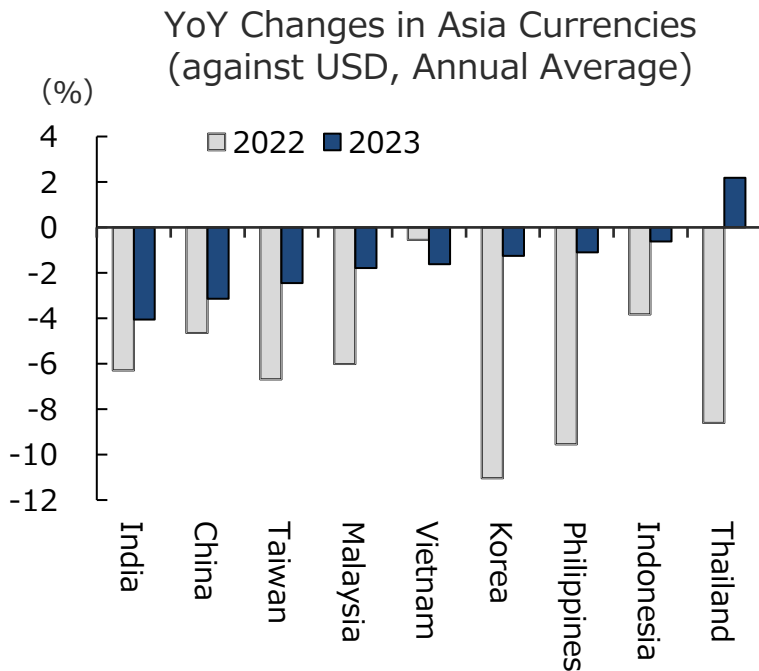
Source: JRI based on CEIC
Note: Data for central banks of nine Asian countries/territories (China, South Korea, Taiwan, India, Indonesia, Philippines, Malaysia, Thailand, and Vietnam) was used, with the calculation performed as +1 for each central bank that raised rates and -1 for each central bank that cut rates.

Inflation in Asia: Actual Rates and Targets



Source: JRI based on CEIC
Note: Targets for Thailand, Korea, Indonesia, Philippines, and India are set by central banks, while those for China and Vietnam are set by the governments. There is no inflation target in Malaysia and Taiwan.

- We expect growth for Asia as a whole to be +5.3% YoY in 2023, stable economic growth on par with +5.0% in 2019, pre-COVID19 pandemic. A stable currency market will also contribute to economic stability in Asia.
- However, the Chinese economy will likely slow down as rebound demand runs its course. We expect the Asian economy to continue to grow, led by ASEAN's domestic demand in the second half of 2023.



Source: JRI based on CEIC
Note: Data for 2023 are changes of H1 2023 from 2022.

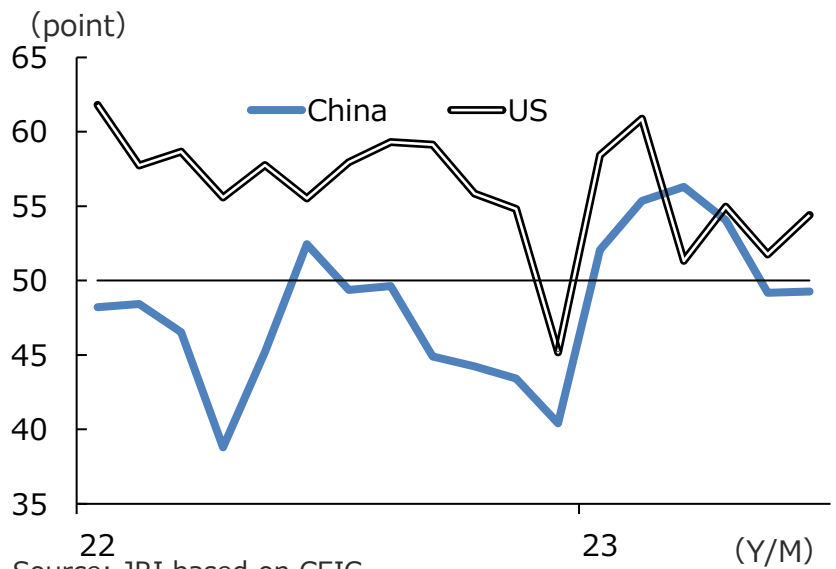
Growth Rate of Asian economies

	Growth Rate of Asian economies (%)			
	2021 (Actual)	2022 (Actual)	2023 (Forecast)	2024 (Forecast)
Asia Total	7.3	4.3	5.3	5.0
Northeast Asia	7.7	2.8	5.1	4.4
China	8.1	3.0	5.6	4.7
South Korea	4.3	2.6	1.5	2.3
Taiwan	6.5	2.4	1.8	2.5
Hong Kong	6.4	▲ 3.5	3.5	2.9
ASEAN 5	3.4	6.0	4.9	5.2
Indonesia	3.7	5.3	4.9	5.2
Malaysia	3.1	8.7	4.6	4.9
Philippines	5.7	7.6	5.8	6.1
Thailand	1.6	2.6	3.2	3.5
Vietnam	2.6	8.0	6.2	6.6
India (FY)	9.1	7.2	6.3	6.7

Sources: JRI based on national statistical bureaus, central banks, and the IMF

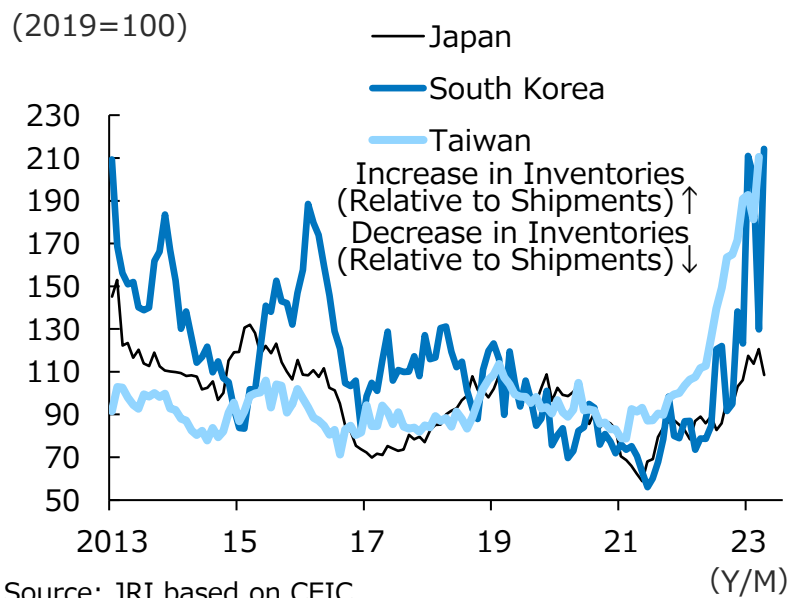
- The U.S. and Chinese economies have risks in their financial and real estate markets.
- If the U.S. or Chinese economies deteriorate, it may put downward pressure on demand in new fields such as AI. In that case, prolonged inventory adjustment in the semiconductor market could lead to serious economic downturns in Asia, particularly in Korea and Taiwan.

U.S.-China Business Confidence: New Orders



Source: JRI based on CEIC
Note: Indexes are weighted averages of the manufacturing index (US: 11%, China: 27%) and the services/non-manufacturing index (US: 89%, China: 63%).

Ratio of Semiconductor Inventories to Shipments (Seasonally-adjusted)



Source: JRI based on CEIC
Note: Ratio of inventories to shipments = inventory index ÷ shipment index

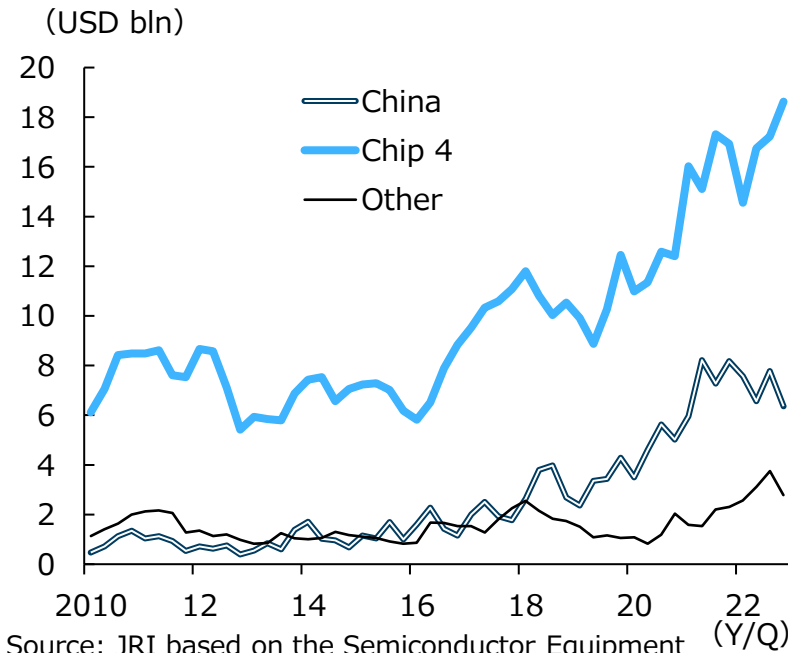
- Discussions such as “friendshoring,” which aims to eliminate China and complete supply chains in friendly countries, are accelerating.
- Developments in the semiconductor sector have progressed: The Chip 4 Alliance including the U.S, Japan, Taiwan, and Korea started to cooperate with each other in semiconductor production.

Friendshoring-related Frameworks

IPEF (14 countries)	APEP (12 countries)	Chip 4
Australia	Barbados	Japan
Brunei	Canada	South Korea
Fiji	Chile	Taiwan
India	Colombia	U.S.
Indonesia	Costa Rica	QUAD
Japan	Dominican Republic	Australia
South Korea	Ecuador	India
Malaysia	Mexico	Japan
New Zealand	Panama	U.S.
Philippines	Peru	AUKUS
Singapore	Uruguay	Australia
Thailand	U.S.	U.K.
U.S.		U.S.
Vietnam		

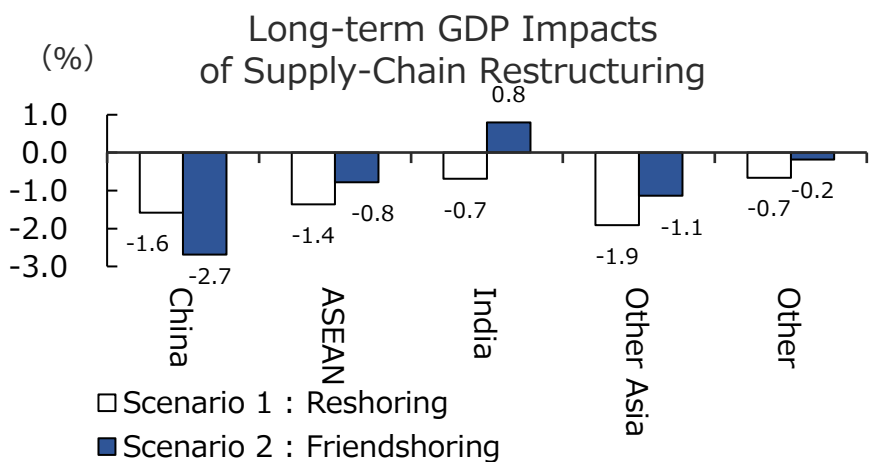
Source: JRI based on various media reports

Sales of Semiconductor Manufacturing Equipment by Location of Sale

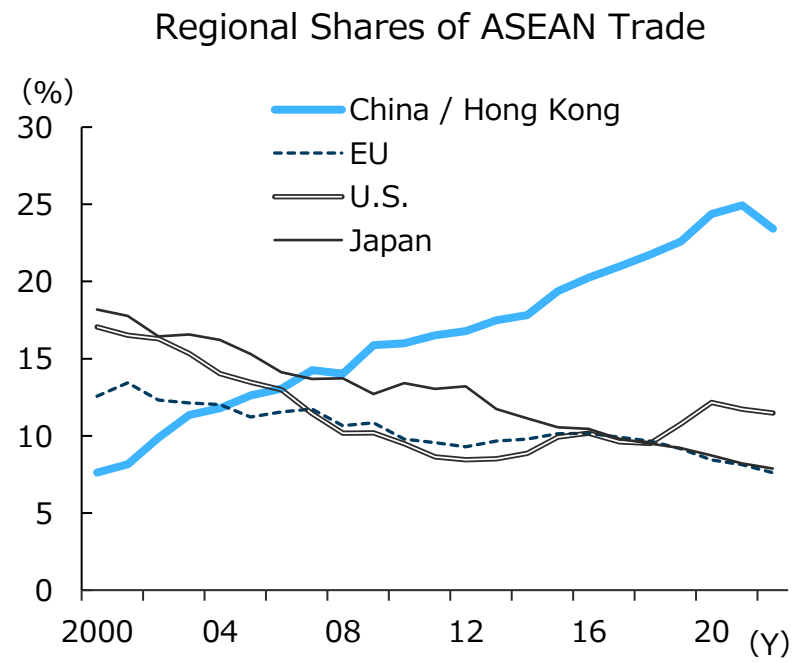


Source: JRI based on the Semiconductor Equipment Association of Japan

- Economic fragmentation associated with reshoring and friendshoring may have negative impacts on many Asian countries/regions that play an important role in the manufacturing supply chain.
- The risk that industrial transfers without regard to economic efficiency will impede the development of emerging economies; ASEAN is reluctant to join the U.S.-led decoupling/de-risking strategy for China.



Source: JRI based on ADB[2023]"ASEAN and Global Value Chains: Locking in Resilience and Sustainability"
Note: % Changes from Baseline in 2035.
Scenario 1 : All large economies impose 15% AVE penalties on sensitive imports (7.5% on other imports) from all other regions, introduced gradually over 2022–2026.
Scenario 2 : China-led and US-led groups impose 15% AVE penalties on sensitive imports from the other group (7.5% on other imports); The PRC-led and US-led groups impose half of the above penalties on imports from Neutral regions, introduced gradually over 2022–2026; Neutral regions impose no barriers.



Source: Prepared by JRI based on data from CEIC
Source: Trade is the total of imports and exports. ASEAN data is for the five countries of Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

This is an English version of “アジアの安定成長を脅かす米中発リスク～世界経済分断の流れが成長を下押しする恐れ～” in JRI Research Report (The original version is available at <https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/14296.pdf>)

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