



[2023-25 Economic Outlook: Asia]

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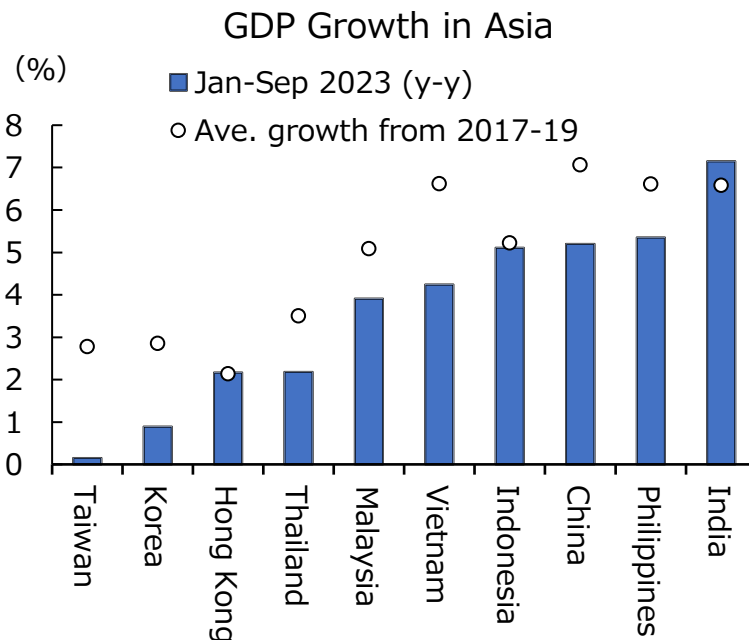
## **Lack of Momentum in Asia's Economic Recovery**

**— Risks include China's real estate crisis and the recurrence of  
supply chain disruptions —**

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- ◆ We expect the Asian economy to continue to recover in 2024 as a result of the bottoming out of goods exports. However, the recovery will lack momentum, weighed down by (1) the sluggish Chinese economy, (2) high interest rates and (3) persistent high inflation. Growth in the NIEs and ASEAN5 is expected to accelerate to +2.1% and +4.9%, respectively, but remain below pre-COVID levels.
- ◆ The downside risk to this main scenario is a spiraling deterioration in the Chinese property market. In this case, the fear is that financial and economic instability in China could set back the Asian economy through trade. Another concern is China's tightening of export controls on critical minerals. If these controls are tightened, there is a risk that supply chains could be disrupted, leading to widespread inflation that could put downward pressure on the economy.
- ◆ China: We expect the Chinese economy to grow by 4.4% in 2024, lower than the growth seen in 2023. The main reasons for the lower growth are (1) the effects of stimulus measures have run their course, and (2) the weak self-sustaining recovery in domestic and external demand.
- ◆ India: We expect India's growth to be stable at +6.7% in FY2024, higher than before the COVID pandemic. However, we remain cautious on the risk of a resurgence of inflation, particularly in energy and food, which could depress the economy.

- In 2023, the economies of Asian countries and regions generally rebounded, but the pace of recovery varied widely across countries and regions. Indonesia and India are recovering robustly, supported by solid domestic demand in both countries.
- We expect the recovery to continue, but the economy faces headwinds from (1) the sluggish Chinese economy, (2) high interest rates and (3) persistent high inflation.



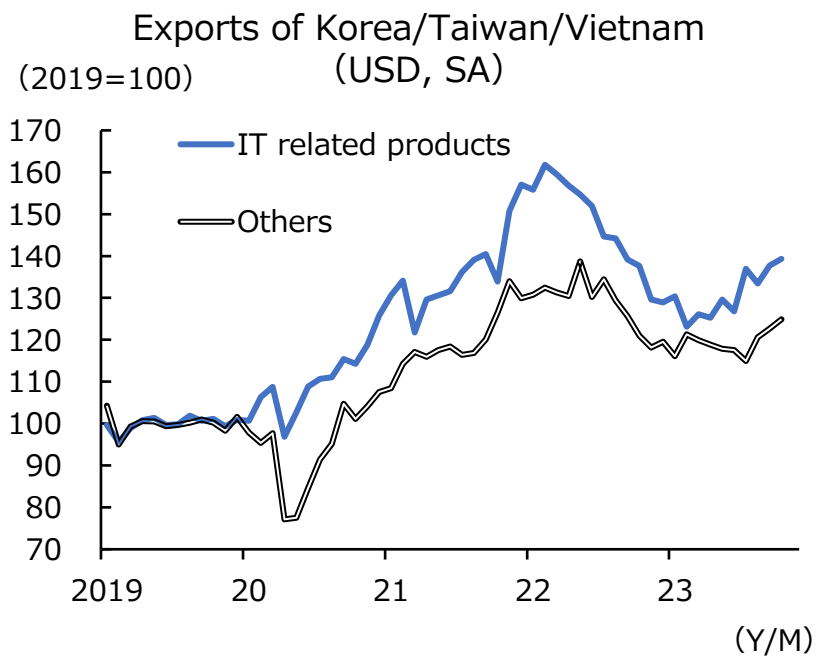
Source: JRI based on JRI

Growth Rate of Asian economies (%)

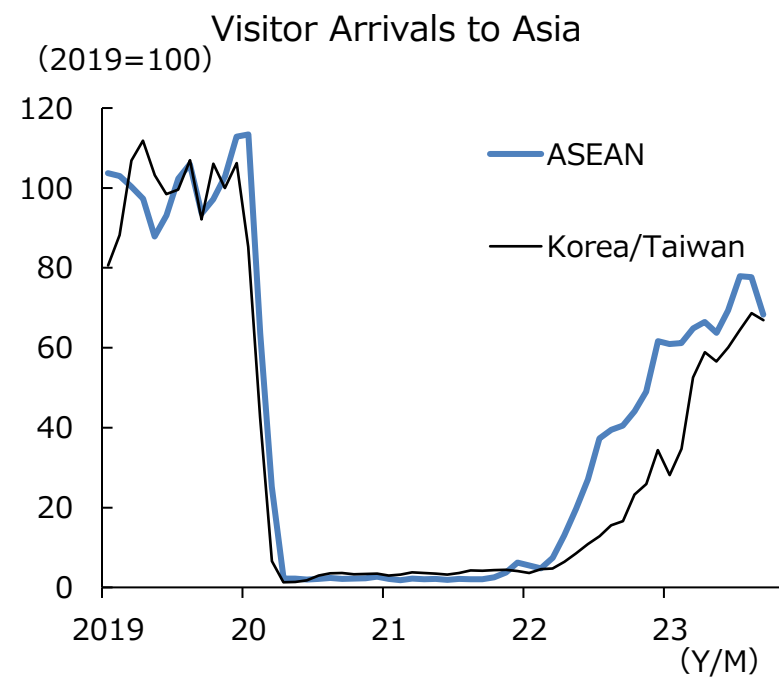
	2022	2023	2024	2025
		F	F	F
<b>Asia</b>	<b>4.3</b>	<b>5.1</b>	<b>4.8</b>	<b>4.8</b>
Northeast Asia	2.8	4.7	4.1	4.1
China	3.0	5.3	4.4	4.4
Hong Kong	- 3.5	3.3	2.7	2.7
Taiwan	2.4	1.1	2.2	2.4
Korea	2.6	1.3	2.0	2.3
ASEAN 5	6.0	4.6	4.9	5.2
Thailand	2.6	2.5	3.6	3.2
Malaysia	8.7	4.2	4.4	4.6
Indonesia	5.3	5.0	4.8	5.2
Philippines	7.6	5.4	5.6	6.1
Vietnam	8.0	5.1	6.7	6.8
India (FY)	7.2	6.3	6.7	6.5

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

- Although there have been positive signs in the exports of South Korea, Taiwan, and Vietnam, driven by increasing demand for IT-related products, the strength needed to fully recover from the previous declines is not evident.
- Demand for services remained firm, and visitor arrivals maintained its upward trend in 2023. The resulting increase in employment contributed significantly to the recovery of domestic demand in Asian countries and regions.

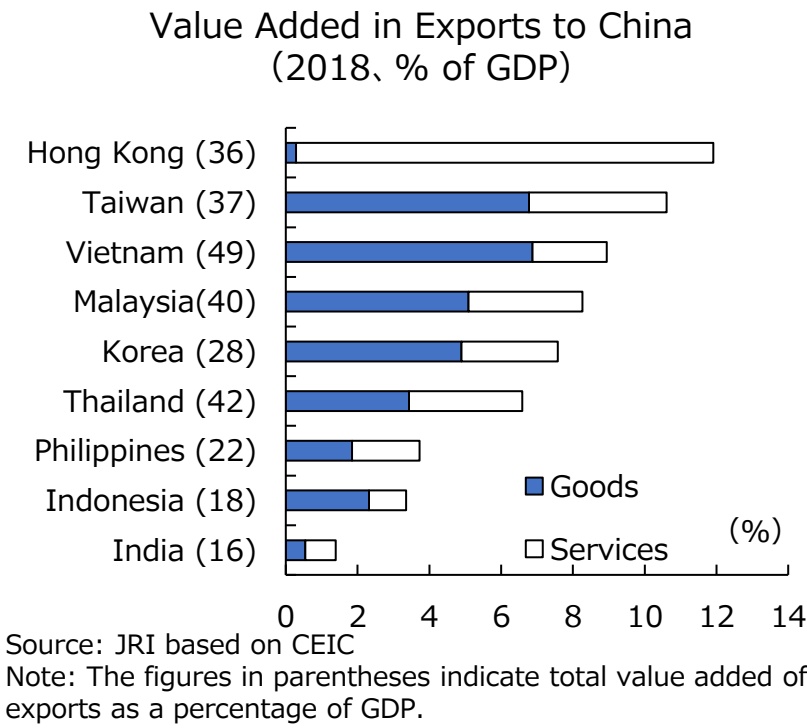


Source: JRI based on CEIC  
Note: IT related products include semiconductors and electronic products.

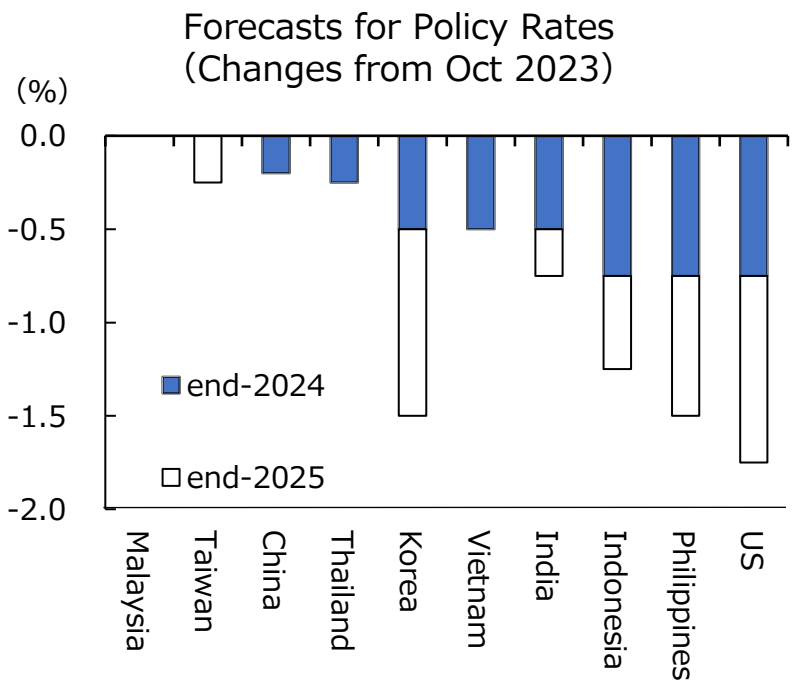


Source: JRI based on CEIC

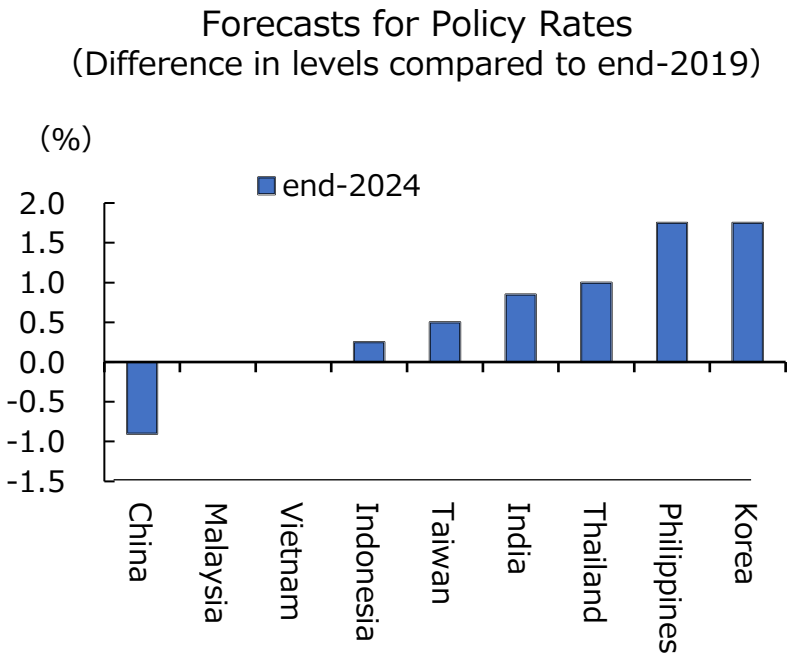
- The worsening real estate downturn in China could dampen domestic demand, potentially putting downward pressure on exports in Asia.
- Although global demand for IT-related products is expected to contribute to export growth, notably in Taiwan and Vietnam, these regions rely heavily on China, which is likely to offset the positive impact of such a recovery.



- While we expect the U.S. to cut rates by 75bp in 2024 and Asian economies will likely follow suit, the degree of interest rate cuts will vary across economies, and policy rates may not return to their pre-COVID levels for many economies.
- In particular, Korea and the Philippines will keep policy rates at high levels amid concerns about inflation, and the tight financial conditions will likely weigh down their economies.

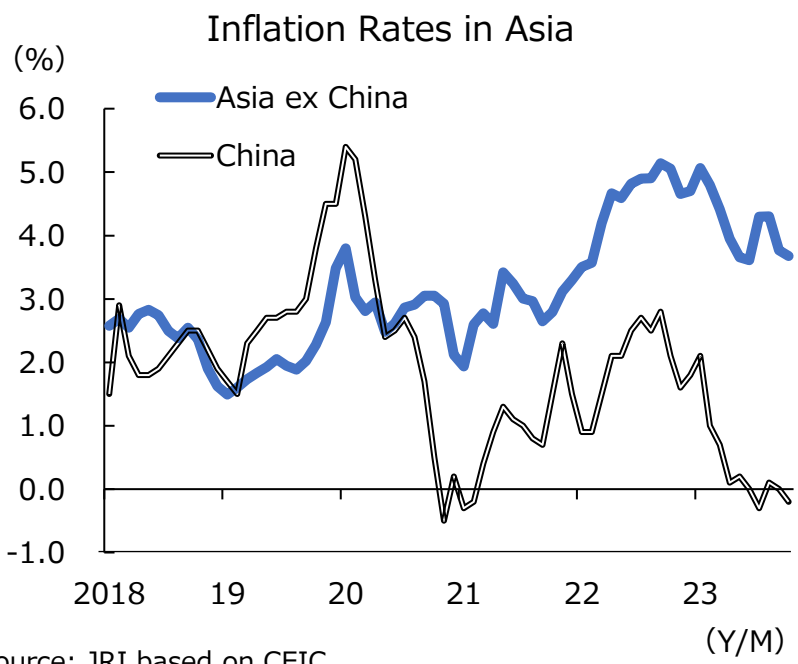


Source: JRI based on CEIC

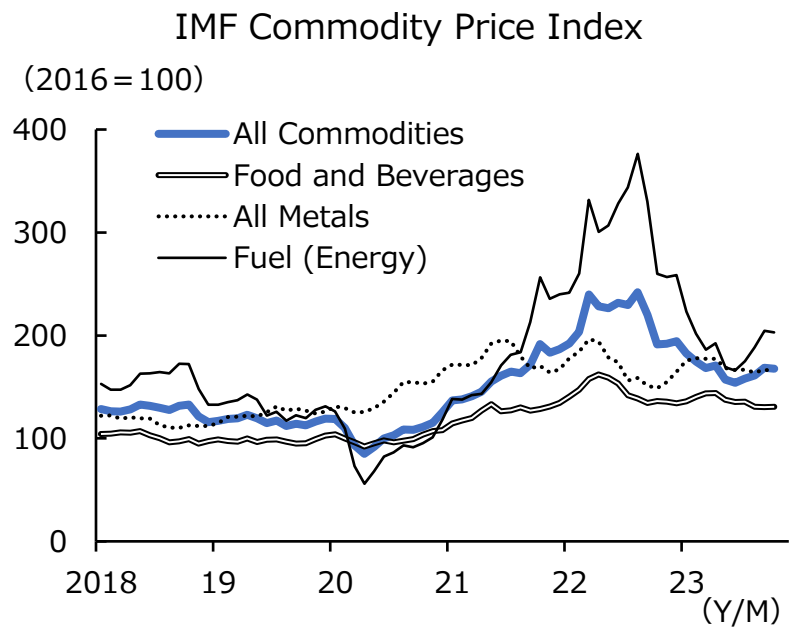


Source: JRI based on CEIC

- While deflation poses a concern in China, other Asian countries and regions remain wary of inflation. Since the beginning of 2023, inflation has declined but has gradually plateaued, and is rising again in some countries.
- Currently, resource prices, especially energy, are rising, and geopolitical risks could result in further increases. In addition, climate problems, such as the onset of the El Niño phenomenon, could cause food market prices to soar.

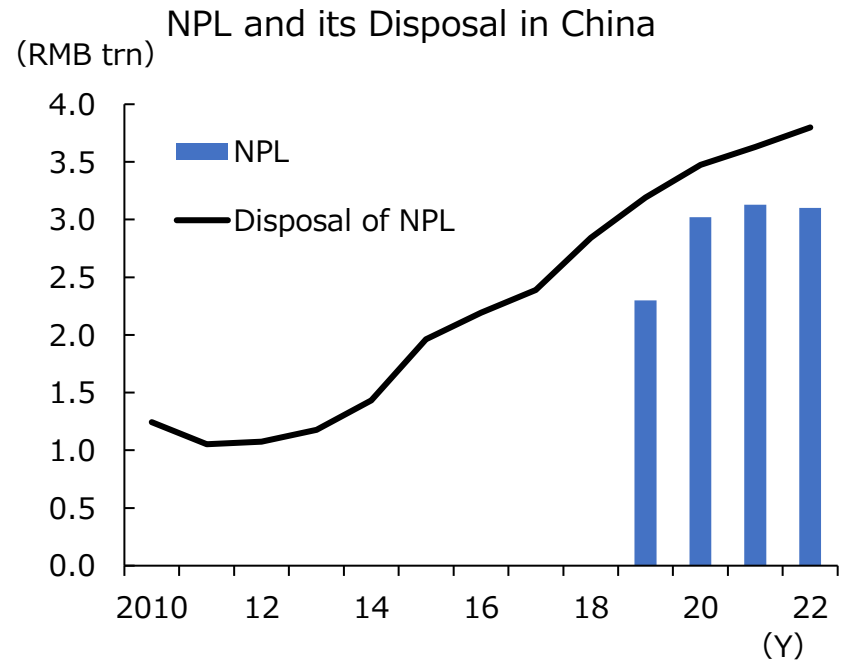
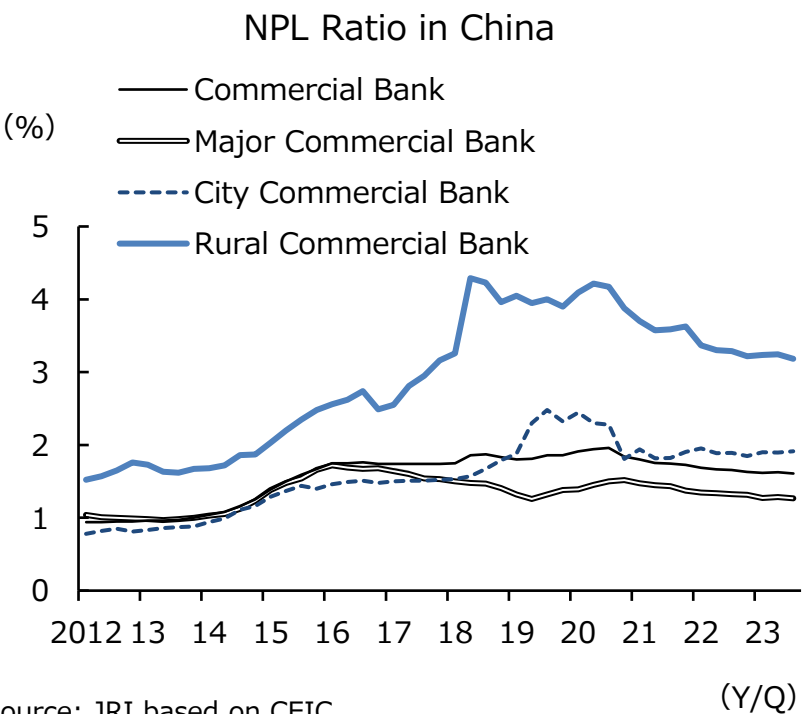


Source: JRI based on CEIC  
Note: Asia ex China is an simple average of Taiwan, Korea, ASEAN5 and India.



Source: JRI based on IMF

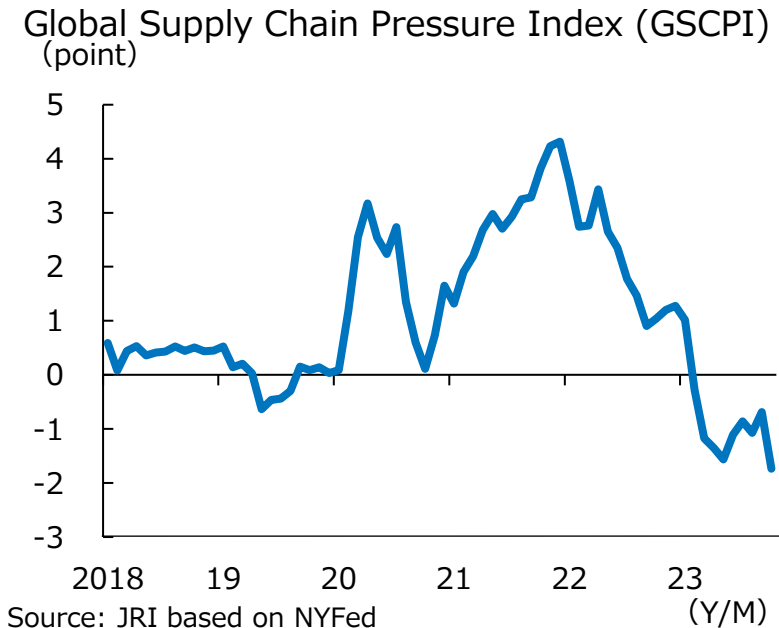
- The NPL ratio of banks remained low, but this is because banks dispose of RMB 3 trillion in NPLs (selling loans to asset management companies (AMCs)) every year. The actual situation for banks appears challenging.
- If the management of corporations and financial institutions closely linked to the real estate market deteriorates, the economy could suffer a severe blow from the deterioration of financial intermediation functions and financial market turmoil.





- In Asia, risks include re-accelerating inflation. Although the supply chain disruption caused by the COVID pandemic has subsided, critical minerals could become a new flashpoint.
- China started to tighten export controls on critical minerals. This is seen as a countermeasure to the tightening of restrictions on China by Western countries, and it is likely that China will continue to use critical minerals strategically in the future.

China's Export Controls on Critical Minerals

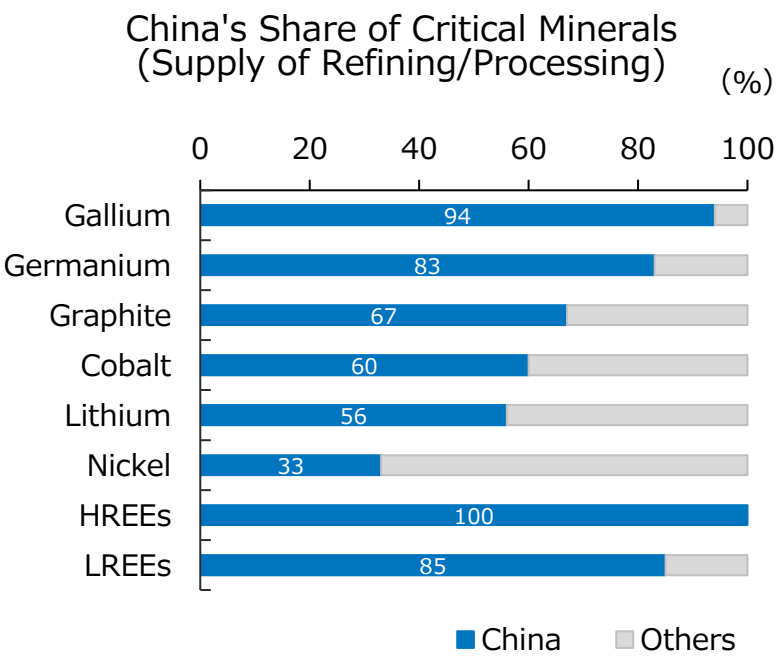


Source: JRI based on NYFed  
Note: GSCPI readings measure standard deviations from the index's historical average.

Subject	Start Date	Remarks
Gallium	Aug-23	The material is used in semiconductors. Japan and the Netherlands started export controls on chip manufacturing equipment on July 23 and on September 1, respectively, following the U.S.'s introduction of export controls on it in October 2022. China may have announced tighter controls on this material as a response.
Germanium		
Graphite	Dec-23	This material is used in the anode of batteries for electric vehicles. This may be a countermeasure to the EU's decision to investigate subsidies for Chinese-made EVs by the Chinese government.
Rare earths	Oct-23	This is a material that is used for the magnets of motors in a wide variety of equipment, including home appliances, automobiles, and industrial equipment.

Sources: JRI based on various media reports

- China's dominance in the critical minerals sector, in which it maintains an overwhelming share, could easily remain unchanged. Western countries will have to provide substantial financial support to move away from China. Even if a rebuilding were to take place, the cost sourcing from non-Chinese supply sources would be high and could structurally raise prices.



Source: JRI based on European Commission

Major Countries' Policies on Mineral Resources Supply Chain Restructuring

Critical mineral user countries	
US	<div>*Inflation Reduction Act (IRA, August 2022): Tax credit for EV purchases (up to US\$7,500, budget: USD12.5bn), of which requirements mandate that EVs have a minimum percentage of critical minerals by value from North America or other free trade agreement partners.</div> <div>*Defense Production Act (DPA): Funding for critical minerals production projects</div>
Japan	<div>*The government has allocated a budget totaling JPY 215.8 billion, which includes (1) investment projects by the Japan Organization for Metals and Energy Security (JOGMEC) and (2) subsidy programs related to mineral resources under the Economic Security Promotion Act.</div>
EU	<div>*European Critical Raw Materials Act (March 2023): The EU aims to domestically process at least 40% of the annual consumption of critical minerals and mine 10% by 2030. To achieve this target, it simplified business permit procedures.</div>
Critical mineral supplier countries	
Australia	<div>*The 2023 federal budget added AUD 57 million over four years to “foster international critical minerals partnerships” and a further AUD 23 million on critical minerals policy development. The prime minister announced an AUD 2 billion expansion in critical minerals financing in October 2023.</div>
Canada	<div>*Canada’s Critical Minerals Strategy was released in December 2022, with up to CAD 3.8 billion in federal funding allocated in Budget 2022.</div>

Source: JRI based on various media reports

This is an English version of “回復の勢いを欠くアジア景気～中国不動産問題や供給網混乱により景気腰折れリスクも～” in JRI Research Report (The original version is available at <https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/14641.pdf>)

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