



[2024-25 Economic Outlook: Asia]

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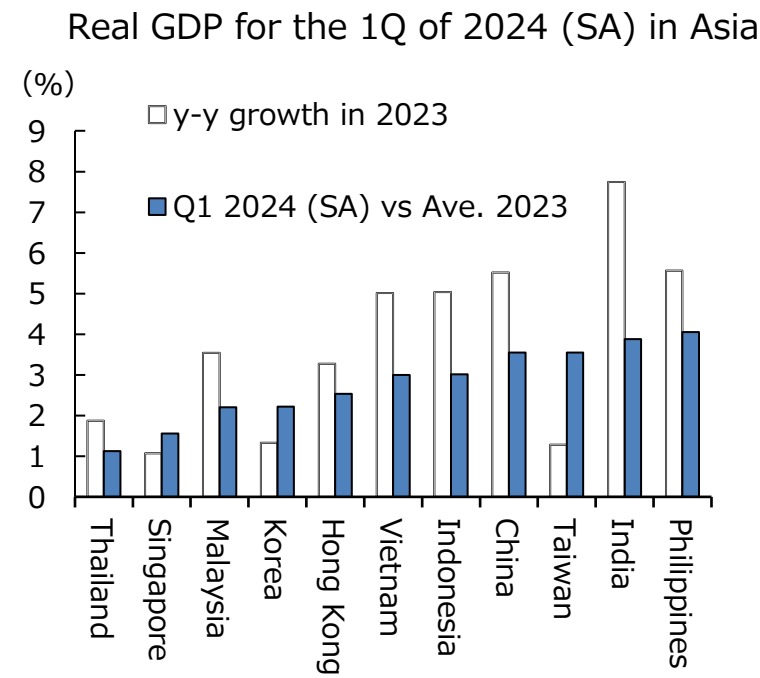
Headwinds for China but tailwinds for other Asian economies

**— The effects of supply chain restructuring continue, but Trump
poses risk to the whole of Asia —**

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- ◆ In the second half of 2024, there will likely be a disparity in economic performance between China and other Asian economies. The Chinese economy will slow down due to a deteriorating housing market and stagnant consumption. On the other hand, other Asian economies are expected to continue to recover, driven by 1) another surge in IT-related demand, 2) an increase in investment due to the relocation of production from China, and 3) the initiation of reductions in policy interest rates. In particular, Taiwan, South Korea, Vietnam, Thailand and Malaysia are highly dependent on exports and are expected to experience higher growth rates in 2024 than last year.
- ◆ If Donald Trump regains the U.S. presidency, the Asian economy could be severely disrupted. Mr. Trump has vowed to adopt radical policies such as 60% tariffs on all goods imported from China. If implemented, it would likely reduce China's real GDP by 1.1%. Other Asian economies are expected to enjoy positive effects through the relocation of production bases from China. However, trade imbalances and other factors may lead to criticism of other Asian economies by Mr. Trump, and some sanctions may be imposed along with those on China.
- ◆ In China, the effects of economic measures are limited, and the economy is expected to slow down again. We expect the real GDP growth in 2024 to be only +4.7% year-on-year. Significant downside risks remain, such as the deepening of the real estate recession and increased pressure from the United States on China.
- ◆ In India, the economy will likely to continue to expand, particularly in the service sector. We expect GDP growth to remain high in FY2024, at +7.8% year on year. However, amid rising political risks, there are still many challenges in revitalizing the manufacturing sector, which is essential for sustained high growth.

- In the first half of 2024, a wide range of countries/regions in Asia experienced economic recoveries. In particular, the growth rates of Korea and Taiwan, which suffered from sluggish exports in 2023, rebounded sharply.
- In the second half of 2024, a disparity in economic performance between China and other Asian economies is likely to arise. China's growth is expected to slow and fall below the government's target of +5%.



Source: JRI, based on CEIC

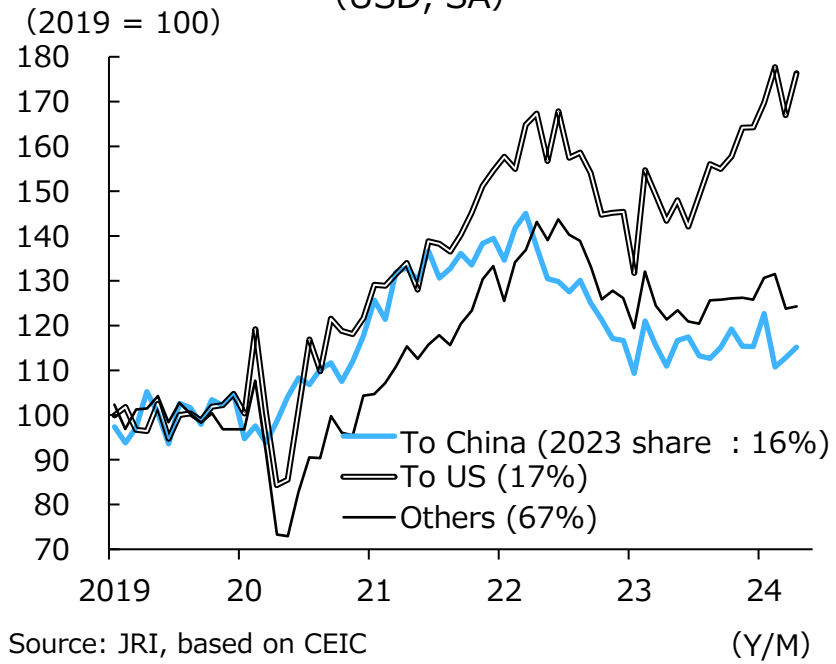
Forecasts for Growth Rates of Asian Economies (%)

	2022 (Actual)	2023 (Actual)	2024 (Forecast)	2025 (Forecast)
Asia	4.2	5.4	5.3	4.9
Northeast Asia	2.8	4.7	4.5	4.1
China	3.0	5.2	4.7	4.4
Hong Kong	▲ 3.7	3.3	2.8	2.4
Taiwan	2.6	1.3	3.6	2.4
Korea	2.6	1.4	2.7	2.3
ASEAN 5	6.0	4.5	5.0	5.0
Thailand	2.5	1.9	2.9	2.8
Malaysia	8.9	3.6	4.5	4.2
Indonesia	5.3	5.0	5.0	5.2
Philippines	7.6	5.5	6.0	6.2
Vietnam	8.1	5.0	6.5	6.5
India (FY)	7.0	8.2	7.8	7.0

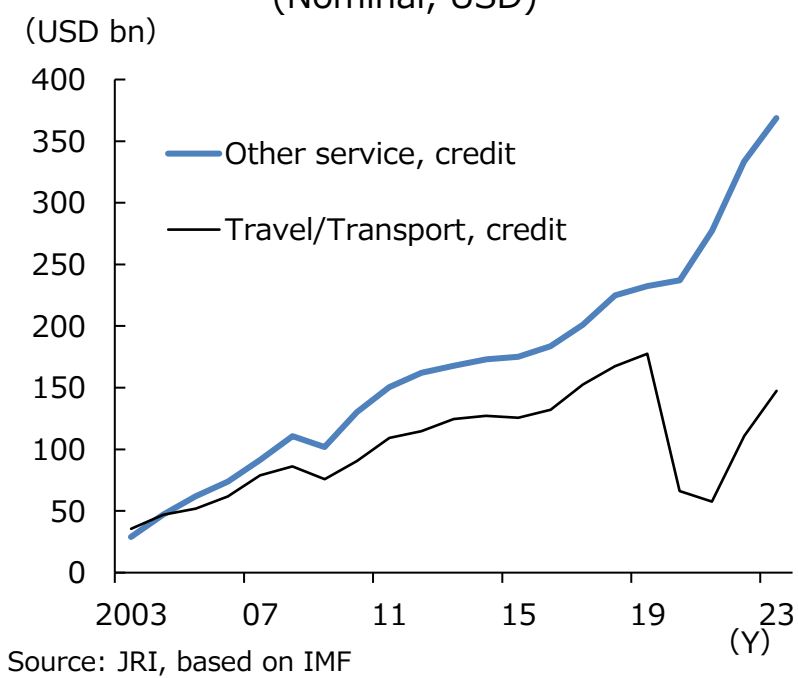
Source: JRI, based on national statistical bureaus, central banks, and the IMF

- The export of goods increased in many countries/regions, driven by a sharp recovery in exports to the United States and demand for IT-related products.
- The increase in IT-related demand has had a positive impact on the demand for services in the IT and business process outsourcing (BPO) sectors. IT support and other services are expanding in English-speaking countries in Asia, such as India and the Philippines.

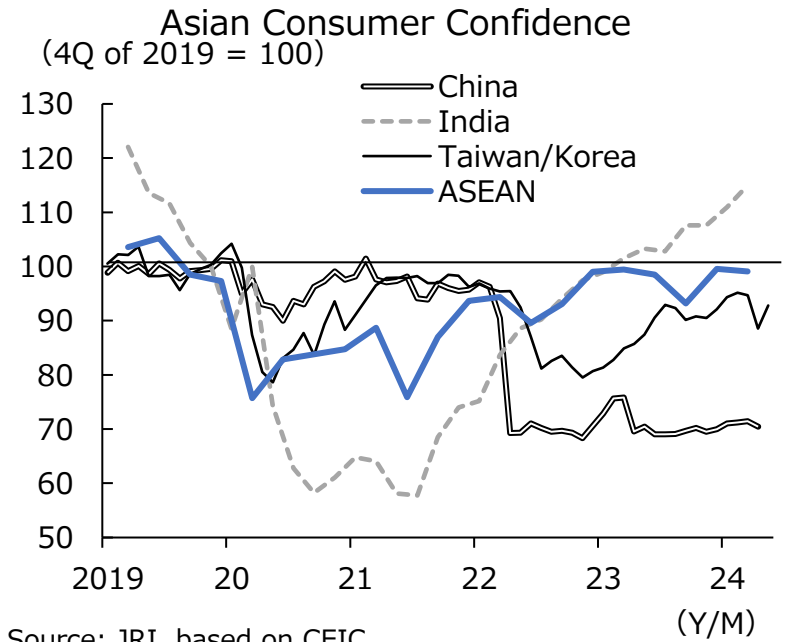
Exports in Asia, Excluding Japan and China
(USD, SA)



Exports of Services in ASEAN and India
(Nominal, USD)

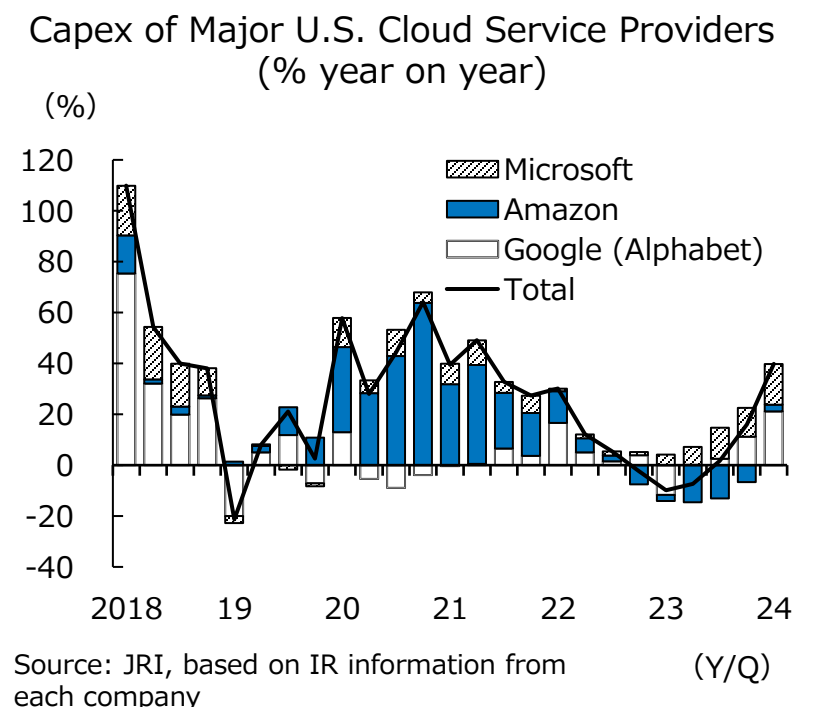
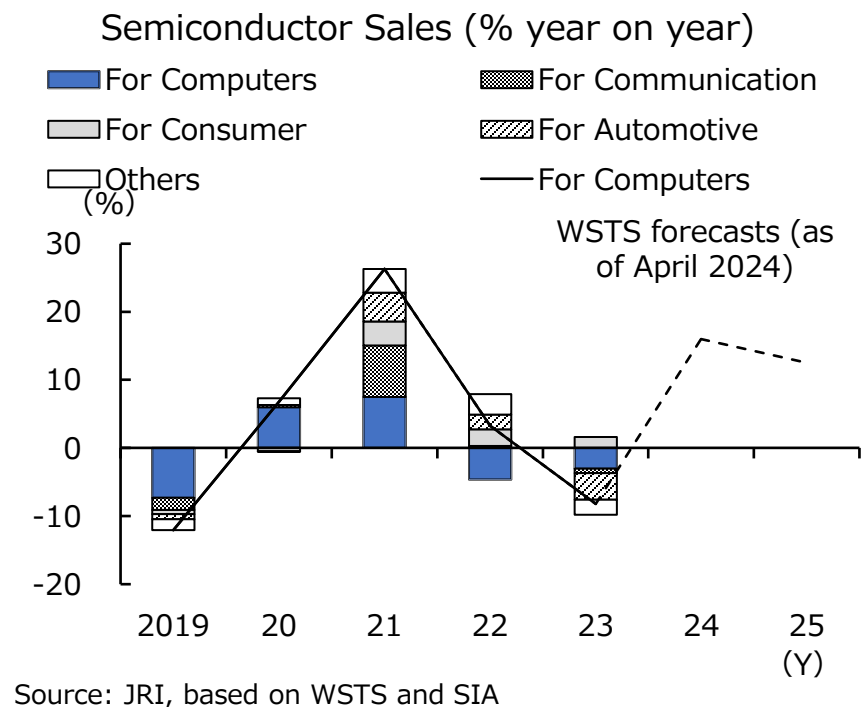


- Looking ahead, there are concerns that China's economy will start to deteriorate. The slump in the property market is serious, and attention must be paid to the negative spill-over effects on the financial system.
- Consumption in China remains sluggish and the deflationary trend is growing. There is little hope of a turnaround in consumption as government stimulus measures, such as the purchase of new energy vehicles, remain modest.



Other Asian economies are expected to recover (1) Another surge in IT-related demand

- IT-related demand should remain strong. According to WSTS, semiconductor sales are expected to increase significantly through 2025.
- In recent years, major U.S. cloud providers have enjoyed a growth spurt, and their services offer not only data storage and computer processing, but also AI functions. Demand for such services has skyrocketed, especially from the corporate sector.



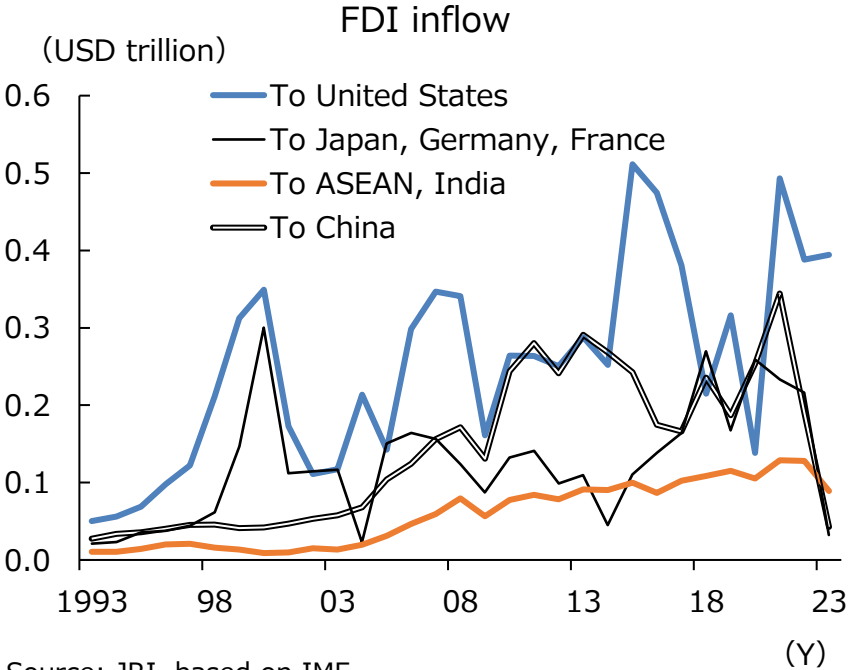
Other Asian economies are expected to recover (2) The increase in investment due to the relocation of production from China

- Developed countries have been severely criticizing China's overproduction, and it is expected that moves to reduce dependence on China and restructure supply chains will accelerate further.
- So far, investment money has avoided China and flowed into the United States. However, there is a growing trend to transfer production out of China, and FDI in ASEAN and India is expected to increase in near future.

Developed Countries' Countermeasures against Chinese Overproduction/Overcapacity

G7	May 24 The G7 expressed concerns about China's industrial policies that have flooded global markets with overproduced products. "We will continue to monitor the potential negative impacts of overcapacity and will consider taking steps to ensure a level playing field."
United States	May 24 The U.S. government announced increases in tariffs on Chinese imports, particularly on new energy products. EVs: 25% to 100% (starting August 2024), lithium-ion batteries (for EVs): 7.5% to 25% (starting August 2024), etc.
EU	October 23 The European Commission has launched an anti-subsidy investigation into EVs imported into the EU from China, with a view to imposing countervailing duties. April 24 The Commission has launched an investigation into the subsidies of two Chinese photovoltaic companies. April 24 The Commission launched an investigation into the subsidies of a Chinese company supplying wind turbines. June 24 The Commission announced provisional tariffs of up to 37.6% on Chinese EV imports (started July 2024).
Canada	May 24 Trade Minister Mary Ng revealed that Canada was looking at whether it needed to raise tariffs on Chinese-made Evs.

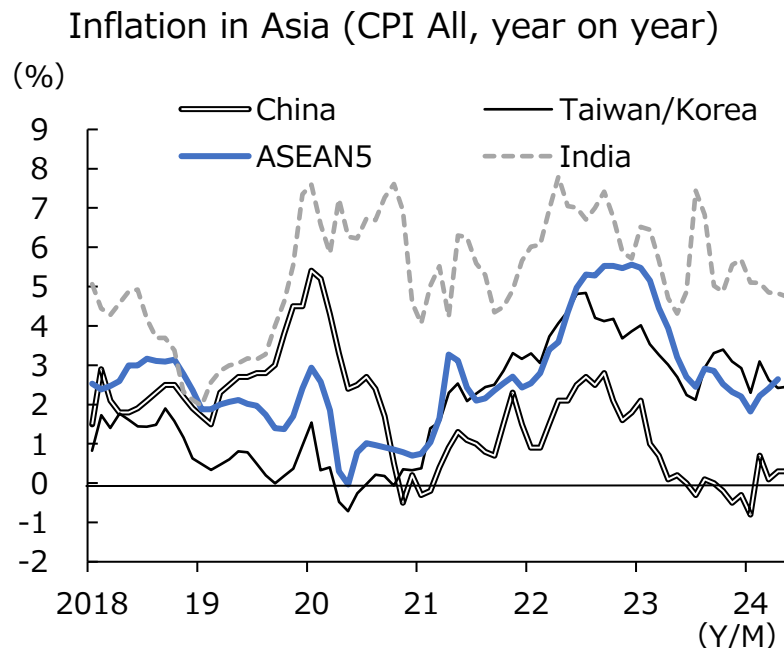
Source: JRI, based on various media reports



Source: JRI, based on IMF

Other Asian economies are expected to recover (3) The initiation of reductions in policy interest rates

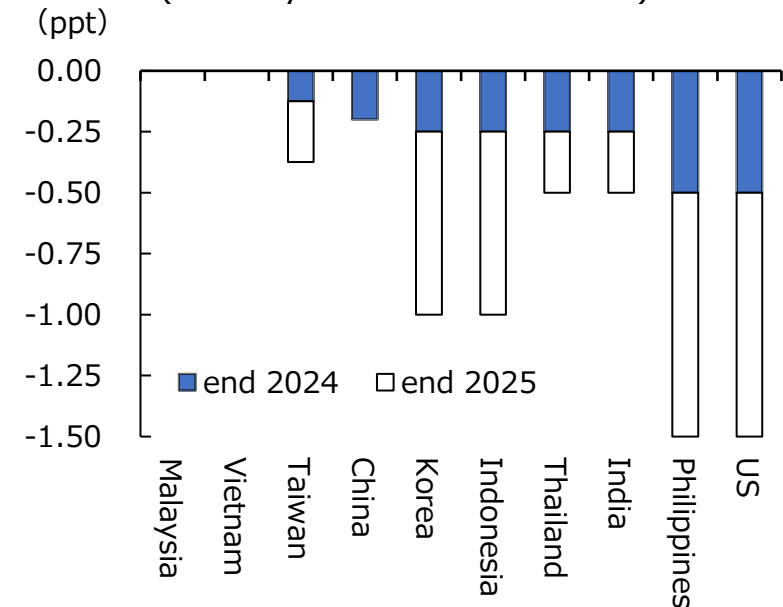
- In Asia, inflation rates have been on a clear downtrend as of late. Downward pressure on consumer spending through reduced purchasing power is weakening.
- Asian economies are expected to shift their monetary policy to an accommodative stance in the second half of 2024. The monetary easing should stimulate domestic demand.



Source: JRI, based on CEIC

Note: Taiwan/Korea and ASEAN5 are simple averages for each country/region.

Forecasts: Changes in Policy Rates
(vs. May 2024 actual results)



Source: JRI

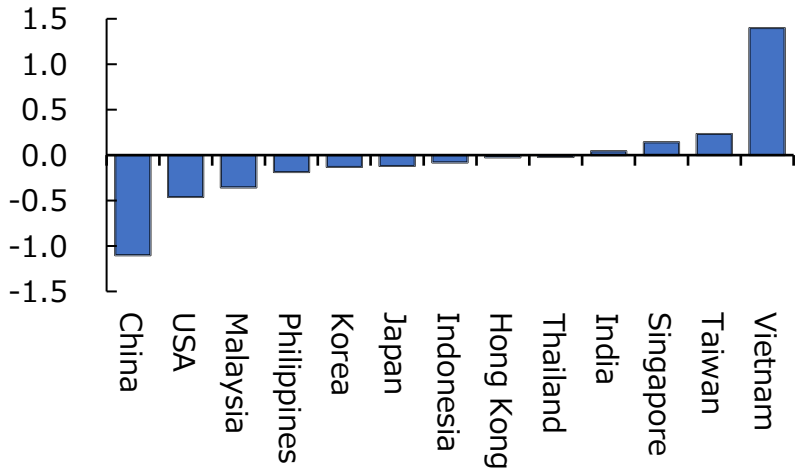
- If the tariff hikes that Mr. Trump has pledged are implemented, the Chinese economy will suffer enormous consequences. Estimating the economic impact, the measure would likely reduce China's real GDP by 1.1%.
- In other Asian economies, positive effects would be seen through export circumvention or substitution, as well as the relocation of production facilities from China.

Trump's claims in the media

Sanctions against China	(1) Imposition of tariffs exceeding 60% on imports from China
	(2) Elimination of China's Most Favoured Nation (MFN) status
	(3) Impose 100% tariffs on cars made in Mexico by Chinese manufacturers
Others (mainly negative effects on the rest of Asia)	(4) Introduce 10% tariff on all U.S. imports
	(5) Emphasis on the USMCA, which is a substitute for NAFTA
	(6) Withdrawal from IPEF
	(7) Reduce or scrap the Inflation Reduction Act (IRA)

Sources: JRI, based on various media reports

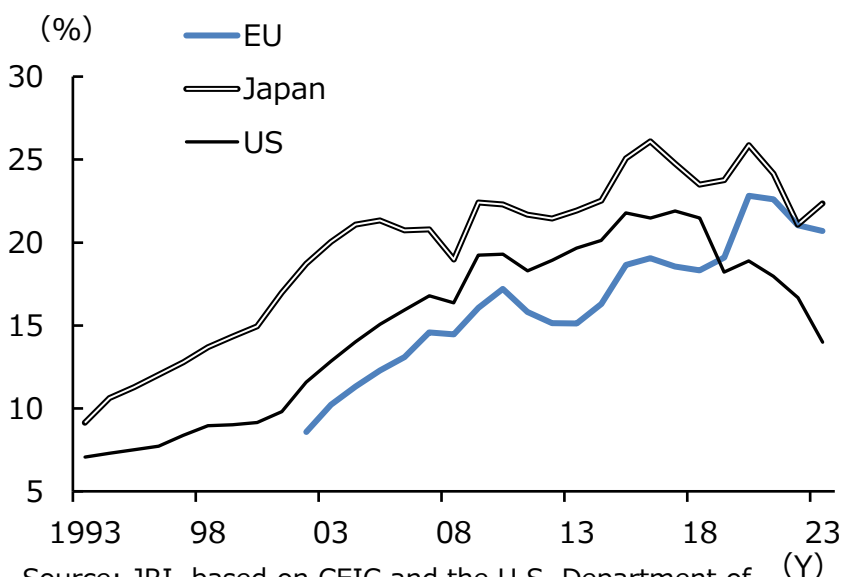
Trump Risk: GDP Impacts of U.S. Tariff hikes (%)



Source: JRI, based on WIOD and other sources
Note: The impact on the GDP of each country if the U.S. increases tariffs on China to 60% and on other countries to 10%. Changes in U.S. imports if tariffs are increased are estimated using a multivariate autoregressive model, and spillovers to other countries are estimated based on international input-output tables and other data. The increase in Chinese tariffs takes into account substitution effects on other countries.

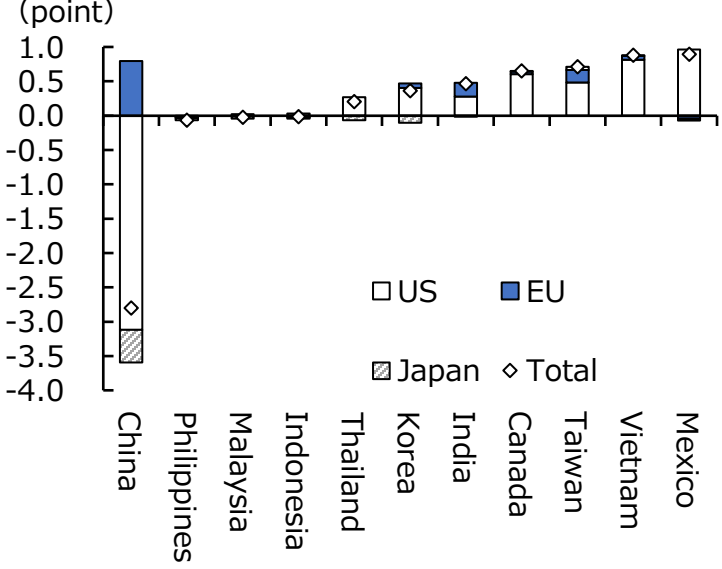
- In response to the recent U.S.-China confrontation, multinational companies have tended to focus on other Asian economies as alternative production locations.
- The proportion of exports from China to the United States, EU and Japan is already declining. In Asia, Vietnam, Taiwan and India are likely to replace China as trading partners.

Import Dependency on China in the United States, EU and Japan



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

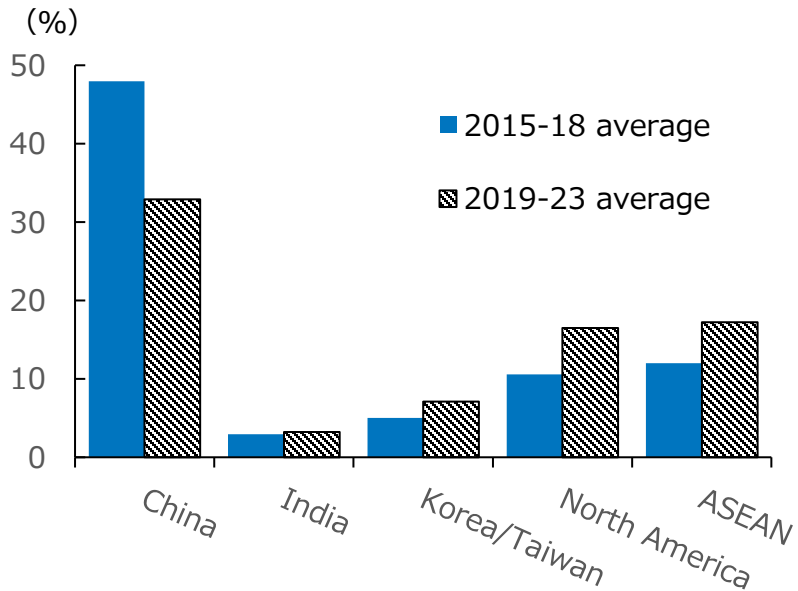
Change in Share of U.S./EU/Japan Imports by Country/Territory (2018 to 2023)



Source: JRI, based on CEIC

- An excessive shift toward protectionism by Mr. Trump could lead to economic stagnation in other Asian economies.
- There is a risk that the trade imbalance between the United States and other Asian economies could be viewed as a problem. Also, Mr. Trump has criticized the Indo-Pacific Economic Framework for Prosperity (IPEF), an initiative aimed at strengthening economic relations with friendly countries.

U.S. Trade Deficit with Asia
(Share of Total Trade Deficit)



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

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.
Vietnam		U.S.
U.S.		

Sources: JRI, based on various media reports

This is an English version of “中国への逆風とその他アジアへの追い風 ～アジアに供給網再編の効果、ただしトランプ・リスクに要警戒～” in JRI Research Report (The original version is available at <https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/15108.pdf>)

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