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[2024-25 Economic Outlook: Asia]

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Headwinds for the Chinese economy intensify ahead of "Trump 2.0"

— Accelerating de-risking from China could be a tailwind for the rest of Asia —

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Summary

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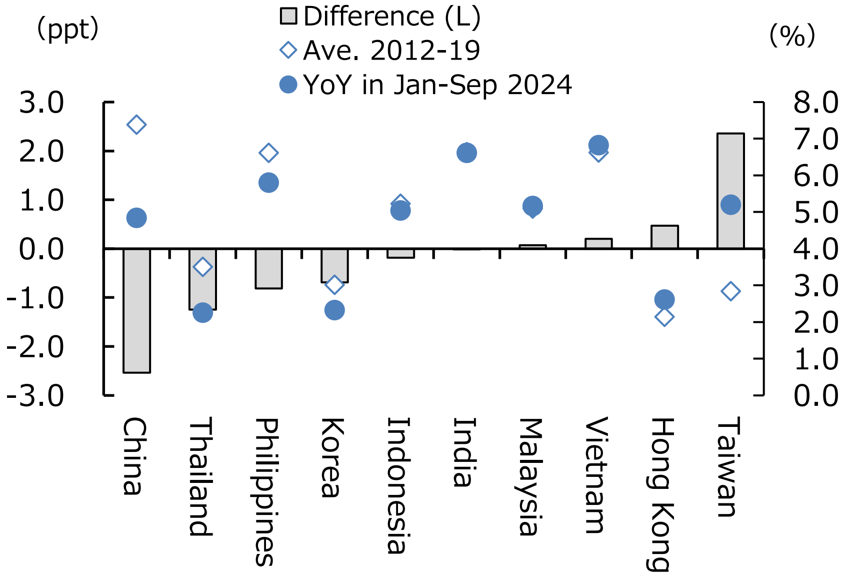
- There has been a disparity in economic performance between China and other Asian countries/territories. In 2025, the economic gap between China and other Asian economies is expected to widen further due to the trade policy of the incoming Trump administration in the US. We expect the increase in US tariffs on imports from China to 60% to depress China's economic growth rate to the mid-4% range. On the other hand, the economies of Vietnam, Taiwan, Thailand and Malaysia will likely benefit from the effect of relocating production away from China.
- However, attention also needs to be paid to the risk that damage caused by the policies of the incoming Trump administration extends beyond China's economy to encompass Asia as a whole. This could occur via three routes: 1) destabilization of foreign exchange markets, 2) economic sanctions, and 3) increased dependence on China.
- The Chinese economy still faces serious structural problems, and the risk of a sharp correction cannot be ruled out. A severe adjustment in the property market and sluggish consumption could worsen the economy further, with economic policy remaining on a small scale.
- The US government's tough stance towards China is expected to promote the relocation of production and the substitution of exports, and exports are expected to grow as a result. However, manufacturing growth has been slower than expected and calls within the administration to actively embrace Chinese capital may increase.

Economic recovery will continue in 2024 with the exception of China

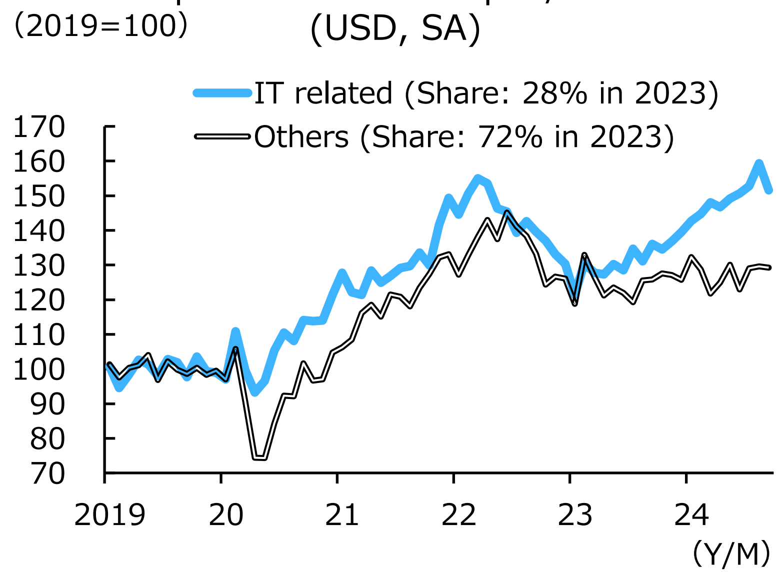
- Chinese economy slowed due to the slump in the real-estate market and waning consumer confidence. We expect it to grow by +4.8% in 2024, barely surpassing the government's target (around +5%) and slowing from the previous year (+5.2%).
- In contrast to mainland China, other Asian economies continued to recover. In particular, the economy of Taiwan has recorded high growth due to a recovery in IT-related demand.

Real GDP Growth in Asia (% y-o-y)



Source: JRI based on CEIC

Exports of Asia ex Japan/China (USD, SA)

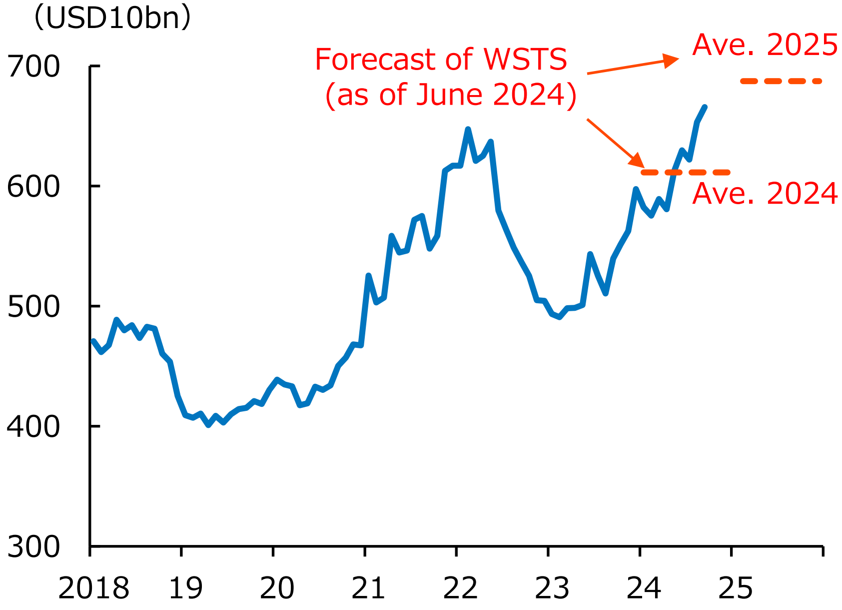


Source: JRI based on CEIC
Note: IT related products include semiconductors and electric products.

Strong IT demand and falling inflation rates support the economy

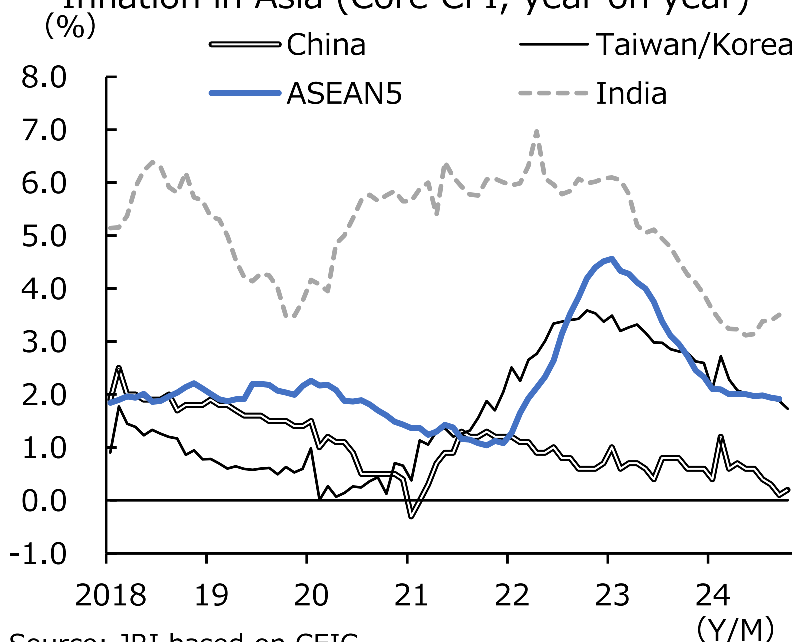
- Other Asian economies continued to recover due to a resurgence in IT-related exports and an easing of inflationary pressures. Demand for AI-related semiconductors and electrical products has been rising worldwide, and related capital investment has also been strong.
- Households' purchasing power has been recovering as inflationary pressures abate, and this is supporting personal consumption.

Global Semiconductor Revenues (annualized)



Source: JRI based on WSTS

Inflation in Asia (Core CPI, year on year)



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

Trump's re-election will create even more challenges for the Chinese economy

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- The Chinese economy will face a more difficult situation in 2025. We assume that the US government will raise tariffs on China to 60% from the second half of 2025. As a result, China's exports to the US are expected to decrease significantly.
- The Chinese government remains cautious about large-scale economic stimulus measures. Even if additional economic stimulus measures are implemented in the future, it is likely that they will only offset the negative impact of US tariffs on 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) treatment
	(3) Impose 100% tariffs on autos made in Mexico by Chinese manufacturers
Others (mainly negative effects on the rest of Asia)	(4) Install a blanket tariff of 10% to 20% on all imports
	(5) Emphasis on the USMCA, which substituted NAFTA
	(6) Withdrawal from IPEF
	(7) Reduce or scrap the Inflation Reduction Act (IRA)
	(8) Curtail CHIPS Act funding
	(9) Call on Japan, Korea, Taiwan to increase defense spending

Sources: JRI based on various media reports

Measures for Chinese Real-estate Market (From Late September)

Restrictions on home purchases	Easing of restrictions on number of properties that can be purchased
	Easing of requirements when purchaser is a not a permanent resident (number of years of residence in the city, period of payment of income tax and social insurance premiums, etc.)
Mortgages/ Downpayments	Reduction of mortgage interest rates
	Reduction of minimum downpayment ratio
Others	Expansion of application of eased requirements for VAT exemption when selling a purchased home to four large cities including Beijing
	Expansion of application of reduced deed tax rates when purchasing a home (from area of 90m2 to 140m2) and expansion of the measure nationwide
	Expansion of "white list" housing construction projects eligible for bank loans and expansion of scale of lending

Source: JRI based on various media reports
Note: The easing of restrictions on purchases covers the four tier-1 cities (large cities), which include Beijing.

Other Asian economies will benefit from tailwinds such as the relocation of production from China

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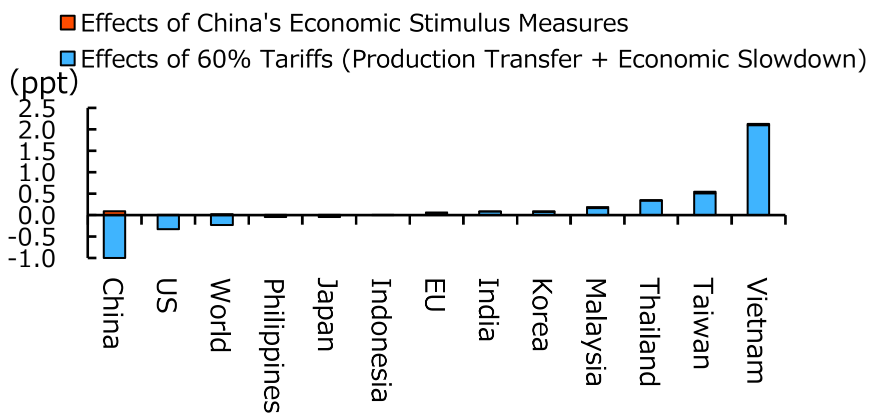
- The increase in US tariffs on imports from China would likely reduce China's GDP growth rate by 1.0 percentage point. We expect China's economic growth rate to fall to +4.6% in 2025 and +4.4% in 2026.
- Growth rates in other Asian economies would be boosted by the relocation of production from China. We expect this to provide a tailwind to the economy, particularly in Vietnam, which is seen as a potential destination for relocation.

Effects of China's Economic Stimulus Measures and Trump's Tariffs : Impact on GDP



Source: JRI based on OECD
Note: The impact on GDP of China's economic stimulus measures (including the reduction of local government debt service payments) and the US's 60% tariff increase on Chinese goods. The impact of tariff by US is estimated using VAR 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.

Asia Economic Forecasts

(%)

	2022	2023	2024 F	2025 F	2026 F
Asia	**4.2**	**5.4**	**5.4**	**5.0**	**5.0**
Northeast Asia	2.8	4.7	4.5	4.3	4.1
China	3.0	5.2	4.8	4.6	4.4
Korea	2.6	1.4	2.3	2.3	2.1
Taiwan	2.6	1.3	4.1	3.0	2.7
Hong Kong	▲ 3.7	3.3	2.6	2.4	2.2
ASEAN 5	6.0	4.4	5.0	4.9	5.1
Indonesia	5.3	5.0	5.0	4.8	4.8
Malaysia	8.9	3.6	5.3	5.0	5.1
Philippines	7.6	5.5	6.0	5.8	5.9
Thailand	2.5	1.9	2.9	3.0	2.9
Vietnam	8.1	5.0	6.5	6.6	7.2
India (FY)	7.0	8.2	7.8	6.9	7.2

Source: JRI estimates based on various statistics

Economic downturn in China: Caution is required about the real-estate market correction and excessive competition

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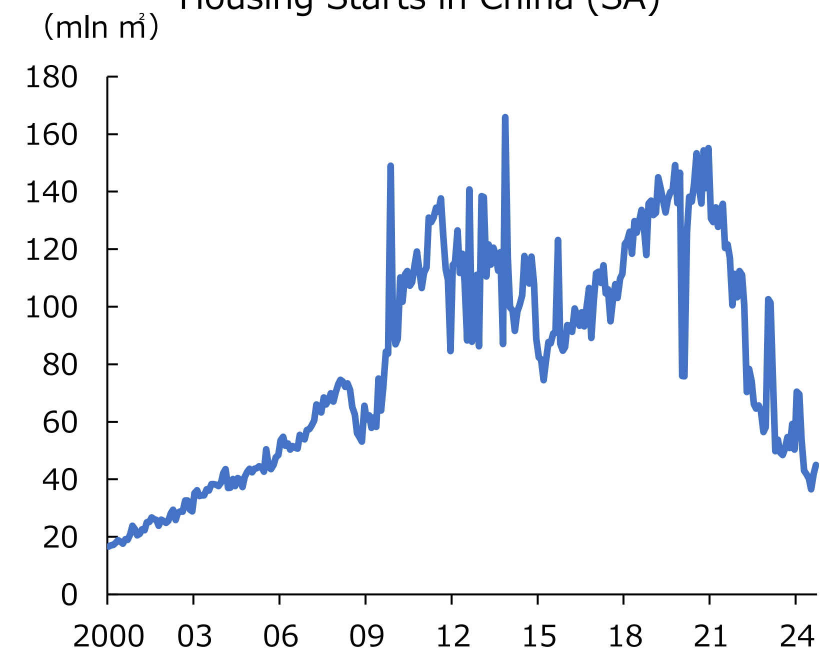
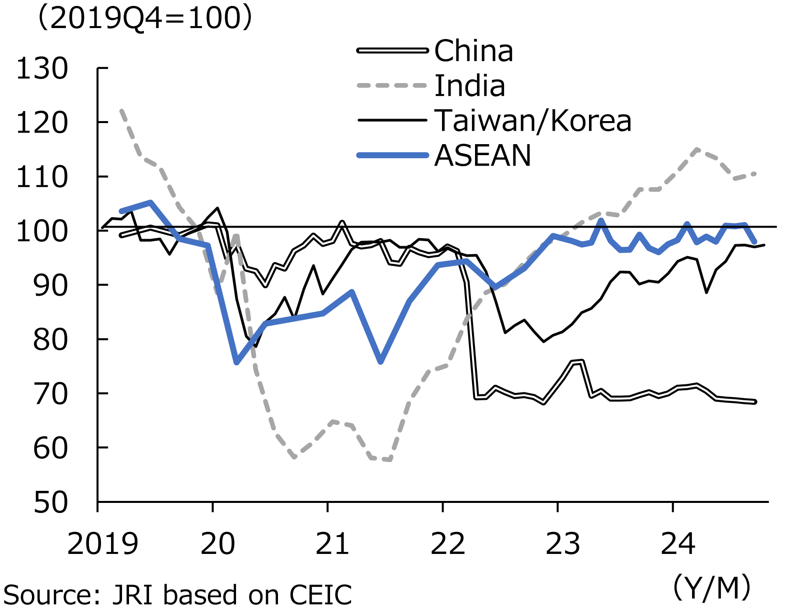
- China still has serious structural problems that are weighing down the economy. The slump in the property market is serious, and attention must be paid to the negative spill-over effects on the financial system.
- Consumption in China remains sluggish and the deflationary trend is growing. There is little hope of a turnaround in consumption as government stimulus measures, such as the purchase of new energy vehicles, remain modest.

Housing Starts in China (SA)



Source: JRI based on CEIC

Asian Consumer Confidence



Source: JRI based on CEIC
Note: Taiwan/Korea and ASEAN (Indonesia, Thailand and Malaysia) are simple averages of figures for each country/region.。

If it becomes difficult for companies to tap foreign demand, corporate bankruptcies may accelerate

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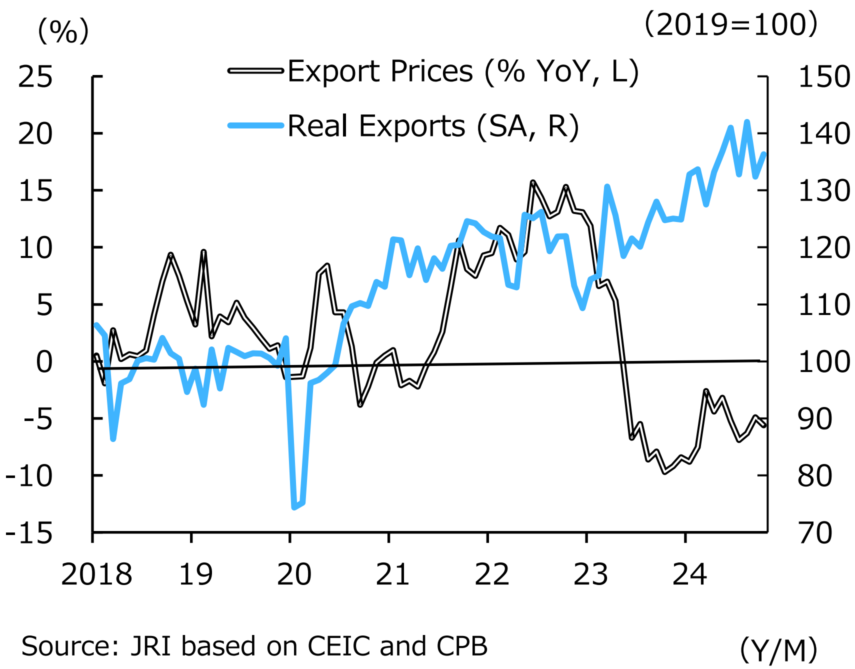
- Criticism of China's export offensive has been widespread in developed countries, and China is dealing with trade tensions with a wide range of countries/territories.
- As domestic consumption continues to stagnate, Chinese companies are being forced to fight a war of attrition due to home-grown price competition, and corporate bankruptcies are on the rise. If it becomes difficult for companies to tap foreign demand in the future, corporate bankruptcies could accelerate.

China's Real Exports and Export Prices



Source: JRI based on CEIC and CPB

Developed Countries' Countermeasures against Chinese Overproduction/Overcapacity

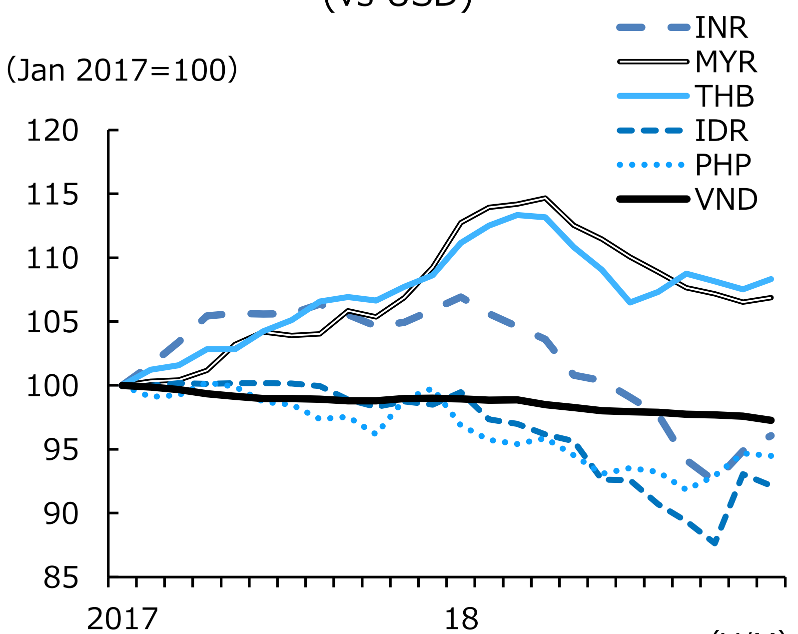
G7		
	May-24	G7 expressed concerns about China's industrial policies that have flooded global markets with overproduced products. "We will continue to monitor the potential negative impacts of overcapacity and will consider taking steps to ensure a level playing field."
US		
	May-24	The US Government announced increases in tariffs on Chinese imports, particularly on new energy products. EVs: 25% to 100% (from August 2024), lithium-ion batteries (for EVs): 7.5% to 25% (from 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 to two Chinese photovoltaic companies.
	April-24	The Commission launched an investigation into the subsidies to a Chinese company supplying wind turbines.
	June-24	The Commission announced provisional tariffs of up to 38.1% on Chinese EV imports (from July 2024).
Canada		
	August-24	The Canadian government imposed a 100% additional tariff on Chinese-made EVs from October.

Sources: JRI based on various media reports

Increasing uncertainty surrounding the Trump's policies

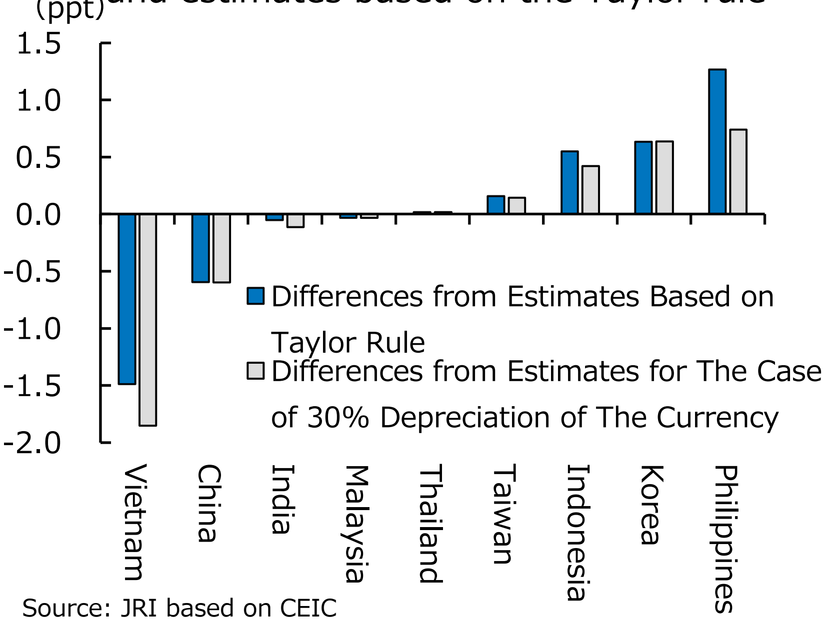
- The main scenario for Asia in 2025 suggests that other Asian economies will perform well, benefiting from the US-China conflict. However, there are risks to such a scenario.
- During Donald Trump's first presidential term, the currencies of economies that are vulnerable to external shocks fell sharply. Central banks in Asian economies tend to be sensitive to currency movements and are likely to be reluctant to cut interest rates if exchange rate volatility increases.

Currencies of India and Southeast Asia (vs USD)



Source: JRI based on CEIC

Differences between actual policy interest rates and estimates based on the Taylor rule



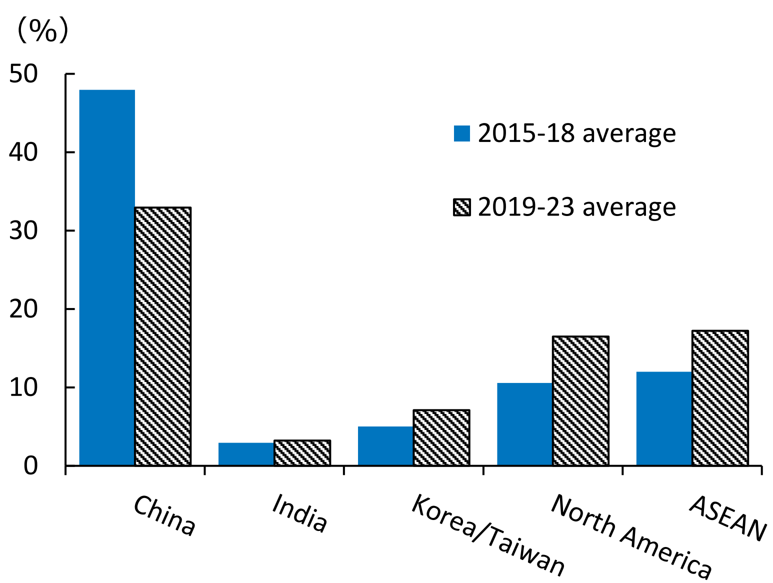
Source: JRI based on CEIC

Note: The estimates are based on an extended Taylor rule (Policy rates = α + β * (inflation rate - inflation target) + γ * GDP gap + σ * gap from trend in exchange rate). A positive deviation is interpreted as pressure in the direction of monetary tightening, while a negative deviation is interpreted as pressure in the direction of monetary easing.

"Trump 2.0" could also have an adverse impact on Asia ex. China

- Trade surpluses with the US in other Asian economies have been expanding. Donald Trump may take issue with this and impose punitive tariffs on these economies.
- We expect the incoming Trump administration to withdraw from the IPEF. As a result, the 'friend-sharing' framework that the Biden administration aimed to establish could be abandoned, which could pose a risk putting the movement of production relocation to other Asia economies from China on hold.

US Trade Deficit with Asia
(Share of Total Trade Deficit)



Source: JRI based on US 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

‘America First’ could increase Asian countries' dependence on China

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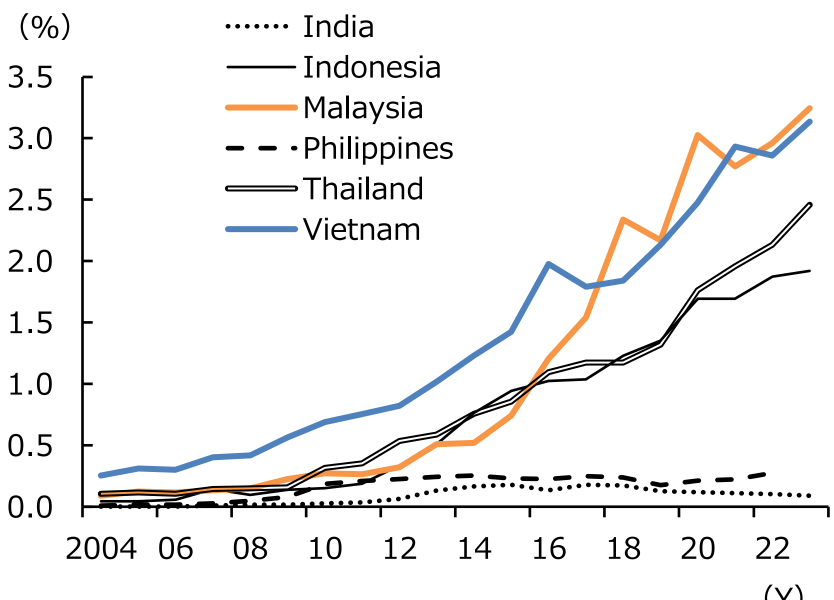
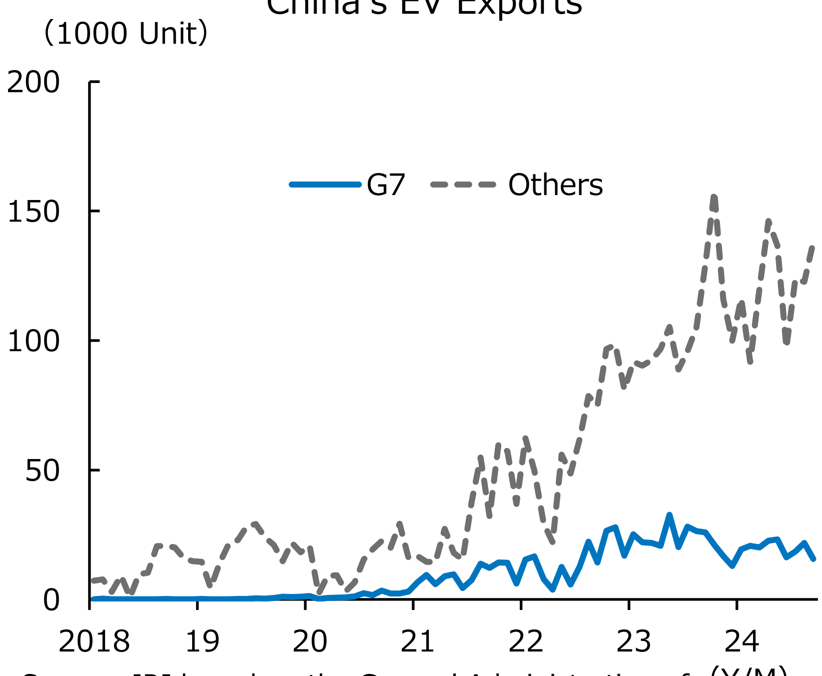
- ASEAN countries have already become more positive about accepting investment from Chinese EV manufacturers. If they become unable to get investment from US, they may become even more enthusiastic about welcoming Chinese capital instead.
- China is expanding its share of the Asian markets for various other goods. It is essential to keep in mind that China could employ so-called "economic statecraft" to increase geopolitical threats.

China's Outward FDI
(% of GDP of each country)



Source: JRI based on CEIC

China's EV Exports



Source: JRI based on the General Administration of Customs of China

This is an English version of “｢トランプ2.0｣で強まる中国経済への逆風～脱中国の加速がその他のアジアには追い風～” in JRI Research Report (The original version is available at https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/15396.pdf)