

ECONOMIC OUTLOOK: ASIA AND BEYOND

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ECONOMIC OUTLOOK AND RISKS

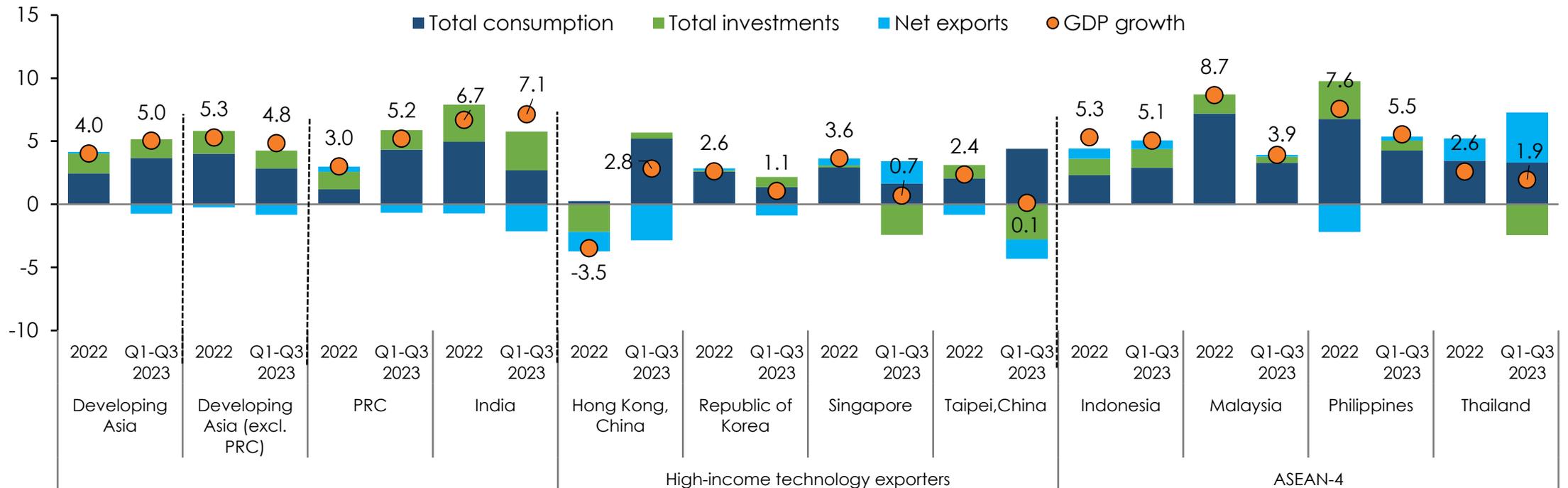
CONTINUED GROWTH AND MODERATING INFLATION—BUT DOWNSIDE RISKS REMAIN

- With inflation pressures easing, policy focus will be geared more toward coping with slowdown in economic growth.
- Developing Asia's growth has been upbeat, driven by healthy domestic demand, strong remittances, and recovering tourism.
 - Regional growth is forecast to rise from 4.3% in 2022 to 4.9% in 2023. Growth is forecast at 4.8% in 2024.
 - Price pressures are abating. Inflation is projected to decline from 4.4% in 2022 to 3.5% in 2023. Inflation is forecast at 3.6% in 2024.
 - Risks to the outlook stem from higher-for-longer interest rates in advanced economies and its implications for financial stability, weather shocks, and geopolitical tensions.

HEALTHY DOMESTIC DEMAND CONTINUED TO SUPPORT THE REGION'S GROWTH IN 2023

Consumption and investment remain robust in many economies.

Demand-side Contributions to Real GDP Growth (percentage points)



ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China, Q = quarter.

Note: Economies included are those that have available quarterly GDP figures with demand-side breakdown, which account for about 90% of developing Asia. Components do not add up to total due to statistical discrepancy and chain-linking method of GDP estimation and reporting. The regional average is calculated using GDP PPP shares as weights. All data are in calendar years and in non-seasonally adjusted terms.

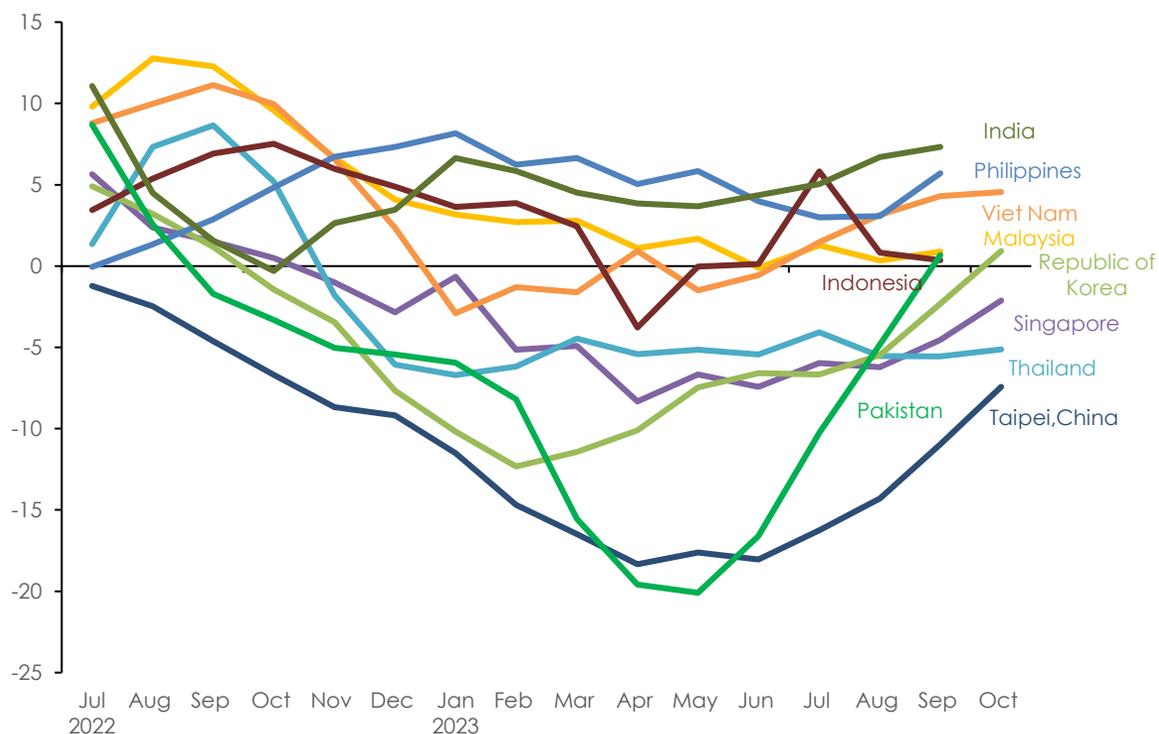
Source: ADB. *Asian Development Outlook Supplement December 2023*. Manila.

WEAK EXTERNAL DEMAND HELD BACK MANUFACTURING, WHILE SERVICES REMAINED HEALTHY

Until recently, soft external demand weighed on industrial production

Industrial Production Index

(% change year on year, seasonally adjusted, 3-month moving average)



Manufacturing performance remains varied; services remain solid

Purchasing Managers' Index

(>50 improvement; <50 worsening)

Economy	2023									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
India	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5
Philippines	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6	52.4
Indonesia	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5
Singapore	49.8	50.0	49.9	49.7	49.5	49.7	49.8	49.9	50.1	50.2
Republic of Korea	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8
Viet Nam	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6
PRC	49.2	51.6	50.0	49.5	50.9	50.5	49.2	51.0	50.6	49.5
Taipei, China	44.3	49.0	48.6	47.1	44.3	44.8	44.1	44.3	46.4	47.6
Thailand	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5
Malaysia	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8

Services PMI, seasonally adjusted

India	57.2	59.4	57.8	62.0	61.2	58.5	62.3	60.1	61.0	58.4
PRC	52.9	55.0	57.8	56.4	57.1	53.9	54.1	51.8	50.2	50.4

Services PMI, not seasonally adjusted

Sri Lanka	50.2	48.7	55.1	49.6	53.5	56.7	59.5	57.6	54.7	56.2
Philippines	53.7	54.9	53.4	56.9	54.0	53.0	48.8	53.0	53.2	50.1

... = not available, PRC = People's Republic of China, Q = quarter.

Note: Pink to red indicates worsening (<50) and white to green indicates improvement (>50). Series for Singapore is not seasonally adjusted.

Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

Source: ADB. Asian Development Outlook Update September 2023. Manila; updated using CEIC Data Company.

GLOBAL DEMAND WILL SLOW LESS THAN EXPECTED BEFORE

Growth will decelerate to varying degrees across advanced economies

Baseline Assumptions on the International Economy

	2022	2023		2024	
	Actual	September	December	September	December
GDP growth, %					
Major advanced economies	2.3	1.4	1.6	0.9	1.3
United States	1.9	1.9	2.4	0.8	1.8
Euro area	3.4	0.7	0.5	1.1	0.8
Japan	0.9	1.7	1.6	0.5	0.6
Inflation, %					
Major advanced economies	7.5	4.5	4.5	2.3	2.4
United States	8.0	4.0	4.0	2.4	2.4
Euro area	8.4	5.7	5.7	2.5	2.5
Japan	2.5	2.9	3.1	1.5	1.9
Brent crude spot price, average, \$/barrel	100	83	83	86	88

Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

Rice prices have risen sharply in the second half of the year

Commodity Prices



Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

PRC AND INDIA ARE DRIVING AN UPWARD REVISION TO THE 2023 FORECAST FOR THE REGION; 2024 GROWTH WILL REMAIN SOLID

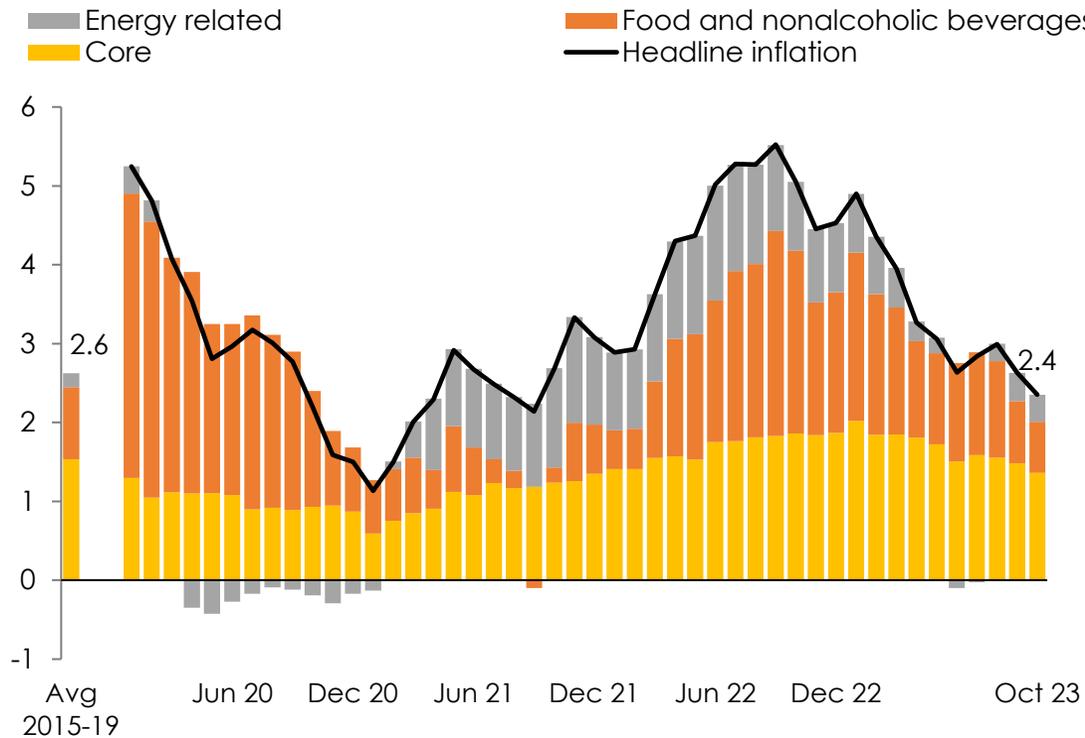
	2022	2023		2024	
		September	December	September	December
Developing Asia	4.3	4.7	4.9	4.8	4.8
Caucasus and Central Asia	5.1	4.6	4.8	4.7	4.6
Kazakhstan	3.2	4.1	4.5	4.3	4.3
East Asia	2.8	4.4	4.7	4.2	4.2
Hong Kong, China	-3.5	4.3	3.6	3.3	3.3
People's Republic of China	3.0	4.9	5.2	4.5	4.5
Republic of Korea	2.6	1.3	1.3	2.2	2.2
Taipei,China	2.4	1.2	1.2	2.7	2.7
South Asia	6.7	5.4	5.7	6.0	6.0
India	7.2	6.3	6.7	6.7	6.7
Southeast Asia	5.6	4.6	4.3	4.8	4.7
Indonesia	5.3	5.0	5.0	5.0	5.0
Malaysia	8.7	4.5	4.2	4.9	4.6
Philippines	7.6	5.7	5.7	6.2	6.2
Singapore	3.6	1.0	1.0	2.5	2.5
Thailand	2.6	3.5	2.5	3.7	3.3
Viet Nam	8.0	5.8	5.2	6.0	6.0
The Pacific	6.1	3.5	3.5	2.9	2.9

Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

INFLATION IS FORECAST TO CONTINUE MODERATING

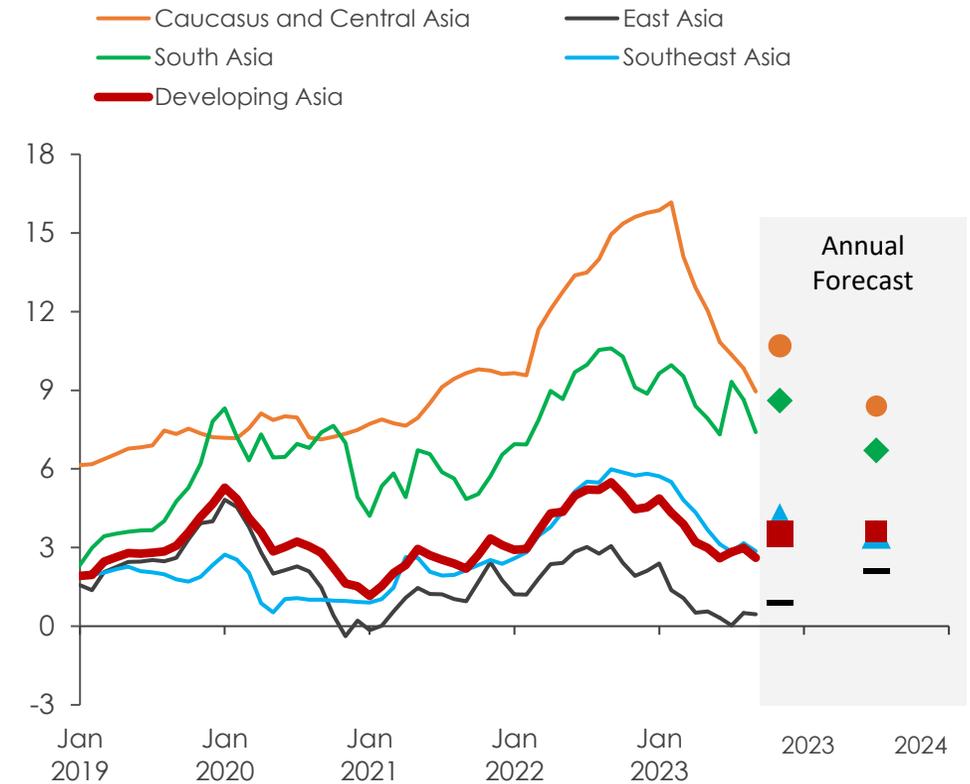
Energy and food price inflation are receding, as is core inflation

Contributions to Inflation (% points)



Headline inflation is expected to moderate further in 2024

Monthly Inflation and ADO Annual Forecasts (% year-on-year)



Note: Core inflation excludes volatile components, i.e. energy and fuel. Regional average is calculated using GDP PPP shares as weights and covers 22 economies.
 Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

Source: ADB. Asian Development Outlook Update September 2023. Manila; updated using CEIC Data Company.

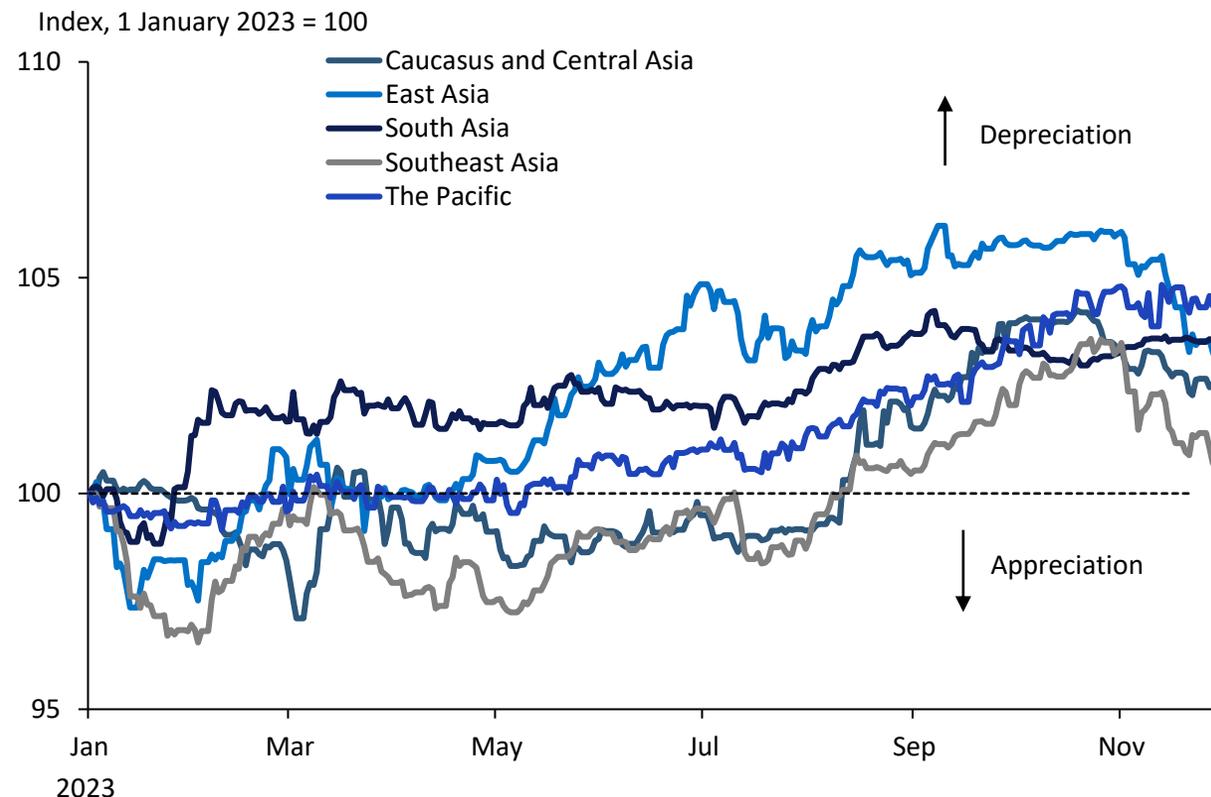
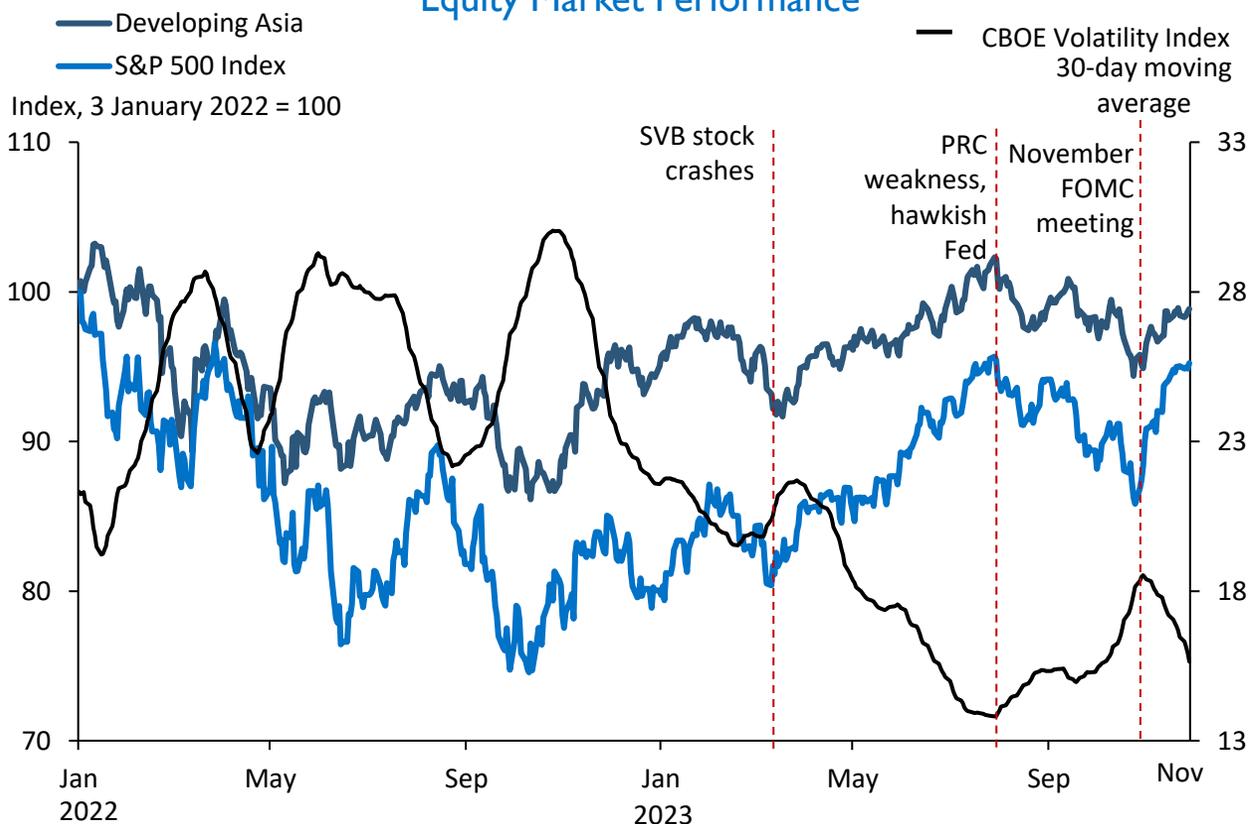
AFTER EASING THROUGH MUCH OF 2023, FINANCIAL MARKET CONDITIONS REMAINED BROADLY STABLE IN RECENT MONTHS

Equity markets retreated in September but rallied in November amid investors' expectation of no more rate hikes

Most regional currencies slightly appreciated against the US dollar in recent weeks

Equity Market Performance

Exchange Rate Movement Relative to USD



CBOE = Chicago Board Options Exchange, FOMC = Federal Open Market Committee, SVB = Silicon Valley Bank.

Source: Bloomberg.

Source: Bloomberg.

DOWNSIDE RISKS CONTINUE TO CLOUD THE OUTLOOK

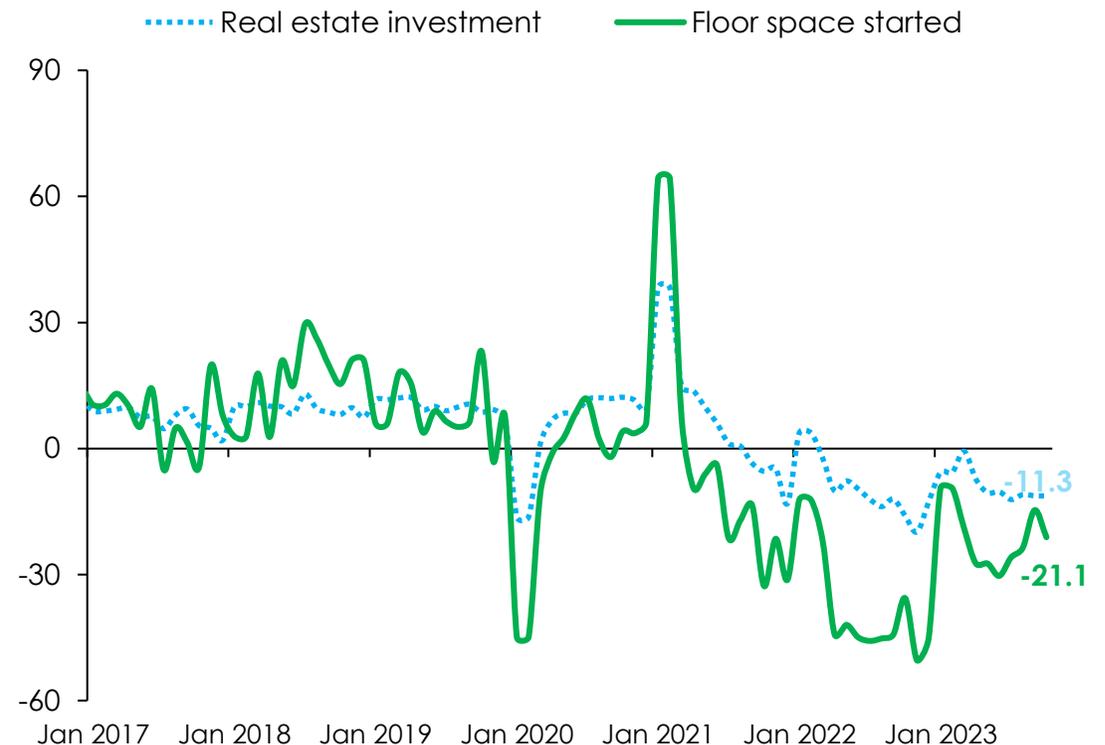
- Continued property sector weakness could weigh on growth in the PRC
- “Higher for longer” US interest rates will pose a challenge to highly indebted economies and sectors
- El Niño and geopolitical uncertainty threaten food and energy security

CHINA'S PROPERTY MARKET POSES A RISK

- Continued property market weakness would be a drag on the domestic economy
- Policy actions could soften or fully offset the impact
- Effect is mostly on PRC; spillovers would be limited, with some exceptions (e.g., Mongolia)
- Recently announced on-budget stimulus (RMB1tn or 0.8% of GDP) will help, as property market remains weak

PRC's property market is undergoing an adjustment, with investment, sales, and prices contracting.

Property Market Indicators
(%, year-on-year)

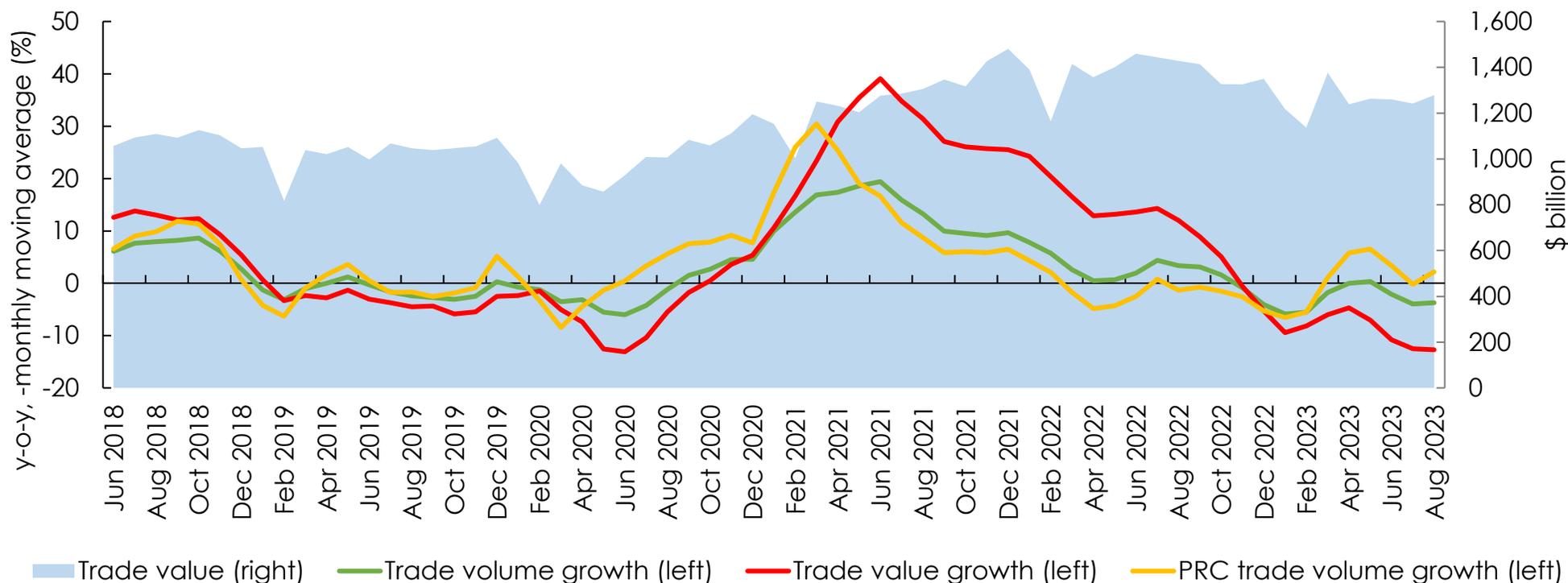


Source: ADB. Asian Development Outlook Supplement December 2023. Manila.

TRADE, INVESTMENT AND GLOBAL VALUE CHAIN IN ASIA

SLOW GROWTH IN ASIA'S TRADE FOR 2023 AMID LINGERING PRESSURES

Monthly Trade, by Value and Volume—Asia and the Pacific



PRC = People's Republic of China, y-o-y = year-on-year.

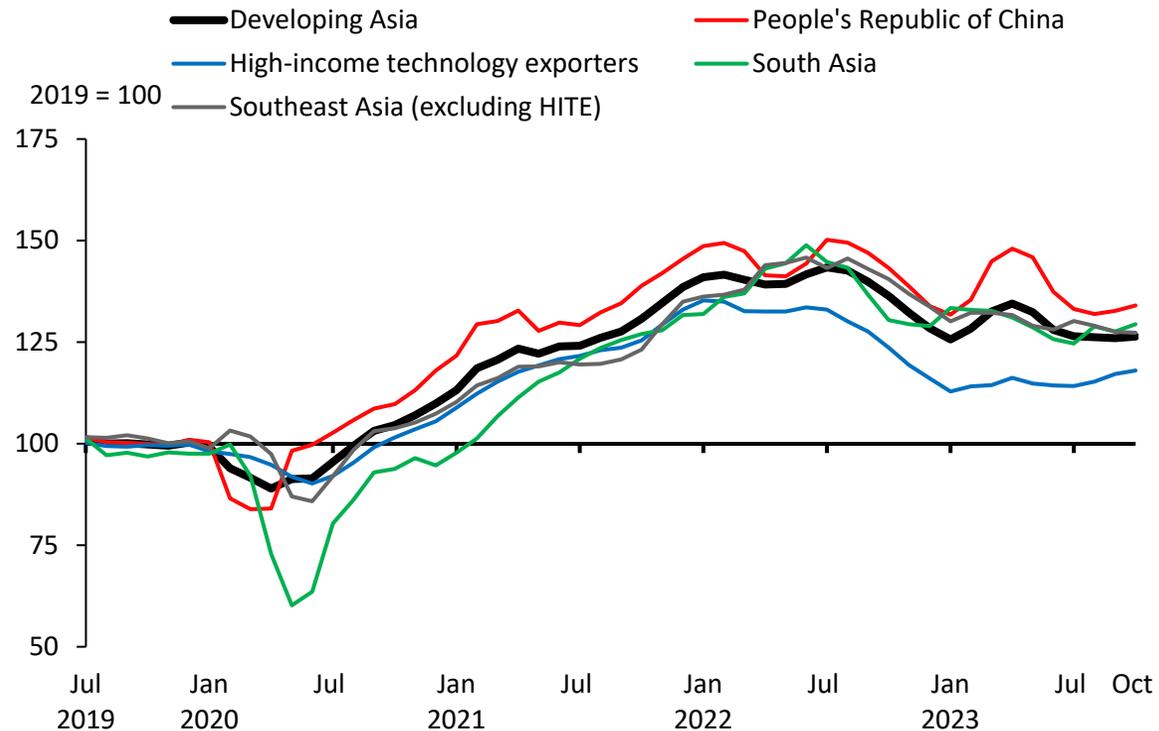
Notes: Trade volume growth rates were computed as the three-month moving average year-on-year growth using volume indexes. For each period and trade flow type (i.e., imports and exports), available data include indexes for the PRC and Japan, and aggregate indexes for selected economies in Asia and the Pacific: (i) advanced economies excluding Japan (Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China); and (ii) emerging economies excluding the PRC (India, Indonesia, Malaysia, Pakistan, the Philippines, Thailand, and Viet Nam). The aggregate index for Asia and the Pacific was computed using trade values as weights.

Sources: ADB calculations using data from CEIC Data Company; and CPB Netherlands Bureau for Economic Policy Analysis. World Trade Monitor. <https://www.cpb.nl/en/world-trade-monitor-august-2022> (both accessed October 2023).

NEVERTHELESS, EXPORTS STABILIZED IN 2023 AND EXPECTED TO GRADUALLY RECOVER IN 2024

The region's exports are holding up...

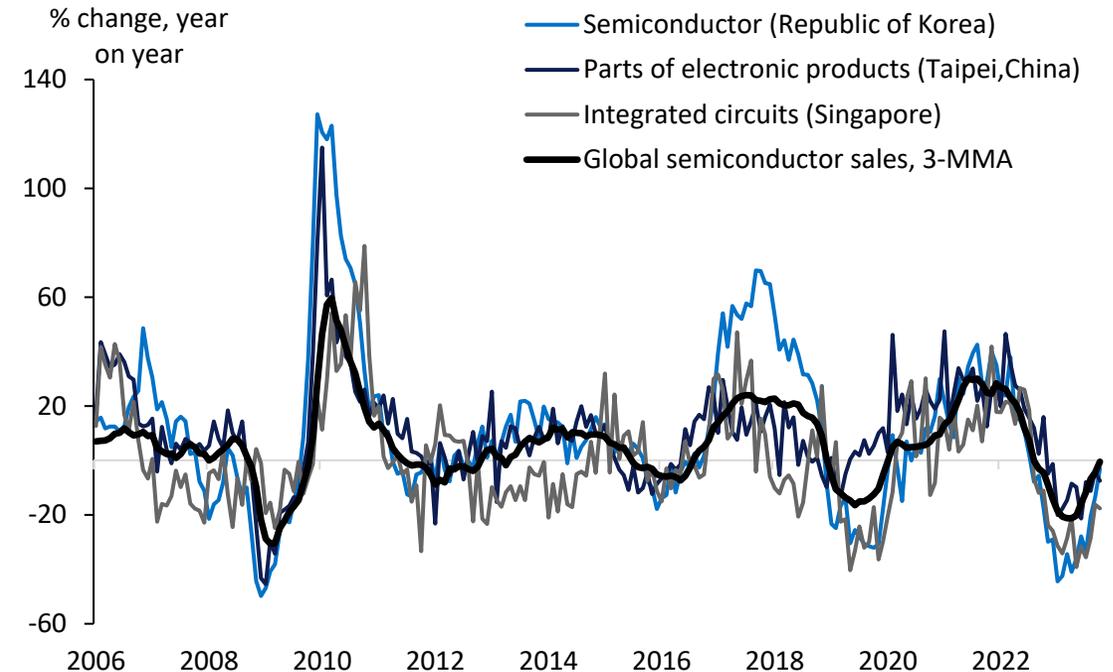
Goods Exports



3-month moving averages. High-income technology exporters = Singapore, Republic of Korea, Taipei, China, Hong Kong, China.
Source: CEIC Data Company.

...as the electronics cycle has turned the corner.

Semiconductor Sales

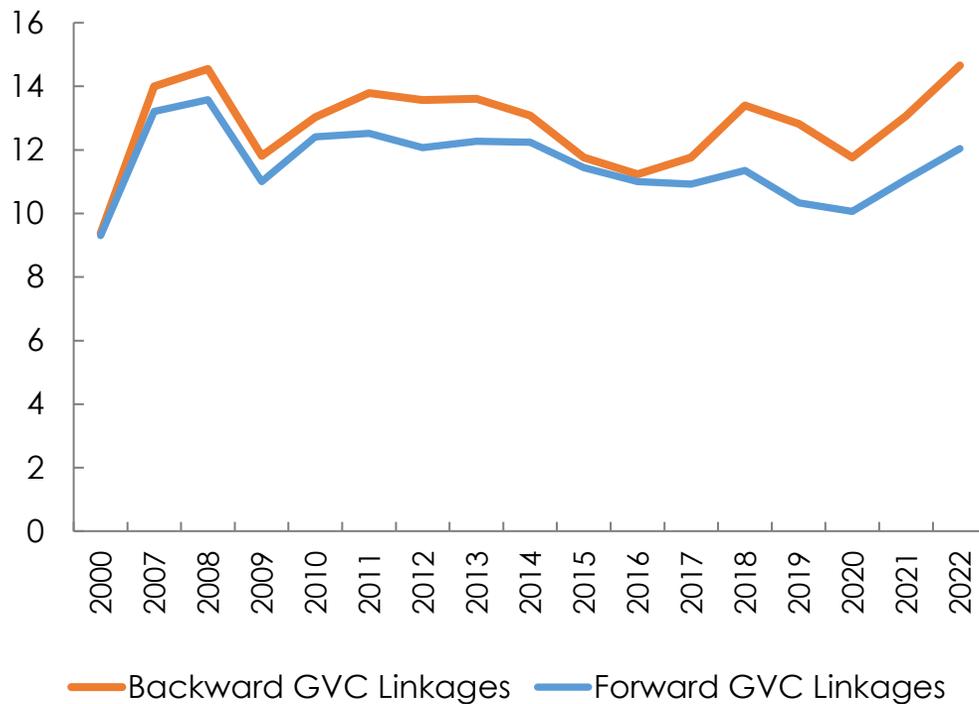


3-MMA = 3-month moving average.
Source: CEIC Data Company.

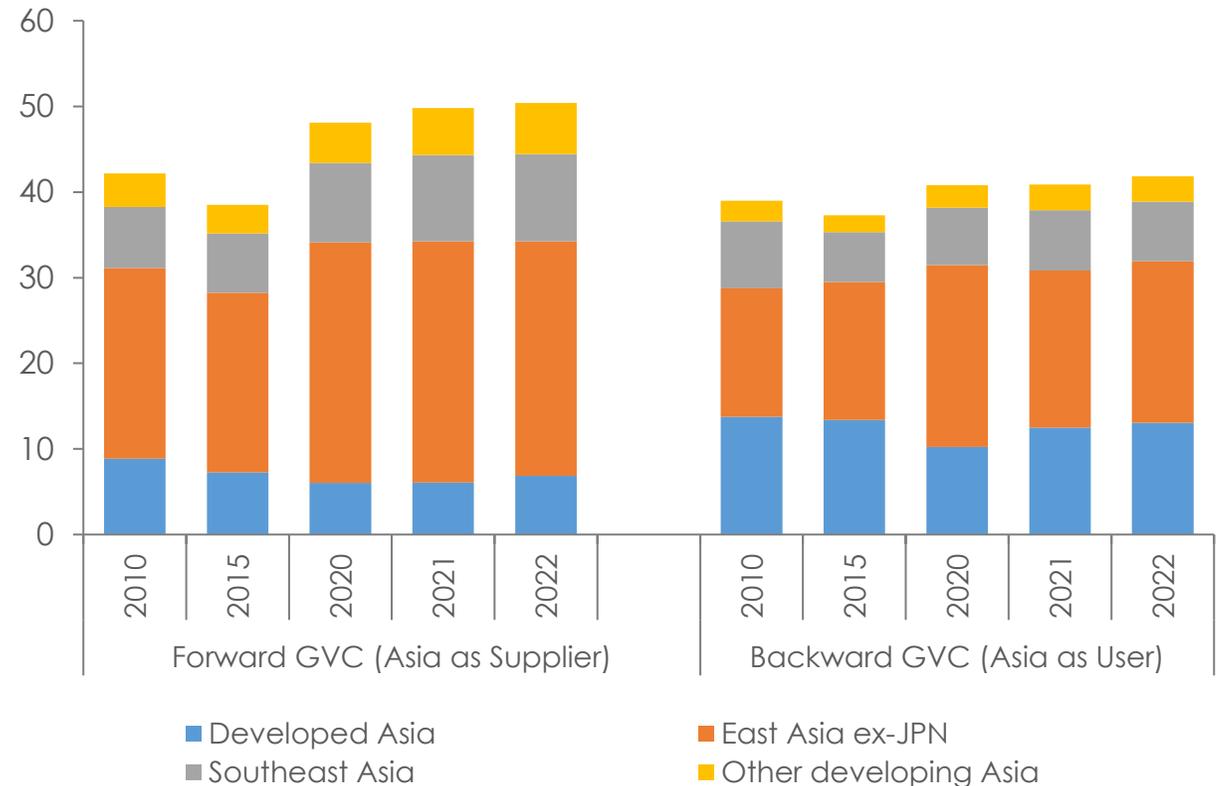
GVC ACTIVITY REBOUNDED AND SHOWED SIGNS OF BECOMING MORE REGIONALIZED IN RECENT YEARS

Global Value Chain Dynamics—Asia and Pacific

GVC Participation Rates (%)



Regional Share of Asia's GVCs (%)



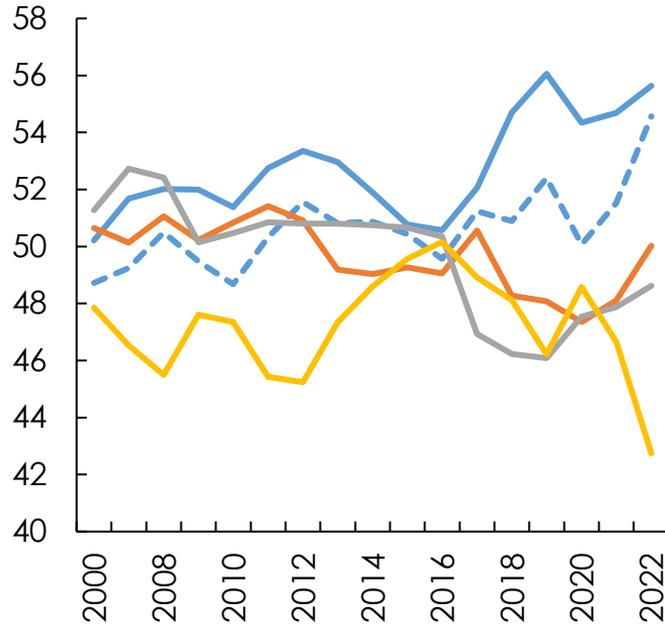
GVC = global value chain, JPN = Japan.

Note: Developed Asia refers to Australia, Japan, and New Zealand.

Sources: ADB Multiregional Input-Output Tables; and methodology by Wang et al. (2017).

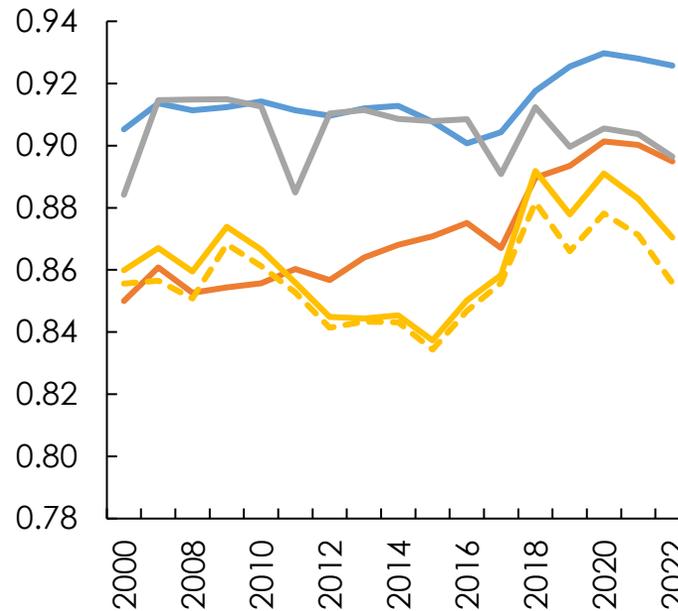
ASIA IS MORE WEIGHTED ON DOWNSTREAM AS ASSEMBLER IN GVC AND HAS LESS DIVERSIFIED GVC PARTNERS

Global Value Chain Position Index



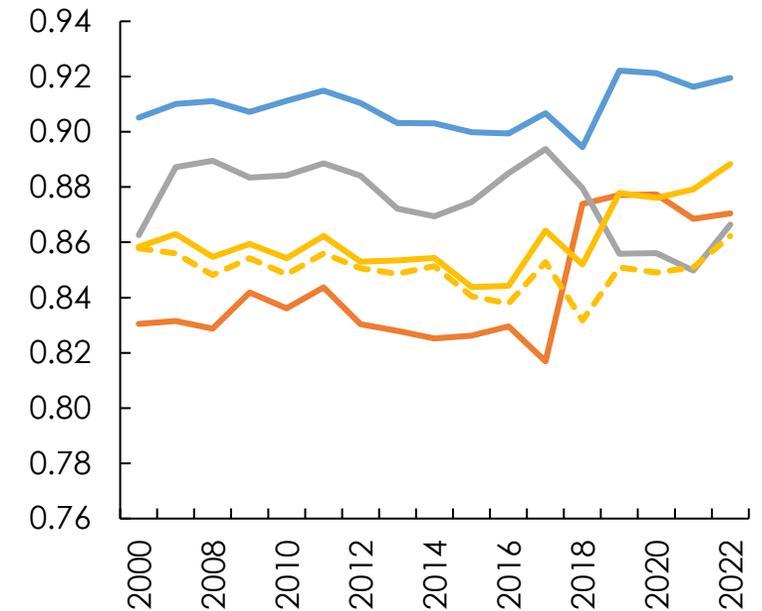
— Asia
— EU+UK
— ROW
- - - Asia ex PRC
— North America

Diversification Index—Backward GVC Linkages



— EU+UK
— ROW
— Asia
- - - Asia ex PRC
— North America

Diversification Index—Forward GVC Linkages

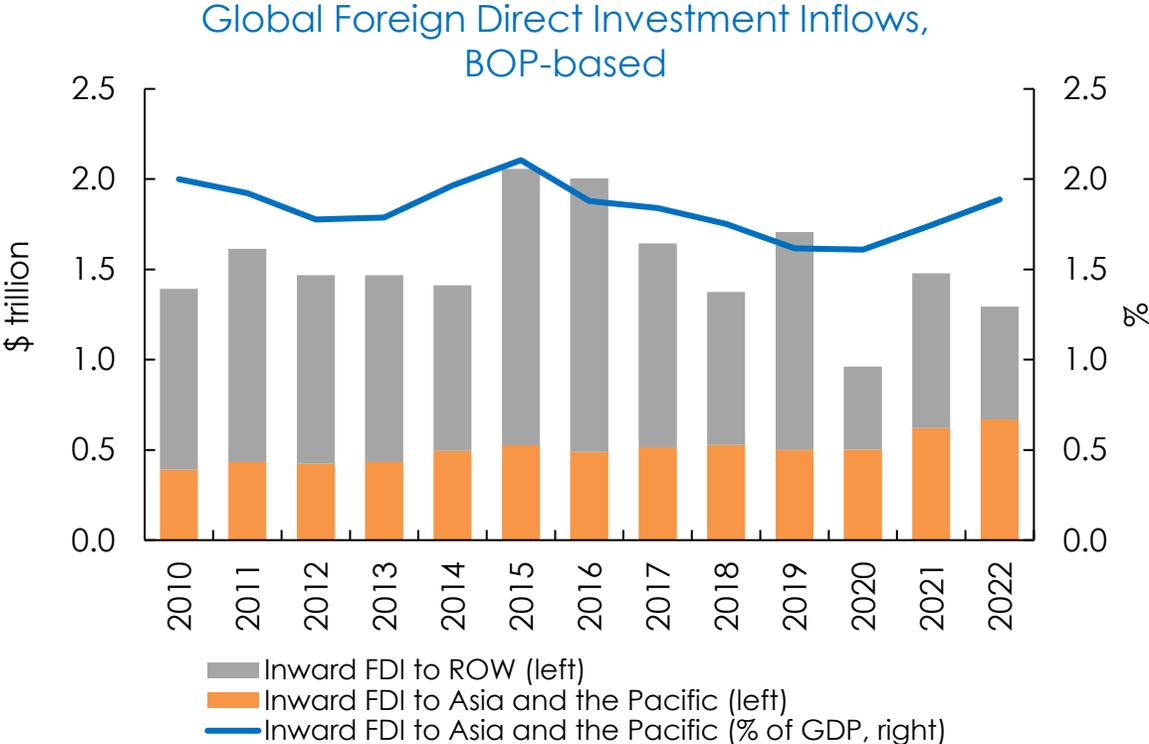


— EU+UK
— ROW
— Asia
- - - Asia ex PRC
— North America

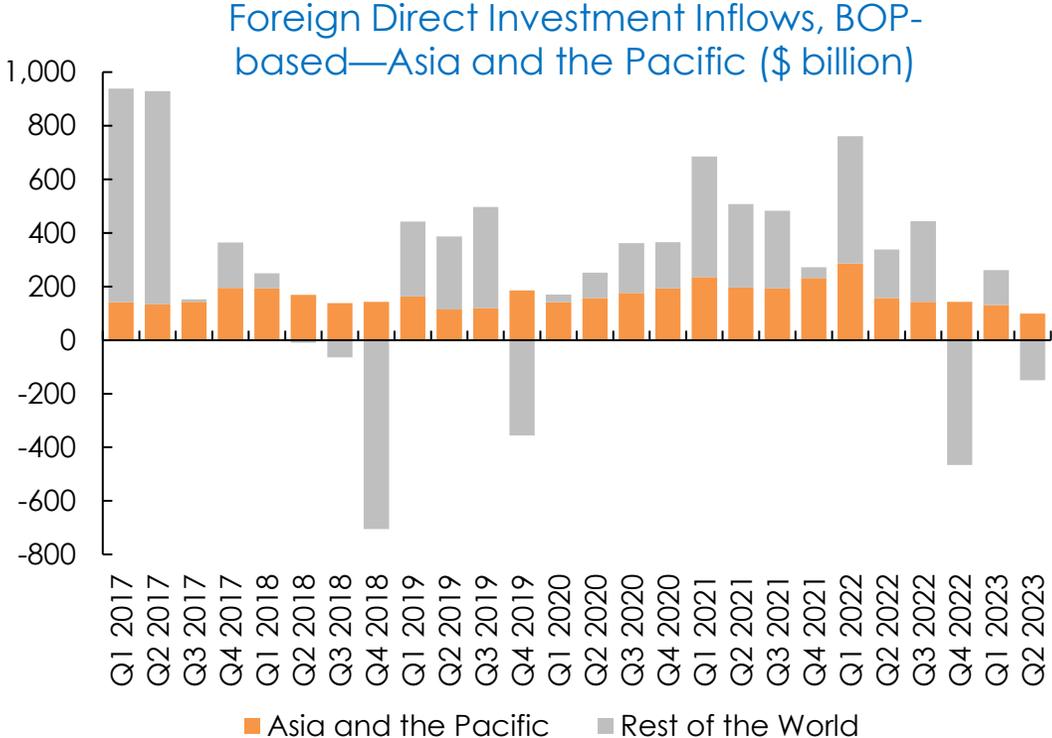
EU = European Union (27 members), GVC = global value chain, PRC = People's Republic of China, ROW = rest of the world, UK = United Kingdom.
Note: Diversification Index is constructed as the inverse Herfindahl-Hirschman Index using shares of partner economies in backward (forward) linkages.
Sources: ADB Multiregional Input-Output Tables; and methodology by Wang et al. (2017).

DESPITE WEAKER GLOBAL TRENDS, FDI FLOWS INTO ASIA REMAINED RESILIENT

Global investment activity tempered in 2022 against a backdrop of persistent global uncertainty



Asia's inward FDI grew in 2022, but 2023 shows signs of deceleration



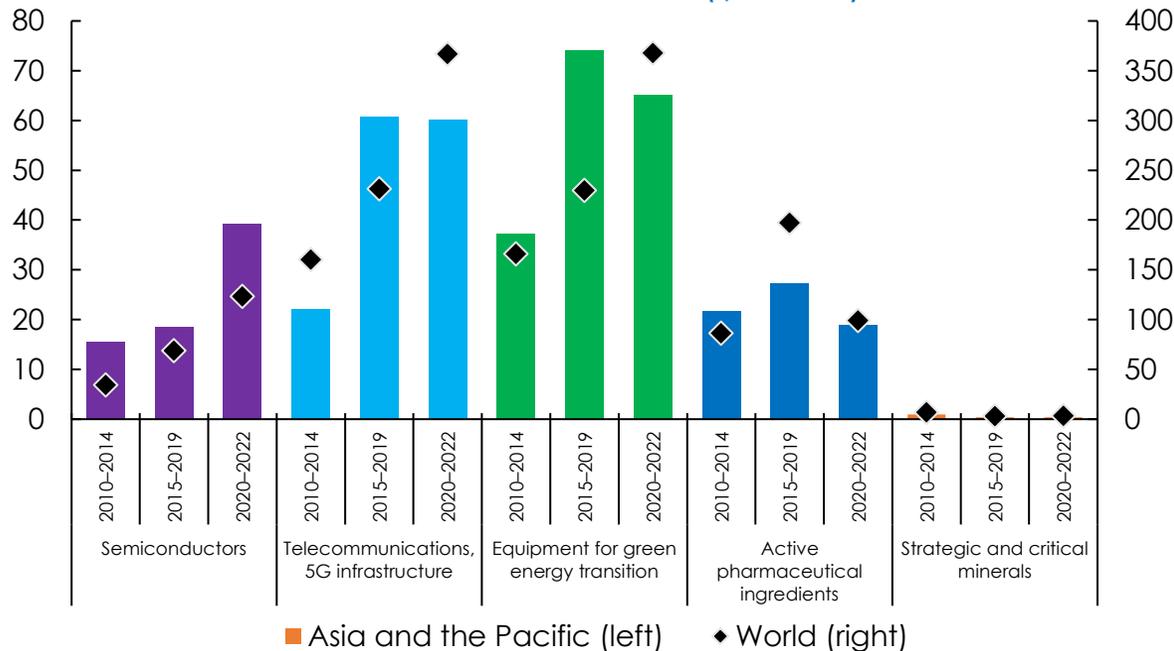
BOP = balance of payments. FDI = foreign direct investment, GDP = gross domestic product, ROW = rest of the world. Sources: ADB calculations using data from ASEAN Secretariat, ASEANstats Data Portal; CEIC Data Company; Eurostat, Balance of Payments. <https://ec.europa.eu/eurostat>; International Monetary Fund, World Economic Outlook October 2023 database; and United Nations Conference on Trade and Development, World Investment Report 2023 Statistical Annex Tables.

Source: International Monetary Fund, Balance of Payments and International Investment Position. <https://www.imf.org/en/Data> (accessed December 2023).

FDI INTO STRATEGIC SECTORS INCREASED IN ASIA

**Notable increases were observed
semiconductors, telecom, and green energy**

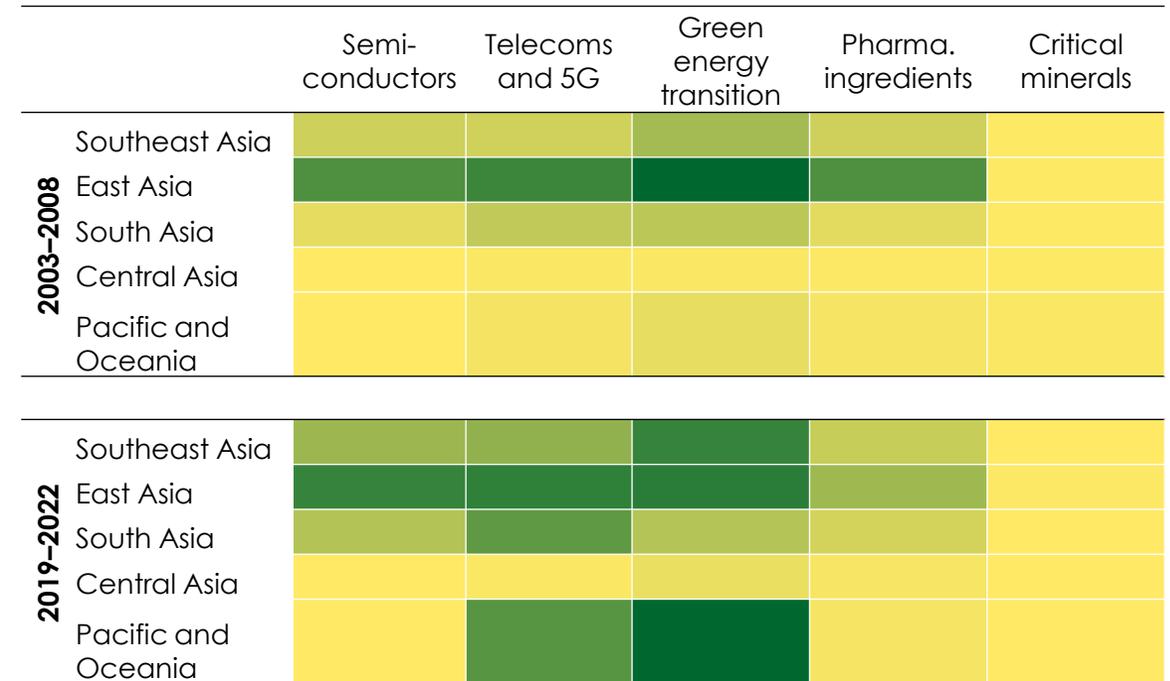
FDI in Strategic Sectors—Total Firm-Level Activity,
Greenfield and M&As (\$ billion)



Sources: Bureau van Dijk, Zephyr M&A Database; and Financial Times, fDi Markets; and methodology from Atlantic Council (2022); and International Monetary Fund (2023).

**FDI in strategic sectors has diversified across
the region**

FDI in Strategic Sectors by Asian Subregion (\$ billion)



Note: Colors are scaled with respect to investment value, with yellow cells closer to the minimum and green cells closer to the maximum.

Sources: ADB calculations based on Bureau van Dijk, Zephyr M&A Database; and Financial Times, fDi Markets (both accessed April 2023); and methodology from Atlantic Council (2022); and IMF (2023).