



## Report on the Asia-Pacific Economies



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### Solid growth in the region in 2023 and perspectives for 2024

- In 2023 the Asia Pacific and India region grew 4.3%, above world's level of 3.1%. In 2024 the region would grow 4%.
- India, China, Philippines, and Vietnam showed a high growth rate, boosted by both global and local factors.
- China received in 2023 the smallest level of Foreign Direct Investment in 30 years, as multinational companies chose other destinations for their investments with lower labor costs and looking to reduce their exposure to the Chinese economy.
- Digital trade has increased 125% in ASEAN-6 since 2019, reaching 226 billion USD in 2023. It is expected that by 2030 digital trade will reach one trillion USD.

#### Robust growth in 2023 would repeat in 2024.

Last year, the Asia Pacific and India region showed a firm growth of 4.3%, and it is expected that this year the growth rate will be 4%. Turbulences in the Chinese economy, mainly in the real estate sector, hardly impacted its rate of economic growth (5.2%). 2023 was the year of the full openness of the Chinese economy, after many years of restrictions and partial re-openings. Growth was boosted by its high-tech industry and services, while construction and private consumption showed some weaknesses. China has lost population for two years in a row, decreasing 2 million inhabitants in 2023. The collapse of its fertility rate anticipates the continuation of the process of population loss in the long run, which will profoundly affect its economy.

The highest rate of growth in the region was that of India (6.5%). The 2014 plan "Make in India" of PM Modi has contributed to the strong growth of manufacturing production in the last years. The plan includes fiscal incentives, facilitation of bureaucratic procedures and other measures to promote investments.

On the one hand, the labor cost difference between India and China widens, which has attracted foreign companies in labor intensive industries. On the other, India's population continues growing (in 2023 it became the most populated country on Earth), and it will continue providing a huge supply of young labor force in the future. Finally, the process of re-direction of investments by foreign companies has consolidated, as firms look to reduce the risks of being too exposed to the Chinese economy. In 2023, only 33 billion dollars were invested by foreign companies in China, the lowest figure in 30 years.

**Table 1: Economic growth, in percentage**

	2011-14	2015-19	2020	2021	2022	2023	2024 (e)
Brunei	0	0.2	1.5	-1.6	-2.3	2.6	3.5
Cambodia	7.2	7	-2	2.2	5.2	5.3	6.4
Philippines	5.9	6.4	-9.5	5.6	7.6	5.6	6
Indonesia	5.7	5.1	-2.1	3.7	5.3	5	5
Laos	7.9	6.8	-0.7	3.6	2.7	3.7	4
Malaysia	5.4	4.8	-5.6	3.5	8.7	4	4.3
Myanmar	7.3	6.5	1.7	-18	2	2.8	3.2
Singapore	4.9	2.4	-5.4	7.2	3.6	1.1	2
Thailand	2.9	3.3	-6.5	1	2.6	2.5	4.4
Vietnam	5.6	6.8	2.9	2.6	8	5.1	6
<b>ASEAN</b>	<b>5.2</b>	<b>4.8</b>	<b>-3.9</b>	<b>3.1</b>	<b>5.4</b>	<b>4</b>	<b>4.6</b>
China	8.1	6.6	2.3	8.1	3	5.2	4.6
Korea	3.1	2.7	-1	4	3.3	1.4	2.6
India	6.5	6.9	-7.3	8.7	7.2	6.7	6.5
Japan	1	1.1	-4.5	1.7	1	1.9	0.9
Taiwan	2.7	2.6	3.1	6.3	2.4	1.4	3.4
<b>CKJIT</b>	<b>5.9</b>	<b>5.2</b>	<b>-0.3</b>	<b>6.5</b>	<b>3</b>	<b>4.3</b>	<b>3.9</b>
<b>TOTAL AP&amp;I</b>	<b>5.8</b>	<b>5.1</b>	<b>-0.7</b>	<b>6.2</b>	<b>3.3</b>	<b>4.3</b>	<b>4</b>
<b>World</b>	<b>3</b>	<b>3.3</b>	<b>-3.1</b>	<b>6</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>

Source: Research Institute based on official data from countries and IMF.

Vietnam's economic growth has been remarkable in the last decade and a half, reaching in 2023 an annual increase in activity of over 5%, while reaching its highest level of FDI in history, with over 36 billion USD, surpassing China and growing 32% compared to 2022. Its trade liberalization policies, the broadening of its bilateral and multilateral trade pacts and the advancement of the enormous investment agreement with the European Union (so far 16 of its 27 members approved it) present a strong base for Vietnam's economy long term future perspectives. The dynamism of its manufacturing and agricultural sectors will be reinforced, as the facilitation of trade makes it easier for Vietnamese products to penetrate markets.

Philippines economy posted a strong growth rate of 5.6% in 2023, driven by the growth in remittances sent by the nearly 10% of its citizens who live abroad, the higher level of manufacturing

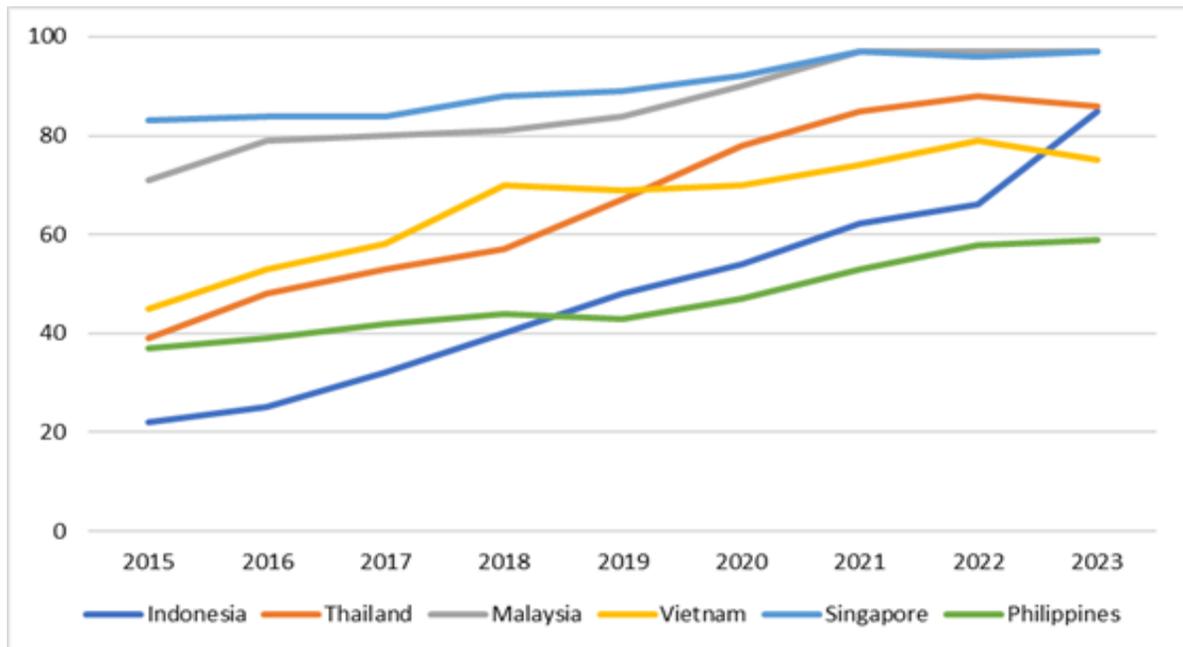
production and the return to full scale tourism, that doubled foreign visitors in a year, reaching 5.5 million.

### Digital economy in ASEAN

The Association of Southeast Asia Nations (ASEAN) is the third largest economy in Asia and the fifth in the world, with a GDP close to 4 trillion dollars. Between 20 and 25 million businesses make transactions in platforms of digital trade: over 160,000 direct and 30 million indirect jobs were created because of the digital economy. According to the World Bank, over 60% of the population uses social networks and 80% of consumers gather information on products and services from them.

Among the reasons for such development in ASEAN are the growth in internet users and the fact that digital payments are more common among the youth, and the region has a very important share of the population of young age: The average median age is 30 in the region, 32,5 in India 39 in China and 49 in Japan. 50.6% of ASEAN population is between 20 and 54 years old, a group with a large access to internet through a computer or smartphone.

**Figure 1: Internet users in ASEAN-6**



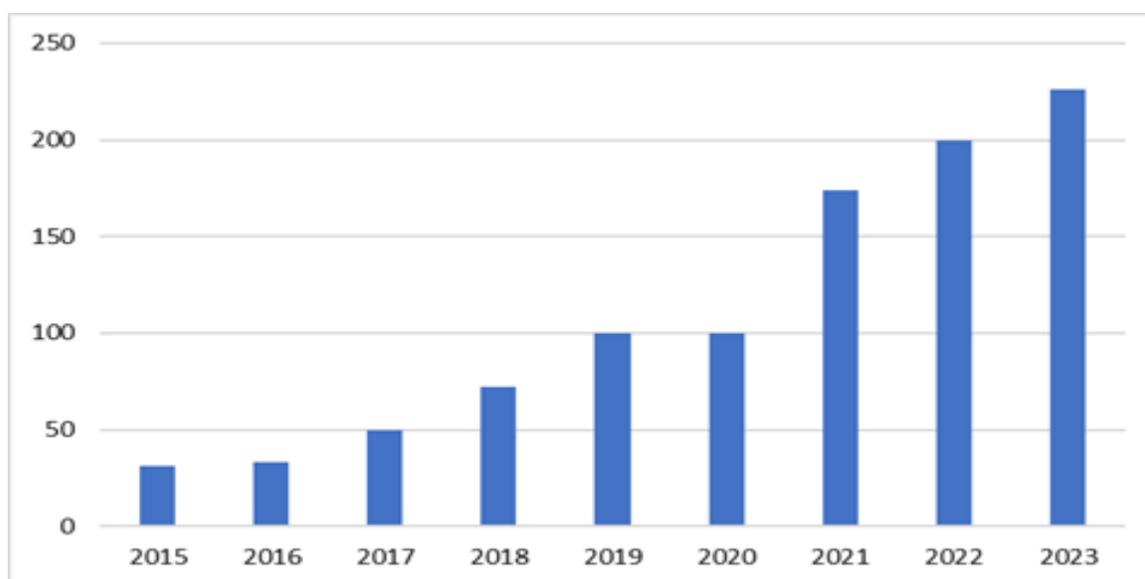
Source: Research Institute, based on World Bank and Statista.

Nevertheless, there is still a big disparity in access to internet. ASEAN-6 countries (Singapore, Malaysia, Indonesia, Thailand, Vietnam y Philippines) are the ones with the highest level of access to internet and with the most developed digital economies. In 2023 Indonesia registered 233 million internet users, Philippines 93 million, Vietnam 82, Thailand 61, Malaysia 33, and Singapore 6 (almost the entire population). In Cambodia, Laos and Myanmar, the access to internet is limited, which complicates their integration into the region's digital economy. The main reason for the lack of access

is the bad infrastructure to provide the service to rural areas: 60% of Laos population, 70% of Myanmar's and 80% of Cambodia's live in rural areas. In Myanmar, the dictatorship imposed severe restrictions to the access to internet in cities after the *coup de état* in 2021.

The development of digital trade coincides with the growth of digital payments, that constitute more than half of the region's transactions. including virtual wallets, used of credit and debit cards, bank transfers and virtual credits. In 2023, the total value of digital payments was 226 billion dollars (Figure N°2) and, according to *Google Report*, it is forecasted that by 2030 it grows to 1 trillion USD. The digital economy of ASEAN concentrates in e-commerce, logistics and food transport, tourism, online media, and financial services.

**Figure 2: Digital economy in ASEAN-6, in billion USD**



Source: Research Institute, based on ERIA, World Bank, ASEAN and *Google Report*

The growth of digital economy depends on several factors, as infrastructure investments, internet access and use of smartphones, among others. On the same track, the young population and the enlargement of middle classes create a good base for its development. In 2022 FDI reached a historical high of 224 billion USD, and the main sectors attracting investments were manufacturing, finance, commerce, and some service industries associated with the digital economy. For example, investments on information and telecommunication technologies increased 67% in just one year. The rapid growth of e-commerce and of new high-tech companies fostered the establishment or expansion of big multinational companies in the region, as Amazon, Google or Equix, for example.

Despite the growth of digital economy has a long way to go, several initiatives may accelerate the process. Among them, the *Digital Economy Framework Agreement (DEFA)* and ASEAN Digital Community 2045. The DEFA, supported by ASEAN's Economic Community in August 2023, would allow to equilibrate different stages of digital integration, considering the diverse levels of socio-economic development in the bloc. The ADC 2045 will intensify integration and connectivity in the

region, generating a common response to region's challenges, as digital transformation, environmental sustainability, and inequities.

### **Points of interest and perspectives**

- The World Tourism Organization estimates that in 2024 the volume of international tourism will be like the prepandemics levels of 2019. The complete lift of restrictions of outbound tourism from China at the beginning of 2023 generated a massive flow of Chinese nationals moving around the Southeast Asia region, stimulated by the facilitation of travel procedures as the elimination in many countries of the need of a visa before departure. This return to normal will impact the most in economies where tourism represents a large proportion of the GDP, like Singapore and Malaysia (with more than 11% of their GDP and employment generated by tourism) and Philippines and Thailand (more than 20%).
- The Japanese government pretends to pass a legislation this year to boost offshore wind energy. Even though the country has firms with big investments outside the country, as Jera or Tepco, the offshore capacity is underexploited, as the areas in which windmills can be installed are currently limited. The country aims at multiplying by 70 its offshore production by 2030 (10 GW), moving from 20% to 36% of renewable energies in the total supply of energy in the country. The government has been organizing bids to produce offshore wind energy since 2021, and with the change in legislation it is expected that this source of energy will become one of the pillars in the objective to achieve carbon neutrality by 2050.
- In February Indonesia held the presidential elections. Prabowo Subianto of the Gerindra party, got more than 50% of the votes, and will start his mandate in October. The current president (Joko Widodo) political party only obtained 17% of the votes. During his campaign, Subianto promised to continue with the structural reforms of the current government and established an annual growth target of 8% for the next 5 years. To achieve that, the new government will have to achieve a tax reform, to attract more international investment. In 2023 FDI represented 52.4% of total investments, and the main investors were Singapore, China, Japan, and Malaysia. Subianto announced a Project to reform and privatize public companies in the energy, finance, telecommunications, and agriculture sectors.