



Facultad de Ciencias Económicas y Empresariales

# Report on the Asia-Pacific Economies



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## Growth deceleration in a fast-changing scenario

- Economic growth in the region would reach 3.4%, well below the 5.2% expansion that was expected for this year at the end of 2021.
- Growth deceleration is important in China (due to its zero Covid policy related restrictions), India, Japan, and Thailand. Meanwhile, Vietnam will experience a greater rate of growth than the one expected one year ago.
- International trade is being affected by the deceleration and the change in the global scenario: exports will grow 3.4% in 2022 (5.5% was expected one year ago), while imports will grow just 1.6% (8.3%).
- International tourism re-started in 2022, despite still being far from the vigorous activity of 2019. Most countries lifted the restrictions to the entrance of foreigners, and a very active 2023 is expected, with a concomitant positive impact of the GDP. Despite this, international tourism would only equal the 2019 figures by 2024 or 2025.

## Growth and trade deceleration

Asia Pacific and India would grow in 2022 1.8 points less than what was estimated last year. Ukraine's invasion and the China's slower rate of growth had a big negative impact in the region's economy. China would grow 3.2%, well below the 5.6% expected last year, as it maintains heavy restrictions on people's mobility to prevent the spread of COVID-19 and has been through some turbulences in the real estate market. ASEAN will suffer a small correction of 0.5 points in its rate of growth, that would be a healthy 4.8% in 2022, according to the IMF.

Only three countries will experience growth larger than the one forecasted in 2021. Firstly, Myanmar, that suffered a collapse in its economy in 2021 (-18%), due to its political crisis that evolved into a civil war. In 2022, investments from China (see below) improved economic activity and now growth is expected to be 2% this year.

Secondly, Vietnam, that will be the fastest growing economy in 2022 (7.2%), boosted by foreign investments that aim at expanding its infrastructure and take advantage of its availability of a large pool of cheap labor force, whose cost is about half the cost of China's. The third country is the Philippines, that has accelerated its rate of growth in the second half of the year due to the reopening of its borders to foreign tourists (see table 2).

**Table 1. Economic growth and international trade 2022 - Estimates**

|                       | Economic growth 2022 |                       |             | International trade of goods and services 2022 |                       |             |                |                       |             |
|-----------------------|----------------------|-----------------------|-------------|--|-----------------------|-------------|----------------|-----------------------|-------------|
|                       | Projected 2022       | Estimate one year ago | Var.        | Exports  |                       |             | Imports        |                       |             |
|                       |                      |                       |             | Projected 2022                                 | Estimate one year ago | Var.        | Projected 2022 | Estimate one year ago | Var.        |
| Brunei                | 1.3                  | 2.6                   | -1.3        | 0.9  | 10.6                  | -9.7        | 33.6           | 7.9                   | +25.7       |
| Cambodia              | 5.1                  | 5.6                   | -0.5        | 9.6  | 15.8                  | -6.2        | -12.2          | 7.9                   | -22.1       |
| Philippines           | 6.5                  | 6.3                   | +0.2        | 4  | 17.2                  | -13.2       | 14.9           | 23.1                  | -8.2        |
| Indonesia             | 5.2                  | 5.9                   | -0.7        | 0.8  | 5.7                   | -4.9        | 8.5            | 10.1                  | -1.6        |
| Laos                  | 2.2                  | 4.2                   | -2          | 0.5  | 6.7                   | -6.2        | -5             | 7                     | -12         |
| Malaysia              | 5.4                  | 6                     | -0.6        | 6.3  | -2.2                  | +8.5        | 10.6           | -0.7                  | +11.3       |
| Myanmar               | 2                    | -0.1                  | +2.1        | -6.5   | -0.4                  | -6.1        | -8.4           | -0.5                  | -7.9        |
| Singapore             | 3                    | 3.2                   | -0.2        | 6.5  | 5.7                   | +0.8        | 8.4            | 6.4                   | +2          |
| Thailand              | 2.8                  | 4.5                   | -1.7        | 7.4  | 7.3                   | +0.1        | 6.7            | 5.3                   | +1.4        |
| Vietnam               | 7.2                  | 6.6                   | +0.6        | 3.7  | 11.1                  | -7.4        | 0.9            | 10.1                  | -9.2        |
| <b>ASEAN</b>          | <b>4.8</b>           | <b>5.3</b>            | <b>-0.5</b> | <b>3.7</b>                                     | <b>6.9</b>            | <b>-3.2</b> | <b>7.9</b>     | <b>8.9</b>            | <b>-1</b>   |
| China                 | 3.2                  | 5.6                   | -2.4        | 2.2  | 4.6                   | -2.4        | -2.4           | 8.5                   | -10.9       |
| Korea                 | 2.6                  | 3.3                   | -0.7        | 3.6  | 4.7                   | -1.1        | 2.1            | 5                     | -7.1        |
| India                 | 6.9                  | 8.5                   | -1.6        | 3.9  | 6.1                   | -2.2        | 10.1           | 8.2                   | +1.9        |
| Japan                 | 1.7                  | 3.2                   | -1.5        | 4.4  | 7.7                   | -3.3        | 4.9            | 9.1                   | -4.2        |
| Taiwan                | 3.3                  | 3.3                   | 0           | 0.8  | 3.3                   | -2.5        | 2.4            | 4.1                   | -1.7        |
| <b>CKJIT</b>          | <b>3.3</b>           | <b>5.2</b>            | <b>-1.9</b> | <b>2.9</b>                                     | <b>5.4</b>            | <b>-2.5</b> | <b>0.9</b>     | <b>8.2</b>            | <b>-7.3</b> |
| <b>TOTAL AP&amp;I</b> | <b>3.4</b>           | <b>5.2</b>            | <b>-1.8</b> | <b>3</b>                                       | <b>5.5</b>            | <b>-2.5</b> | <b>1.6</b>     | <b>8.3</b>            | <b>-6.7</b> |

Source: Research institute, based on data from World Economic Outlook (IMF) and governments.

Thailand sees a reduction in its rate of growth, affected by the lower touristic activity. This sector accounts for 20% of its GDP (see table 2). By the second half of this year, the country had already eliminated all restrictions to the entrance of foreign tourists. Therefore, in this period, economic activity has been much higher than in the first: in the third quarter, Thailand grew 4.5% year on year and, in 2023, with the doors fully open to tourists, its economy is expected to grow 4%.

The Japanese economy also sees a strong deceleration in its rate of growth. The second largest importer of liquified natural gas (LNG) in the world suffered a big impact in its trade balance when energy prices spiked after Russia's invasion of Ukraine. Added to the weakening of the yen, Japan experienced a moderate increase in its inflation rate that affected private consumption. Prices jumped 3.6% in October, the highest rate in 40 years. In the third quarter the Japanese economy contracted 1.2% compared with the same period in 2021, and some analysts estimate that its bad economic performance will continue well into 2023.

A year ago, China was expected to grow 5.6% in 2022. However, current growth projections for this year are 3.2%. This deceleration affects the whole region. China is the main trade partner of most countries in the region, and the decrease in its imports this year (they would decline 2.4%) hits its neighbors' exports. A smaller rate of growth and the temporary closure of factories due to the "zero Covid" policy have led to a deceleration of the Chinese industrial production, that affected value chains of the region. Since June, a recovery of industrial activity is appreciated, and in October industrial output grew 5%, compared to the same month of 2021.

The real estate market is going through some turbulent times since last year, when its second largest developer declared the default. The sector started showing liquidity problems, with a decline in properties' value and an increase in the delinquency rate of mortgages. The Chinese government implemented strong policies to dismantle this potential crisis, and in November established that banks extend maturities of credits given to real estate developers and reduced mortgages interest rates. With this strong support, the government expects to flip market expectations, as in October the sale of properties declined 26% compared to October 2021. The construction sector represents 7% of China's GDP, much more than in Germany, the USA and Japan.

International trade for Asia Pacific and India was heavily affected by growth deceleration and the decline of middle-income classes consumption, influenced by a moderate inflation. Disruptions in value chains led to a deceleration of trade. Whether this is a temporary phenomenon or a long-term effect of the new global scenario, is yet to be seen.

## **2022: The return of international tourism**

With the pandemics, all countries in the region implemented strong restrictions to the entrance of foreigners to their territories, aiming at preventing the spread of the virus. This negatively impacted the region's economies, having represented in 2019 a large proportion of the GDP and exports. Table 2 shows the impact of tourism (from locals and foreigners) in 2019. In the Philippines and Thailand, it represented more than a fifth of its GDP and employment, and 10% and 20% of their exports, respectively. For the largest economies of the region, tourism is mainly local, which was less affected by the restrictions to the mobility of people and therefore was able to resume earlier.

In 2022, inbound tourism declined between 68% and 93%, according to the country. This means that the region received a total of 225 million tourists less than in 2019. The crisis in the sector has forced governments to design policies to mitigate the impact on the several sectors that depend on it (accommodation, transport, leisure, etc). Subsidies and other economic assistances were provided, so the impact of the abrupt closure of borders didn't drive all the firms and small businesses to bankruptcy. In the second half of 2021 governments started working on sanitary corridors and other policies to pave the way for a gradual reopening. The border gates were unlocked in 2022, but it wasn't until the second half of the year that we would see a complete openness to the entrance of foreigners and flocks of tourists arriving to the region's most popular destinations. Japan and India were two of the last ones to drop strong requirements for entry in October and November, respectively.

Since the reopening, a constant increase in the entrance of foreign tourists is observed. In November, Thailand received 1.7 million tourists, while in March it had only received 210 thousand. In Singapore, 816 thousand in November against 120 thousand in March. In the Philippines, 230 thousand in October against 26 thousand in February.

Although 2023 will be the year in which inbound tourism consolidates its growth, it would not be until 2024 or 2025 that the region will receive the same number of tourists than in 2019. Outbound tourism from China came to a halt as travel restrictions and special requirements to re-enter the country have disincentivized Chinese citizens to leave their country. China is the main source of foreign tourists for almost the whole region: in Thailand and Vietnam, Chinese represent 30% of inbound tourists, in Singapore 20%, and in Indonesia 15%.

**Table 2. Foreign tourists and impact of tourism**

|             | Million of foreign tourists |             |      | Turism, 2019 |              |
|-------------|-----------------------------|-------------|------|--------------|--------------|
|             | 2019                        | 2022 (est.) | Var  | % GDP        | % Employment |
| Philippines | 8.3                         | 2.5         | -70% | 2.5          | 22.7         |
| Indonesia   | 16                          | 3.5         | -78% | 5.6          | 9.5          |
| Malaysia    | 26                          | 6           | -77% | 11.7         | 15.1         |
| Singapore   | 19                          | 6           | -68% | 11           | 14.4         |
| Thailand    | 40                          | 12          | -70% | 20.3         | 21.8         |
| Vietnam     | 18                          | 3           | -83% | 7            | 9            |
| China       | 65                          | -           | n.d. | 11.6         | 10.8         |
| Korea       | 17.5                        | 2.5         | -85% | 4.4          | 5            |
| India       | 17.9                        | 5.5         | -69% | 7            | 8.4          |
| Japsn       | 32                          | 3           | -91% | 7.3          | 8.6          |
| Taiwan      | 11.8                        | 0.8         | -93% | 6            | 7            |

Note: Calculations from WTTC on the impact of tourism include both national and international tourism.

Source: Research institute, based on World Travel and Tourism Council (WTTC), on information from governments and from the United Nations World Tourism Organization (UNWTO).

### Points of interest and general perspectives for the region

- Leaders from ASEAN countries demanded in November that Myanmar fulfills the five-point consensus that all parties reached in April. This consensus included an immediate stop of violence, dialogue among all parties, mediation by a special envoy from ASEAN, humanitarian assistance from the bloc and the special envoy's visit to Myanmar to meet with all parties. Meanwhile, China is still the main investor in the country, developing the China-Myanmar corridor, that includes the construction of pipelines, of transportation routes and of a deep-water port in the West coast of Myanmar, which would give China an access to the Pacific Ocean.
- A series of protests in China made the government to reformulate its tough policies on citizens' movements to avoid the spread of Covid-19 (like mandatory confinement in quarantine camps). As the number of newly infected people beat daily records, the government decided not to make it mandatory for citizens to get a PCR test. Protests have paralyzed the largest iPhone factory in the world, controlled by Foxconn. According to the Wall Street Journal, the losses derived from this situation have pushed Apple to evaluate the possible relocation of a significant part of the

production that is currently being made in China, with the assembly of cellphones probably moving to India and of Air pods to Vietnam.

- Taiwan Semiconductor Manufacturing Company (TSMC) announced a 40 billion USD investment in a new chip production plant in Arizona, in one of the largest foreign direct investments in the history of the USA. Last generation chips will be sold to Apple and Nvidia. This year the US Congress passed the Chip and Science Act, that establishes strong incentives to micro conductor production in the US (subsidies, tax cuts, etc).
- Russia has become the main provider of oil to India, who is buying massively from this country at a discount price. In March this year, Russian crude oil represented just 0.2% of the amount imported by India but, in October, it reached 22%.