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Inflation and Fertility Rates in Asia Pacific in 2022

- Inflation was 3.2% in the region in 2022, reaching 5.5% in ASEAN.
- In 8 countries the inflation rate was the highest in at least a decade.
- In Korea, prices grew at the fastest pace in the last 24 years, and, in Laos and Myanmar the inflation rate was 23% and 19.4%, respectively.
- Most central banks in the region increased interest rates in 2022 to face price hikes.
- China decreased its population for the first time in this century, and Korea experienced the smallest fertility rate in history.
- All countries endure a decline in fertility rates this century, which will lead to a slower population increase in the long run.

War and increase in prices.

The invasion of Ukraine by Russia led to a prominent increase in commodities' prices, which led to an acceleration in inflation rates in vast parts of this world. Asia Pacific was not an exception, as prices jumped 3.2% last year, with remarkable variations among countries. On the one hand, a certain price stability in China can be seen (2% of annual inflation rate), influenced by a meagre economic growth rate (3%) due to restrictions on people's mobility. On the other hand, Japan had its highest inflation level since 2014, when the increase in VAT led to a jump in prices. Growth in food prices (4.5% y-o-y) and energy (14.5% y-o-y) have a strong impact on Japanese families' expenditures, and private consumption barely changed last year. Even though former prime minister Abe proposed in 2012 the ambitious objective of reaching 2% of inflation, it was only achieved last year, and the reasons were more related to the international context rather than the consequence of effective domestic policies. The Bank of Japan has maintained in March 2023 its expansionary monetary policy, with a negative interest rate (-0.1%).

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Inflation was particularly high in Laos and Myanmar. The former suffered the depreciation of the Kip, which forced the government to put restrictions on imports and limit the access to foreign currency. Its dependence on imported manufactures led to a lower level of supply of goods and inflation reached 23% last year. In February 2023, prices jumped 41% year on year. Myanmar is also going through a process of depreciation of its currency, added to the sanctions imposed by the EU because of its *coup d'état* in 2021. All in all, inflation in the ASEAN region was on average 5.5% in 2022.

Korea suffered the highest inflation in 24 years, reaching 5.1%. It's central bank increased interest rates to their highest level since 2008, but as they are still well below inflation (3.5%), the bank can still to continue hiking them if inflationary pressures continue. Thailand experimented in 2022 its highest level of inflation in 24 years, which led to demonstrations, as it also happened in Indonesia. Recent declines in the inflation rate have tamed protestors and the intensity of manifestations receded as well. Thailand and Indonesia are expected to grow between 4 and 5% this year, positively influenced by the reopening of Chinese outbound tourism. Thailand was the second most popular destination for Chinese tourists in 2019, which accounted for 11 million people. This year it is estimated that between 5 to 6 million tourists will arrive to Thailand from China.

Table 1. Inflation

	2022	2021	2020	2019	2018
Brunei **	3.3	1.7	1.9	-0.4	1,1
Cambodia*	5.2	2.9	2.9	2	2.4
Philippines*	5.8	3.9	2.6	2.5	5.2
Indonesia	5.5	1.6	2	2.8	3.3
Laos **	23	3.8	5.1	3.3	2
Malaysia	3.3	2.5	-1.1	0.7	1
Myanmar*	19.4	3.6	5.8	8.7	6
Singapore*	4.1	0.9	-0.2	0.6	0.4
Thailand **	6.1	1.2	-0.8	0.7	1.1
Vietnam	3.1	1.8	3.2	2.8	3.5
ASEAN	5.5	1.9	1.2	2.1	2.6
China	2	0.9	2.4	2.9	2.1
Korea **	5.1	2.5	0.5	0.4	1.5
India	6.7	5.1	6.2	4.8	3.4
Japan	2.5	-0.2	0	0,5	1
Taiwan	3	2	-0.2	0.6	1.4
CKJIT	2.8	1.2	2.1	2.4	1.9
TOTAL AP&I	3.2	1.4	2.1	2.4	2

Notes: * Highest level of inflation in at least a decade

** Highest level of inflation in at least two decades

Source: Research Center on official data from countries.

Not only the monetary authorities of Japan and Korea have raised interest rates to control inflation: but also, Thailand's hiked it to its highest level in three years; Malaysia raised it from 1.75% at the beginning of 2022 to 2.75% by December; in India it jumped from 4% at the beginning of the year to 6.5%, and in Indonesia it went from 3.5% to 5.75%. Philippines central bank was more aggressive and moved the interest rate from 2% to 6.5%, above the inflation level. A similar decision was made in Vietnam, where interest rate went from 2.5% to 4.5%. Most analysts forecast that the hikes will

continue throughout 2023. China, on the other hand, maintained a low level of inflation and revised just a little bit downwards its interest rate (from 2.85% to 2.75%), which remained above the inflation rate.

Fall of fertility rates and decline in population.

In 2007, Japan was the first nation in the region to experience a decrease in its natural rate of population change. Japanese population since then declined in over 2 million people, and it is estimated that by 2048 it will be below 100 million. This brings long term problems to the Japanese economy, from an unbalance between the amount of people employed and retired, to a shortage in workforce and an increase in social welfare expenditures due to the ageing population.

Korea started losing population in 2021 and the problem have since deepened, as the country experienced last year the lowest fertility rate in the world. By 2070 Korea could have 30% less population than today, which would put a lot of pressure in its social security system. Recently, 193 schools have closed due to a lack of students, most of them in rural areas; the lack of young students affect universities as well, as they are experiencing difficulties in recruiting.

Table 2. Fertility rates

Fertility rate (children per woman)		
	2022	2000
Brunei	1.8	2.3
Cambodia	2.4	3.8
Philippines	1.9	3.7
Indonesia	2.2	2.5
Laos	2.4	2.7
Malaysia	1.9	2.9
Myanmar	2.1	2.8
Singapore	1.1	1.6
Thailand	1.5	1.6
Vietnam	2	2.1
China	1.2	1.6
Korea	0.8	1.5
India	2.2	3.4
Japan	1.3	1.4
Taiwan	1.2	1.5
WORLD	2.3*	2.7
Latin America	1.9	2.6

Note: * In 2020

Source: Research Center on official data from countries.

According to World Population Review, India will surpass China in 2023 as the most populated country in the world. Birth control implemented in 1980 in the latter ("One child policy") succeeded in

limiting population growth. Its elimination seven years ago did not impact the decline on the birth rate that the country was already experiencing, and in 2022 China suffered its first population decline in this century: according to its statistics office, the number of inhabitants decreased by 850 thousand. Thailand may also start experiencing a decline in population in the coming few years, as it has been experiencing low birth rates in the last decades.

Many Southeast Asian nations have become a central part of global value chains through the supply of a young, abundant, and cheap labor force. The fall of fertility rates in the last decades implies a slow but firm ageing trend in their population, and the availability of an abundant young labor force in the long run is therefore uncertain. The decline in ASEAN countries fertility rates is remarkable, although in the poorest nations the threshold of 2 children per woman is still surpassed, just enough to maintain the population in the very long term. Philippines and Malaysia, which have added 10 and 5 million people to their populations respectively in the last decade, experienced an important decline in their fertility rates, declining from 3.7 and 2.9 at the beginning of the century, to 1.9 last year.

Points of interest and general perspectives for the region

- Leaders of Japan and Korea met and agreed to lift restrictions on bilateral trade. In 2019, in a context of the deterioration of their relations and related to reparations demanded for the Japanese occupation of Korea (1910-1945), Japan prohibited the export of a group of components essential to the manufacturing of semiconductors. Korea is the second largest exporter of this high-tech product, with a share of 19% in a 600-billion-dollar market. The re-establishment of dialogue and cooperation will also facilitate the exchange of security information about North Korea.
- Expectations of business conditions for the manufacturing sector of China are at the highest level in a decade. The PMI index, which gathers the opinion of purchase managers across the country, reached in February a level of 52.6 points, well above 50.1 in January. Having lifted almost all the restrictions on people's mobility due to the pandemics, analysts expect a recovery of the China's growth rate which in 2023 would be close to 5% (up from 3% in 2022).
- Car sales in India in 2022 surpassed the sales of 2019 and marked the second highest number in its history. With 3.8 million cars, sales grew 23% in 2022. The market leader is Maruti Suzuki, followed by Hyundai and the local firms Mahindra and Tata. In the first two months of 2023, sales jumped 12% to the same period of 2022, and it is expected that this year sales would go beyond 4 million units for the first time.