



Summary of the 2021 Annual Report of *Asian Economic Outlook and Integration Process*

Under the impact of the pandemic, Asian economies have experienced a sharp decline in economic growth, but their economic performance has been significantly better than that of the rest of the world. In general, the economic growth rate of Asian economies in 2020 was -1.7%, down 5.7 percentage points from 2019, 3.0 percentage points higher than that of advanced economies, 5.3 percentage points higher than Latin America and the Caribbean, 0.2 percentage points higher than sub-Saharan Africa, and 0.3 percentage points higher than that of European developing economies. Relatively strong economic performance has further increased Asia's share in the global economic aggregate. In terms of purchasing power parity, Asia's share in the global economic aggregate in 2020 reached 47.3%, up 0.9 percentage points from 2019. As Asia's largest economy, China led Asia with a growth rate of 2.3% in 2020. In the first quarter of 2021, China's economy grew by 18.3% year-on-year.

The economic contraction has been accompanied by falling prices, increased unemployment, reduced trade and cross-border investment, and changes in commodity prices. In 2020, most Asian economies experienced moderate inflation, while Japan fell into deflation. The unemployment rate has risen overall. According to ILO's estimation, in 2020, the unemployment rate of people aged 15 and over increased to 4.8% in East Asia, 3.2% in Southeast Asia and the Pacific, 6.8% in South Asia, 9.9% to Arab countries, and 9.8% in Central Asia and West Asia. According to statistics from the World Trade Organization, in the first three quarters of 2020, the total volume of trade in goods in Asia was US \$9.16 trillion, down 7.0% from the same period in 2019. However, trade in goods in a few Asian economies, for example, China, has grown against the trend. According to statistics from China Customs, China's total import and export of goods reached US \$4.65 trillion in 2020, ranking first in the world, up 1.5% over 2019. In terms of international direct investment, although the foreign direct investment attracted by Asia has decreased in absolute numbers, its performance has been outstanding relatively. According to estimation by

the United Nations Conference on Trade and Development, the foreign direct investment attracted by developing economies in Asia was US\$476 billion in 2020, dropping by 4% from the previous year, compared to the drop of 42% in global foreign direct investment. The pandemic also caused a sharp drop in the prices of oil and other bulk commodities.

Affected by the pandemic, the overall debt level of Asian economies has further risen, and the financial market has witnessed drastic fluctuations. To respond to the pandemic and promote economic recovery, Asian economies have introduced large-scale emergency measures and economic stimulus policies, which have pushed up the level of public debt. In 2020, the public debt ratio of 41 Asian economies has risen. Public debt to GDP ratios of Maldives, Japan and Bahrain have increased by 40.3%, 28.2%, and 24.9% respectively over the previous year. In facing with the pandemic, stock markets of Asian economies have experienced sharp declines. However, thanks to stimulus policies and moderately easy macroeconomic environment, stock markets of most Asian economies have seen market rises, and stock market indexes of some economies have risen significantly. In addition, exchange rates of major Asian economies have appreciated with varying degrees.

Despite the hard hit by the pandemic, the Asian economy has also presented many highlights and opportunities. First of all, the pandemic ushered in new digital economy opportunities. In this context, many Asian economies have introduced new measures to promote the transformation of the digital economy, covering the digital infrastructure construction, digital industry, the transformation from traditional industries to digital technologies, digital governance, and international digital cooperation and so on. The digital economy has promoted the resumption of production, stabilized the economy situation, and become a new momentum for driving Asia's economic growth in the future. Secondly, the economic and trade cooperation among Asian countries has continued to be advanced. By February 2021, there have been 186 regional trade agreements acting in force inside and outside Asia, accounting for 54.9% of the total regional trade agreements in the world. In particular, the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) in November 2020 has been injecting strong momentum into the regional and global economic growth and further accelerating the negotiation of other trade agreements in Asian. Finally, the high-quality joint pursuit of the Belt and Road Initiative has achieved remarkable results. Facing with the pandemic, the construction of Belt and Road Initiative has shown strong tenacity and vitality. Related projects have continued to be advanced, in which results of cooperation have been achieved, and trade and investment have grown against the trend. According to the data from the Ministry of Commerce of China, in 2020, the value of trade in goods between China and other Belt and Road countries was US\$1.35 trillion, up 0.7% over the previous year;

non-financial direct investment in 58 Belt and Road countries by Chinese enterprises reached US\$17.79 billion, up 18.3% on year-on-year basis.

Looking forward to 2021, the Asian economy will experience recovery growth, with a growth rate of more than 6.5%. The pandemic will still be the main variable that directly affects the performance of Asia's economy. The large-scale vaccination of the Covid-19 vaccine has been achieved gradually in some Asian economies, and the possibility of effective control of the pandemic is increasing. However, there are still considerable uncertainties in the evolution of the pandemic. If the United States and major European economies continue to be battered by the pandemic, the improvement of the external environment for Asia's economic growth will be limited. However, the signing and implementation of RCEP will bring new positive factors to the Asian economy in the field of trade and investment. Also in 2021, besides the pandemic, the economic recovery of Asia will also be affected by other various factors. In particular, potential risks in the banking sector, capital markets, and foreign exchange markets, and the possibility of currency crisis in some economies could not be neglected. Debt default may trigger sovereign debt crises in some economies.

The integration process of trade in goods in Asia continued to be advanced. In 2019, the integration index further increased. Major Asian economies' trade dependence ratio on countries within Asia is nearly 50% or above, with ASEAN and China are at the core of trade in Asia. The scale of bilateral trade between Asian economies continues to increase, with China and Japan playing an important role. Although the scale of trade in Southeast Asian countries is relatively small, trade growth in countries like Vietnam has accelerated.

Major Asian economies are still highly dependent on Asian factories, and most Asian economies depend more on Asian factories year by year, with India growing the fastest. In 2019, Hong Kong, Indonesia, the Philippines, and South Korea had the highest reliance on Asian factories. Although the Covid-19 pandemic in 2020 disrupted some of the production networks of Asian factories, it did not shift the center of Asia's global value chain. Asian factories rely on China to a much higher degree than the United States, Japan, and other Asian economies. Among Asia's top 22 parts and components in terms of trade volume, 18 of them are mainly relied on China. Asian factories will drive Asian economies to take the lead in realizing economic recovery after the pandemic.

The growth rate of demand for the service industry in Asian economies is higher than that for goods. The service trade links among Asian economies are also increasing, and the growth rate exceeds links among other economies. This is mainly due to the increase in the service sector in the division of manufacturing in Asia. Productive services connect low-cost and high-efficiency manufacturing production, forming a competitive manufacturing value chain, which promotes the trade and

growth of manufacturing products. At the same time, these service sectors are also important links in creating value and distributing global value chains.

The overall pattern of tourism export dependence among major Asian economies has not changed significantly, and neighbouring economies are still the main tourism trading partners of Asian economies. Asia's tourism industry, which has been hit hard in 2020, is recovering, and economies relying on tourism become increasingly vulnerable.

The digital trade in Asia has been prosperous thanks to the development of the digital economy, the support of large population, and the active governance of various economies, as well as the advancement of digital technology and the promotion by digital enterprises. The export of computer services and communication services in Asia is the most prosperous, accounting for about one-third and 29% of the world's total export volume respectively. In order to prevent and control the pandemic and alleviate its economic impact, digital trade has been widely accepted by countries and enterprises, and achieved rapid development. Remote online office, distance education, and telemedicine have achieved the most significant growth.

International capital favours the Asian market, increasing foreign direct investment (FDI) and holdings of portfolios of financial assets. In 2019, Asia's foreign direct investment (FDI) inflows and outflows grew steadily, with record-high FDI inflows into China, ASEAN, and India. Japan's FDI outflow has grown substantially. The main source of foreign investment in Asian economies is still mainly from Asian countries, and the internal investment dependence index has remained above 50% for four consecutive years from 2016 to 2019. In 2020, global direct investment inflows fell by 42%, while that of Asian developing economies only fell by 4%. However, China's FDI inflow in 2020 continued to increase and became the world's largest FDI destination.

The integration of Asian financial markets is progressing steadily. In 2019, the portfolio of assets attracted by Asian countries' financial markets increased by 14.24%, and 22% of the funds came from Asia itself. Portfolio investment from China and into China increased by 29.73% and 21.27% respectively. Asian economies actively promote currency cooperation and infrastructure interconnection. The scale of bilateral currency swaps has reached more than 240 billion U.S. dollars, and domestic currency cooperation among Asian economies is promoted. In January 2021, Japanese Yen, Chinese Yuan, Hong Kong dollar, Singapore dollar, and Thai Baht entered the top ten currencies in global payment and settlement. Among the top ten most used currencies for international trade and financing, 7 of them were Asian currencies, including Chinese Yuan, Japanese Yen, Indonesian Rupiah, and UAE Dirham, etc. Asia continues to promote financial market connectivity and financial infrastructure interconnection. International financial centers, such as Shanghai,

Tokyo, Hong Kong, Singapore, Beijing, and Shenzhen, have played important roles in directing global capital to Asia, financial sectors serving the real economy, and supporting innovation-oriented development.