Boao Forum for Asia

Asian Economic Outlook and Integration Progress

Annual Report 2023

EXECUTIVE SUMMARY

In 2023, in the context of a global economic slowdown and the risk of increasing fragmentation of globalization, Asia is expected to accelerate its pace of overall economic growth, continue to advance regional production, trade, investment and financial integration and cohesion, and seize the "Asian moment" for global economic governance. The external resilience of Asian economies, reconfiguration of industrial chain, climate change responses and implementation of regional trade agreements are the four critical issues that merit significant attention.

Asia is a bright spot in the bleak global economic landscape, and global economic governance enter into the "Asian moment"

Though with an updated forecast, global growth in 2023 is expected to remain sluggish, heavily weighing on the external demand for Asian economies. The global inflation rate is expected to decrease from 8.8% in 2022 to 6.6% in 2023, and global food prices would continue to decline, indicating an improvement in the global economic growth environment. In January 2023, the International Monetary Fund (IMF) predicted a world economic growth rate of 2.9% for 2023, which is slightly higher than their forecast in October 2022, but still significantly lower than the historical average of 3.8% from 2000 to 2019.

As a major engine of the world economy, Asia economies are accelerating the pace in overall economic recovery in 2023. This report estimates that the weighted real GDP growth rate of Asia in 2023 would be 4.5%, an increase from 4.2% in 2022[1], making it a standout performer in view of the global economic slowdown. IMF analysis indicates that only China and India would contribute half of the world's growth this year, with every 1% increase in China's economic growth leading to approximately a 0.3% increase in output for the rest of Asia. Moreover, other regions of Asia may also contribute a quarter of the global growth.

However, the relatively weak overall growth momentum of emerging markets and developing economies need attention. The World Bank has downgraded its forecast for the GDP growth rate of emerging markets and developing economies in 2023 by 0.8 percentage points to 3.4%, primarily due to weakened external demand and tightened financing conditions. Insufficient investment may also be a drag on the growth of emerging economies. The World Bank estimates that from 2022 to

1 The 2022 and 2023 real GDP growth data for China, India, Indonesia, Iran, Japan, Kazakhstan, the Republic of Korea, Malaysia, Pakistan, the Philippines, Saudi Arabia, Thailand, and Türkiye are from the IMF World Economic Outlook Databases (January 2023), and the 2022 and 2023 real GDP data for Afghanistan, Armenia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Cambodia, Georgia, Iraq, Jordan, Kuwait, Kyrgyzstan, Laos, Lebanon, Maldives, Mongolia, Nepal, Oman, Qatar, Sri Lanka, Tajikistan, Timor-Leste, the United Arab Emirates, Uzbekistan, Vietnam, and Yemen come from the World Bank Global Economic Prospects (January 2023). Other data come from the IMF World Economic Outlook Databases (October 2022).

2024, the total investment in emerging and developing economies will only grow by an average of 3.5%, which is less than half of the average growth rate of the previous 20 years. The risk of stagnation in emerging markets and developing economies catching up with developed countries in terms of per capita incomes is looming over.

Despite a deteriorating global labor market in 2023 and sluggish employment growth in various Asian regions, the employment situation in Asia, particularly in East Asia, may turn out better than expected. The International Labor Organization (ILO) predicts that global employment will increase by 1.0% in 2023, a significant slowdown from the 2.3% growth rate in 2022. The overall employment growth rate in Asia is expected to be 0.8% in 2023, weaker than 1.7% in 2022 and lower than the global level. However, this forecast does not take into account the potential positive impact on the Asian and global economies and employment resulting from China's economic recovery following its optimized epidemic prevention and control measures.

In 2023, inflation pressures in Asia are expected to ease, but the factors that push inflation up and down may coexist. The decline in commodity prices from their peak will help alleviate imported inflation pressure. The global economic slowdown will suppress demand and thus reduce inflation pressure. The price pressures faced by global supply chains are also easing, which will weaken inflation pressure from the supply side. However, the labor market in Asia has not fully recovered. The increasing stability of the exchange rates of major Asian currencies will help reduce imported inflation pressure.

In 2022, Asia's foreign trade in goods maintained its rapid growth, but the year presented a "high in the beginning and low at the end" pattern, consistent with the overall trend of global trade growth. With the total trade in goods approximately amounting to USD25 trillion, an increase of about 10% from 2021, the global trade volume reached a record-breaking level of approximately USD32 trillion in 2022. However, global trade growth started to slow down from the third quarter of 2022. According to the United Nations Conference on Trade and Development (UNCTAD), global trade in goods and services both declined in the fourth quarter of 2022, and Asia was not immune to this trend.

Asia is playing a more proactive and leading role in global macroeconomic policy coordination. Asia held the G20 summit in the last year and will hold another this year, entering into the "Asian moment" for global economic governance. Asian economies are champions of reform of the multilateral trade system, deeply involving themselves in global monetary and financial governance and promoting the development of and cooperation in the digital economy. Additionally, Asia is committed to leading global agendas for sustainable development through various measures—including investing heavily in poverty reduction, aligning regional connectivity initiatives with plans, promoting development financing in support of global development governance, and launching the Global Development Initiative to facilitate the implementation of the 2030 Agenda.

Regional economic integration has been advancing in Asia

According to 2021 data, global dependence on Asian trade in goods remained stable, and the trade dependence between Asian economies remained at a relatively high level. The status of ASEAN and China as hubs for trade in goods remained unchanged. The highest level of dependence was found among ASEAN members, reaching 21%. Japan and the Republic of Korea had a dependence on China of over 20%, and the dependence of ASEAN countries and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) countries on China was also close to 20%. In 2022, due to the overlapping impact of the Russia-Ukraine conflict, recurring COVID-19 pandemic, and supply chain disruptions, there was a certain degree of structural adjustment in both the global dependence on Asian trade and the dependence within Asia in terms of trade in goods.

Although global supply chains have experienced various disruptions in recent years, self-reliance among Asian factories has been enhanced and Asian economies continue to play an irreplaceable role in global value chains. Most major Asian economies have increased their dependence on Asian factories over the past decade. This is particularly true for China, Hong Kong Special Administration Region of China, the Republic of Korea, Indonesia, Singapore, Malaysia, the Philippines, and Thailand, while India and Japan had seen a decrease in their dependence on Asian manufacturing. Asia has a significant advantage of producing competitive products in global value chains. Of the top 22 intermediate products from Asian factories in terms of export value, 21 have shown a significant growth in exports, with electronic component products such as integrated circuits growing the fastest, at a growth rate of up to 28.8% in 2021. China was still a dominant player in the trade of intermediate goods in Asia. Among the 22 most traded intermediates, China led in 20 of them. Vietnam's exports to the US had accelerated since the US-China trade friction in 2018.

The overall competitiveness of Asia's trade in services needs to be enhanced. In 2021, China considerably narrowed its services deficit, while Singapore maintained a slight growth in surplus. Japan, Malaysia, Indonesia, and Vietnam saw their deficits widened significantly. The Philippines maintained a services surplus with an increase. Digital trade and cross-border e-commerce have emerged as new drivers of growth in Asian trade in services. In 2021, the year-on-year growth rate of Asia's digital trade in services reached 16.46%, and its share in the global market continued to expand. Among the top 10 digital service exporters, China, India, and Singapore respectively ranked fifth, sixth, and ninth. In 2022, China, Japan, the Republic of Korea, India, and Indonesia respectively secured the first, third, sixth, seventh, and ninth places, among the top ten countries in terms of e-commerce sales. The global tourism industry began to recover in 2021, but it had not yet returned to pre-pandemic levels in 2019. The Asia-Pacific region was hit harder, where the number of inbound tourists in 2021 was only 7% of pre-COVID levels. In 2022, countries in Asia continued to adjust prevention and control measures, with immigration control further relaxed. China's resumption of outbound tourism is expected to strongly stimulate the recovery of the tourism market in Asia, especially in ASEAN.

Asian economies have demonstrated sustainability and resilience in attracting foreign direct investment (FDI) and making outward FDI. The main source of FDI for Asia remains within the region. In 2021, FDI inflows into the Asia-Pacific region accounted for 45% of global FDI inflows, reaching a record high of over USD710 billion. FDI outflows from the Asia-Pacific region in 2021 were similar to those in 2019, totaling more than USD610 billion. In 2021, Asia-Pacific's internal FDI dependence was close to 60%, which was significantly higher than 44.78% in 2019 before the pandemic, despite lower than 65% in 2020. In 2021, in terms of dependence on Asian FDI flows, the top three economies were Australia, Indonesia, and China. Asia depended most heavily on Hong Kong Special Administration Region of China as the regional hub for FDI, with a dependence rate of 26.88% for FDI inflows and outflows.

Deepened financial integration in Asia has made regional economies more resilient against negative impacts from international capital flows. As of the end of 2021, the stock of global portfolio investment outflows in Asia was close to USD11.7 trillion, with Japan and China respectively accounting for USD5.1 trillion and USD0.98 trillion. The stock of global portfolio investment inflows in Asia was USD10.2 trillion, with Japan and China respectively contributing USD3.22 trillion and US1.97 trillion. By the end of 2021, Asian economies allocated 19.5% of their global portfolio investment to markets in Asia[1]. Among Regional Comprehensive Economic Partnership (RCEP) economies, Indonesia, Malaysia, and Singapore had the highest level of portfolio investment allocation to the region. Asian economies are making solid progress in promoting local currency settlement and cooperation, as well as strengthening the infrastructure for this purpose. As of the end of 2022, there were 26 local currency swap agreements within duration signed by Asian economies. Such agreements signed by China with Asian economies were valued at RMB1.973 trillion, while such agreements between other Asian economies totaled USD113.5 billion. As of December 2022, the Japanese yen and RMB were the fourth and fifth most active currency for global payments by value, with a share of 2.88% and 2.15%, respectively. Moreover, China, India, and ASEAN countries have become the most active issuers of green bonds among emerging markets. Stock exchanges based in regional international financial centers, such as Shanghai, Tokyo, Hong Kong, Singapore, Seoul, and Taipei have become important listing locations for Asian green bonds. Asian economies are also actively seeking international cooperation to align with green standards.

Four hot topics

To enhance the external resilience of Asian economies, it is important to address the sustained increase in debt levels in Asian emerging markets, developing economies, and low-income countries. Developed economies such as the US and Europe have begun an interest rate hike cycle, which has resulted in a significant outflow of short-term capital from Asia to USD-denominated assets. This is the main factor of the multiple rounds of rising interest rate by a lot of Asian economies. The strong recovery of the Chinese economy may provide Asian economies with a cushion against external impacts.

When it comes to the reconfiguration and resilience of Asian industrial chains, Asia should take advantage of the regionalization of global industrial chains and actively promote regional economic integration to build a tighter regional common market; capitalize on the opportunities presented by the informatization, digitization, connection, and intelligentization of global industrial chains to foster innovation in digital technology and facilitate the development and cooperation of the digital economy; and address disruptions to global industrial chains to effectively secure the supply of critical primary and intermediate products.

In climate change, carbon neutrality and green transition, major Asian countries such as China, Japan, India, and the Republic of Korea have all proposed timelines to achieve net zero emissions. The vast majority of Asian countries have defined green development and transition as an important component of national development policies. Green transition has become an important agenda for regional economic cooperation in Asia.

In terms of progress in the reform of multilateral trade systems and regional trade agreements, at a time when the rules-based multilateral trading system is fraught with crises, RCEP is increasingly proving to be a valuable source of institutional and openness dividends for intra-regional trade and investment in Asia. The active involvement of Asian economies in the formulation of rules for the digital economy is expected to further promote openness and development in the field and thus provide a new powerhouse for economic growth in Asia.

1 Due to data availability, only the Asian economies that disclose the directions of the regional flows of portfolio investment are included.