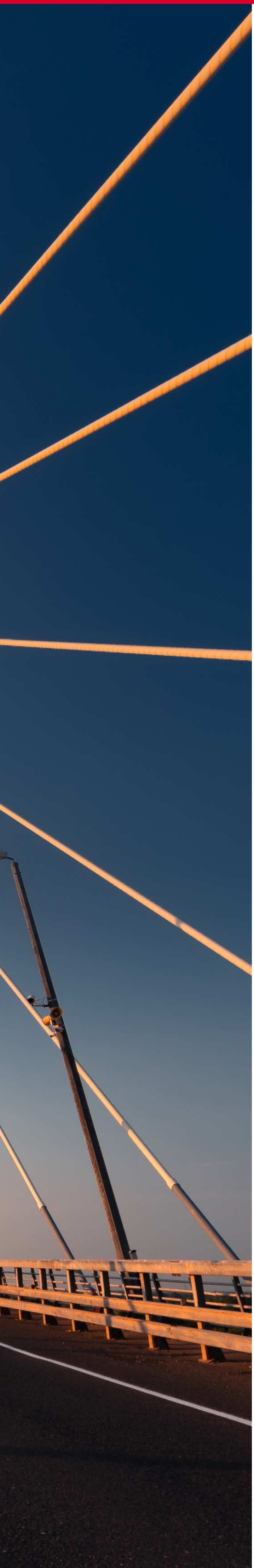
Managing risk, enabling trade

November 2024

Emerging Asia Economic Outlook

Economic powerhouse, coming of age

Table of Contents



Executive Summary

Multiple sources of growth

Several factors have positioned Emerging Asia as the world's main growth engine. The main factors underlying the region's strong dynamics in the last four decades are a large and growing labour force, trade liberalisation and economic reforms, technological advancements and sound government policies. The region will still benefit from these sources of power, but some cracks are appearing.

Reaping the demographic dividend, but less so

One factor that has played an important positive role in the past and is losing strength now is the labour force. For most countries, ageing populations are not a major problem, but for China and Thailand it is. Increasing productivity growth to compensate is difficult for China, despite heavy investments in new technologies. Reasons are the economy's rebalancing away from investment-led growth and technological decoupling from the West. In Thailand, the large share of employment in sectors with relatively low productivity, high household debt and relatively low FDI inflows are obstacles to increasing productivity growth.

Global trade deterioration with mixed effects

Given the deterioration of the global trade climate, the region's strong position in international supply chains could also contribute less to growth. However, this is currently only the case for China. For countries whose trade relations remain intact the damage is limited. Their economies will be affected by the negative impact on the global economy and the associated supply chain disruptions, but there will also be positive effects, such as a favourable reorientation of investments and trade. In the longer term, however, the trade policies envisaged by the new US president could be more disruptive to Asia.

Monetary easing and strong exports support growth

The short-term growth outlook is positive for most economies. Stronger exports will continue to grow into 2025, albeit at a less robust pace. In most countries, monetary easing will support growth. This picture does not apply to China, where persistent problems in the property sector and low consumer confidence led to weakening consumer spending. Monetary easing and fiscal stimulus will provide relief in the short term, but will do too little to address the broader structural problems in the Chinese economy. Meanwhile, export growth is slowing due to the trade war. India and the five largest ASEAN economies are relatively well positioned in the changing global trade environment. Most of these countries show steady growth in 2024/25, with the India and Philippines showing the highest growth rates and Thailand the lowest. Emerging Asia will succeed in maintaining its role as an economic powerhouse in both the short and medium term, although ageing and protectionist policies will somewhat detract from this.

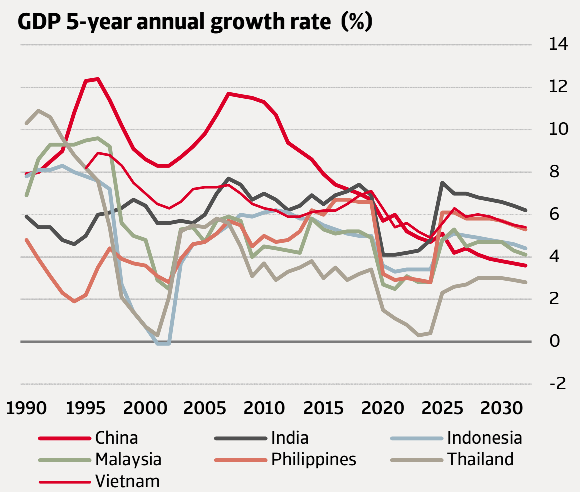
Coping with ageing and a worsening global trade environment

Multiple sources of growth

Emerging Asia has long been the world's fastest-growing region. In the 1980s and 1990s, industrialisation and economic reforms, provided a significant boost to growth in countries such as China, Malaysia, and Thailand. The frontrunners in the region, South Korea, Taiwan, Hong Kong, and Singapore, grew so strongly during these decades that they are now considered advanced instead of emerging economies - and fall outside the scope of this publication.[1] But in fact, all economies in the region posted impressive growth rates, averaging between 5% and 10% annually in the last four decades. The Asian crisis in 1997 and the Covid pandemic in 2020/2021 temporarily put a brake on this, but in both periods the region showed resilience.

Emerging Asia's transformation into an economic powerhouse has been driven by multiple sources of growth. One of these, which we will discuss in more detail later in this publication, has been the region's **growing and developing workforce**. A steady supply of workers fuelled industrial growth and urbanisation. As millions moved to cities, the demand for infrastructure, housing, and services surged. This urban migration not only boosted construction and real estate but also spurred the growth of consumer markets. Cities like Shanghai, Mumbai, and Jakarta emerged as economic centres, attracting investments and creating jobs.

Figure 1 High growth, slowing in the course of time



Source: Oxford Economics, Atradius

Trade liberalisation and economic reforms also played their part. Many countries lowered tariffs and other trade barriers, which has increased trade volumes and allowed local businesses to access a wider range of inputs and technologies. Meanwhile, open-market policies attracted foreign direct investments (FDI). By creating a favourable business environment, they have drawn in many multinational companies that wanted to make use of low production costs and new markets to sell their goods. Supportive also were free-trade agreements within the region and with other countries, like the ASEAN Free Trade Area (AFTA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). The open-market policies have enabled the region to integrate into global value chains, where different stages of production are spread across various countries. This integration has allowed emerging Asian economies to specialize in specific segments of production, boosting efficiency and economic output.

Since the early 2010s, **technological adoption** increasingly supported growth. The rapid spread of the internet and mobile technology revolutionised industries and opened new avenues for innovation. Countries like China, India and Indonesia invested in digital infrastructure, facilitating e-commerce, digital payments and online services. India and Vietnam saw a boom in their IT and digital services sectors. Investment in R&D has been a priority for many Asian countries. China, in particular, has become a global leader in R&D spending, focusing on areas like artificial intelligence, biotechnology, and renewable energy.

Meanwhile, lessons learned from the Asian crisis led to **sound government policies**, Countries realised the need for prudent fiscal policies, controlled inflation, and sustainable debt levels to build economic resilience. Because the crisis had highlighted the vulnerabilities in financial systems, the authorities undertook reforms to deepen and broaden their financial markets. This included improving regulatory frameworks and developing better risk management practices to prevent future crises. Moreover, many countries shifted towards more flexible exchange rate systems and increased their foreign exchange reserves to buffer against external shocks. This solid foundation meant that Emerging Asia, more than other regions, weathered the Covid-19 crisis well and most countries have seen a rapid recovery in recent years.

In this publication, we provide insights into the growth prospects of Emerging Asia. For the short term, it should be clear that the region can still benefit from the sources of power that have driven the strong economic dynamics of the past decades. After all, these will not disappear overnight. However, to a certain extent cracks are appearing in this rosy picture. Two factors in particular that

[1] We join the IMF in referring to Emerging Asia as China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

have played an important positive role in the past are losing strength. For the medium term, the growth of the working population is relevant, which is now weakening due to the ageing population. For the short term, but also in the more distant future, this concerns the strong position of the region in international supply chains, which is sensitive to the current deterioration of the global trade climate.

Reaping the demographic dividend, but less so

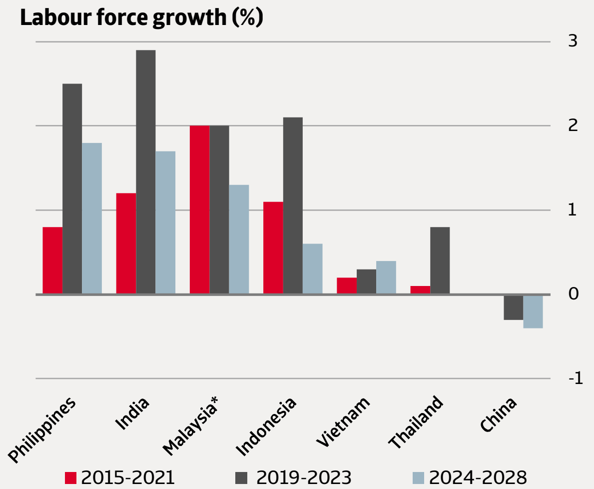
Many Asian countries have a young population, which means a large portion of the labour force is in their prime working years. Obviously, a young workforce is sustaining economic growth because it brings with it more activity, both in terms of production and spending. When employee incomes rise, for example through education and training, this can have a self-reinforcing effect. This has been the case in all economies, and the related emergence of a prosperous middle class has been very beneficial for the economy, by providing a stable and substantial consumer base, reducing income inequality, and fostering social cohesion.

Urbanisation has also contributed to GDP growth. Urban areas tend to have higher productivity levels due to better infrastructure, access to services, and agglomeration economies, where businesses benefit from being close to each other. Urbanisation is spurring job creation, particularly in manufacturing and services. Many cities in Emerging Asia have become centres of trade, commerce, and innovation. A more skilled workforce also fosters innovation and entrepreneurship. As a result, Asian countries have also seen a rise in startups and tech companies, enhancing the global competitiveness of the relevant economies. It was an important factor for the region becoming a key player in global supply chains and international trade.

Meanwhile, the workforce as a source for growth is beginning to lose some of its power. Most countries still have positive demographic trends, allowing them to continue to reap the so-called 'demographic dividend'. However, other countries are facing ageing populations and a deterioration in the old-age dependency ratio, which is the number of people 65^{+} as a percentage of the total population.

For **China** demographic developments have even evolved from a supporting factor to a weakness. China's population is shrinking since 2022, and according to various estimates it will gradually decline to between 800 million and 1.1 billion people by 2100, from 1.41 billion now. The working age population (age 15-64), which is relevant for economic growth, already peaked eleven years ago. This decline will exert upward pressure on wages, and the growing population aged 65 and older will squeeze pension and healthcare provision. An important reason for the decline of the labour force has been the one-child policy, which was abolished in 2016, leading to a temporary rise in the birth rate, but is still affecting the choice of many families. Government efforts to raise fertility rates are failing, owing to the high cost of raising a child. Authorities have begun to gradually raise the retirement age for workers, but also this will not help enough to prevent a gradual decline of China's labour force and, as a result, economic growth.

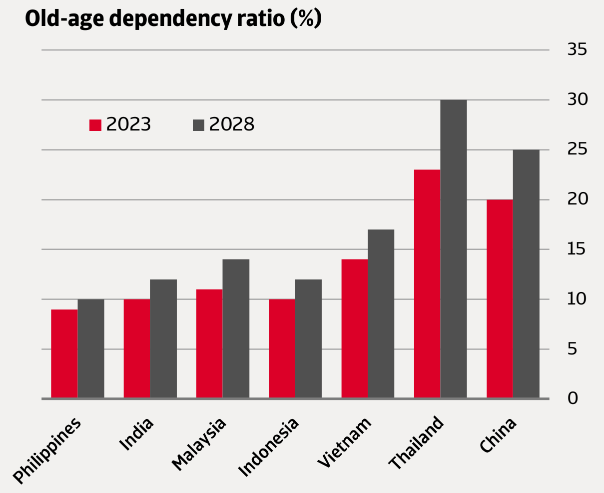
Figure 2 Labour force growth peaked in most countries



*For Malaysia expected in 2018-2022 and 2023-2027
Source: World Bank, EIU

In **Thailand**, population growth is slowing due to economic anxiety among the younger generation and changing social norms, such as later marriage and smaller families. This is reflected in the growth of the working age population, which is slowing to zero in the coming years. Currently, about 69% of the Thai population is of working age, but this share is expected to decline to 64% in 2033 and to fall to 57% in 2050. In the absence of an increase in the retirement age from 60 or a higher participation rate, the shrinking labour supply in Thailand will put pressure on potential growth. A mitigating effect is an increase in foreign workers in Thailand. However, this does little to counteract the negative impact of ageing on the economy.

Figure 3 Thailand and China most affected by ageing



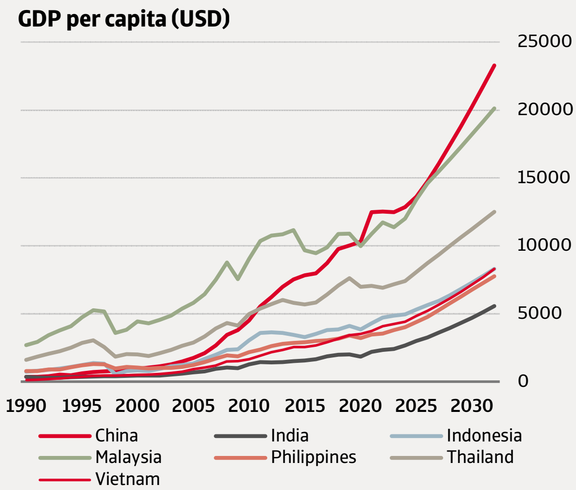
*Old-age dependency ratio: share 65+ of total population
Source: World Bank, EIU

In **Vietnam**, labour force growth is increasing but relatively low. This is a consequence of multiple factors, including a high adult mortality rate during periods of conflict in the 1950s and the 1970s and a high post-war fertility rate. Like in China and Thailand, the rising proportion of the population aged 65 and over will have longer-term implications for economic growth. And also here, government's incentive schemes aimed at increasing the total fertility rate probably will not counterbalance the impact of rising urbanisation, expanding employment opportunities for women and improved access to family-planning resources. A difference with these two countries, however, is that in Vietnam the dependency ratio is lower and is expected to remain so in the next five years. For China, the dependency ratio is expected to rise to 25% over the next five years, while in Thailand it is expected to rise to 30%, the current average in high-income countries. In the other emerging economies in Asia this dependency ratio will stay much lower, although the population will age steadily as a result of falling death rates and rising life expectancy.

In **Indonesia**, higher life expectancy, a falling birth rate and a stable death rate is also leading to a steady ageing of the population. The country's demographics however remain favourable in coming years, with the working population growing at a healthy rate of 0.6% per year on average. In addition, labour participation is expected to increase in the coming years as society adapts to new norms. Women are not hindered from entering the labour force at any level, while levels of education are rising. The relatively young labour force is expected to continue to aid long-term growth, albeit at a slower pace than in the past decade.

Malaysia, together with China, is the country with the highest income level of the seven countries considered here. This has been the case since decades, while GDP per capita growth has remained in the same order of magnitude as elsewhere in the region. Given that increasing prosperity is generally accompanied by a lower fertility rate, and thus a slowing population growth, one might expect that Malaysia would be affected by an ageing population by now. So far, however, this has hardly been the case. In fact, Malaysia has a relatively young population and is a long way from having to cope with the challenge of a rapidly ageing population. The country's workforce growth also has benefitted from foreign workers, carrying out many of the low-wage and low-skilled jobs that Malaysians are unwilling to perform in the construction, manufacturing and agricultural sectors. Meanwhile, the old-age dependency ratio will increase in 2023-27, but only slowly.

Figure 4 GDP per capita not always correlated with ageing



Source: Oxford Economics

For **India**, a growing labour force will maintain a strong demographic dividend. A downside of the strong population growth is that it is difficult for many workers to find suitable work. Many Indians are moving from rural areas to the cities, but do not always have the necessary skills for the jobs available. A significant part of the growth in the labour force will continue to be absorbed by the relatively less productive agricultural sector in the coming five years, in addition to the construction and low-end manufacturing and service sectors. Further ahead, the economy probably can benefit more of the growing labour force, as it can be expected that the greater adoption of technology will continue to upskill the urban workforce.

The country with the most favourable development of the labour force is the **Philippines**. Its working population growth rate will slow, but will remain relatively high, at 1.8% per year on average in 2024-28. In addition to the Roman Catholic Church, which opposes birth control, the country's relatively low income level helps keep the birth rate high. In poor families, children are seen as a source of income once they reach working age.

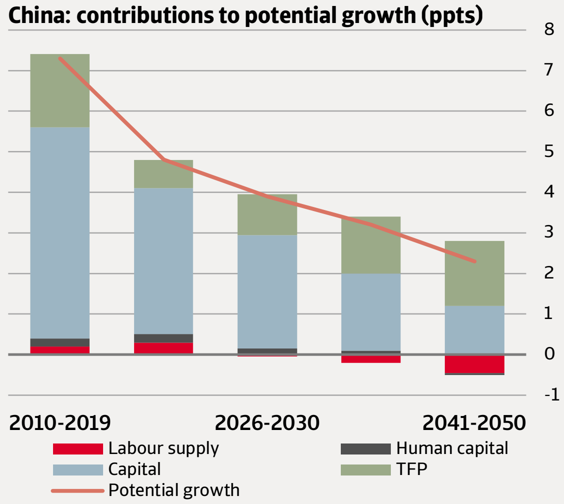
In conclusion, it can be stated that the impact of ageing populations and the related deterioration in the dependency ratio varies largely for the different countries. To see to what extent the aging of the population has consequences for economic growth, it is relevant to look at the extent to which economies can adapt to demographic changes. To this end, we look at the two countries where ageing has hit hardest.

Economic rebalancing and technological decoupling hamper China's productivity growth

Since it is virtually impossible to reverse the trend of aging, China's only alternative for sustaining the longer-term growth momentum is to accelerate productivity growth. However, over the past decade, the country's total factor productivity (TFP) growth has been on a downward trend. According to calculations by Oxford Economics, TFP contributed 1.8% to GDP growth in the period 2010-2019, while in the years 2020-2025 this will amount to only 0.7%. The decreasing contribution of TFP to GDP growth is partly due to the gradual rebalancing of the Chinese economy away from an investment-led growth model towards consumption-based growth. The declining share of the industrial sector is resulting in reduced labour productivity gains, which were previously driven by rapid industrialisation. Additionally, excessive investments following crisis periods, particularly after the global financial crisis, have exacerbated capital misallocation.

China is investing heavily in new technologies, but given their relatively small weight in China's GDP, these technologies are not the main drivers of growth. Expectations for the positive impact of the application of generative artificial intelligence may also be too high. China's AI research has increased dramatically in recent years, and this will certainly be supportive for productivity. However, US and other western restrictions on Chinese access to foreign technology will limit foreign knowledge spillovers and provide a significant offset in calibrating net productivity gains from AI's transformative technology. The threat of a further deterioration of China's trade relations with Western countries and technological decoupling are therefore likely to remain obstacles to raising productivity growth in China.

Figure 5 TFP contributions to GDP growth falling gradually



Source: Oxford Economics

Overreliance on tourism, high household debt and low FDI hinder Thailand in coping with ageing

For Thailand, technological decoupling is not a direct problem for raising productivity. Unlike China, there are no trade restrictions or bans on high-tech exports. However, Thailand's electronics and automotive sectors are highly integrated into global supply chains, so technological decoupling elsewhere could disrupt these as well, leading to delays and higher costs. Foreign companies may therefore become cautious, which could hamper Thailand's ability to attract FDI in critical sectors such as semiconductors. To counter this, the Thai government is working to attract FDI by creating a favourable business environment. This includes providing incentives for companies to relocate their manufacturing bases to Thailand, particularly in industries such as electrical appliances and auto parts. Thailand also benefits from the realignment of global supply chains by attracting businesses that are relocating from geopolitical hotspots like Taiwan.

However, other issues still make it difficult for Thailand to counteract the negative impact of ageing. TFP growth has fallen from an average of 3.6% per year in the early 2000s to just 1.2% during 2013-2022. Oxford Economics expects TFP growth will increase to an average percentage growth of 1.7% over the next decade, but this increase does not compensate for the negative contribution to GDP growth from employment development. Unfortunately, the causes of the relatively low productivity growth are difficult to change. The first factor holding back productivity growth is the overreliance on tourism. Tourism is an important driver of the Thai economy, accounting for 20% of GDP in 2019 when including indirect contributions. Thailand's economic growth after the financial crisis has been strongly supported by tourism, while growth in most other sectors has slowed. In the long term, however, the large share of low-skilled workers that are employed in this relatively low value-added sector has a negative impact on productivity growth.

A second issue is Thailand's persistent high levels of household debt. When households are heavily indebted, they tend to cut back on spending to manage their debt repayments, leading to lower domestic consumption. Moreover, high household debt can limit the individuals' ability to invest in education and skills development, which are crucial for improving productivity. The debt situation can also discourage entrepreneurship and innovation, as people are less willing to take financial risks. Last but not least, the burden of high household debt can strain the financial system, making it more vulnerable to economic shocks and leading to a cycle of reduced investment and slower productivity growth.

Productivity growth is also being hampered by Thailand's low FDI inflows, which can be attributed, at least in part, to long-standing tensions between the military-backed establishment and more reformist pro-democracy parties. While the formation of the new government has improved sentiment, the political situation still weighs on investor confidence. Private investment fell from over 40% in 1997 to 16.9% of GDP in 2019, while foreign direct investment flows and participation in global value chains showed signs of stagnation.

Global trade deterioration with mixed effects

As stated before, Emerging Asia has become a key player in global supply chains and international trade. Countries in the region have contributed to this themselves, through trade liberalisation and economic reforms that have created an attractive business climate. However, global developments played an equally or even more important role. Emerging Asia has strongly benefited from the globalisation of the world economy, which led to increased external demand for Asian-made products, strong FDI inflows and associated transfer of technology and knowledge. In recent years, there has been a turnaround in the globalisation process. The US-China trade war that began in 2018 is the best-known manifestation of this, but other countries are also adopting more protectionist policies, such as tariffs and trade barriers, to protect domestic industries from foreign competition. Global trade volume as a share of world GDP has not fallen, but the deteriorating trade climate is leading to supply chain restructuring, with companies reconfiguring their supply chains to reduce dependency on foreign suppliers.

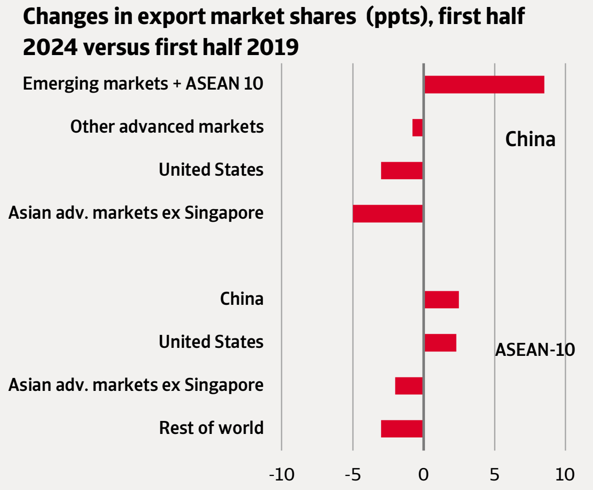
Figure 6 Harmful trade restrictions on the rise

Source: Global Trade Alert

This often involves onshoring or nearshoring, moving production closer to home, or friendshoring, to countries where the risks are considered to be lower. At the same time, there is a general decline in FDI as countries and companies become more cautious about investing abroad due to geopolitical uncertainties and economic nationalism. Countries are also trying to implement policies to protect their technological advancements and economic interests, leading to reduced technological exchange and collaboration with specific countries. Also worrying is that global institutions such as the World Trade Organisation (WTO) and the International Monetary Fund (IMF) are losing power as countries prioritise national interests over international cooperation. As a result, trade disputes are becoming more difficult to resolve, unfair trade practices are not addressed, and the global level playing field is being eroded. In an adverse scenario, geopolitical tensions and trade conflicts will increase further, causing the so-called geoeconomic fragmentation, which has been limited so far, to assume greater proportions. What already points in this direction is that increasingly more trade is occurring within geopolitical blocs rather than between them. Just as globalisation has led to greater prosperity worldwide in the past, the deglobalisation process will also lead to a loss of prosperity. Studies by the IMF and other institutions point to this. Calculations that assume a division between a block of Western countries on the one hand and a (much smaller) block of China, Russia and a few other countries on the other, indicate that the damage will be greatest for the latter bloc, but Western countries will also be affected in such a scenario.

For countries whose trade relations with both blocs remain intact, the damage will be limited. Their economies will be affected by the global deterioration of the trade climate and the associated supply chain disruptions, but there will also be positive effects, such as a favourable reorientation of investments and trade. This two-sided picture certainly also applies to Emerging Asia ex China. The IMF recently showed that adjustments to trade fragmentation are already evident in the data. As Figure 7 shows, ASEAN countries have been able to expand trade with both the United States and China. China's exports however are increasingly directed toward emerging markets, while exports to advanced economies have fallen in importance.

Figure 7 ASEAN export market shares rising



Source: IMF DOTS, IMF staff calculations

ASEAN obviously has emerged as a winner from the increasing geopolitical tensions between China and the US. However, geoeconomic fragmentation also entails risks for the future. If the global trade climate deteriorates and the world economy as a whole is under pressure, this will ultimately also have negative consequences for countries that stay outside the geopolitical rivalry between the US and China. Especially now that Donald Trump has been re-elected as president of the United States, it is feared that in the longer term other Asian countries besides China will also be affected by new trade measures.

Monetary easing and strong exports support growth

Aging and a worsening trade climate have negative consequences, but for now the growth outlook for most economies is positive. Stronger exports, which have supported growth so far in 2024, will continue to grow in the coming quarters, albeit at a less robust pace. While many economies in the region have increasingly felt the effects of interest rate hikes since 2022, this drag on growth will ease as a result of gradual monetary policy easing. The reason for this, lower inflation, is also positive for purchasing power, fuelling domestic demand. However, this picture does not apply to all countries, with China being an important exception.

Table 1 Steady real GDP growth in 2024-2025

Regions	2023	2024*	2025*	2026*
China	5.2	4.8	4.4	4.0
India	7.7	6.8	7.0	6.8
Indonesia	5.0	5.1	4.9	5.1
Thailand	1.9	2.5	2.9	3.1
Philippines	5.5	5.9	6.1	6.0
Malaysia	3.6	5.6	4.3	5.0
Vietnam	5.0	5.9	6.3	6.3

Source: Oxford Economics, Atradius (* forecast)

China: policy stimulus will not prevent GDP growth from slowing further

The growth outlook for the Chinese economy, by far the largest in the region, is currently dominated by two opposing forces: structural headwinds versus policy measures aimed primarily at boosting weak domestic demand. In 2023, the economy achieved fairly strong growth of 5.2%, but it lost momentum in the middle of 2024. Ongoing problems in the property sector hit a key source of household wealth, and low consumer confidence fed into weakening consumer spending. In summer, retail sales were nearly flat and fixed asset investment, especially in the infrastructure sector, grew slower. Even the largest contributor to growth in the first half of the year, exports, showed moderation as the benefits from frontloaded orders and price competitiveness of Chinese goods decreased. In response to the weakening economy, the central government has recently stepped up its support for growth through aggressive monetary easing, which will be followed by fiscal expansion to support domestic demand and a debt swap program to restore the fiscal health of struggling local governments. As a result, GDP growth is expected to come in at 4.8% this year, roughly in line with the government's growth target of "around 5%" and slightly higher than we expected before the announcement.

For 2025 we expect a modest further growth slowdown, to 4.4%, mainly driven by much lower export growth (falling from 12.7% last year to 1.0% in 2025). Besides the trade war, it is also the global semiconductor cycle reaching its peak that plays a role in this export slowdown. The fiscal and monetary stimulus measures will support growth, but it will take time to feed through into the local economy, making the second half of 2025 a bit stronger than the first two quarters. Domestic demand growth is expected to increase slightly to 4.6% for the whole of 2025, with private consumption growing a bit slower than fixed investment. The risks surrounding this forecast are mainly to the downside. Apart from a deeper- or longer-than-expected contraction in the troubled property sector, this mainly concerns a larger-than-expected impact on global GDP growth of protectionist measures by the US.

The picture of a gradual growth slowdown also applies to the longer term. The policy measures will provide short-term relief, but will do too little to address the broader structural problems of the Chinese economy. A weakness of the stimulus measures so far is that they will not do enough to restore domestic demand. Relaxation of house purchase restrictions in first-tier cities and public housing inventory purchases are not enough to increase consumers' interest in new housing projects. More fiscal stimulus has been announced, but it is unclear whether it will be enough to support the real estate sector and domestic demand. In addition to the negative wealth effect, relatively poor social safety nets make consumers reluctant to increase their spending. Chinese households keep their savings high because they are saving for old age and health care, a problem that is becoming more pronounced at the macro level due to the aging population. In addition, many young people struggle with job insecurity. Total unemployment is hovering around 5% of the working population, which is not extremely high, but the unemployment rate for 25-to-29-year olds is at about 7%, while that for 16-to-24 olds has been at about 18% for a long time. Youth employment has risen because in the past three years high value-added city services sectors were in sharp contraction, in particular real estate, finance and IT. Companies also refuse to hire recent college graduates because of the difficulty and costs involved with laying off workers.

In addition to these domestic issues, the deteriorating global trade environment is increasingly creating headwinds for the Chinese economy. With Donald Trump re-elected as US president and the Republican Party in full control of the Congress, the US-China trade war is likely to escalate further. Trump has proposed blanket tariffs of over 60% on all Chinese imports and to end the most favoured trade status for the country. More than before, the US will seek to limit China's growth opportunities. Meanwhile, China's relationship with the European Union has also deteriorated. Since 2019, the EU's stance on China has shifted from a commitment to competition to rivalry. The recent imposition of countervailing duties on Chinese electric vehicles shows that EU officials have shifted their focus from securing market access for European companies in China to protecting the EU market. So far, it does not appear that the Chinese economy is suffering heavily from the export restrictions. China has been able to increase exports to other emerging economies, helped by shifting supply chains to South-East Asia, India and other parts of the region. Also mitigating is that China has been able to gain market share in specific sectors in the advanced economies. Electric cars, solar panels and wind turbines at sea are increasingly made in China. However, Chinese technological dominance is lacking in the crucial semiconductor and computer chip sector. China is leading the way when it comes to research and patents, but the most advanced chips are still made abroad.

Demographic issues, a mixed productivity outlook and rising trade barriers cannot be compensated by stimulus efforts by the government. Especially if geo-economic fragmentation continues as expected, it will certainly negatively affect the potential growth of the Chinese economy. Overall, we expect GDP growth to fall below 4% from 2027 and to gradually slow further in the years thereafter. Most emerging economies in Asia will face lower GDP growth in the longer term. China, however, will have the lowest growth in 2028-2032, after Thailand, which experienced a growth slowdown in an earlier period.

Table 2 China's GDP growth falling to below 4%

Regions	2013-2017	2018-2022	2023-2027	2028-2032
China	7.2	5.2	4.4	3.6
India	7.1	4.2	7.0	6.3
Indonesia	5.1	3.4	5.0	4.4
Thailand	2.9	0.8	2.7	2.8
Philippines	6.7	3.0	5.8	5.3
Malaysia	5.2	3.1	4.7	3.9
Vietnam	6.5	5.7	5.9	5.4

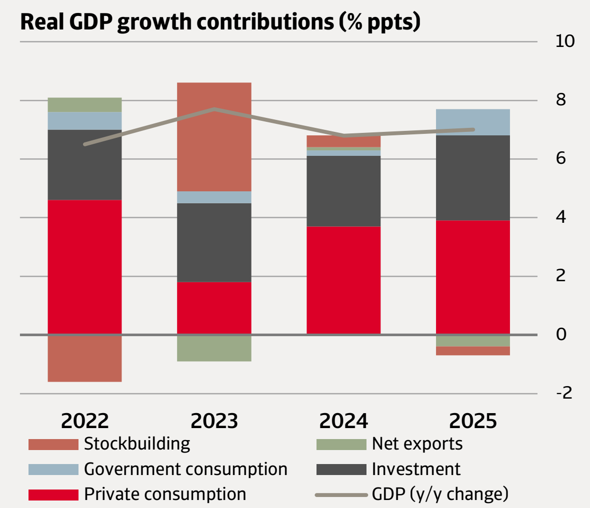
Source: Oxford Economics, Atradius (* forecast)

India: remaining the world's fastest growing major economy

For the region's second-largest economy, India, the economic outlook is brighter. Economic growth is set to slow slightly this year, largely reflecting the base effect of two years of high growth. Looking at 2024 as a whole, private consumption and business investment are set to grow strongly, contributing the most to growth. Exports are also performing well, but this is offset by equally strong import growth. Next year, the picture will not be very different, except that government spending will then also contribute positively to growth through higher spending on public infrastructure. Consumer confidence is improving, while rural consumption is boosted by improved agricultural prospects. Private investment is benefiting from rising consumer demand and monetary easing, made possible by gradually declining inflation. Exports are expected to benefit from strong demand from the US, India's largest trading partner for goods, but it will be mainly domestic demand that is driving growth next year.

The long-term growth outlook for the Indian economy is also good. India is the only single-country market that offers potential scale comparable to that of China, based on relatively high growth of high and increasing growth of its labour force, its capital stock and total factor productivity. The pace of economic reforms remains slow, especially now that the government coalition's diminished parliamentary majority will hamper the implementation of bold factor reforms related to land and labour. Reforms to liberalise and condense labour legislation under a smaller set of labour codes were passed by the national parliament in 2019-2020, but backlash from trade unions has delayed nationwide implementation. However, India's overall performance in improving its business environment is nevertheless impressive, with the biggest improvements stemming from continued efforts on trade liberalisation, FDI facilitation, infrastructure and technological upgrades. The improving business climate also helps India to navigate the challenges of geoeconomic fragmentation. India has seen a significant influx of FDI, being one of the most attractive destinations for friendshoring activities by western multinationals. In addition, India benefits from its non-aligned status by being able to import cheap oil from Russia, while its export sector can benefit from trade diversification by both China and Western countries. The global trade climate is not decisive for the long-term development for a relatively closed economy like India's, but this solid position is supportive, at least in the short term. According to calculations by Oxford Economics, GDP growth will average 7.0% per year in the period 2023-2027, and well above 6% in 2028-2032, which means India will remain the fastest growing large economy in the world.

Figure 8 India's growth driven by domestic demand



Source: Oxford Economics

ASEAN-5: favourable growth prospects

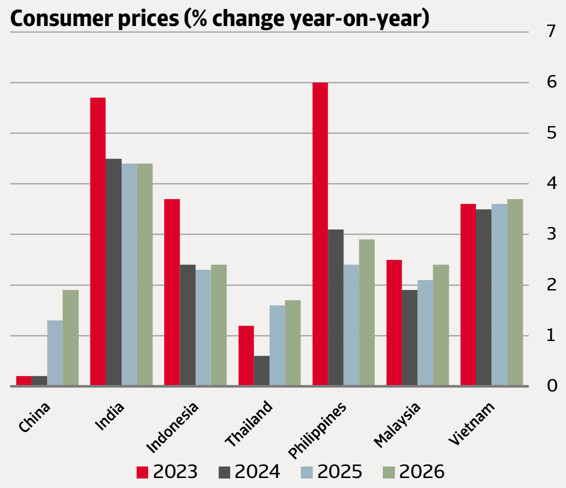
Like India, ASEAN's five largest economies are relatively well positioned in the changing global trade environment. Most of them show steady growth in 2024/25, supported by monetary easing and solid external demand.

The **Vietnamese** economy is currently experiencing a revival of domestic demand as accommodative monetary policy stimulates business investment and will support a broad-based recovery in the real estate sector. Fiscal measures such as the continued reduction in VAT and efforts to better implement public investment will also help accelerate growth. Most of all, however, Vietnam's GDP growth will be driven by strong exports of consumer electronics, furniture and footwear, and the ongoing relocation of multinational manufacturing operations to Vietnam. The imposition of trade restrictions by the US is a downward risk for the economy, but only for 2026 and beyond. Looking at sectors, the manufacturing sector will perform strongly in 2025, particularly as producers frontload exports ahead of anticipated US trade tariffs. The services sector will remain resilient amid robust tourism inflows that will support growth in areas such as retail trade and accommodation. Vietnam's real GDP growth is expected to accelerate to 6.3% in 2025, from an estimated 5.9% in 2024, before the deteriorating trade environment hampers further growth acceleration.

Second in terms of GDP growth in the ASEAN-5 is the **Philippines**, where strong economic development is driven slightly more by domestic demand than in Vietnam. This year, consumer spending is benefiting from low unemployment and strong remittances from workers abroad. This is expected to continue in 2025, with expected monetary easing and cash handouts ahead of the midterm elections in that year also boosting spending. Public spending on infrastructure is another growth contributor. The export sector is expected to maintain positive momentum as the global electronics sector enjoys a cyclical upswing. We expect GDP growth to accelerate a bit, to 6.0% in 2025 from 5.9% in 2024.

In **Indonesia**, private consumption will continue to be a key growth driver next year, thanks to declining inflation and looser monetary policy. Investment growth is stable, supported by supply-chain diversification by foreign companies, which is stimulated by friendly industrial policies. Like private consumption, investments will be helped by monetary easing. The central bank has recently started cutting its policy rate, made possible by a benign inflation outlook and a stronger rupiah. Government spending is increasing as the administration prioritises infrastructure development and the downstream development of heavy industry, while it also laid out funding for a nationwide free school meals program. However, a strong growth boost from the budget is lacking as the government also has increased tax income, indicating a commitment to fiscal discipline. The current momentum in exports is unlikely to continue into next year due to muted growth in China, which is one of Indonesia's major export markets. We expect GDP growth to reach 5.1% this year, before slowing slightly to 5.0% in 2025.

Figure 9 Inflation has normalised, enabling rate cuts



Source: Oxford Economics

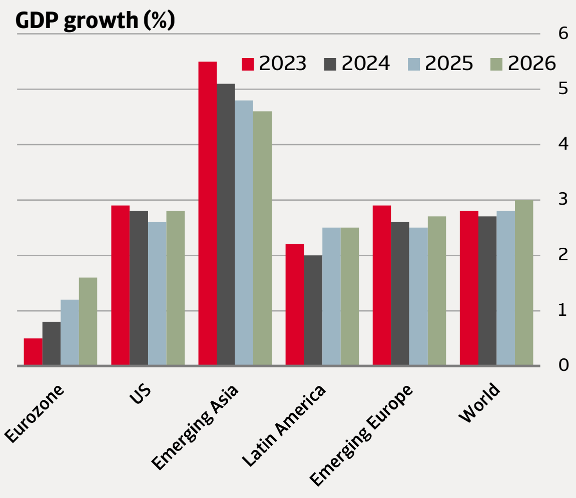
Thailand's economic growth is lagging behind other countries in the region, but the outlook is not bad. Last year, GDP growth bottomed out at 1.9%, but this year it is picking up to 2.5% as private consumption will benefit from a more populist set of government policies, as well as a strengthening recovery in the tourism sector. This trend is expected to continue next year, with GDP growth rising to 2.9%. The main reason growth is lagging behind its regional peers is that exports are performing relatively poor. While other countries' exports are benefiting strongly from increased global demand for technology products, this was much less the case in Thailand due to a global shift towards value-added services that require higher local skills and capabilities. In addition, the end of India's restrictions on rice exports will drag global rice prices lower and weigh on Thailand's rice export revenue. In addition to weak exports, the country's political unrest has also put a damper on business investment. Although the political unrest has not yet subsided, the country is expected to benefit from new construction projects, especially in the eastern economic corridor, which are set to start later this year, as well as domestic incentives for the production of EVs that will boost the competitiveness of the anchor automotive sector. In addition, as elsewhere, monetary easing will be a welcome support for both private spending and investment.

Malaysia is showing a significant acceleration in growth this year. This is mainly due to strong private consumption, which is linked to improvements in employment and wages. Investment is also posting strong growth, underpinned by solid infrastructure investment and spending on machinery and equipment. Furthermore, the economy is benefiting from increasing tourism revenues. Exports are benefiting from strong demand for liquid natural gas, crude petroleum products and electronics products. However, the strong growth figures are partly due to the low base from a year ago, an effect that will drop out of the comparison next year. Unlike most neighbouring countries, the central bank will not ease monetary policy, as there is some upward pressure on prices due to the recovery in growth. The high levels of household debt are also preventing private consumption growth from increasing further. Fiscal consolidation is also a headwind to domestic demand. The 2025 budget is more constrained than last year because the government remains determined to bring down its budget deficit to 3% in the medium term. Fiscal tightening will weigh on consumers' purchasing power and will be a drag on private consumption. Export growth is expected to remain strong in the short term due to a surge in export activity as firms frontload shipments in anticipation of stricter US trade barriers in the latter half of 2025. But US demand will then fall accordingly as the US starts to implement its protectionist policies. We expect GDP growth to pick up to 5.6% this year, from 3.6% in 2023, before slowing to 4.3% in 2025.

Emerging Asia maintains role as economic powerhouse despite headwinds

The outlook for the next year and a half is relatively favourable for most emerging economies in Asia. GDP growth for Emerging Asia as a whole is declining, which is different from other regions, but this attributable to the relative weight of China where growth is weakening. Emerging Asia is still by far showing the highest growth rate globally, currently contributing for roughly 60% to global growth. The region is well able to cope with headwinds like aging and a deteriorating trade climate. Emerging Asia will succeed in maintaining its role as an economic powerhouse in both the short and medium term.

Figure 10 Emerging Asia shows the strongest growth globally



Source: Oxford Economics

Atradius Economic Research

Bert Burger
Principal Economist
bert.burger@atradius.com
+31 (6) 1261 2330

Connect with
Atradius on social media
youtube.com/user/atradiusgroup
linkedin.com/company/atradius

Atradius
David Ricardostraat 1 · 1066 JS Amsterdam
P.O. box 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com