



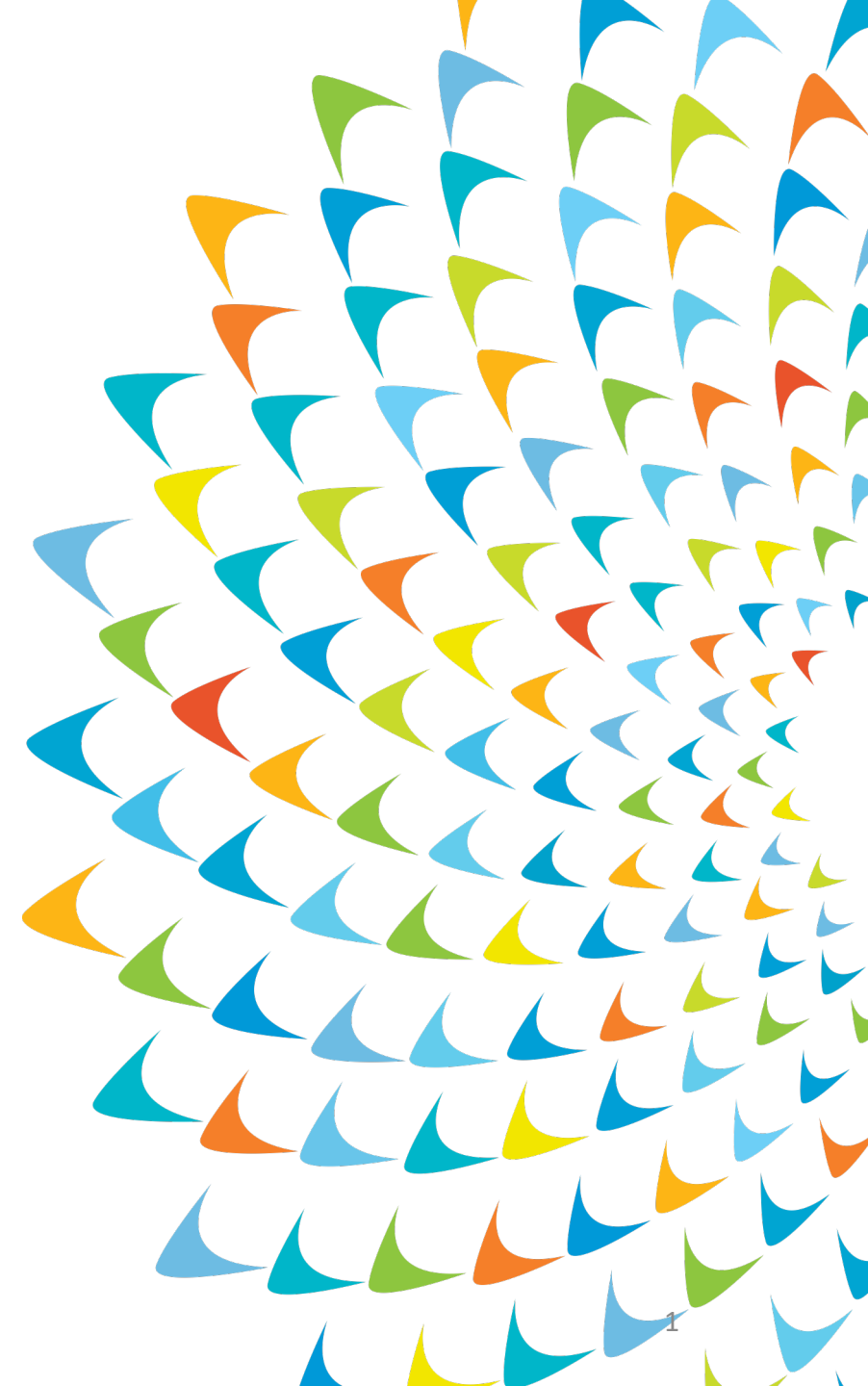
HKUST (CEP, IEMS, SOSC, PPOL)  
19 March 2024

# China's Economy and Asia's Rise

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Asian Development Bank

ADB recognizes "China" as the People's Republic of China.

Disclaimer: The views expressed in this presentation are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.





# China's Economy and Asia's Rise

- Economic Prospects for Asia and China
  - Regional outlook
  - China's short-term and long-term growth outlook
  - Downside risks from China's property market
  - Implications of China's slowing growth for the region
- Geopolitical fragmentation
  - Evidence on changing FDI flows
  - Evidence on shifting supply chains
  - Global consequences of increased fragmentation
- China's regional importance
  - Leading on development: Belt and Road Initiative
  - Leading on climate change



# Outlook for developing Asia: continued growth and moderating inflation but risks persist

- Developing Asia's growth has been upbeat, driven by healthy domestic demand.
- Weak external demand and property market concerns in the PRC weigh on the outlook.
- The regional forecast is revised down to 4.8% in 2024 (compared to 5.0% in 2023). Developing Asia remains the most dynamic region in the world.
- Inflation is projected to moderate as energy and food prices decline. Fed rate costs could relax financial constraints globally
- Risks to the outlook include further weakness in the PRC's property sector, higher for longer interest rates in the US and Europe, conflicts and geopolitical fragmentation, and food security



# Regional growth showing resilience

	2022	2023e	2024f
<b>Developing Asia</b>	<b>4.3</b>	<b>5.0</b>	<b>4.8</b>
<b>Caucasus and Central Asia</b>	<b>5.2</b>	<b>5.3</b>	<b>4.6</b>
Kazakhstan	3.2	5.1	4.3
<b>East Asia</b>	<b>2.9</b>	<b>4.7</b>	<b>4.2</b>
Hong Kong, China	-3.7	3.2	3.3
People's Republic of China	3.0	5.2	4.5
Republic of Korea	2.6	1.4	2.2
Taipei, China	2.6	1.4	2.7
<b>South Asia</b>	<b>6.8</b>	<b>6.4</b>	<b>6.0</b>
India	7.2	7.6	6.7

	2022	2023e	2024f
<b>Southeast Asia</b>	<b>5.7</b>	<b>4.1</b>	<b>4.7</b>
Indonesia	5.3	5.0	5.0
Malaysia	8.7	3.7	4.6
Philippines	7.6	5.6	6.2
Singapore	3.8	1.1	2.5
Thailand	2.5	1.9	3.3
Viet Nam	8.0	5.0	6.0
<b>The Pacific</b>	<b>7.9</b>	<b>3.5</b>	<b>2.9</b>

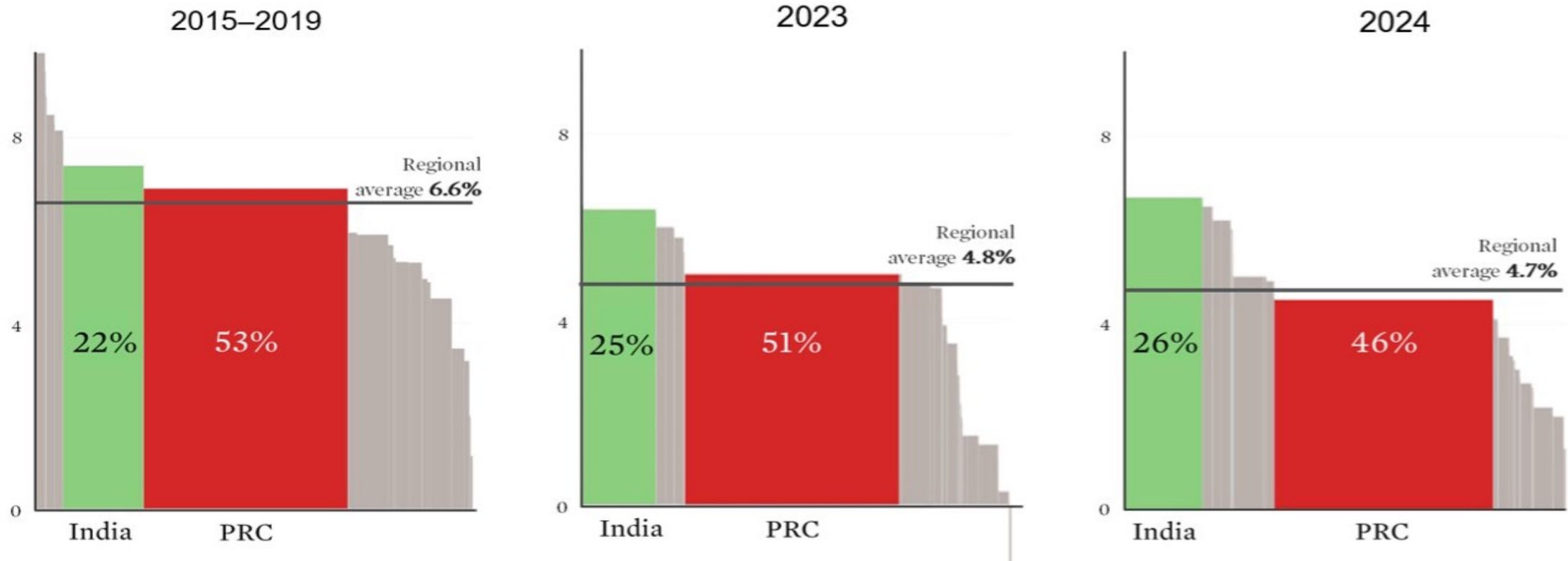
e = estimate, f= forecast

Source: Asian Development Outlook December 2023



# PRC and India will remain key to the regional economic outlook

## Contributions to regional GDP growth



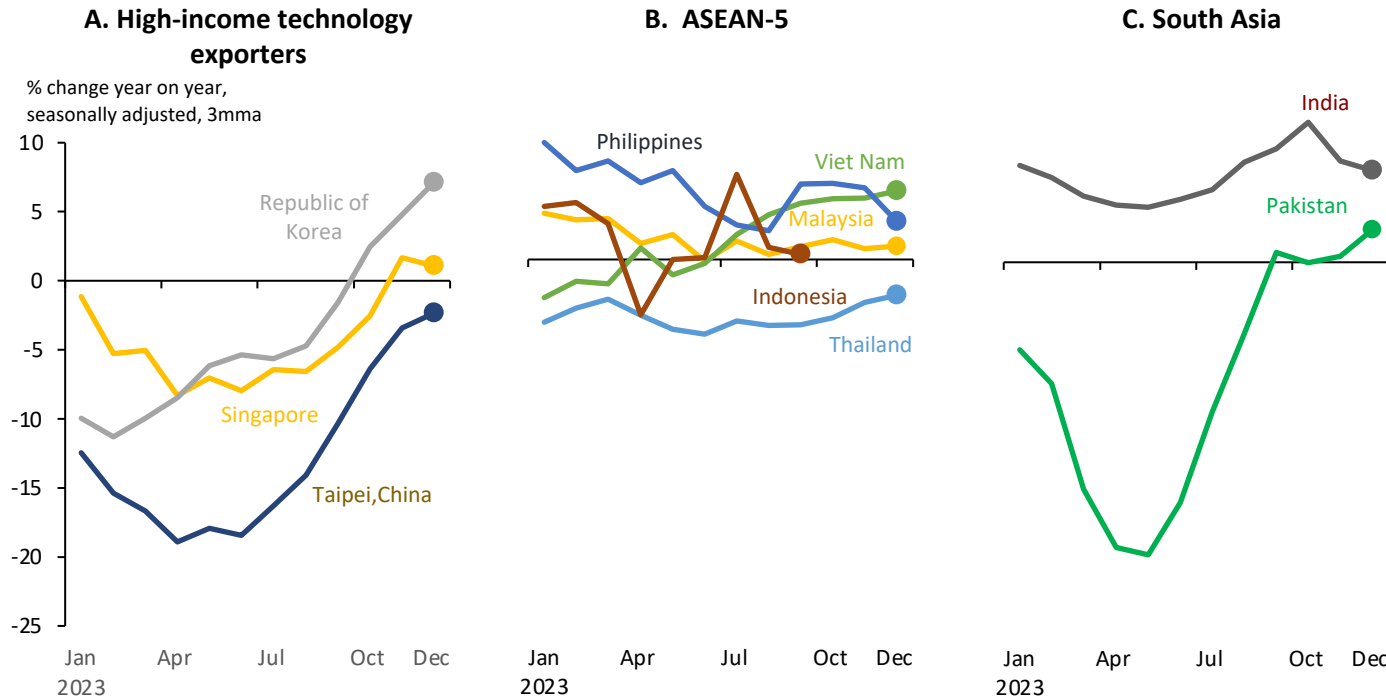
GDP = gross domestic product, PRC = People's Republic of China.  
Source: Asian Development Outlook database.



# Gradual improvement in manufacturing activity for some economies

*Industrial production picked up in some economies in the second half of 2023....*

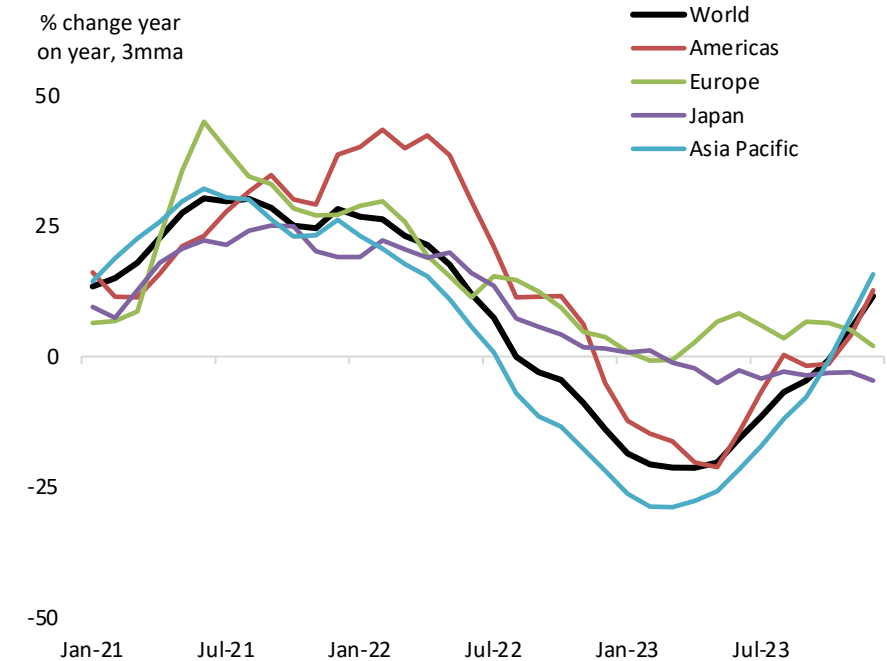
## Industrial Production Index, developing Asia



ASEAN = Association of Southeast Asian Nations, 3mma = 3-month moving average.  
Note: The index refers to manufacturing production, except in India and Viet Nam where they include mining.  
Source: CEIC Data Company.

*...buoyed in part by rising demand for semiconductors.*

## Global Semiconductor Billings



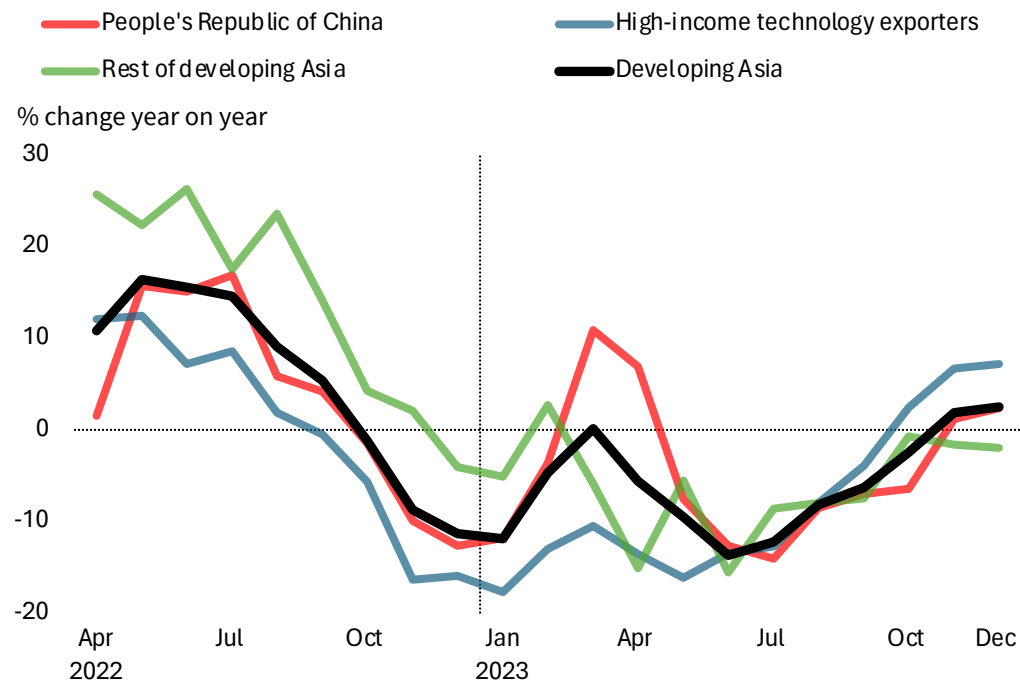
3mma = 3-month moving average.  
Source: World Semiconductor Trade Statistics; CEIC Data Company.



# Exports of goods may have bottomed out during 2023

*Goods exports growth gradually recovering...*

## Goods Exports in developing Asia

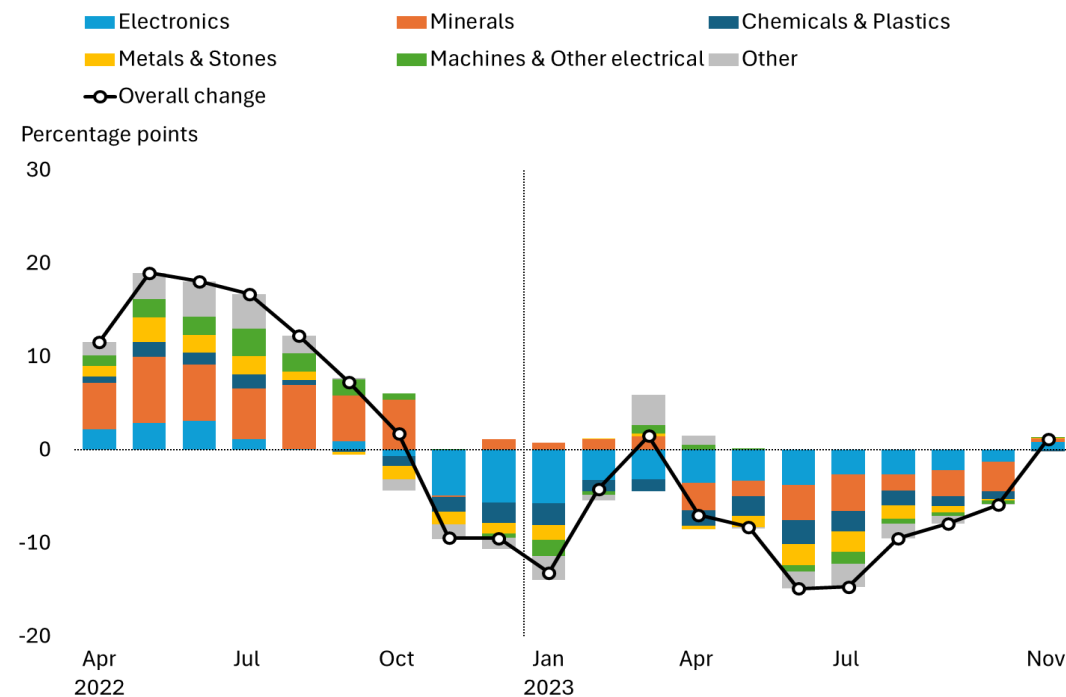


Notes: High-income technology exporters are Hong Kong, China, Republic of Korea, Singapore, and Taipei, China.

Source: CEIC Data Company.

*... driven by recovery in electronics exports*

## Contributions to Goods Export Growth by Product



Notes: Based on data for 16 economies (approx. 92% of developing Asia's exports): Armenia, Azerbaijan, Hong Kong, China, Fiji, Georgia, India, Indonesia, Malaysia, Mongolia, PRC, Philippines, Rep. of Korea, Singapore, Taipei, China, Thailand, and Uzbekistan.

Source: UN Comtrade, International Trade Center



# Economic outlook for China

*Mobility is now above pre-pandemic levels...*

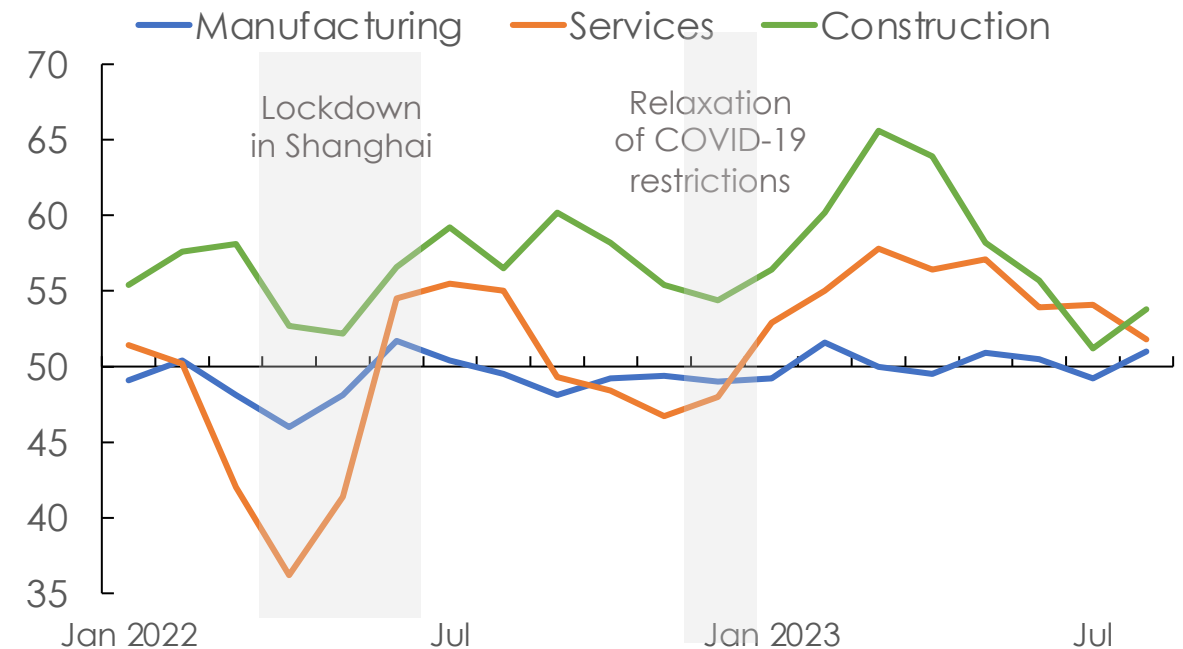
## Subway Ridership in 23 Cities in the PRC (% of 2019 average)



COVID-19 = coronavirus disease, PRC = People's Republic of China.  
Note: 7-day average, last data point is 30 Jun 2023.  
Source: Capital Economics.

*...and expansion in activity moderated after a sharp Q1 rebound.*

## PMI Components of the PRC (index)



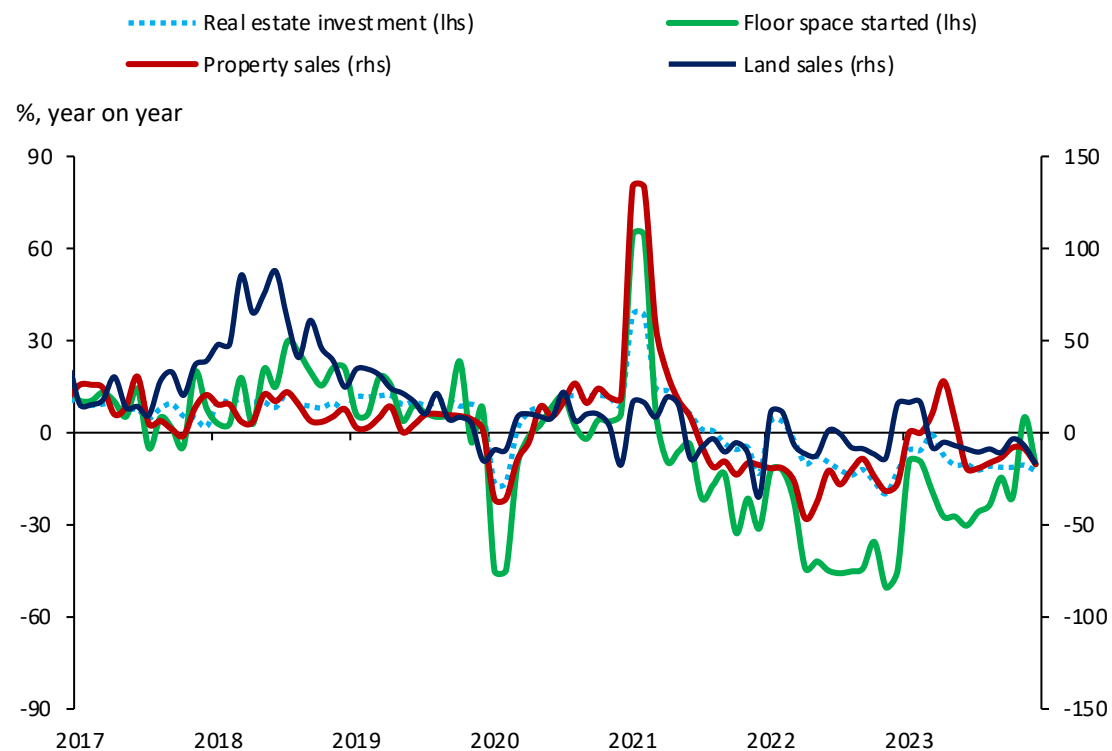
COVID-19 = coronavirus disease, PMI = Purchasing Managers' Index, PRC = People's Republic of China  
Source: CEIC Data Company.





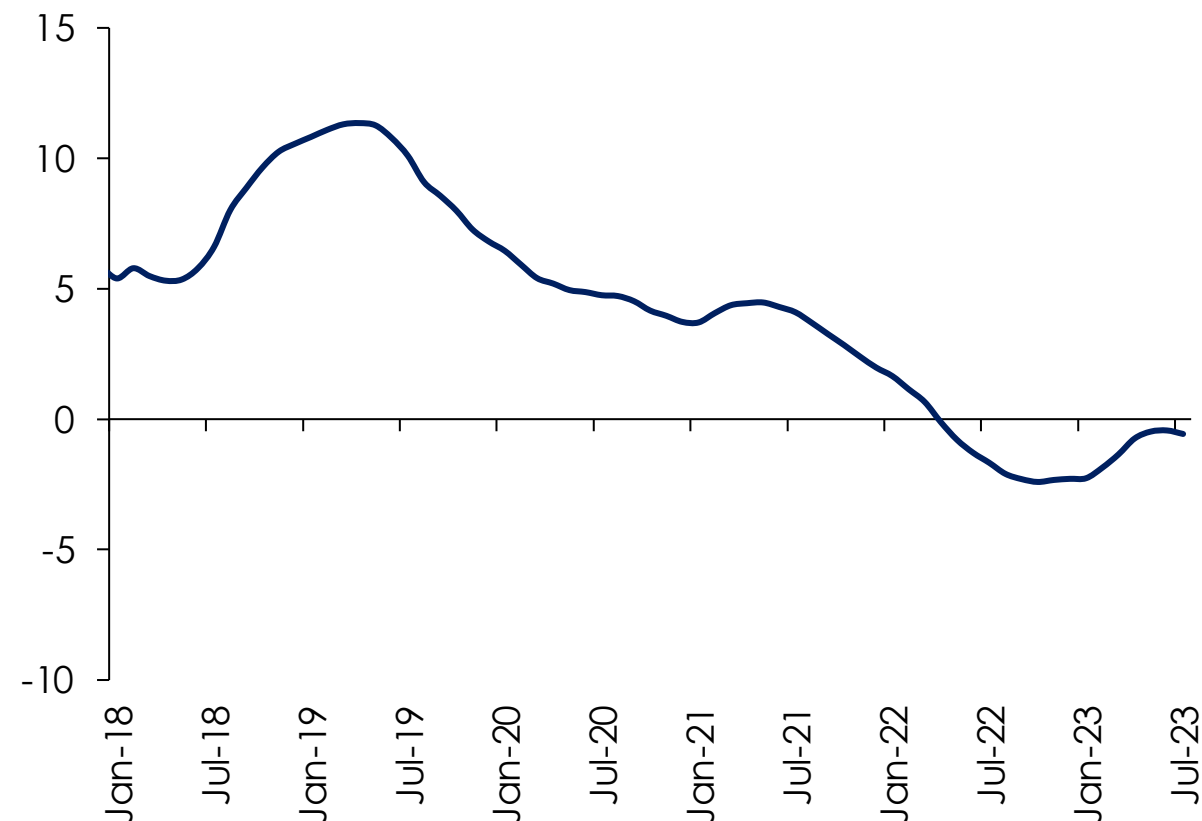
# China's weak property sector is a source of downside risk

## Property Market Indicators



lhs = left-hand side, rhs = right-hand side.

## Prices for newly constructed homes of 70 cities in the China (% , year-on-year)





# The most recent Chinese economic data show improvement (Jan-Feb 2024)

- Key performance indicators surpassed forecasts
  - Retail sales increased 5.5% compared to same period in 2023
  - Industrial output increased 7%
  - Caixin manufacturing PMI reached 50.8 in Jan and 50.9 in Feb
  - Exports increased 7.1% and imports by 3.5%
  - Fixed asset investment increased 4.2% (mainly state-led), with infrastructure investment rising by 6.3% and manufacturing investment increasing by 9.4%
  - Unemployment rate in Feb declined to 5.3%
  - Online retail sales of physical goods increased 14.4%
- ...BUT the property market continues to struggle
  - New property sales fell 29.3% compared to 2023
  - Property investment fell 9%
  - Property prices fell 3.5% in Jan and 4.5% in Feb in 70 major cities

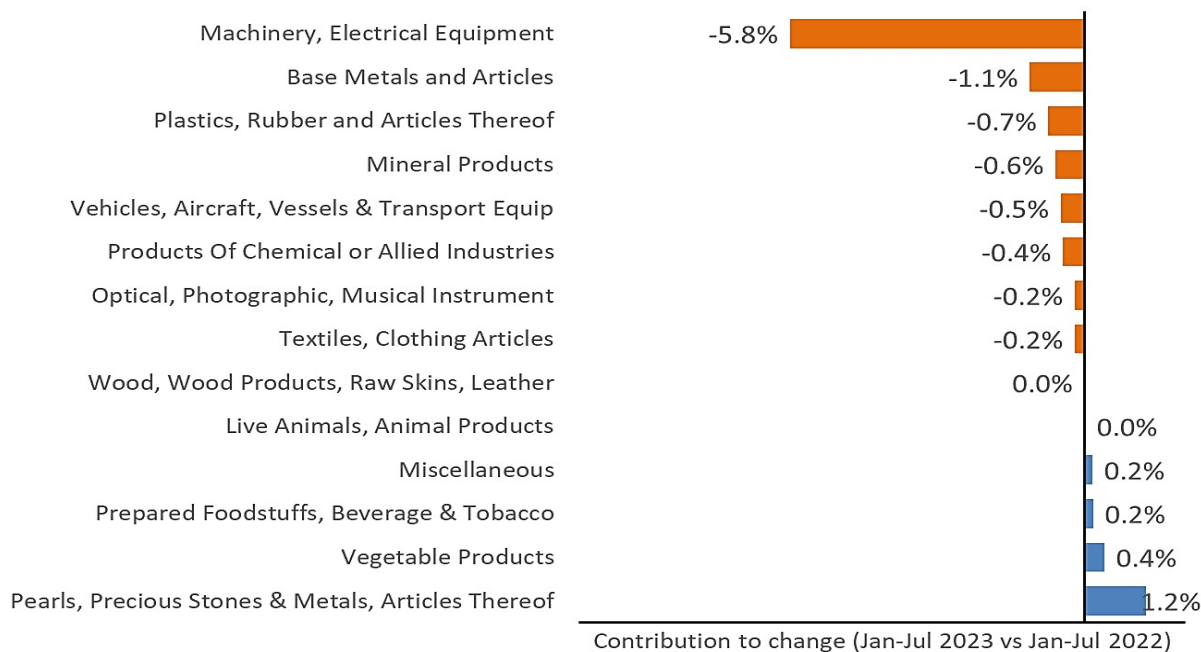


# Decline in PRC imports affects developing Asia

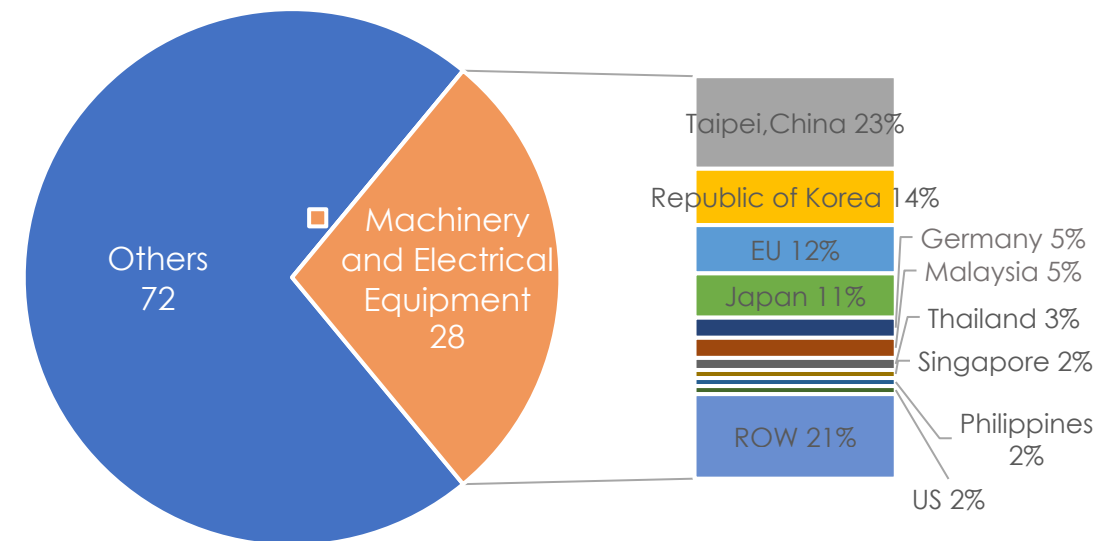
*The decline in PRC imports was mainly driven by lower imports of machinery and electrical equipment...*

*... with more than half of PRC imports of machinery and electrical equipment are from other countries in Asia and the Pacific.*

## Change in PRC imports by product (%)



## Product shares in PRC imports, Jan-Jul 2023 (%)



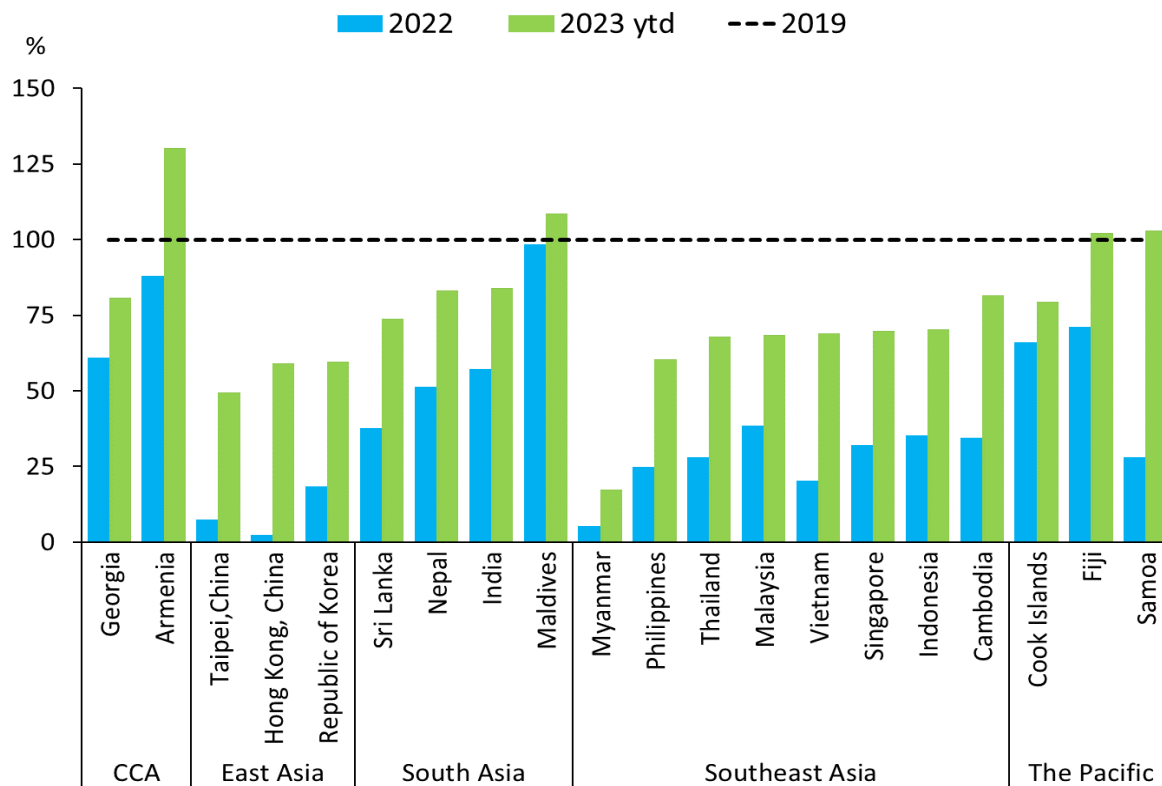
PRC = People's Republic of China.  
Source: CEIC Data Company.

EU = European Union, PRC = People's Republic of China, US = United States.  
Source: CEIC Data Company.



# Tourism continues recovering in Asia, but Chinese tourists are slower to return

Tourist Arrivals by Subregion, relative to 2019 (%)



ytd = year-to-date.

Note: YTD figures for 2023 compared to same months in 2019.

Sources: CEIC Data Company, official national sources.

- International arrivals reached 50% of pre-pandemic levels by the end of 2022, and 70% thus far in 2023
- Recovery has been somewhat slower in regions more reliant on tourists from China
- Chinese tourists accounted for about 20% of all tourists before the pandemic, and have returned to about 40% of pre-pandemic levels

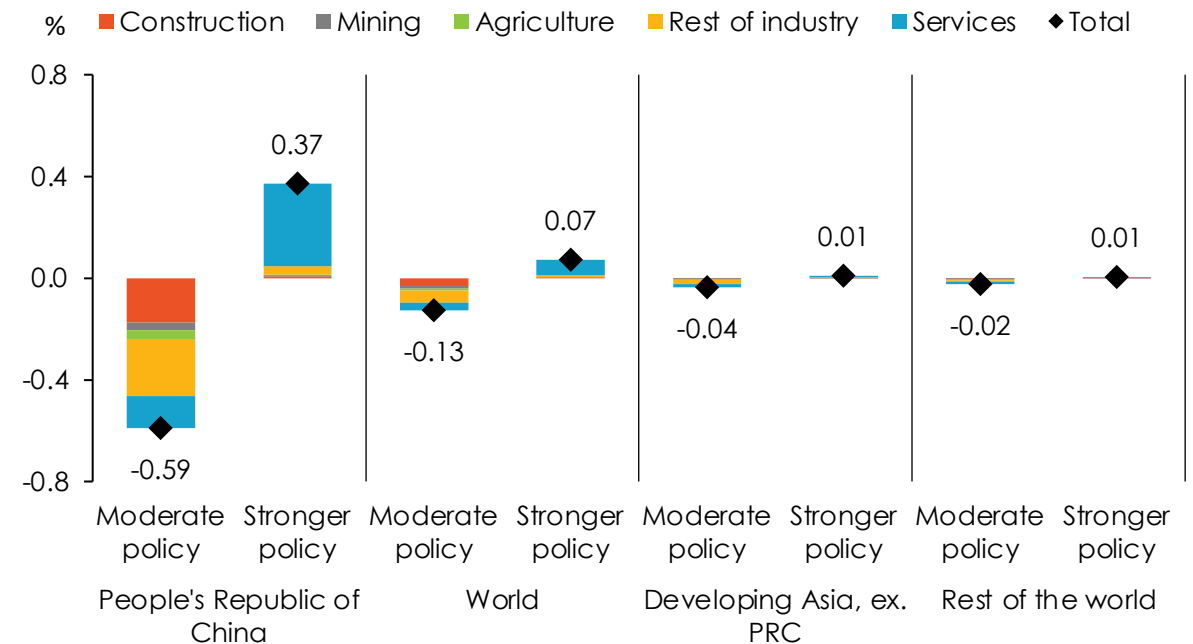


# Domestic and international spillovers from further property market weakness in the PRC

- A further property market slowdown would be a drag on the domestic economy.
- Policy actions could soften or even erase the impact.
- The impact on the rest of the region would be limited, with some variation across PRC's trading partners.

*A strong policy response could erase the impact on growth of a protracted downturn in the property sector*

**GDP impact of further property sector weakness under moderate and strong policy responses (% relative to baseline)**

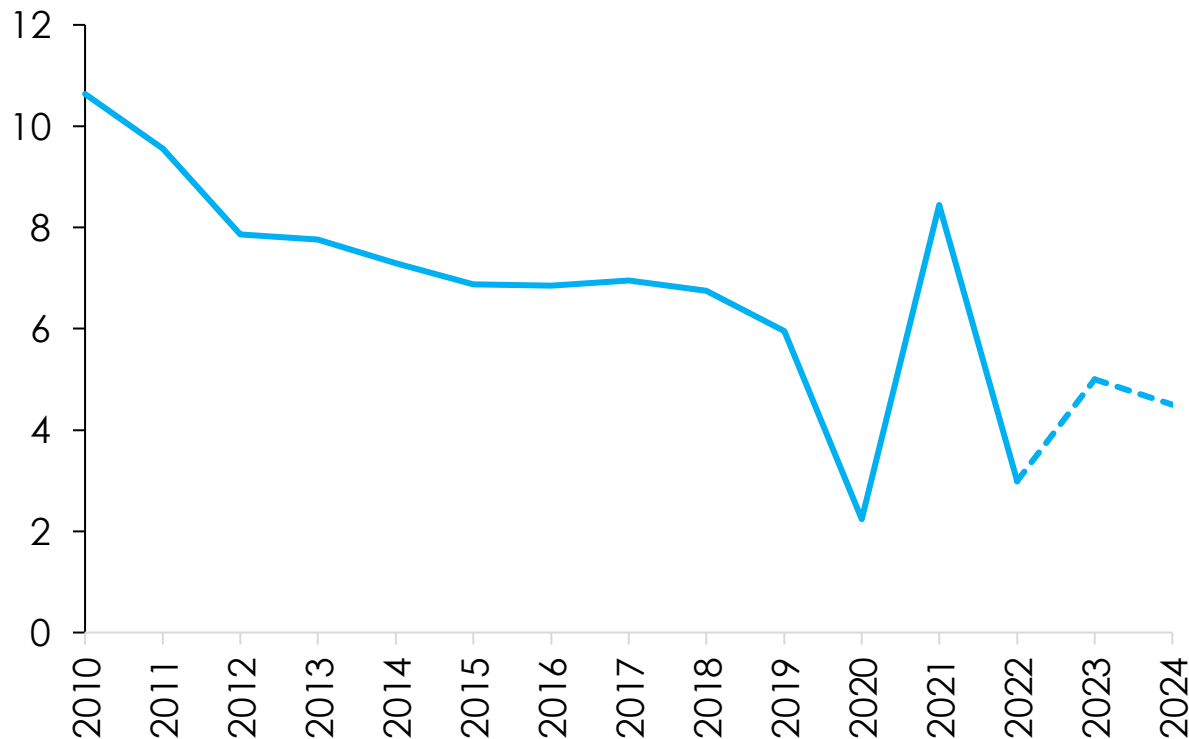


Developing Asia includes Armenia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; Fiji; Georgia; Hong Kong, China; India; Indonesia; Kazakhstan; Kyrgyz Republic; Lao People's Democratic Republic; Malaysia; Maldives; Mongolia; Nepal; Pakistan; Philippines; Republic of Korea; Singapore; Sri Lanka; Taipei, China; Thailand; and Viet Nam.  
Source: ADB staff estimates.



# Factors behind the PRC's growth moderation and policy priorities

PRC Real GDP growth (%)



GDP = gross domestic product, PRC = People's Republic of China.  
Sources: Asian Development Outlook forecast; and CEIC Data Company.

## Short-term:

- Building back consumer and investor confidence
- Debt deleveraging, especially in the property sector
- Repairing fiscal space of local governments

## Medium to long-term:

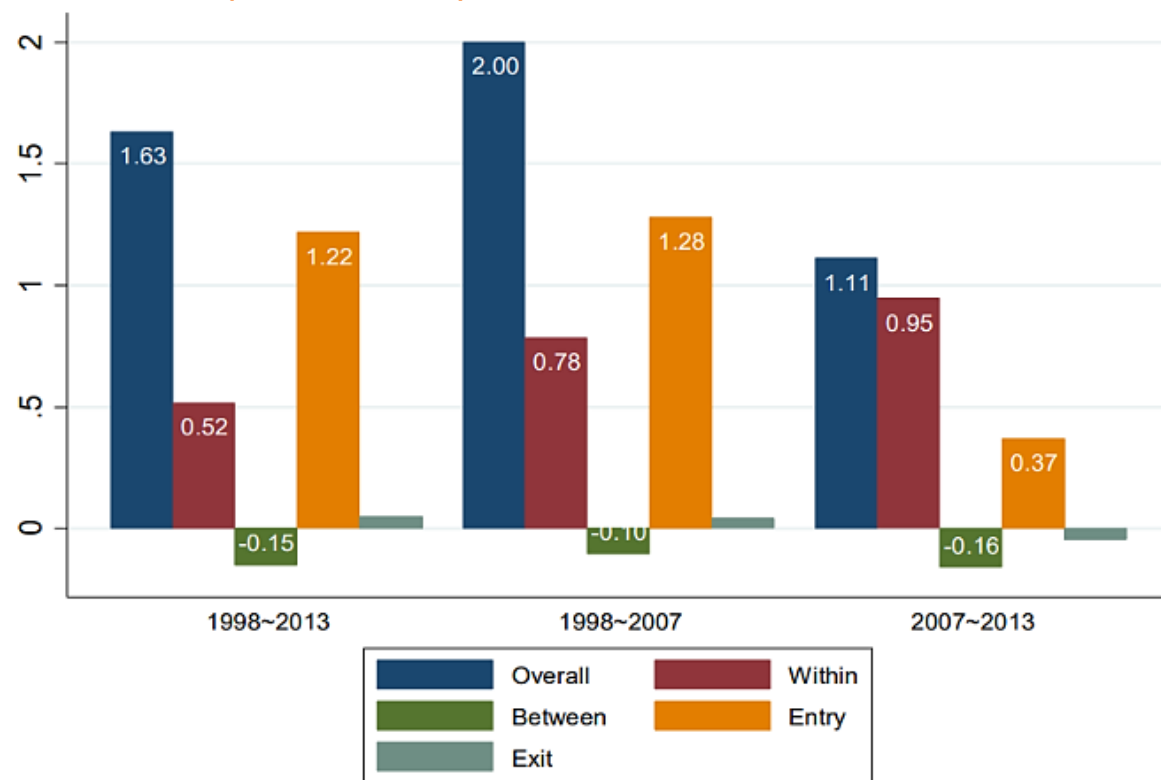
- Aging population
- Reversing productivity slowdown
- Promoting innovation and competition

- China now pursuing high quality development: innovative, coordinated, green, open, and inclusive

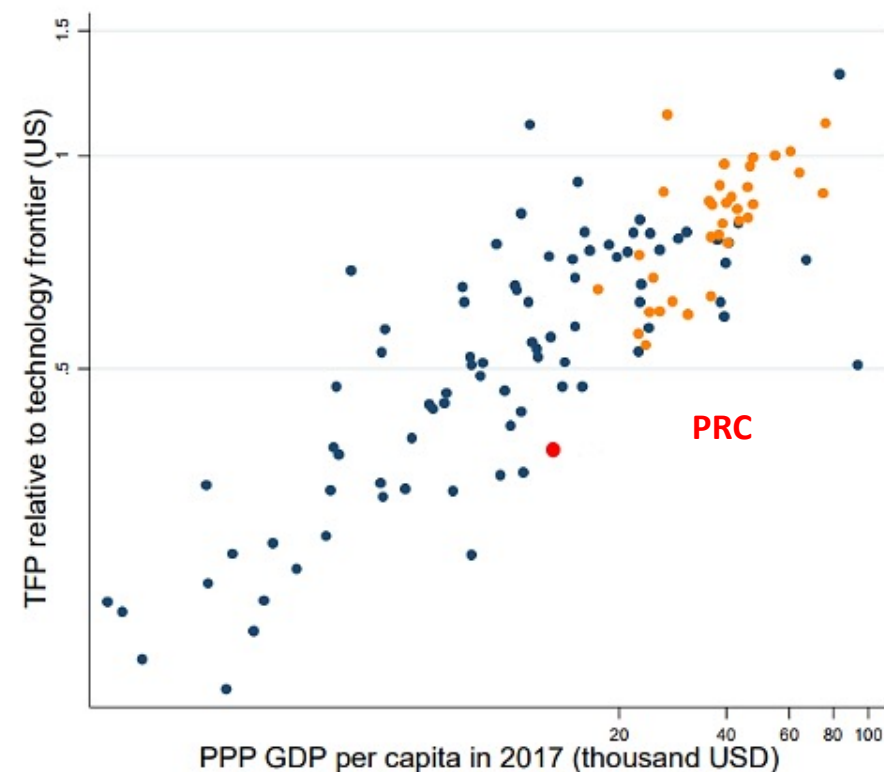


# Lessons from the People's Republic of China: competition, NOT industrial policy matters

Decomposition of annual TFP growth in manufacturing, 1998–2013 (% per year)



PRC's TFP relative to the global technology frontier, 2017 (both axes in log scale)



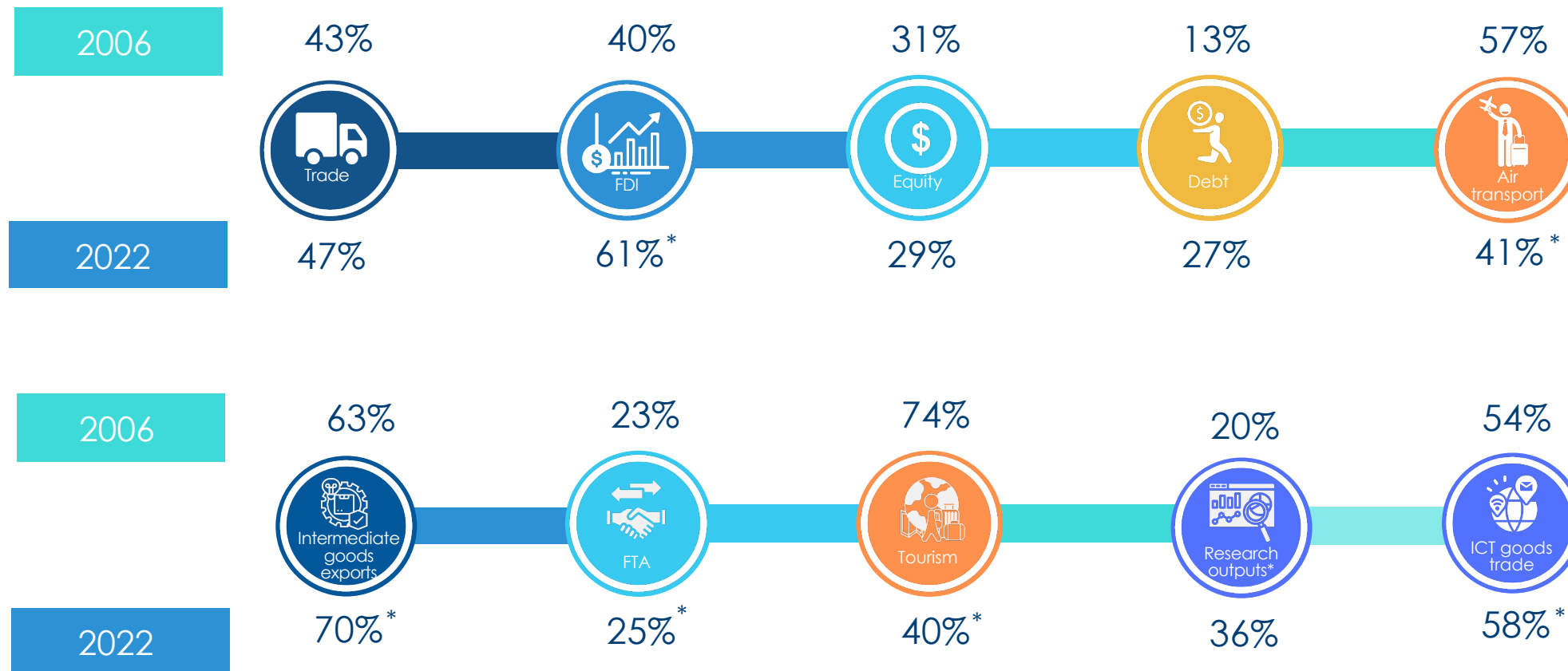
PPP = purchasing power parity, PRC = People's Republic of China, TFP = total factor productivity, US = United States, USD = US dollar.

Source: Brandt et al. 2020. China's Productivity Slowdown and Future Growth Potential. *Policy Research Working Paper*. No. 9298. Washington, DC: World Bank.



# Asia's regional economic integration continues to deepen

Intraregional shares Developing Asia (% of total)



FDI = foreign direct investment (flows data), Equity = equity asset holdings (stock data), Debt = debt asset holdings (stock data), Air transport = passenger seats sold.  
\*Numbers reflect 2021 data (latest year available).

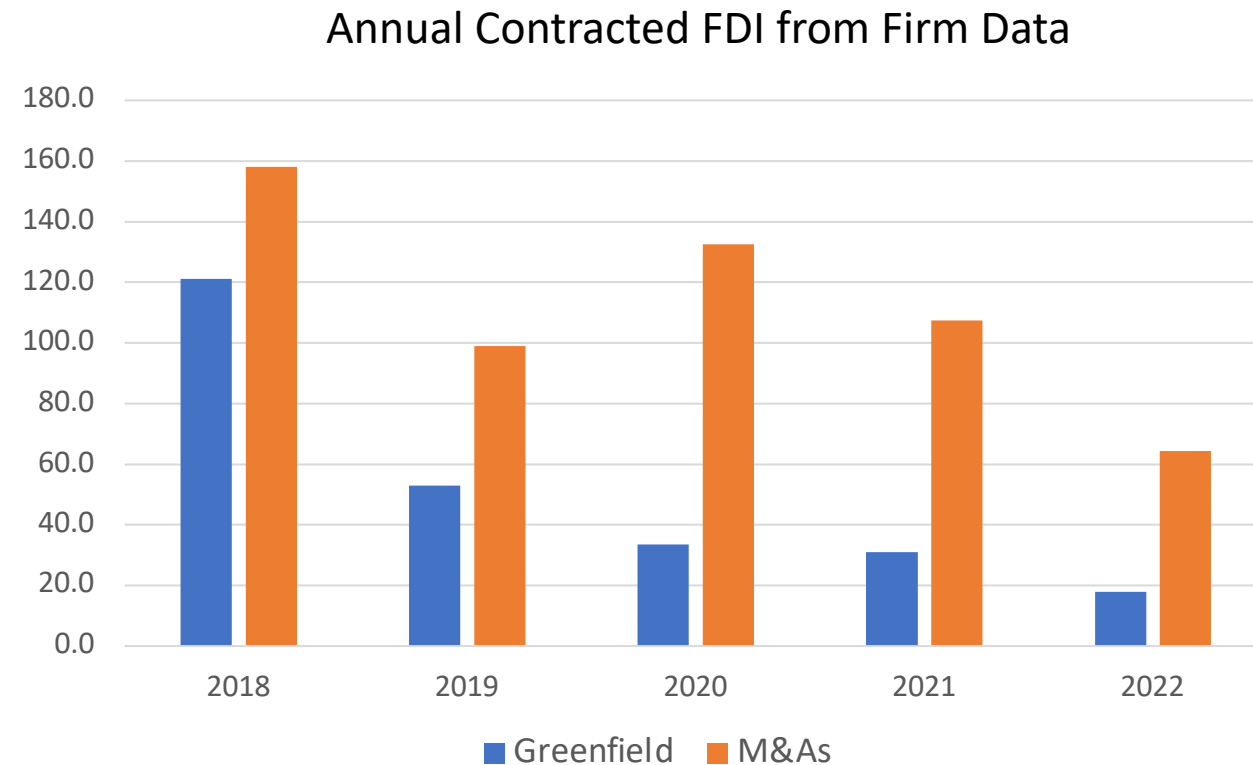
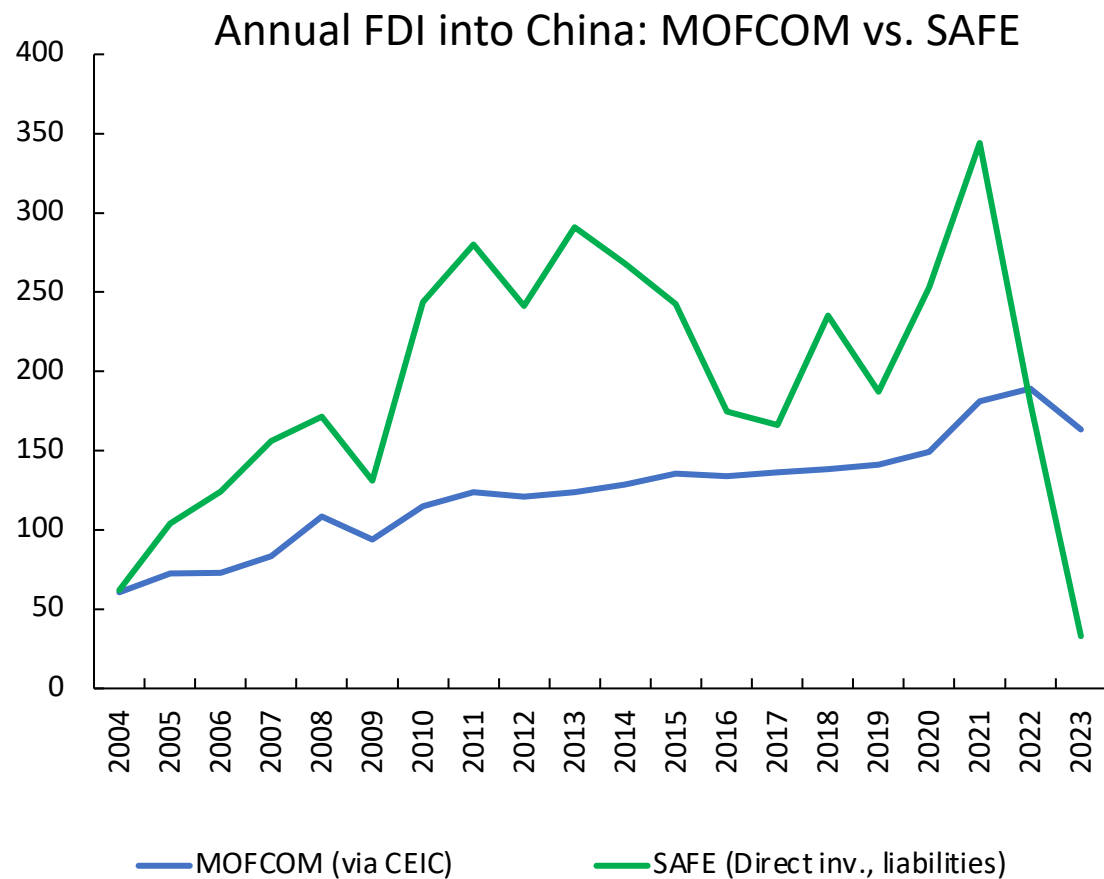
Note: Value for research outputs reflect the averaged intraregional shares of economies in developing Asia. Indicators on intermediate goods exports and environmental goods trade are expressed as shares to total intraregional goods exports and trade, respectively. Indicator on FTAs reflect the averaged shares of intraregional FTAs over the total number of economies in developing Asia.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat; International Monetary Fund; Organisation for Economic Co-operation and Development; United Nations Conference on Trade and Development; Clarivate Web of Science; ICAO Passenger Traffic by City Pair Data; and national sources.





# How rapidly is FDI into China declining?



Source: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets.

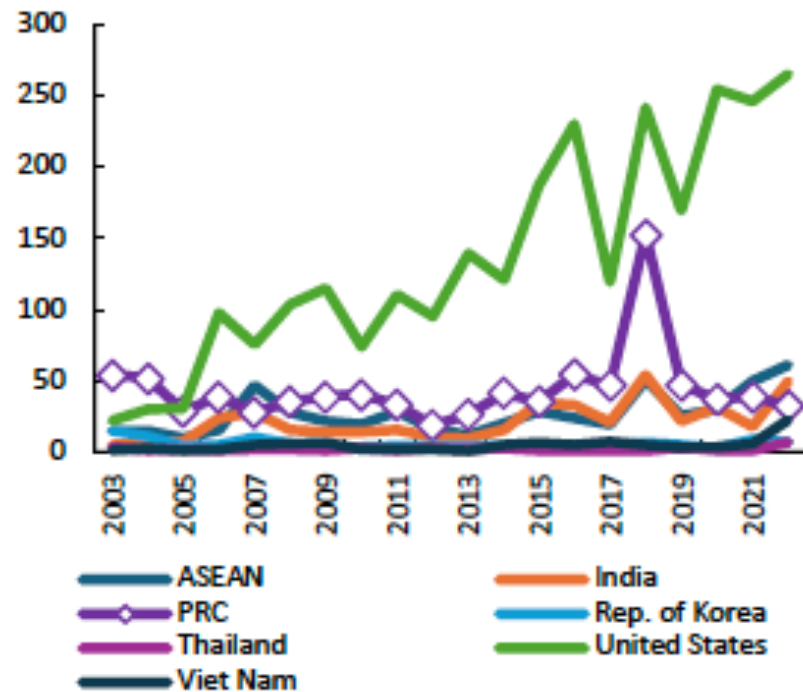
**source:** ADB calculations using data from Government of the People's Republic of China, Ministry of Commerce. <http://english.mofcom.gov.cn/article/statistic/foreigninvestment/>; and Government of the People's Republic of China, State Administration of Foreign Exchange. Data and Statistics. <https://www.safe.gov.cn/en/DataandStatistics/index.html> (both accessed March 2024).



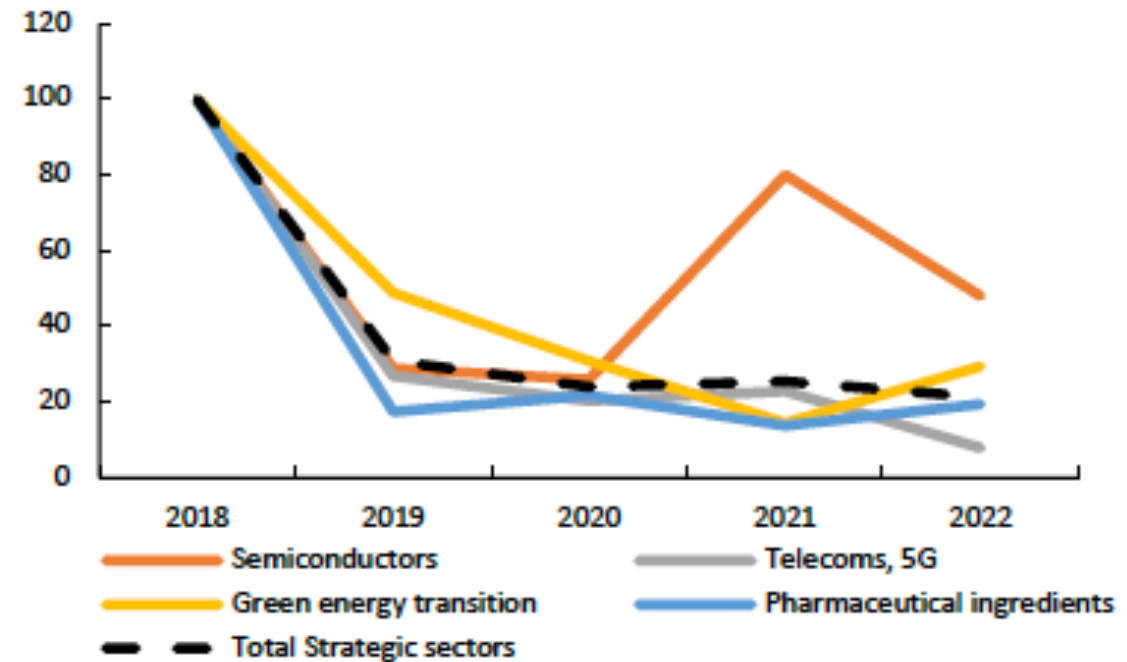
# PRC's inbound FDI in strategic sectors has declined sharply recently

FDI in Strategic Sectors in the PRC and Selected Economies

(a) FDI to strategic sectors by economy, \$ billion



(b) FDI in strategic sectors in PRC (2018=100)



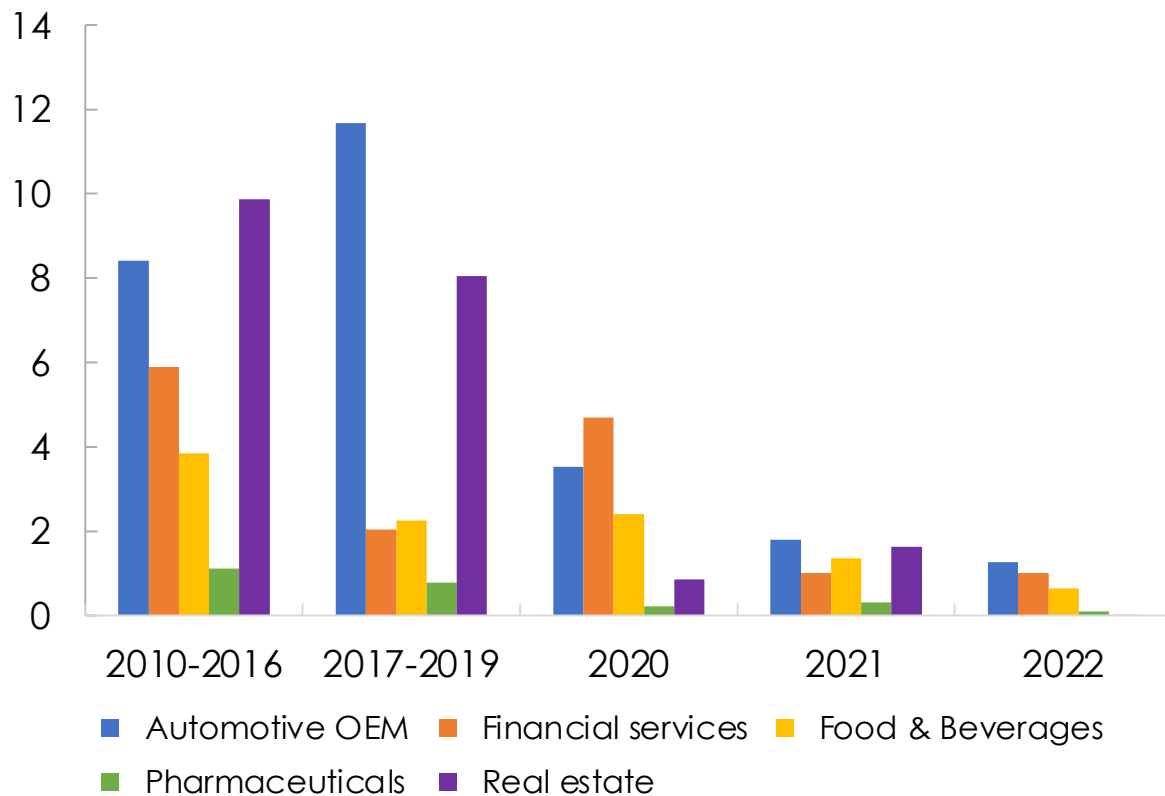
Source: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times, fDi Markets; and methodology from Atlantic Council (2022); and International Monetary Fund (2023).



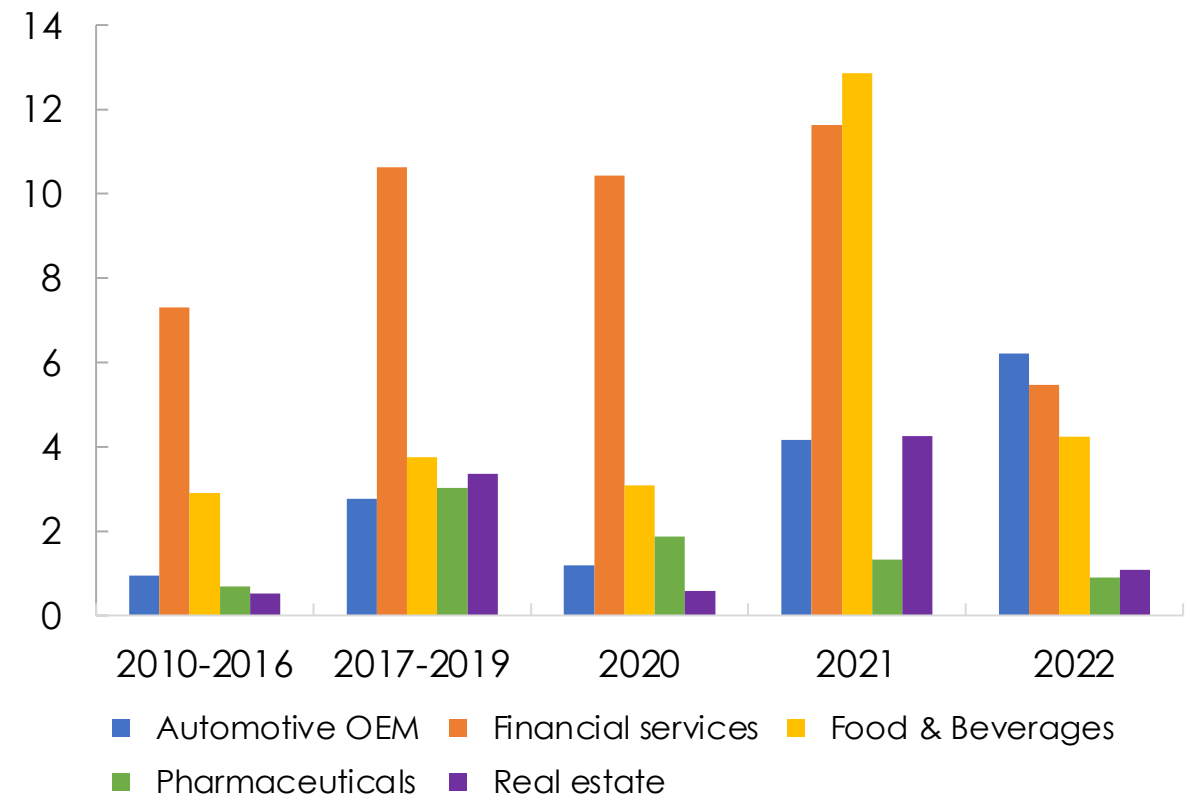
# PRC's inbound FDI in market-seeking sectors has also declined but by not as much

FDI in Market-Seeking Sectors in the PRC (\$ billion)

(a) Greenfield



(b) M&A

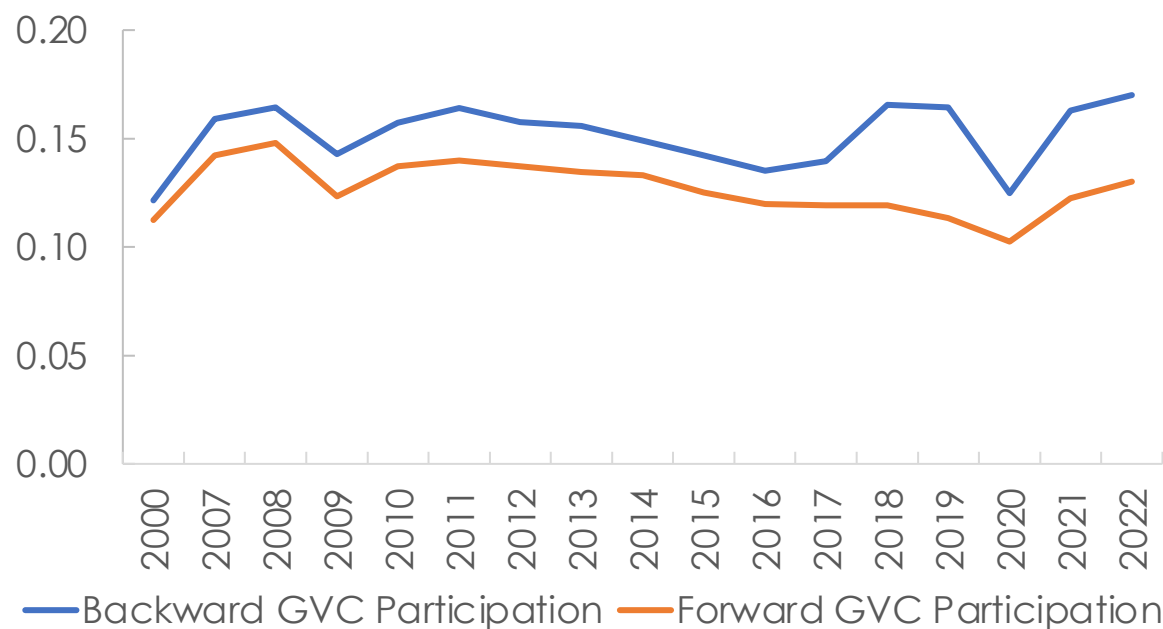


FDI = foreign direct investment, M&A = merger & acquisition, OEM = original equipment manufacturer, PRC = People's Republic of China.  
Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times, fDi Markets.



# GVC participation steady in developing Asia, specializing in downstream sectors

**GVC Participation Rates—ADB DMCs (%)**

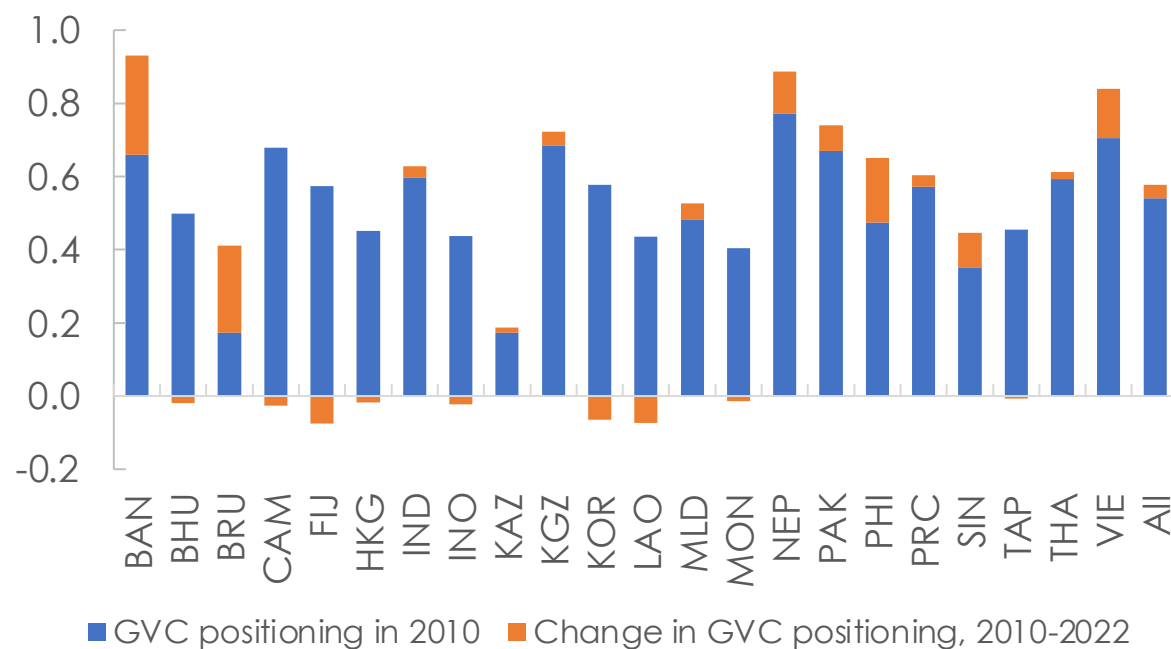


DMC = developing member countries, GVC = global value chain.

Note: Based on input-output tables in constant 2010 \$.

Source: ADB Multi-Region Input-Output Tables.

**GVC Positioning in 2010 and change between 2010 and 2022**



BAN = Bangladesh; BRU = Brunei Darussalam; CAM = Cambodia; GVC = global value chain; FIJ = Fiji; HKG = Hong Kong, China; IND = India; INO = Indonesia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KOR = Republic of Korea; LAO = Lao People's Democratic Republic; MLD = Maldives; MON = Mongolia; NEP = Nepal; PAK = Pakistan; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam.

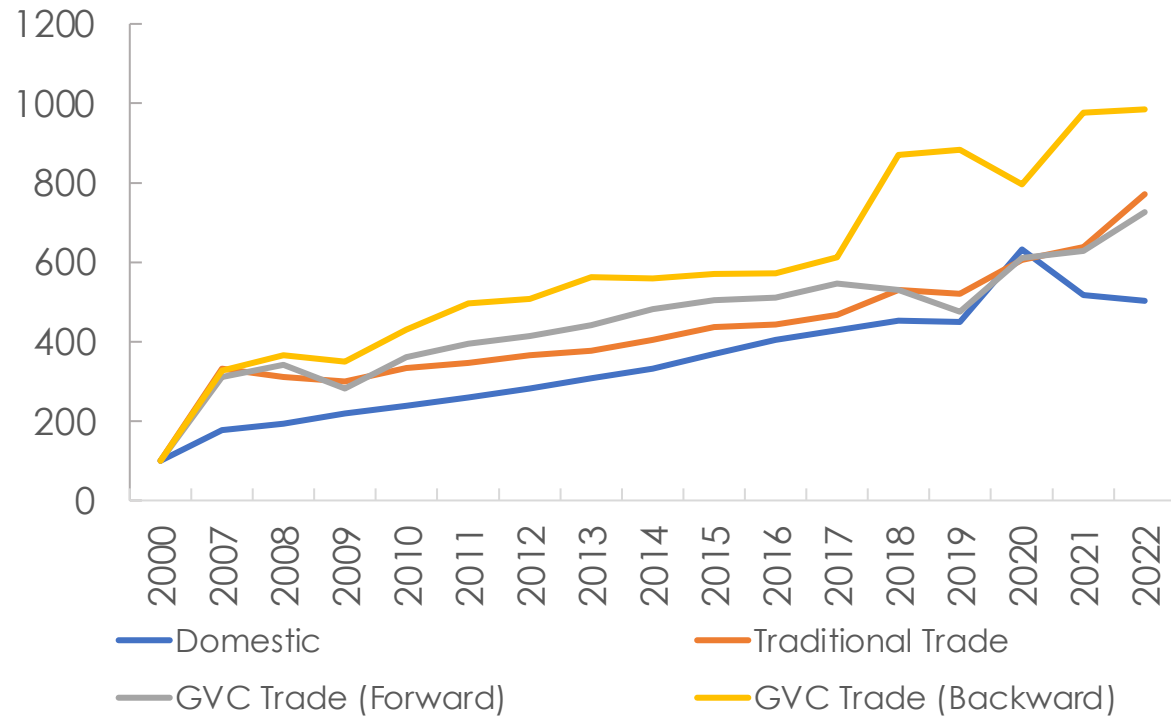
Note: Based on input-output tables in constant 2010 \$.

Source: ADB Multi-Region Input-Output Tables.



# PRC's growing role in GVCs (especially with backward linkages)

**Developments in the PRC's Components of Value-Added Production and Sources of Value-Added for Final Production (index, 2000=100)**

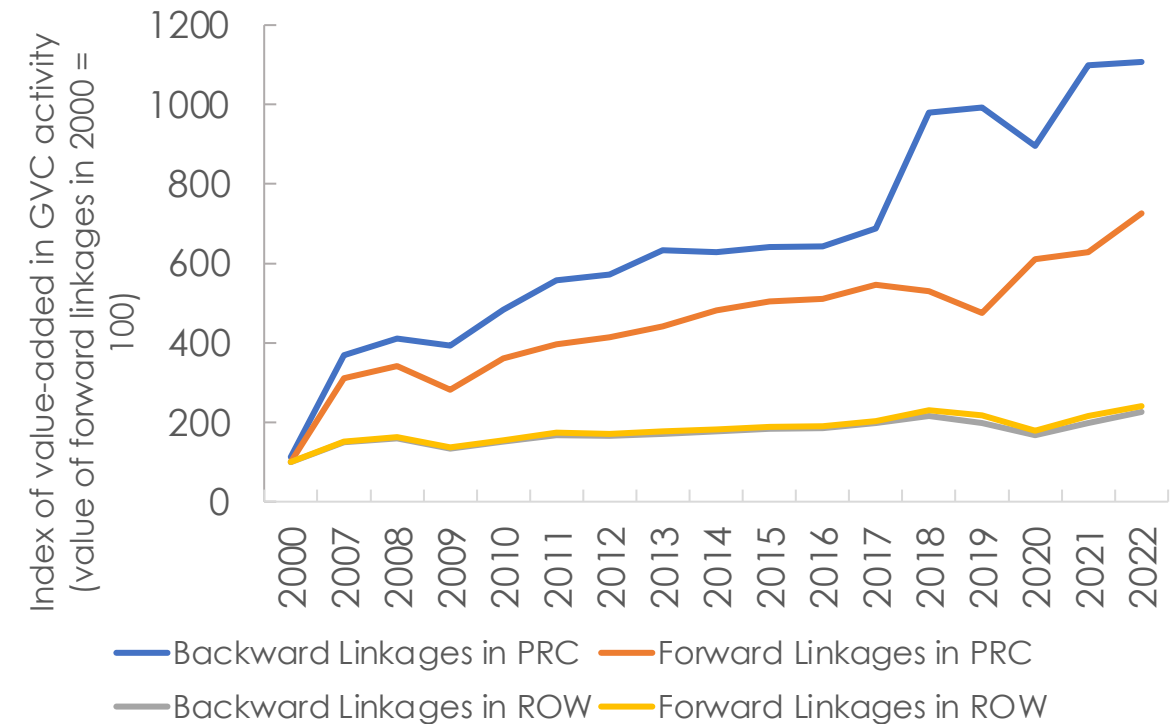


GVC = global value chain.

Note: Based on input-output tables in constant 2010 \$.

Source: ADB Multi-Region Input-Output Tables.

**Developments in the PRC's Forward and Backward Linkages in GVCs**



GVC = global value chain, PRC = People's Republic of China, ROW = rest of the world.

Notes: Based on input-output tables in constant 2010 \$. Values of backward and forward linkages in the ROW should in principle be equal to each other. The small differences in this figure represent accumulated rounding errors.

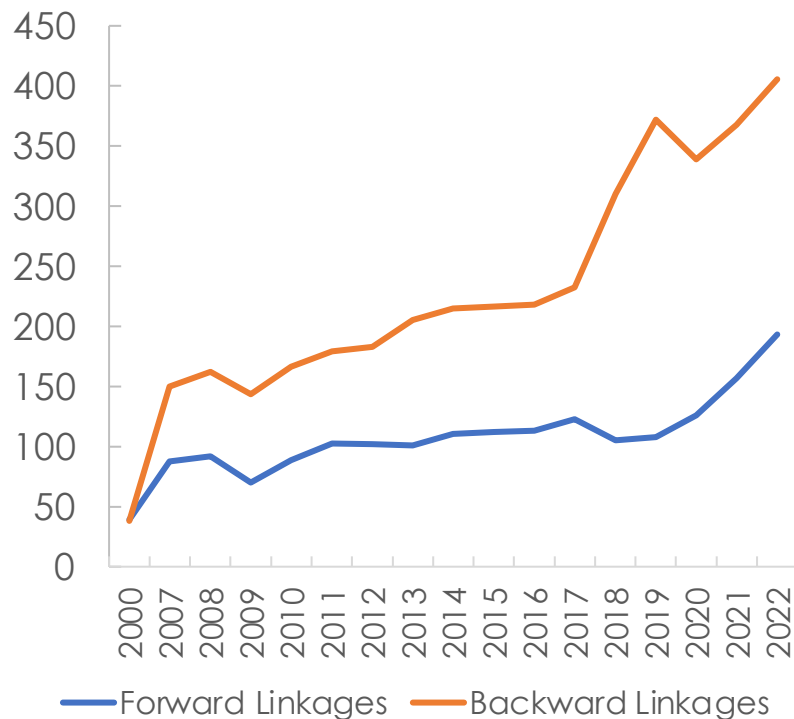
Source: ADB Multi-Region Input-Output Tables.



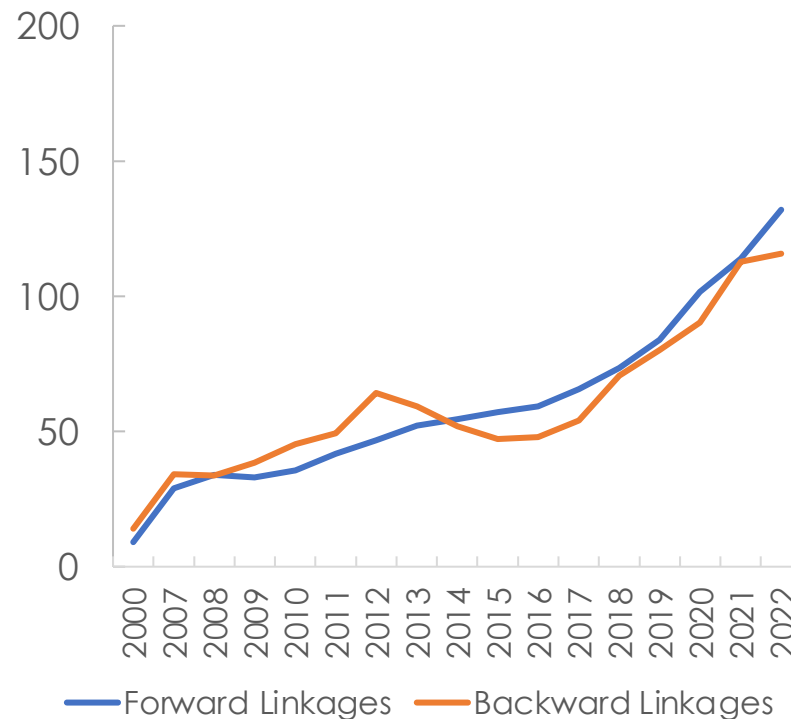
# PRC's GVC linkages with Asia and the US

PRC's Forward and Backward Linkages in GVC (\$ billion, in constant 2010 \$)

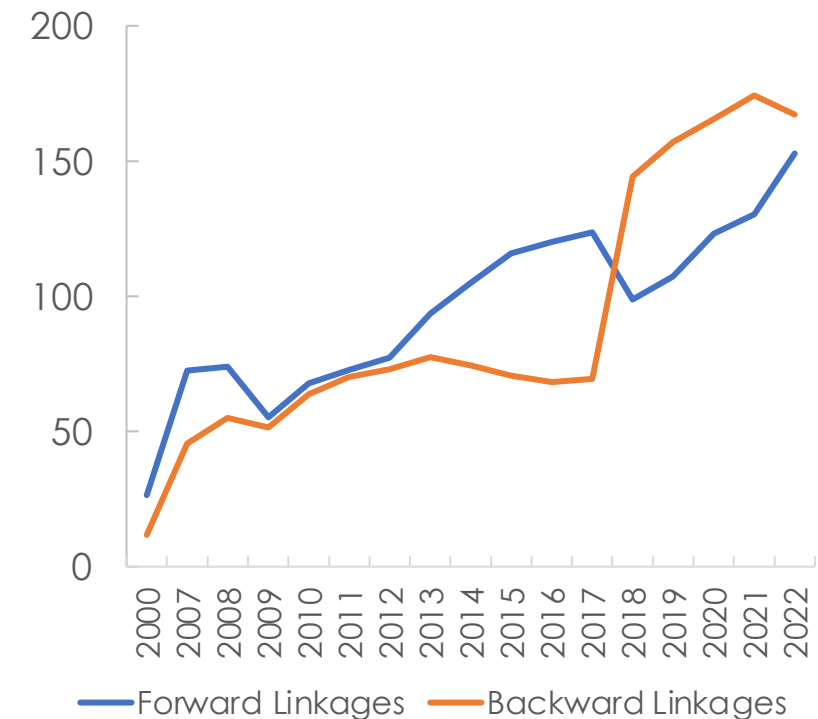
(a) East Asia



(b) Southeast Asia



(c) US



GVC = global value chain, PRC = People's Republic of China, US = United States.

Note: Based on input-output tables in constant 2010 \$.

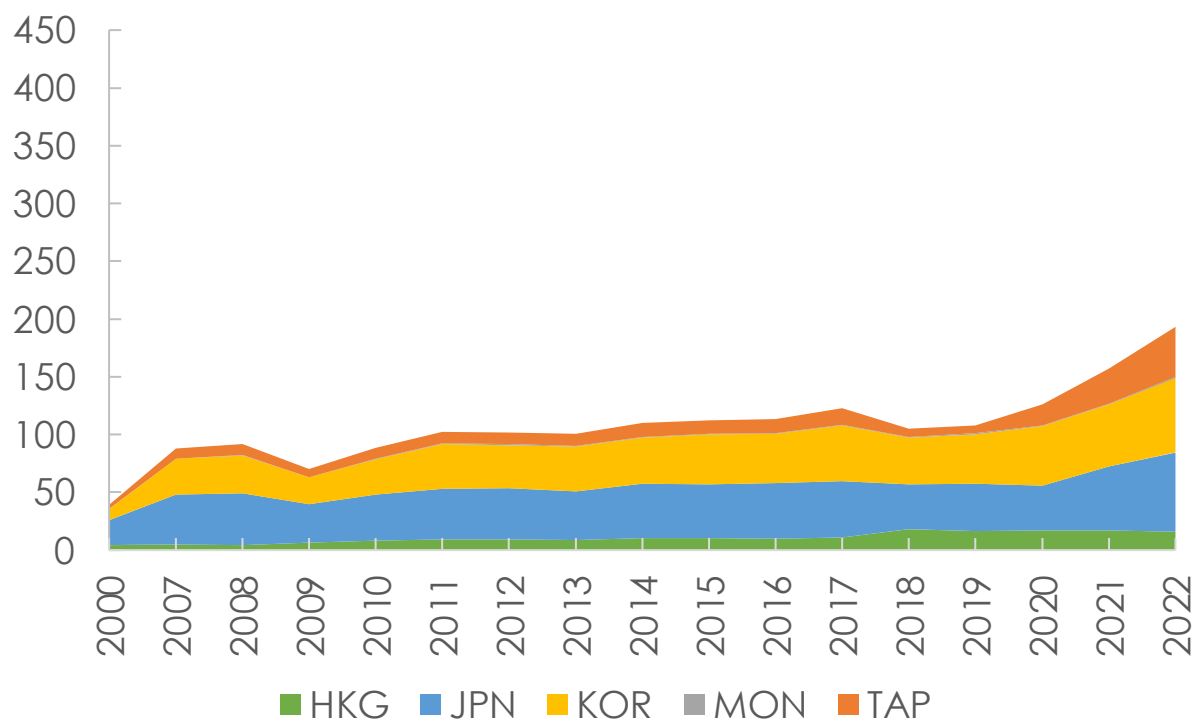
Source: ADB Multi-Region Input-Output Tables.



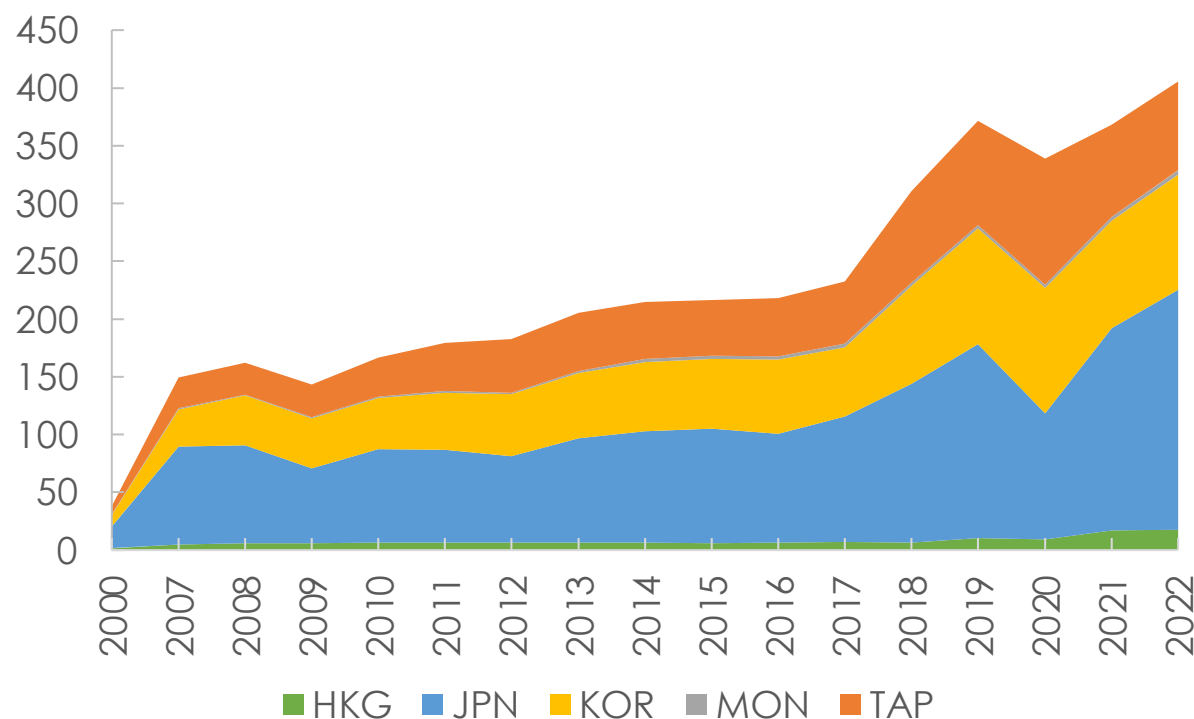
# Growth in GVCs with East Asia are mostly with backward linkages

PRC's Linkages in GVCs with East Asia (\$ billion, in constant \$)

(a) Forward linkages



(b) Backward linkages



GVC = global value chain; HKG = Hong Kong, China; JPN = Japan; KOR = Republic of Korea; MON = Mongolia; PRC = People's Republic of China; TAP = Taipei, China.

Note: Based on input-output tables in constant 2010 \$.

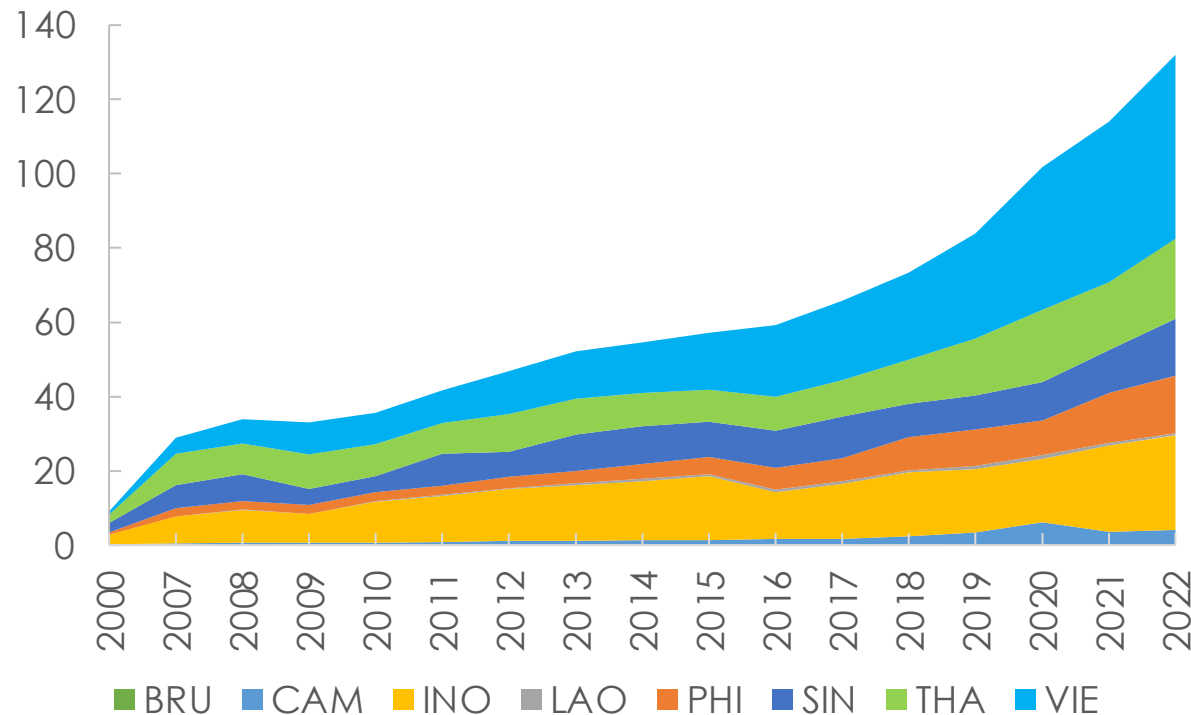
Source: ADB Multi-Region Input-Output Tables.



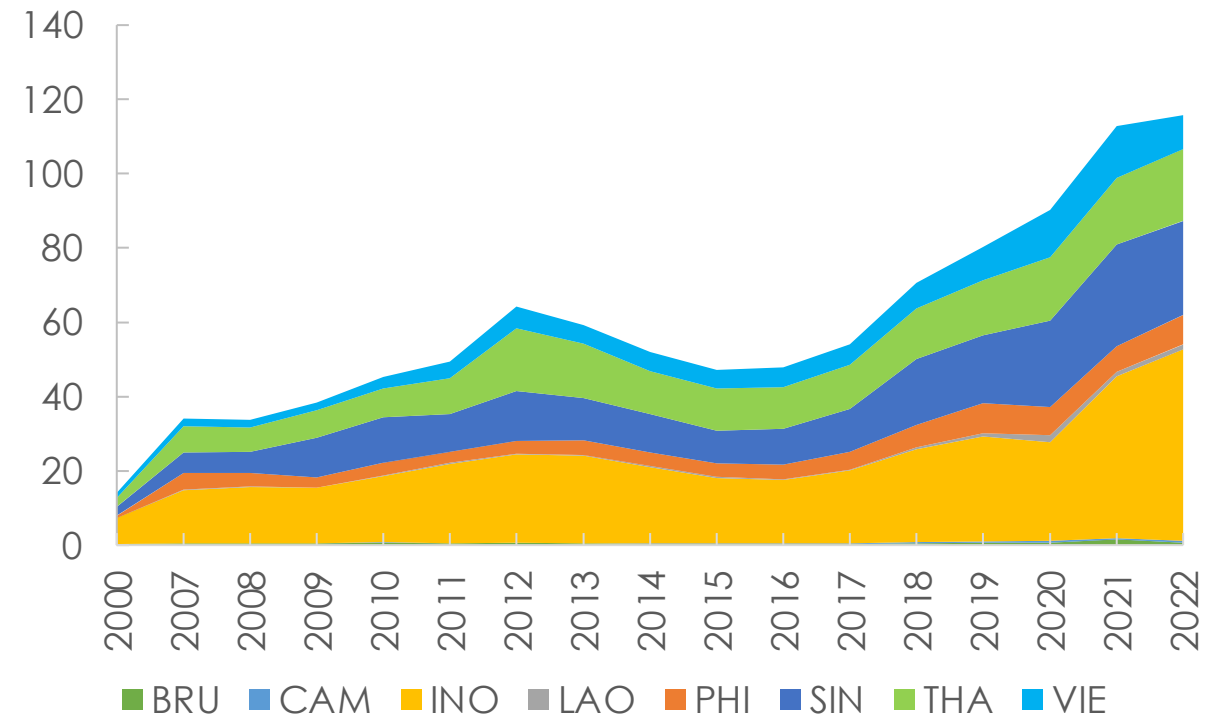
# Growth in GVCs with southeast Asia are mostly with forward linkages

PRC's Linkages in GVCs with Southeast Asia (\$ billion, in constant \$)

(a) Forward linkages



(b) Backward linkages



BRU = Brunei Darussalam, CAM = Cambodia, GVC = global value chain, INO = Indonesia, LAO = Lao People's Democratic Republic, PHI = Philippines, PRC = People's Republic of China, SIN = Singapore, THA = Thailand, VIE = Viet Nam.

Note: Based on input-output tables in constant 2010 \$.

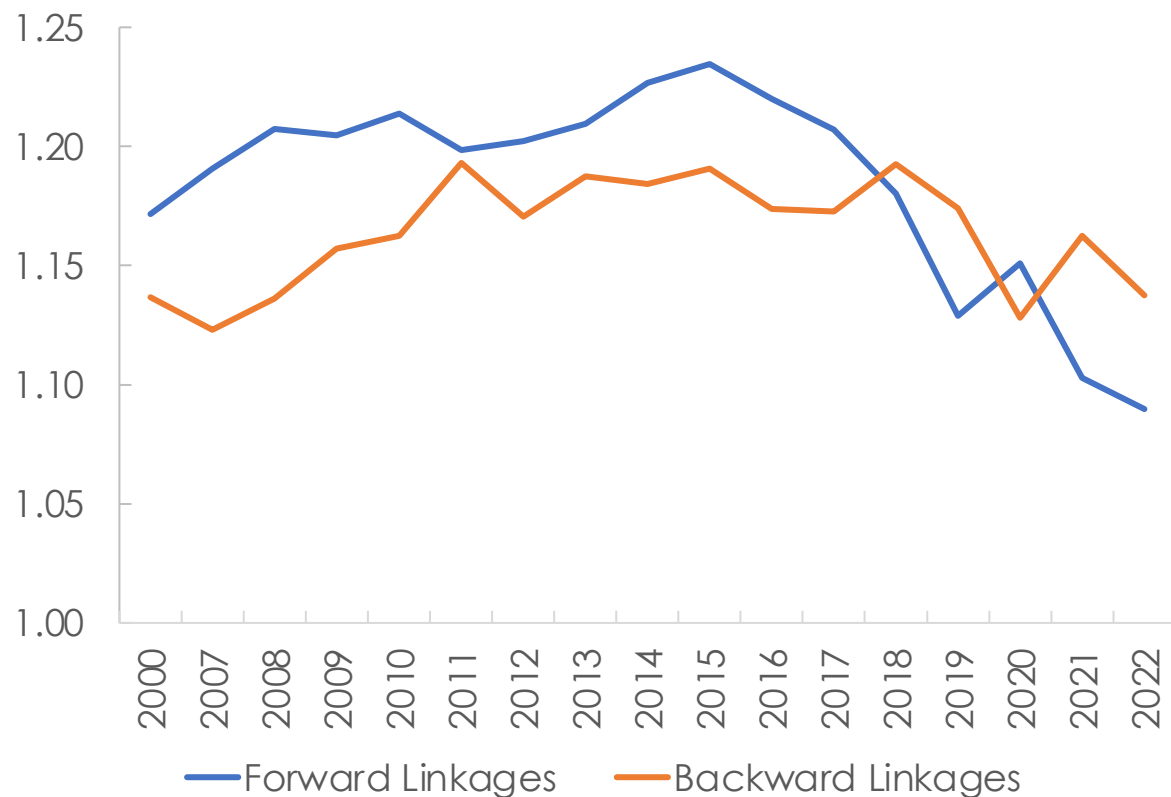
Source: ADB Multi-Region Input-Output Tables.





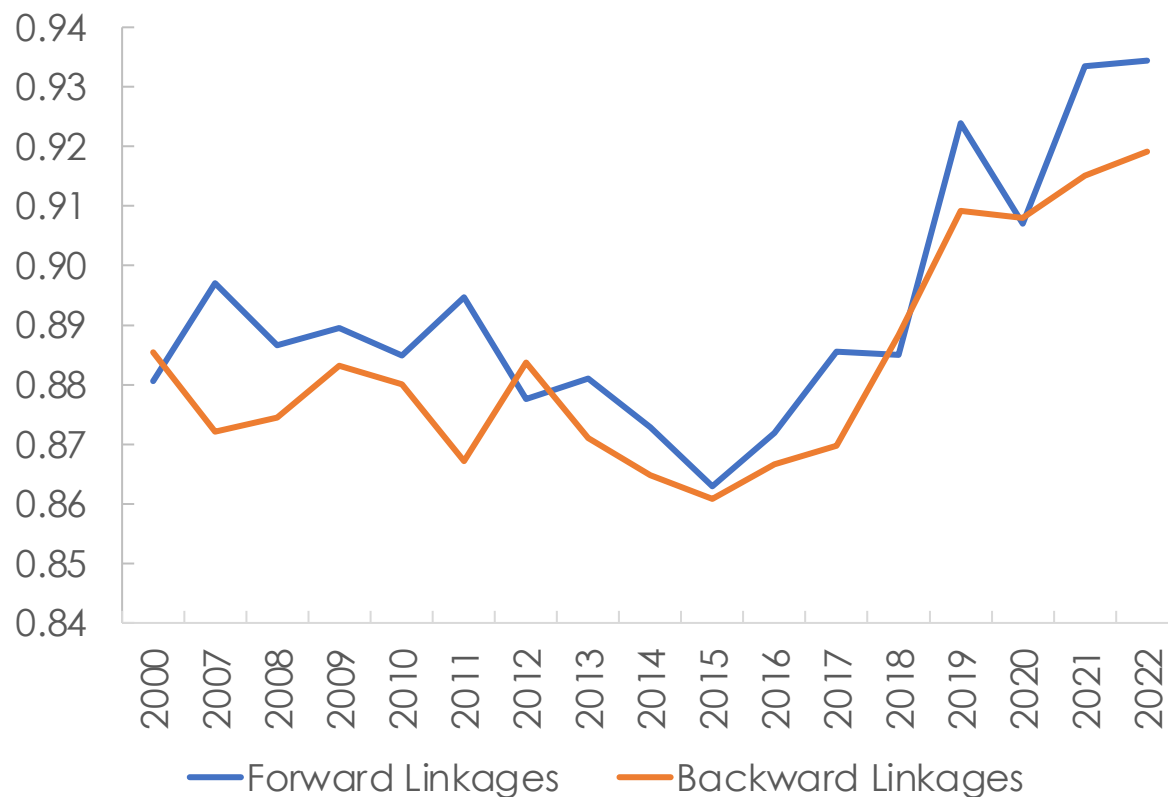
# PRC's GVC linkages are becoming more regional and more diversified

**The Geographical Distance of the PRC's GVC Linkages**  
(geographical distance of GVC trade)



GVC = global value chain, PRC = People's Republic of China.  
Note: Based on input-output tables in constant 2010 \$.  
Source: ADB Multi-Region Input-Output Tables.

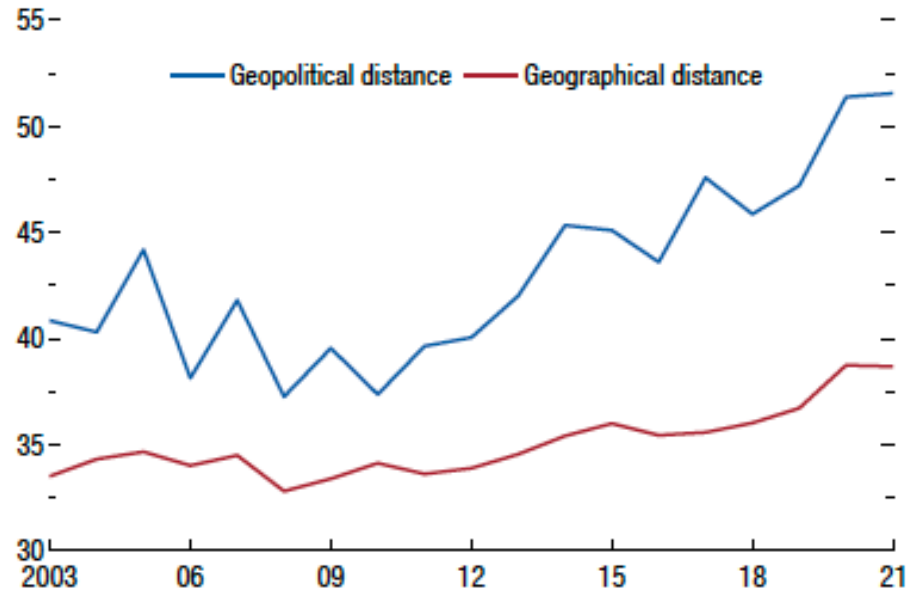
**Developments in the Diversification of the PRC's GVC Linkages**  
(inverse Herfindahl index)



GVC = global value chain, PRC = People's Republic of China.  
Note: Based on input-output tables in constant 2010 \$.  
Source: ADB Multi-Region Input-Output Tables.



# Impact of FDI fragmentation



Sources: Bailey, Strezhnev, and Voeten (2017); Centre d'études prospectives et d'informations internationales, Gravity database; fDi Markets; and IMF staff calculations.

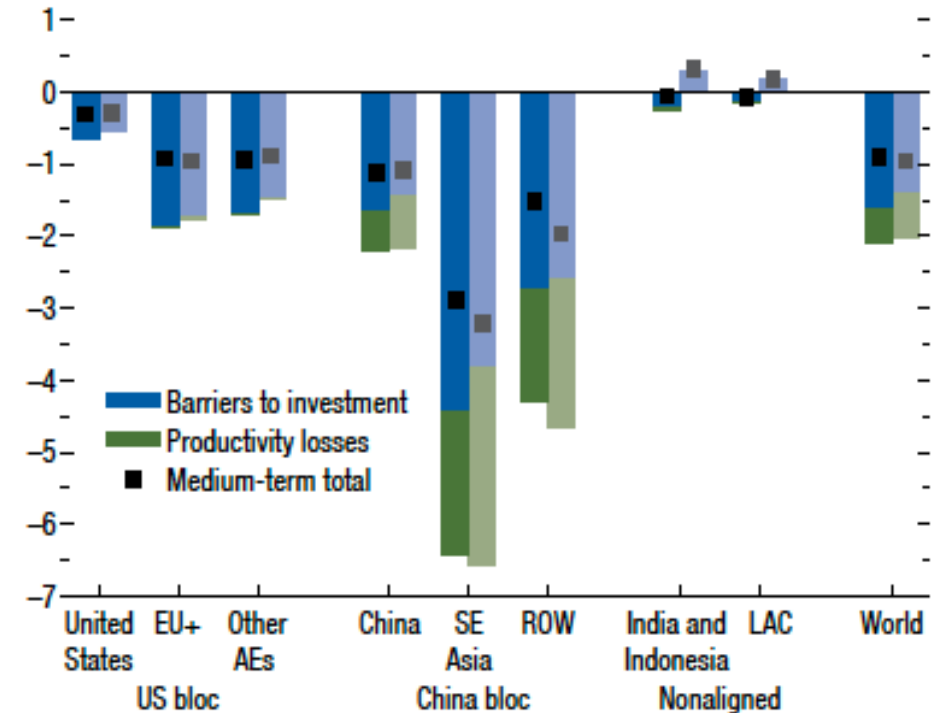
Note: Figure shows the annual share of total foreign direct investments between country pairs that are similarly distant (that is, in same quintile of distance distribution), geopolitically and geographically, from the United States.

- FDI increasingly oriented to “friendly” countries.
- Decoupling FDI reduces GDP by 2%.
- Decoupling hurts China more than US, and hurts countries forced to choose sides the most.

Source: IMF (April 2023). “Goeconomic Fragmentation and Foreign Direct Investment”, *World Economic Outlook*.

**Figure 4.14. Impact of Investment Flow Barriers on GDP**  
(Percent deviation from no-fragmentation scenario)

Fragmentation could lower global output by up to 2 percent.



Source: IMF staff calculations.

Note: Baseline fragmentation scenario represents barriers generating 50 percent decline in investment input flows between China and US blocs, with no barriers with two nonaligned regions (India and Indonesia and Latin America and the Caribbean). Darker bars denote scenario with lower elasticity of substitution (1.5) between foreign sources of investment inputs. Lighter bars denote scenario with higher elasticity of substitution (3.0) between foreign sources of investment inputs and thus a greater role for diversion.

AEs = advanced economies; EU+ = European Union and Switzerland; LAC = Latin America and the Caribbean; ROW = rest of the world; SE = Southeast.



# Impact of trade fragmentation

Table 1: Trade assumptions in scenarios

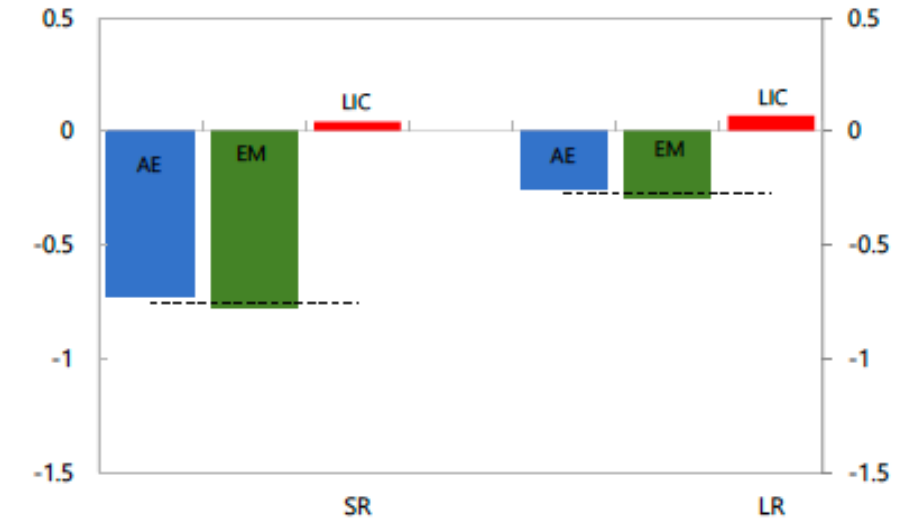
Scenario	Country Group I	Country Group II	ROW	Commodities/sectors
A	-	-	-	Trade barriers on energy sector
B	-	-	-	Trade barriers on high-tech sectors
C	-	-	-	Trade barriers on agriculture goods
Strategic decoupling	USA and EU	Russia	Free trade	Trade barriers on all sectors
		China		Trade barriers on high-tech sectors
Geo-economic fragmentation	USA and EU	Russia and China	Join USA (China) group if country trades more (less) with USA than China, resulting in tariffs on all sectors by the other group.	Trade barriers on all sectors
				Trade barriers on all sectors

- Costs of geo-economic fragmentation are 4.8% of GDP in the short term and 2.3% in the long term;
- Low income countries hurt the most when forced to choose sides.

Source: Bolhuis, Chen, and Kett (October 2023). *Fragmentation in Global Trade: Accounting for Commodities*, IMF Working Paper No. 2023/073.

## Strategic Decoupling Scenario

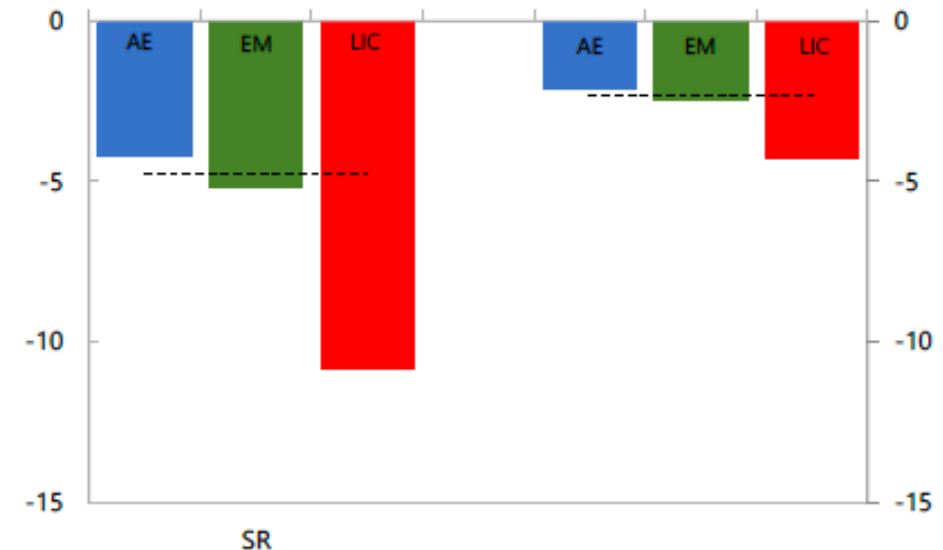
(percent deviation from baseline)



Sources: Fund staff calculations.

## Geo-economic Fragmentation Scenario

(percent deviation from baseline)

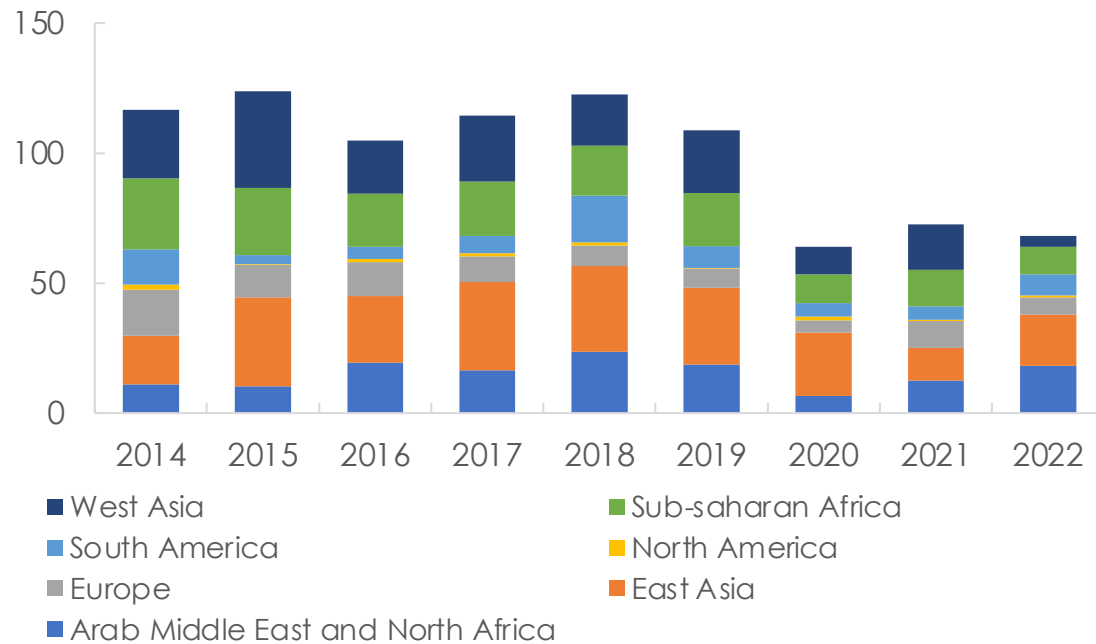


Sources: Fund staff calculations.

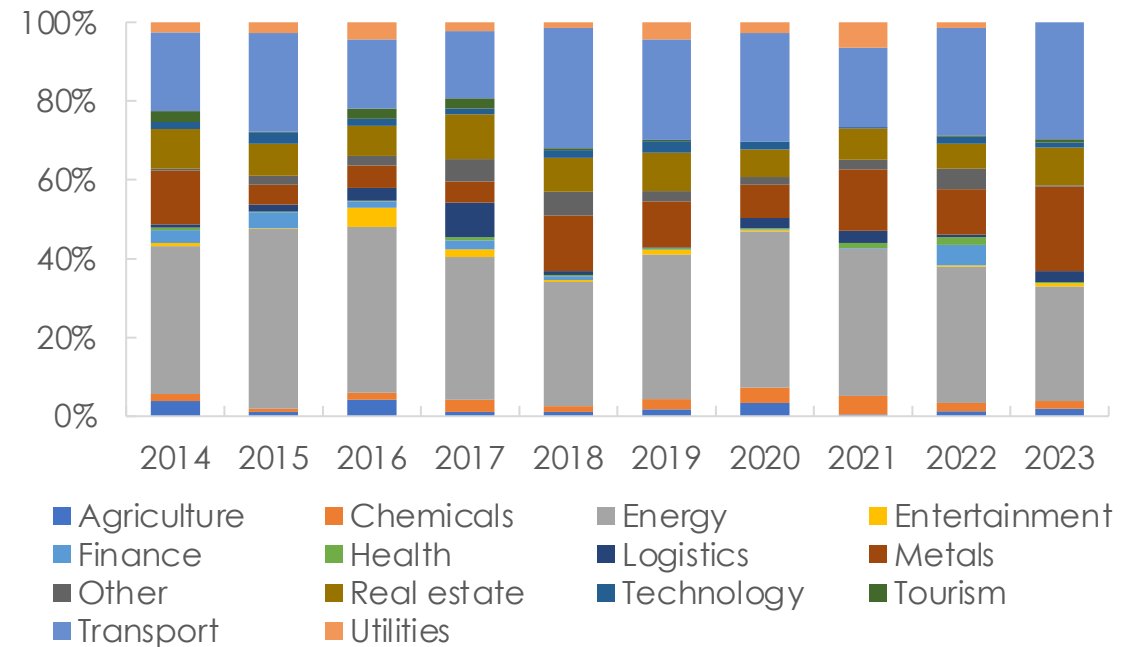


# Belt and Road engagement has declined, still focused on energy, metals, and transport

Chinese BRI Engagement—by region (\$ billion)



Chinese BRI Engagement Sector Share (%)



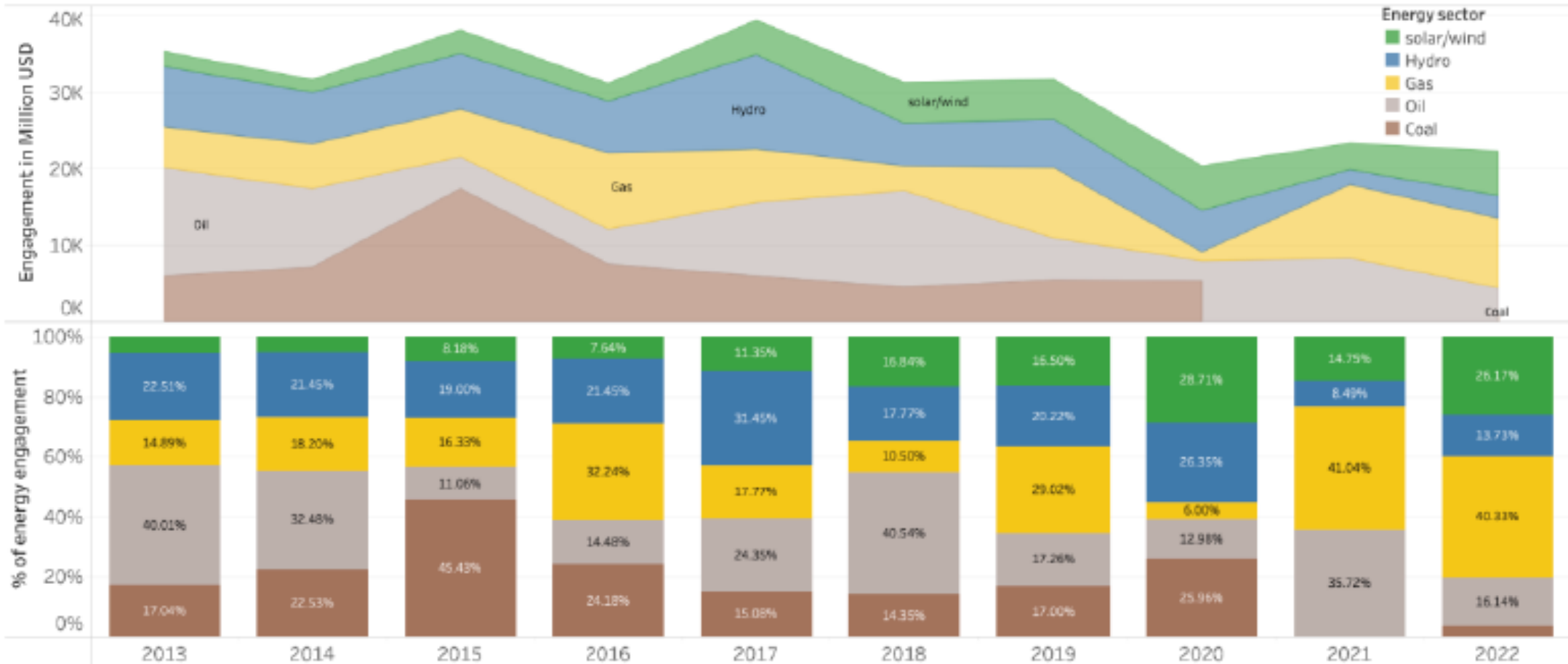
BRI = Belt and Road Initiative.

Sources: ADB calculations using data from American Enterprise Institute. China Global Investment Tracker 2023; and Nedophil, C. 2023. China Belt and Road Initiative Investment Report 2022. Shanghai: Green Finance Development Center, FISF Fudan University.



# BRI has (nearly) phased out coal and is increasing engaged with renewables

Chinese energy engagement in the Belt and Road Initiative (BRI) 2013- 2022



(c) Copyright 2023 Green Finance & Development Center, FISS Fudan (Sources: based on AEI and others)



# Assessing the Belt and Road Initiative (BRI)

- Previous research findings:
  - The BRI reduced the influence of economic fundamentals on outbound FDI but increased the importance of governance quality
  - BRI did not increase soft power (as measured by sentiment of media coverage) but if anything undermined it; however, may have strengthened government ties
- Use of BRI for debt diplomacy largely dispelled but China is playing a key role in debt resolution
- Many BRI projects support development by providing needed infrastructure, but some projects have attracted significant criticism
- Optimistically, China can learn from its mistakes and improve the BRI going forward via due diligence and a strong focus on decarbonization

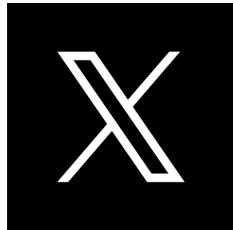


# Can China lead on climate?

- Largest carbon emitter but by far greatest deployer of renewables
- Technological leader in solar, wind, batteries, EVs
- Largest emissions trading system
- Largest issuer of green bonds
- Strong government commitment to reaching net-zero
  - Setbacks from recent emphasis on “security”
  - Learning by aggressively tackling challenges
- China can help other countries in renewable energy sector development, reducing costs of decarbonization, and contributing to regional policy dialogues
  - At BRI summit, China pledged to provide \$100 billion for renewable energy



**Thank you.**



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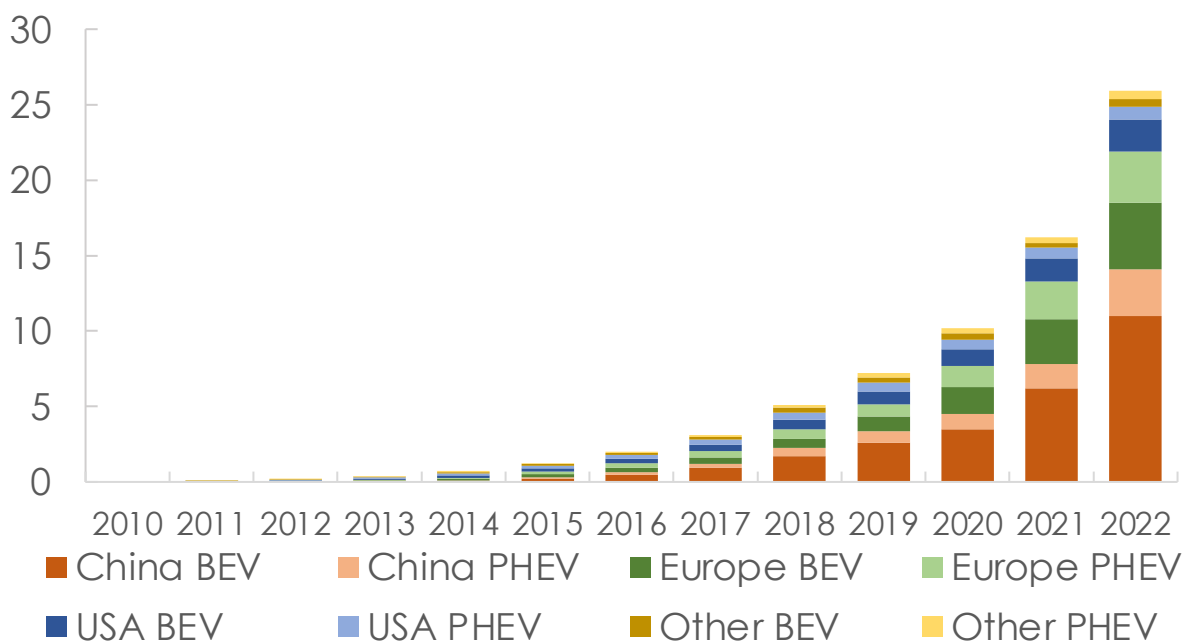




# More than half of the world's electric cars are in China

- Total electric cars in the world reached 26 million in 2022, up 60% relative to 2021 and more than 5 times the stock in 2018
- Battery EVs accounted for about 70% of the global stock of electric cars in 2022
- China accounted for nearly 60% of all electric cars globally in 2022 (13.8 million)

Global Electric Car Stock (million)



BEV= battery electric vehicle, PHEV = plug-in hybrid electric vehicle, US = United States.

Source: International Energy Agency. Global Data Explorer.