

# The Medium to Long-Term Economic Outlook for Asia

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# Issues for discussion for Asian Economy

# Issues for discussion both for Asia and global economy

✓ Can developed economies overcome secular stagnation?

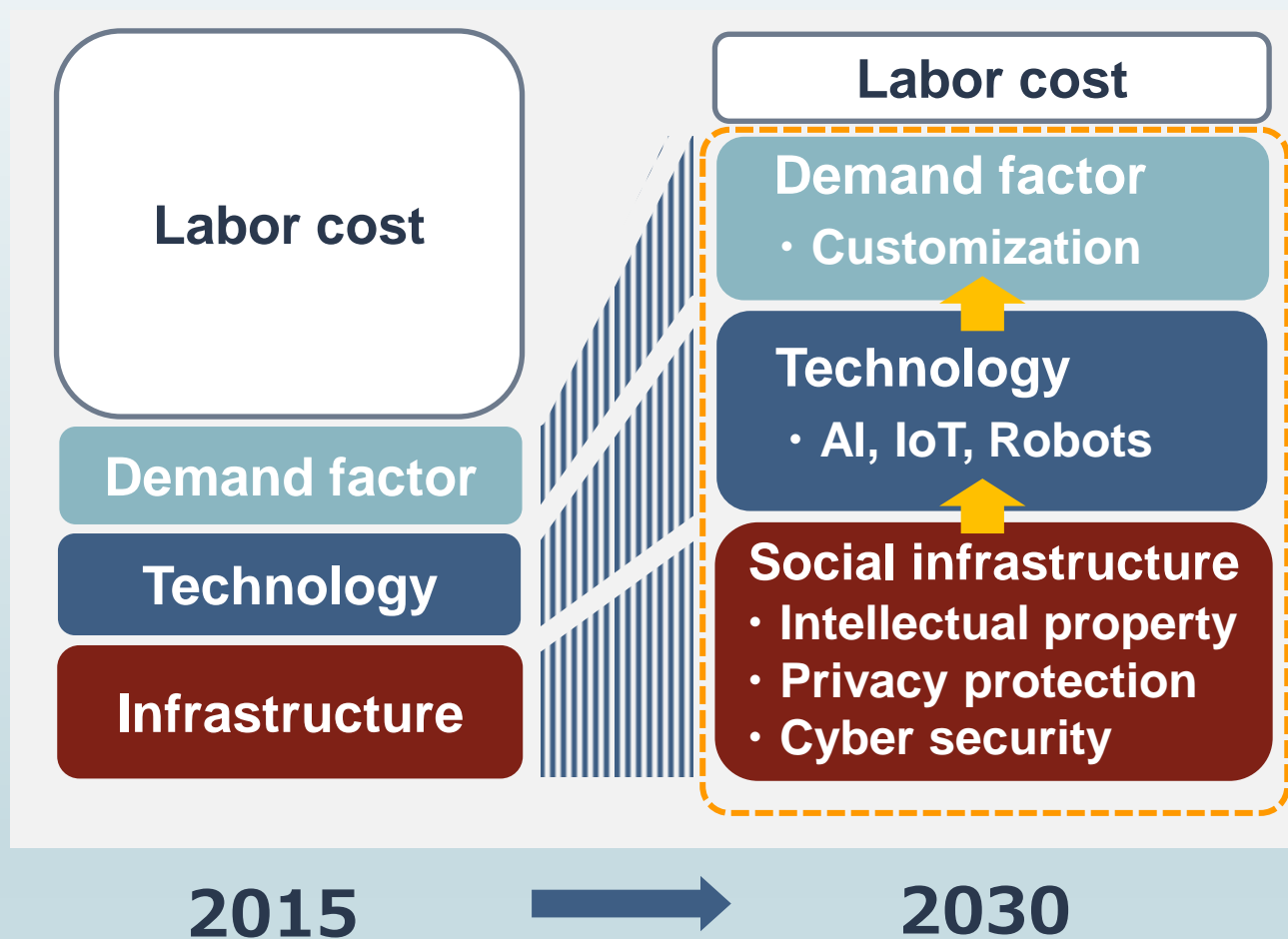
✓ Can we address anti-globalization and dissatisfaction with inequality?

✓ Will new digital technologies evoke a paradigm shift of global competition?

✓ Will a huge middle/high income class emerge in Asia?

# New digital technologies may evoke a paradigm shift

## Factors That Determine Firm's Location



Source: MRI

# Opportunities and disadvantages for emerging Asia

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## Opportunities

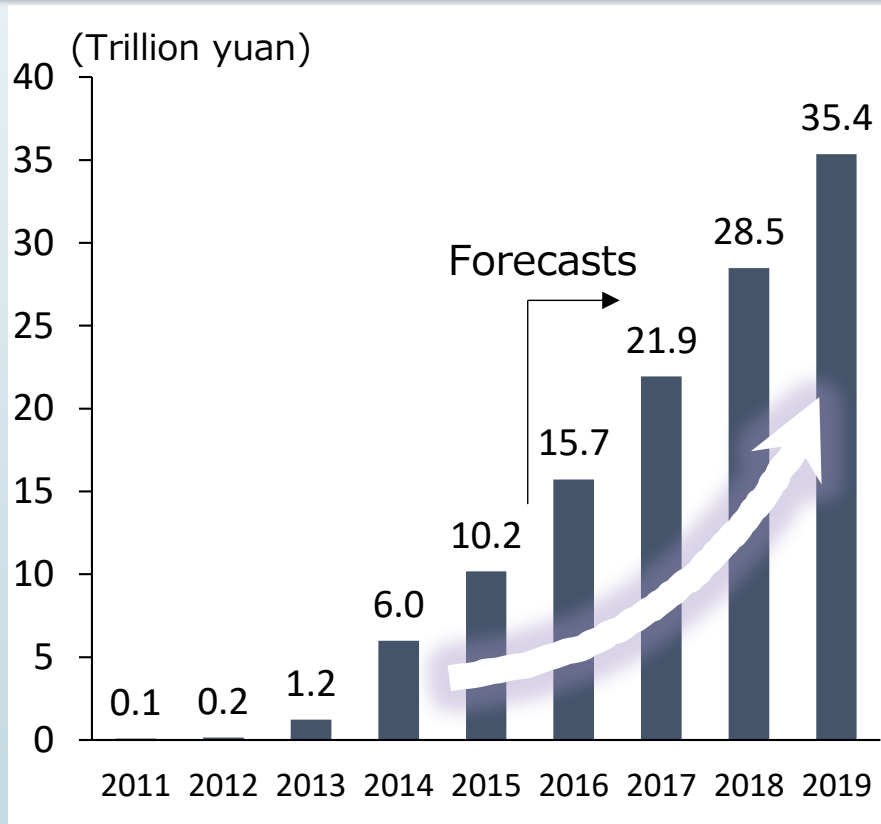
- Some new technologies may diffuse rapidly in emerging economies due to the absence of vested interests.  
e.g. Mobile payments are rapidly becoming the norm in China.

## Disadvantages

- Jobs that were previously outsourced from developed economies to emerging economies may reverse course.  
e.g. Lack of skilled labor, immature legal system to protect privacy and patents.

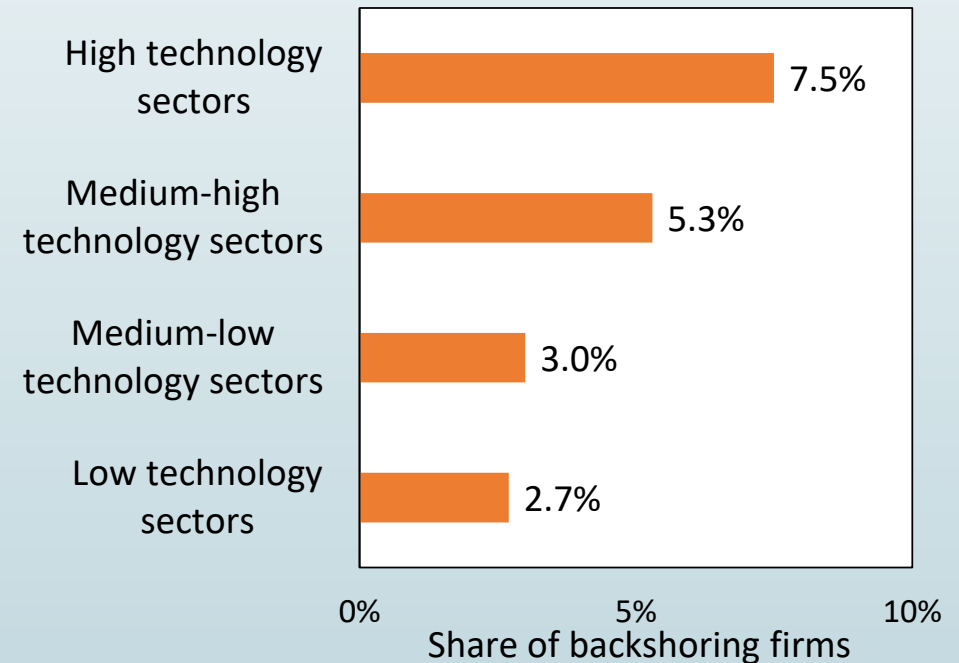
# Opportunities and disadvantages for emerging Asia

## Gross Merchandise Volume of Mobile Third-Party Payment in China



## Backshoring and Technology Intensity of the Sector in Europe, 2010 - Mid - 2012

Technology intensity  
(classified by sectors)



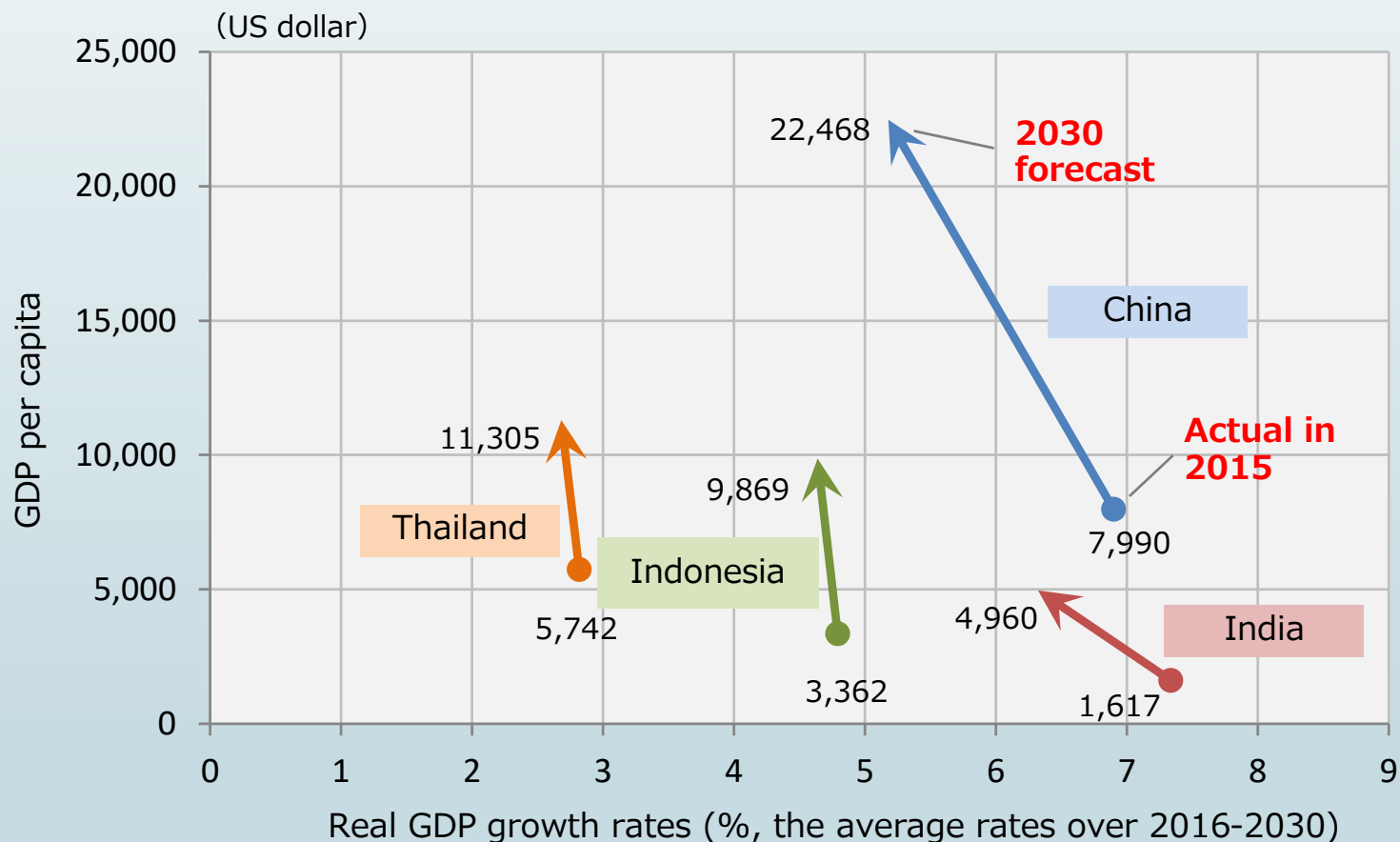
Notes: Results for Austria, Switzerland, Germany, Denmark, Spain, France, Hungary, Portugal, Netherlands, Sweden and Slovenia. Total number of observations is 3,293.

Source: Dachs, B. and C. Zanker (2015), Backshoring of Production Activities in European Manufacturing.

Source: iResearch Global Inc.

# Will a huge middle/high income class emerge?

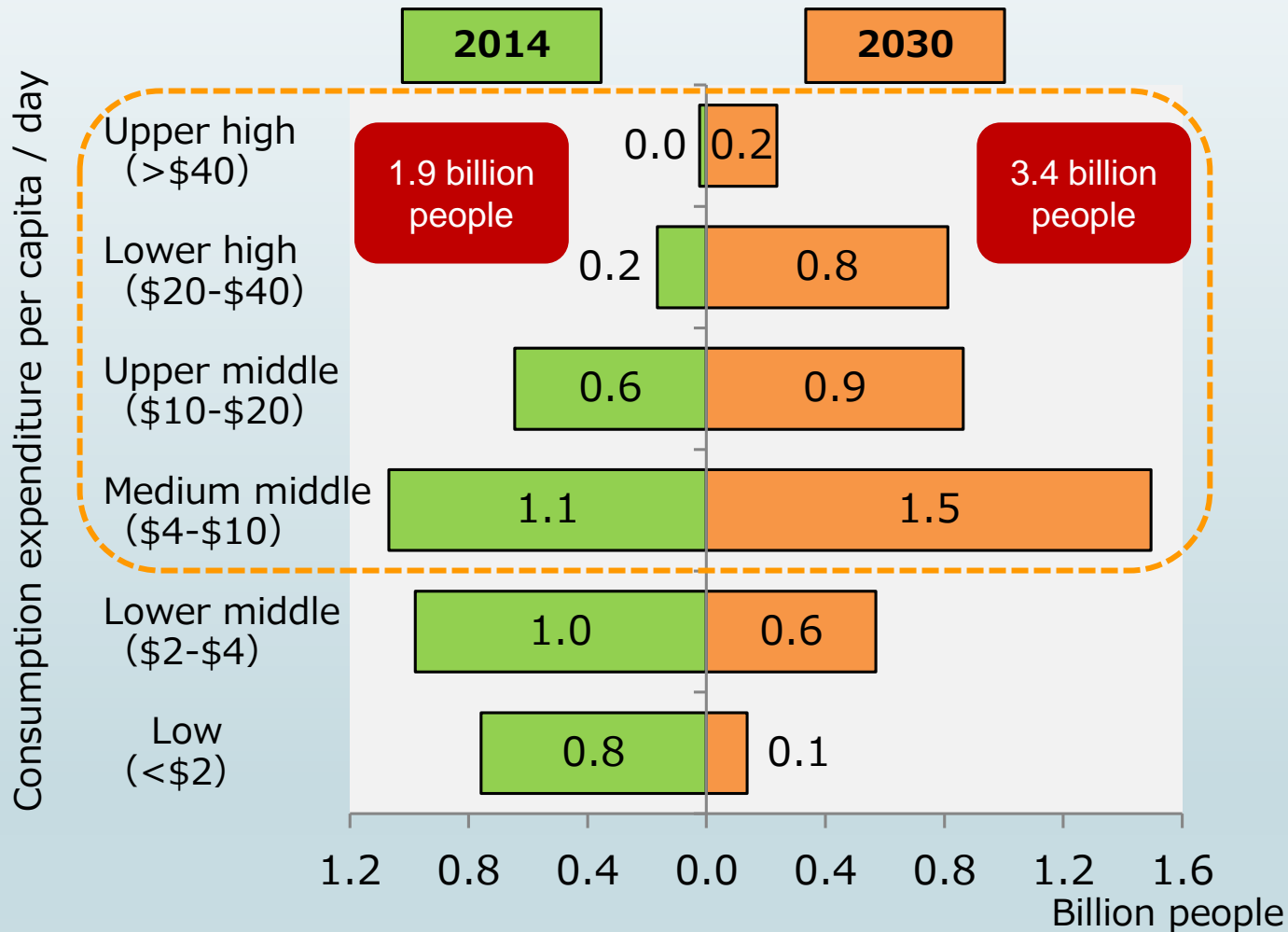
## GDP Growth Rates and GDP per Capita (2015 vs. 2030 forecast)



Sources: IMF; MRI forecasts.

# Will a huge middle/high income class emerge?

## Population by Income Class in Emerging Asian Economies

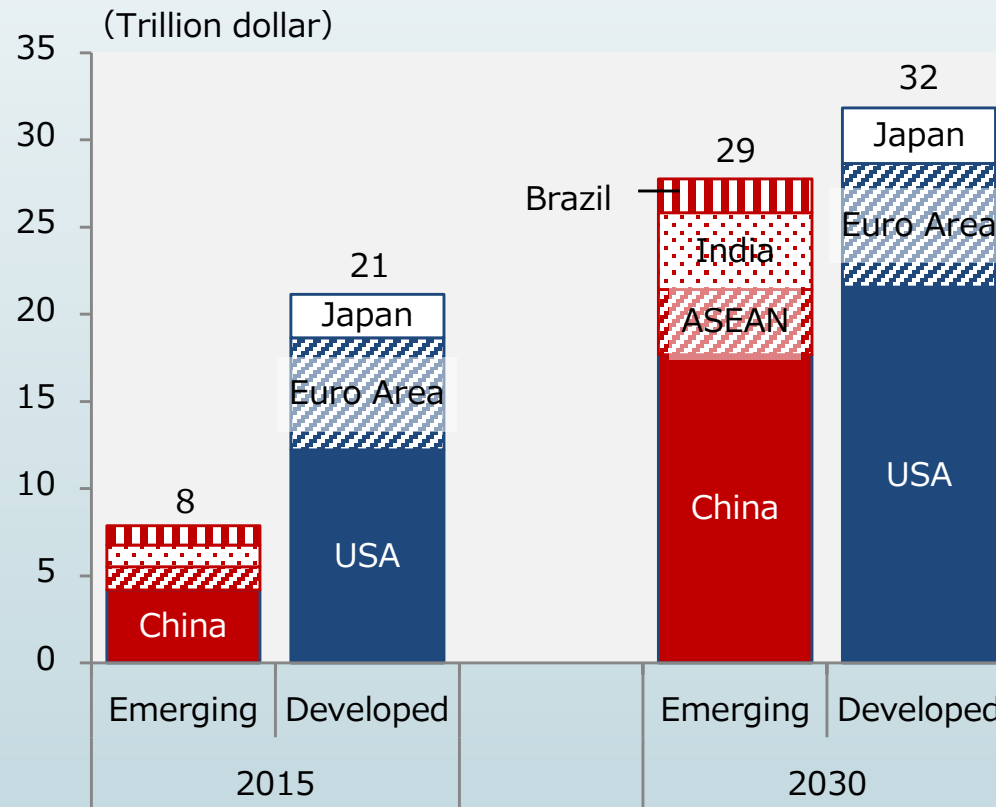


Sources: United Nations; IMF; The World Bank; MRI estimates.



# Will a huge middle/high income class emerge?

## Volume of Nominal Household Consumption in Emerging and Developed Countries



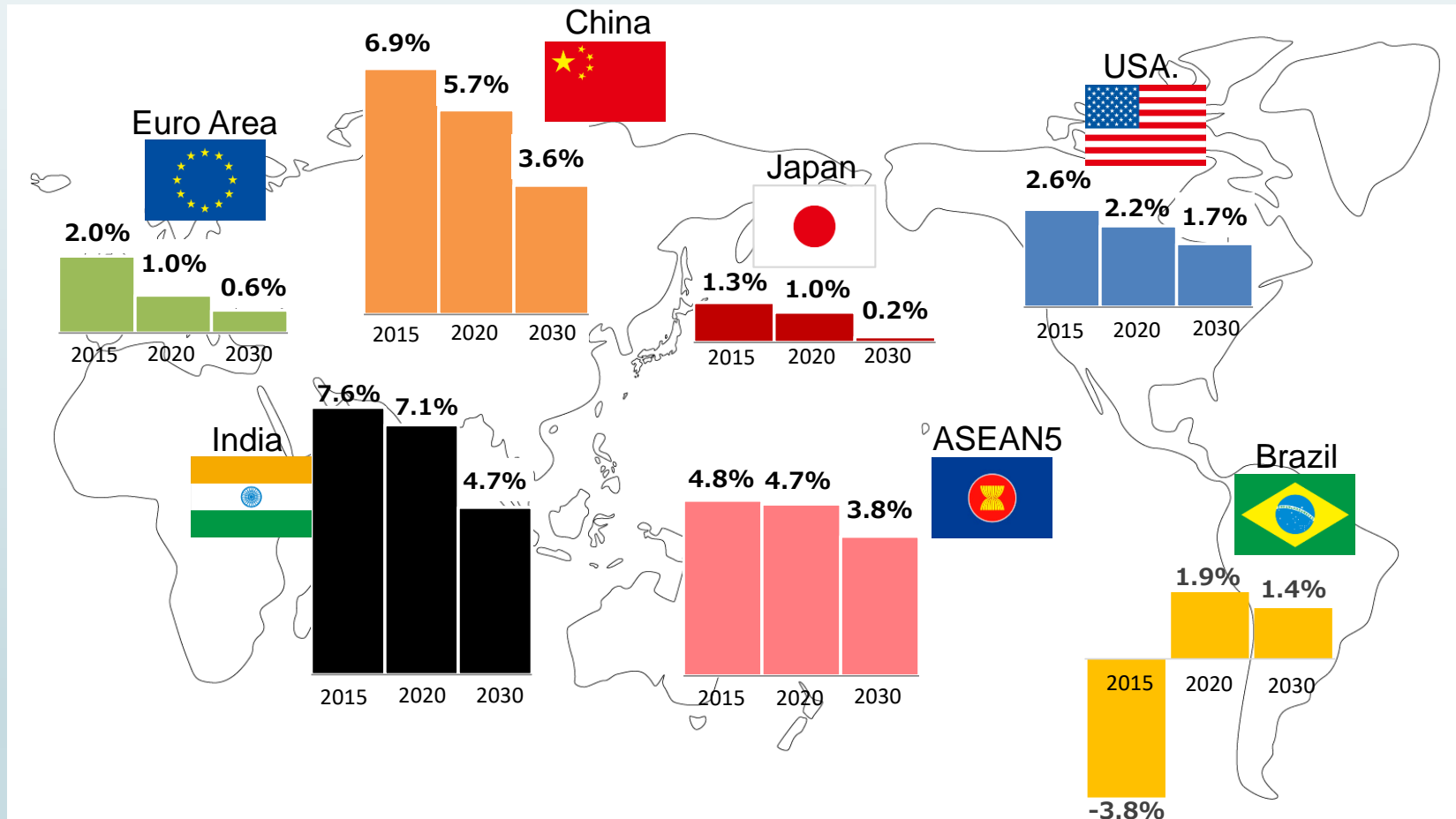
Notes: All figures are MRI estimates. The ratios of household final consumption expenditure to GDP used for these estimates are the actual values of 2015. As for China, the ratio is set higher than the actual value on the assumption that China will shift to a consumption-driven economy.

Sources: United Nations; IMF; The World Bank; MRI estimates.

# Global Outlook

# MRI forecasts for global GDP growth rate

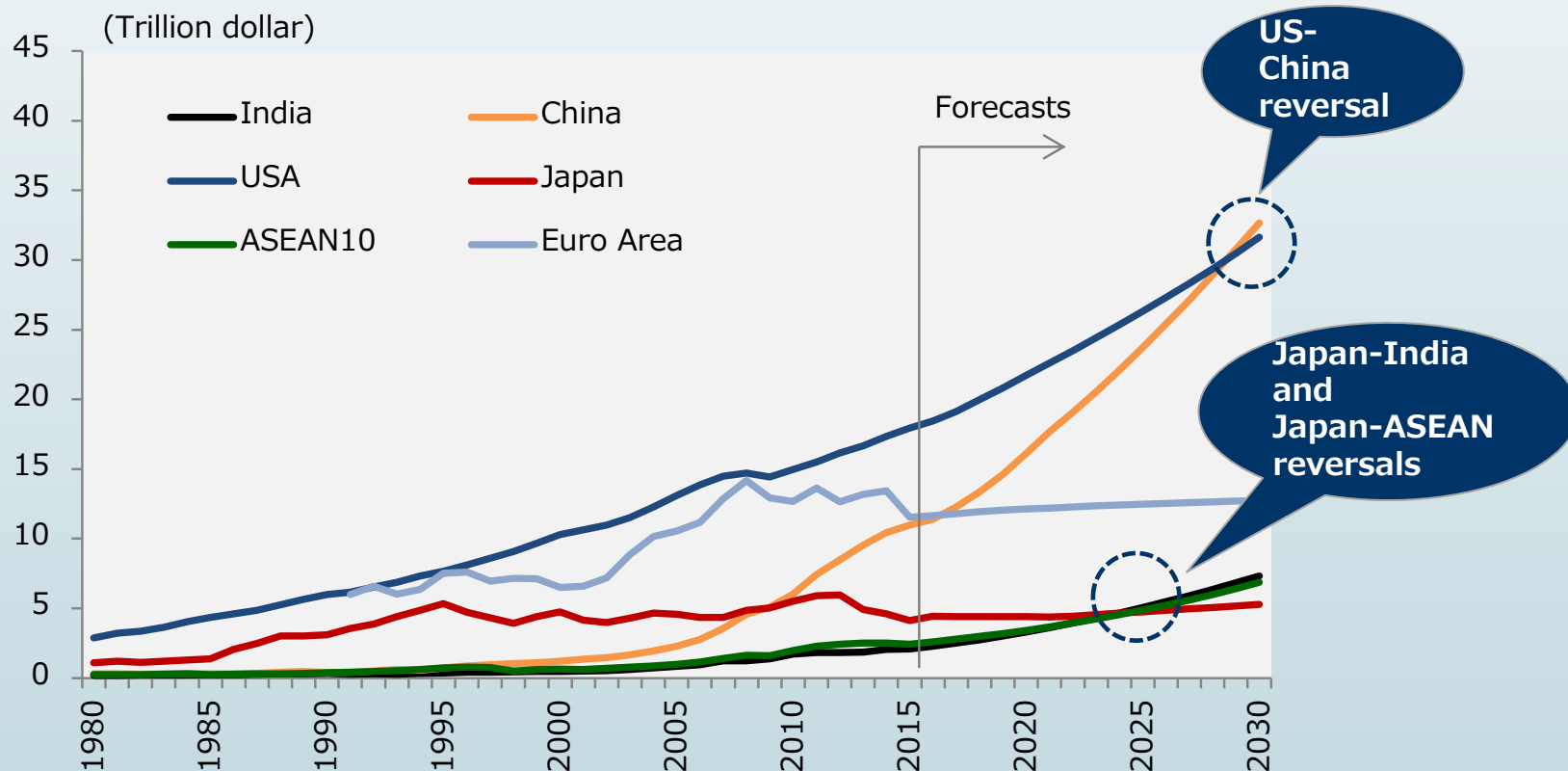
## Economic Outlook for Major Countries and Regions Going towards 2030



Notes: Real GDP growth rates after 2016 are MRI forecasts. As for Japan, data and forecasts are presented on a fiscal year basis.  
Sources: MRI forecasts.

# Two possible “catch-ups” by 2030

## Nominal GDP of Major Emerging and Developed Economies



Note1: Estimation results vary substantially depending on the assumption of exchange rates. The GDP growth rates after 2016 are MRI forecasts. The exchange rates are generally based on the IMF forecasts. As for China, the yuan is assumed to appreciate until 2020, and to stabilize after 2021. The Indian Rupee is assumed to depreciate about 1% per year. Japanese Yen rates are MRI forecasts.

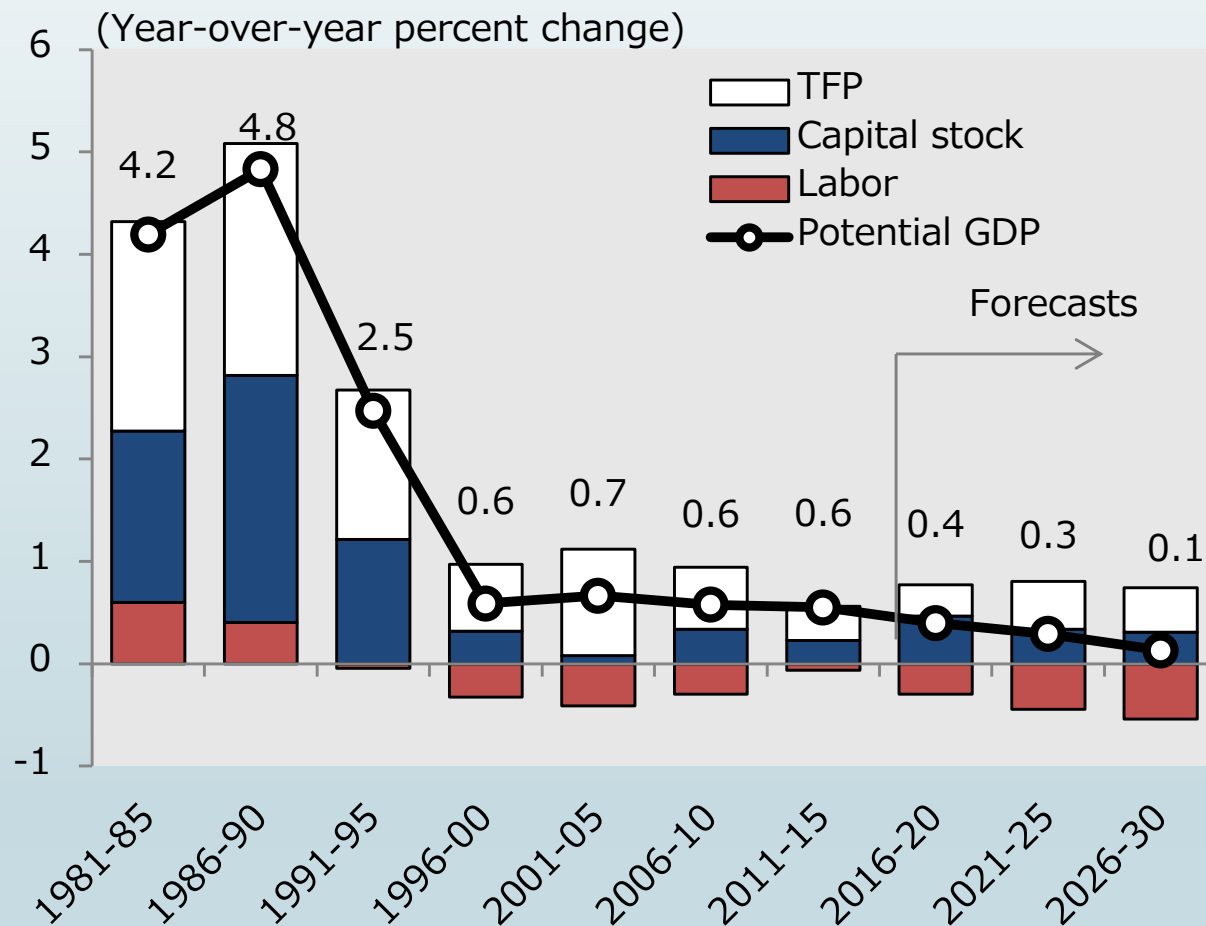
Notes2: ASEAN10 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Brunei Darussalam, Laos, Myanmar, and Cambodia.

Sources: IMF; MRI forecasts.

# Japan Outlook

# Economic outlook for Japan

## Japan's Potential GDP Growth Rate



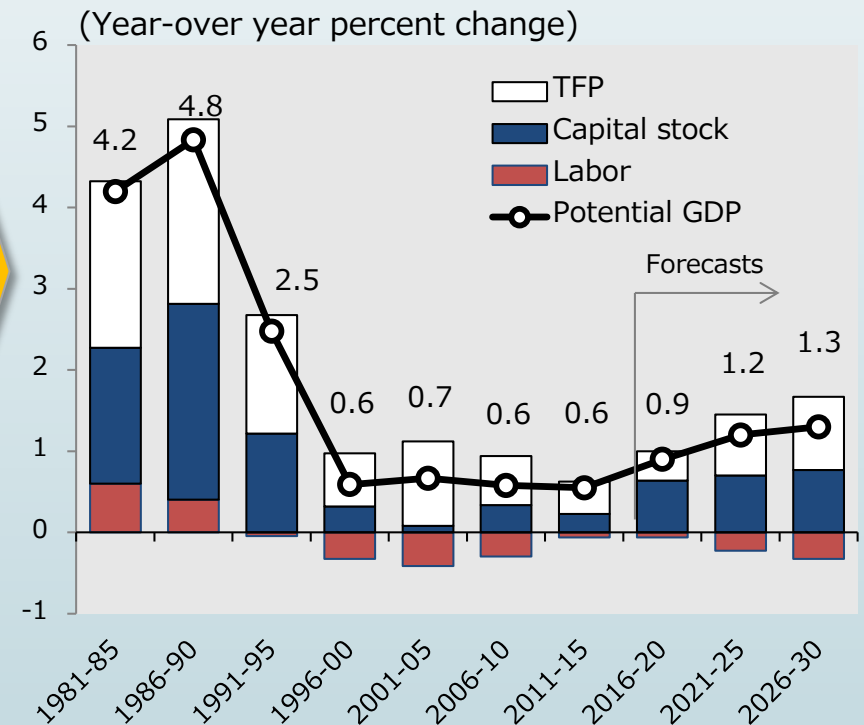
Source: MRI estimates.

# Promote innovation and mitigate demographic vortex

## Three **prescriptions**:

- **Innovation**  
e.g. AI, IoT, robots
- **Economic system reform**  
e.g. Labor market reform, social security reform
- **More risk-taking by corporate sector**  
e.g. Investments in new markets

## Japan's Potential GDP (Higher-growth Scenario)



Sources: MRI questionnaires; Agency for National Resources and Energy; MRI estimates.

# Conclusions

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- **Emerging Asian markets have marked growth potential. But, its actual performance depends on whether:**
  - (i) new digital technologies evoke a paradigm shift
  - (ii) China can solve its structural problems
  - (iii) emerging Asia can avoid the middle-income trap
- **If Japan can conquer the challenges lying ahead, it has a chance to achieve both a high-quality growth and a sustainable society.**



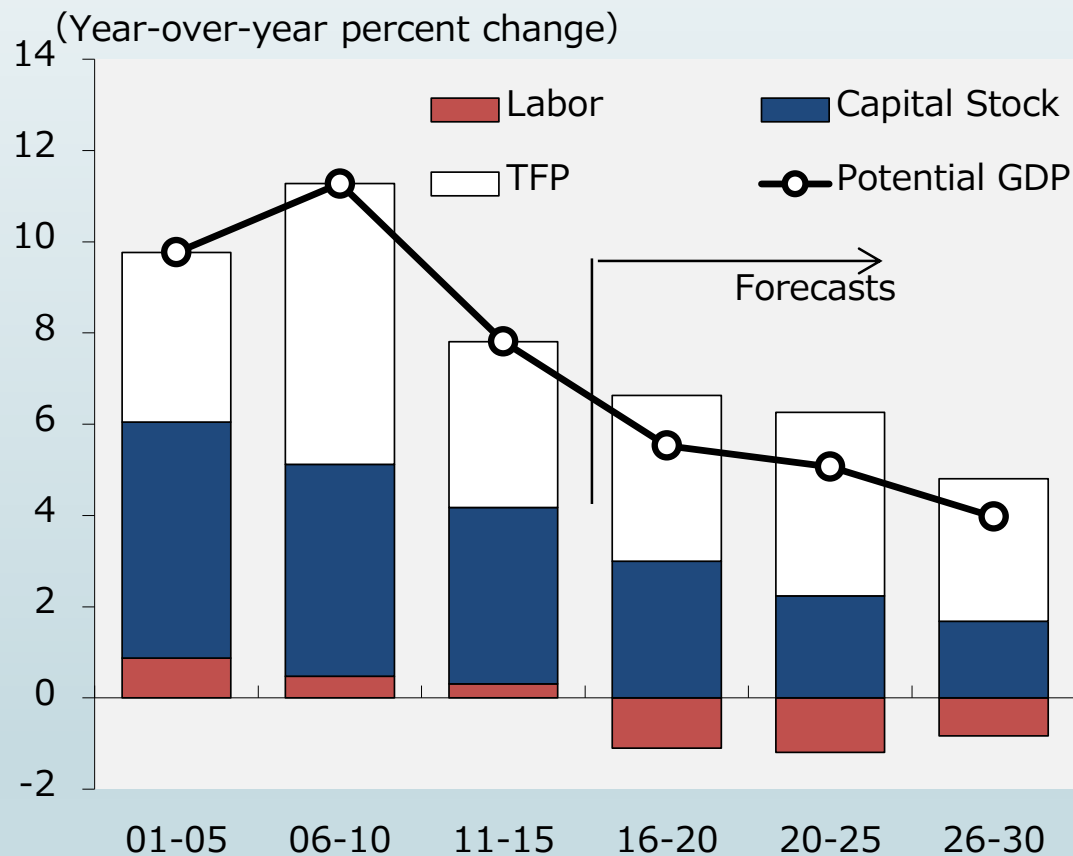
# Appendix

## Economic Outlook for China

# Economic outlook for China

China's GDP growth rate may decline to 4 percent or lower in 2030

## China's Potential GDP Growth Rate

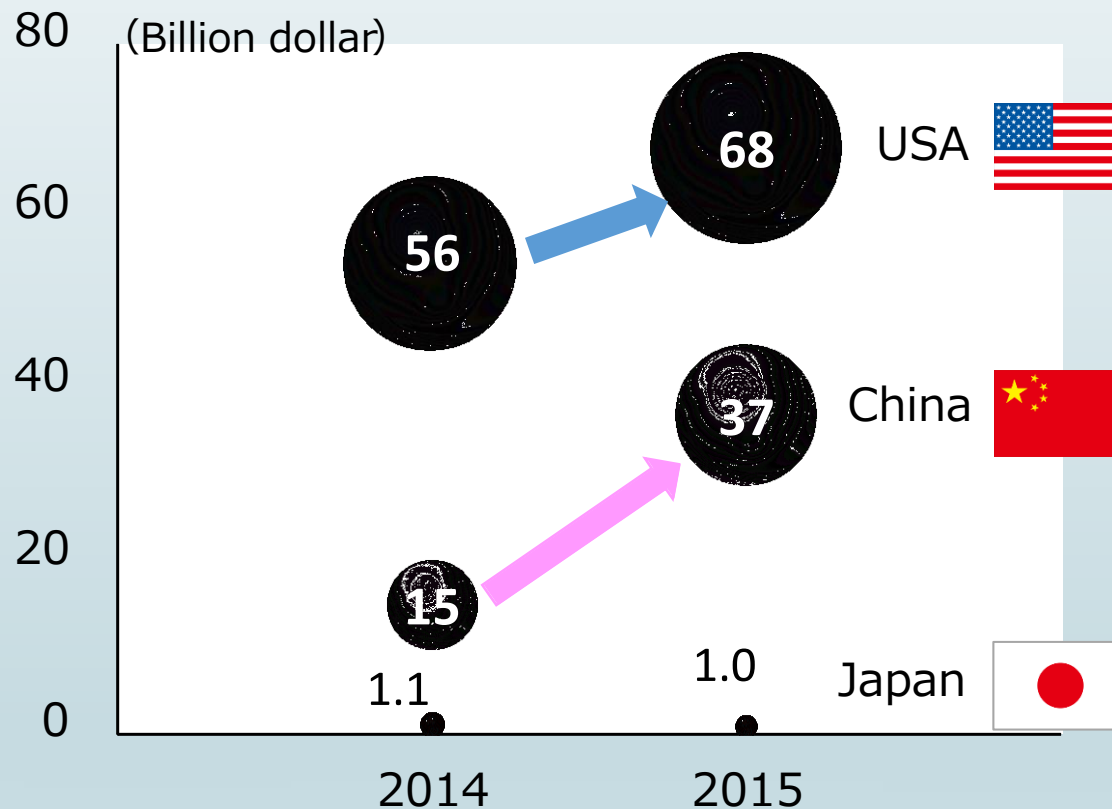


Sources: CEIC; MRI Estimates.

# The strengths and weaknesses in China's economy

① Transformation to an innovation-driven economy underway

## Venture Capital Funding of Startups in China

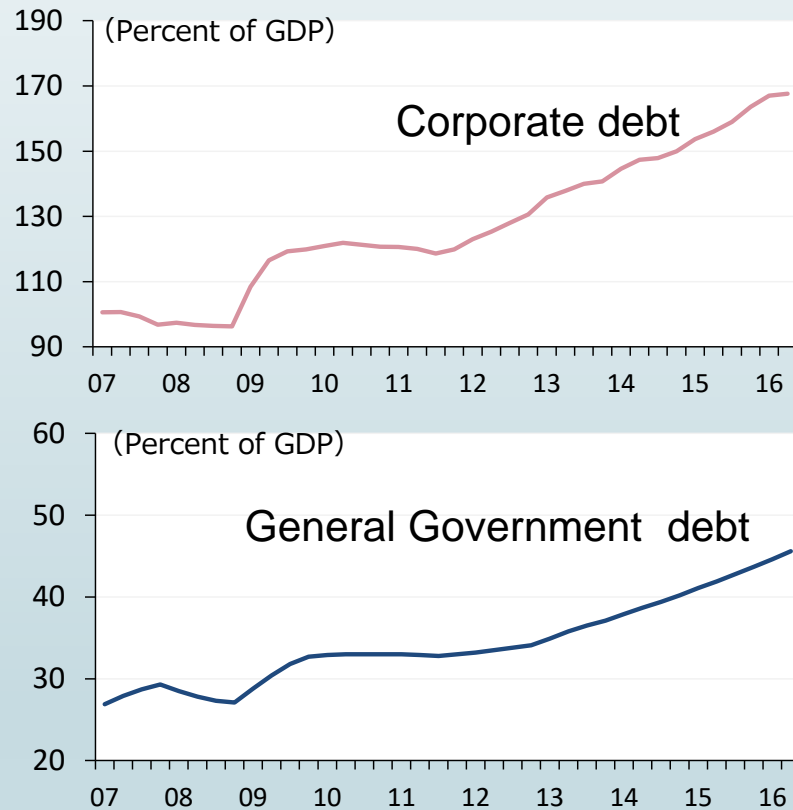


Sources: Venture Enterprise Center; Bloomberg.

# The strengths and weaknesses in China's economy

## ② Ballooning non-performing loan problems

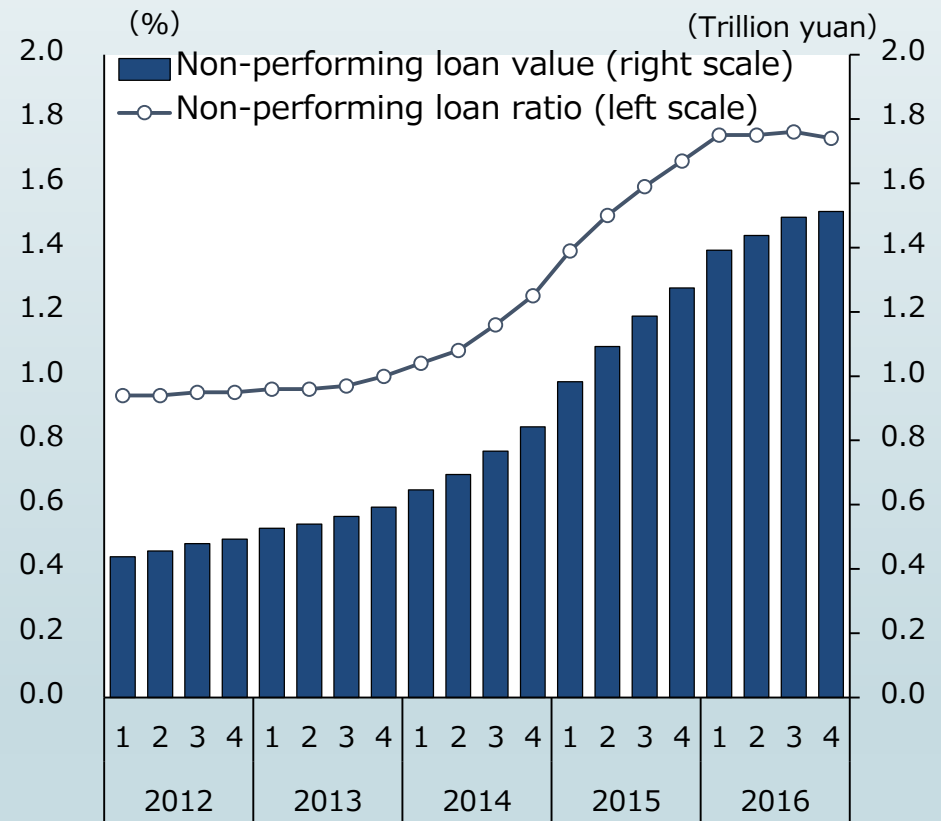
### China's Corporate and General Government Debt



Note: Corporates are non-financial corporations, including state-owned enterprises.

Source: BIS.

### Non Performing Loans

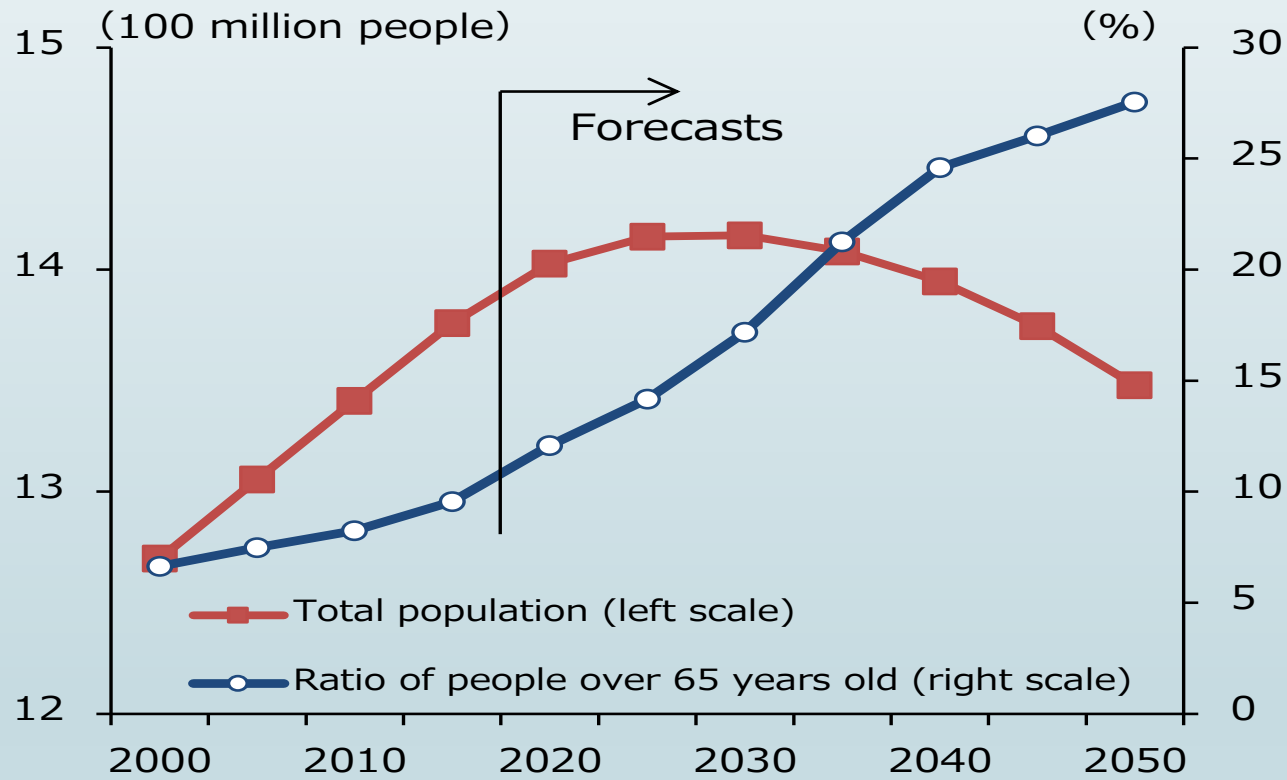


Sources: CEIC; China Banking Regulatory Commission.

# The strengths and weaknesses in China's economy

## ③ Looming social instability due to rapidly aging

### Ratio of People Over 65 Years Old



Source: United Nations.

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**Thank you**