World Bank forecasts slowdown in east Asian economies

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The higher interest rate regime instituted by the world's major central banks over the past year and a half is starting to have its effect on the global economy. In its latest economic update, the World Bank has forecast that growth in east Asian economies could fall to its lowest level in five decades in 2024.

This region has been one of the mainstays for global growth over the past several decades. However, it is now on course for its slowest rate of expansion, excluding events such as the global financial crisis and the pandemic, since the 1960s.

China is central to the downturn. The World Bank revised down its forecast for Chinese growth in 2024 to just 4.4 percent, compared to the already low rate of 4.8 percent it predicted in April. Chinese authorities have set a growth target of 5 percent in 2023, the lowest level in three decades.

On China, the bank cited "longer-term structural factors"—a reference to a fall in population growth—as well as high debt levels and weakness in the property sectors as reasons for the downgrade.

The property and real estate sector, one of the main engines of Chinese growth over the past 15 years, has been hit by a number of debt defaults by major companies, including two of the biggest, Country Garden and Evergrande.

When it lifted its anti-COVID public health measures at the end of last year, the Chinese government expected a surge in the economy along with an initial wave of infections that would then subside. There was a surge of deaths at the start of the year, estimated to be nearly two million, followed by a further wave of COVID infections in the middle of the year.

There was an uptick in the Chinese economy as health measures were lifted but this has now passed.

According to Aaditya Mattoo, World Bank chief economist for east Asia and the Pacific, economists expected the lift in the economy after the ending of COVID controls to be "more sustained and more significant than it turned out to be."

The bank said retail sales growth had fallen to pre-pandemic levels, house prices were stagnant, household debt had increased, and private sector investment was down.

The slowdown extends across the region.

"While domestic factors are likely to be the dominant influence on growth in China," the World Bank said, "external factors will have a stronger influence on growth in much of the region."

This is a reference to the slowing demand from the major economies because of the impact of the higher interest rate regime. Goods exports are reported to be down by more than 20 percent in Indonesia and Malaysia, compared to the second quarter of 2022, and by 10 percent from China and Vietnam in the same period.

There are also major structural changes taking place which mean that the conditions which led to the rise of the so-called "Asian tigers" from the mid-1980s are coming to an end.

Pointing to this shift, Mattoo said: "In a region which has really thrived through trade and investment in manufacturing … the next big key to growth will come through reforming the services sector to harness the digital revolution."

The efforts by the US to exclude China from the cutting edge of high-tech development through its series of bans and export restrictions, as well as efforts to re-shore operations through the so-called Inflation Reduction Act and the Chips and Science Act, are hitting south-east Asian countries.

"This whole region which had perversely benefited from US-China trade tensions in terms of [trade] diversion is now suffering trade diversion from it," Mattoo said.

As the *Financial Times* reported: "Electronics and machinery exports from China and south-east Asian countries including Indonesia, Vietnam, the Philippines, Malaysia and Thailand declined after President Joe Biden's protectionist policies came into force, according to the World Bank."

This is because these countries are excluded from the subsidies available under the legislation. The FT cited the case of Vietnam where electric vehicle related exports to the US fell by 19.1 percent from July to August, following a 13.6 percent increase the previous year because so far Hanoi has been excluded from tax credit benefits.

Another expression of the slowdown is the sharp fall in the share market value of Taiwan Semiconductor Manufacturing Co. (TSMC) one of the most important, if not the most important, chip manufacturing firms in the world.

Bloomberg reported yesterday that since June the company's stock had "lost more value than any other in Asia" as investors braced "for prolonged weakness in the chip sector." Its shares have fallen 10 percent since their high in mid-June wiping $72 billion from TSMC's market capitalisation.

The company's shares were lifted in the first half of the year by the profit prospects resulting from artificial intelligence (AI). But since then, concerns have grown over the state of the smartphone and personal computer business as well as the slowing of high-end AI chip orders.

The trends cited in the World Bank report on East Asia are underscored by broader tendencies in the global economy.

According to the World Trade Monitor, world trade volumes in July fell at their fastest annual rare for three years—an indication of the general slowdown in the global economy due to higher interest rates.

Trade volumes were down by 3.2 percent for the month, following a 2.4 reduction in June.

There was a 1.5 percent fall in China, the world's largest exporter, eurozone exports fell by 2.5 percent and the US saw a 0.6 percent reduction. Trade volumes are expected to fall even further in coming months.

"With the lagged impact of high interest rates likely to weigh heavily on demand for certain goods, it could be several months before global trade reaches its trough," Ariane Curtis, global economist at Capital Economics told the FT.

On top of the effects of a general slowdown in the world economy, the rise of protectionism, on the increase since around 2018 but accelerating with the US-NATO war against Russia and the US economic war against China, is also hitting trade.

According to the latest report from the Organisation for Economic Cooperation and Development: "Geo-economic fragmentation and a shift to more inward-looking trade policies would curtail the gains from global trade and hit living standards, especially in the poorest countries and households."