

China: The worst is over ... maybe, but downside pressures remain
Vietnam: An emerging winner of supply chain relocation

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China: The worst is over ... maybe, but downside pressures remain

- The economy is getting over the worst effects of the Omicron wave. In May 22, real industrial production returned to growth, contractions in retail sales and services production narrowed, and infrastructure fixed asset investment edged up.
- But underlying demand in the economy remains parlous. Consumer demand is fragile and aggregate fixed asset investment continues to decline, reflecting damaged consumer and business confidence.
- The worst might be over but the economy remains challenged and recovery will be sluggish. The steady drumbeat of expansionary fiscal and monetary policies is unlikely to significantly boost growth when it fails to resolve key constraints on the behaviour of economic agents.

Vietnam: An emerging winner of supply chain relocation

- Vietnam stands to gain the most in the region from supply chain relocation given its multiple competitive advantages and its growing capacity to move up the value chain. However, success is not pre-ordained and hinges on two key conditions:
- First, for Vietnam to absorb growing inflows of relocated production in the long-term it must upgrade the skills of its labour force and its physical infrastructure.
- Second, for supply chain relocation to contribute more substantially to economic growth in Vietnam, more policies are needed to increase the spillovers from the foreign investment sector to the overall economy.

What has changed recently:

- **US-China tensions:** Provocative moves by both powers raise short-term threats. However, high-level talks continue and may result in a summit meeting between the two leaders.
- **A modest cabinet reshuffle in Indonesia:** President Jokowi replaced two members of his cabinet, a move that is spurred mainly by political considerations. The move has broader political implications for the 2024 presidential elections.
- **Inflation has peaked in India** but the worst is not over, with inflation set to remain above 7% in the near-term because of sticky food prices. A sub-par monsoon season is not our baseline scenario but the risks are clearly growing.
- **Indonesia should continue racking up hefty trade surpluses** with the laboured resumption of CPO exports. This is supportive of the Rupiah but we do not believe BI can hold off on rate hikes any further, unless it intends to burn off more reserves to keep pressures in check.
- **The traditional growth drivers of the Philippines are holding up:** Remittances and BPO revenues remain robust, despite external headwinds. We pencil terminal rates of 3% this year, following explicit guidance from the BSP, which has turned more hawkish than we expected.

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	Year	Growth (%)	Inflation (%)	Current Account (% of GDP)	Policy rate (%)	Currency (vs USD)
China	2020	2.3	0.1	1.9	2.95	6.53
	2021	8.1	1.8	2.8	2.95	6.36
	2022	3.2	2.3	2.2	2.65	6.70
India	FY21	-7.3	5.5	0.9	4.00	73.1
	FY22	8.7	5.3	-1.0	4.00	74.5
	FY23	7.0	6.3	-3.2	5.30	76.5
Indonesia	2020	-2.1	1.7	-0.4	3.75	14,050
	2021	3.7	2.0	0.3	3.50	14,300
	2022	5.3	3.8	-0.8	4.00	14,200
Korea	2020	-0.9	0.5	4.6	0.50	1,085
	2021	4.0	4.0	5.0	1.00	1,188
	2022	2.5	4.5	3.9	2.50	1,250
Taiwan	2020	3.1	-0.2	14.1	1.125	28.0
	2021	6.1	3.0	14.6	1.125	27.5
	2022	4.0	2.5	13.8	1.75	27.0
Hong Kong	2020	-6.1	-0.6	6.9	-	7.75
	2021	6.4	2.1	5.9	-	7.80
	2022	0.5	2.5	5.0	-	7.80
Singapore	2020	-5.4	0.0	17.6	-	1.32
	2021	7.1	4.0	17.0	-	1.35
	2022	4.4	5.4	16.1	-	1.33
Malaysia	2020	-5.6	-1.4	4.2	1.75	4.02
	2021	3.1	2.5	4.0	1.75	4.18
	2022	6.0	2.8	3.7	2.50	4.20
Philippines	2020	-9.6	3.5	3.1	2.00	48.0
	2021	5.6	4.4	-1.8	2.00	50.9
	2022	6.8	4.5 (4.1)	-2.5	3.00 (2.75)	52.0
Thailand	2020	-6.1	-0.8	3.5	0.50	30.0
	2021	1.0	1.5	0.3	0.50	33.0
	2022	3.5	6.0	6.0	0.75	31.0
Vietnam	2020	2.8	3.2	3.7	4.00	23,080
	2021	3.0	2.5	5.5	4.00	23,300
	2022	7.0	4.0	6.5	2.50	23,050

Source: Centennial Asia Advisors. Forecasts for India are on the basis of the fiscal year ending March. Figures in parentheses refer to previous forecast. Figures in red indicate a downgrade; green signal an upgrade.

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