

# Is Asia losing its growth momentum? Implications and prospects for potential growth

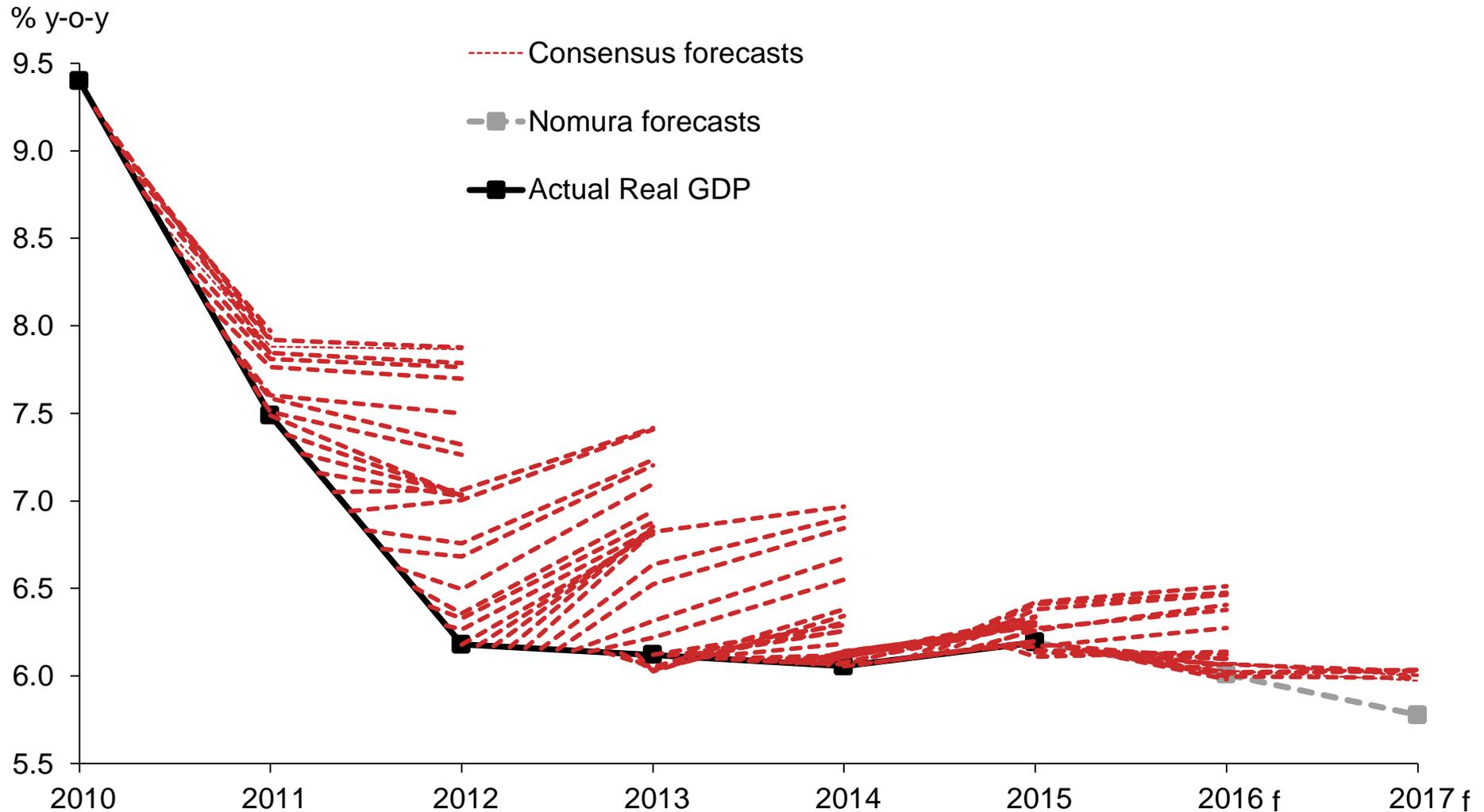
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Any authors named on this report are research analysts unless otherwise indicated.

# We have persistently been too optimistic on Asian growth

One-year and two-year ahead consensus forecasts of Asia ex-Japan's real GDP growth

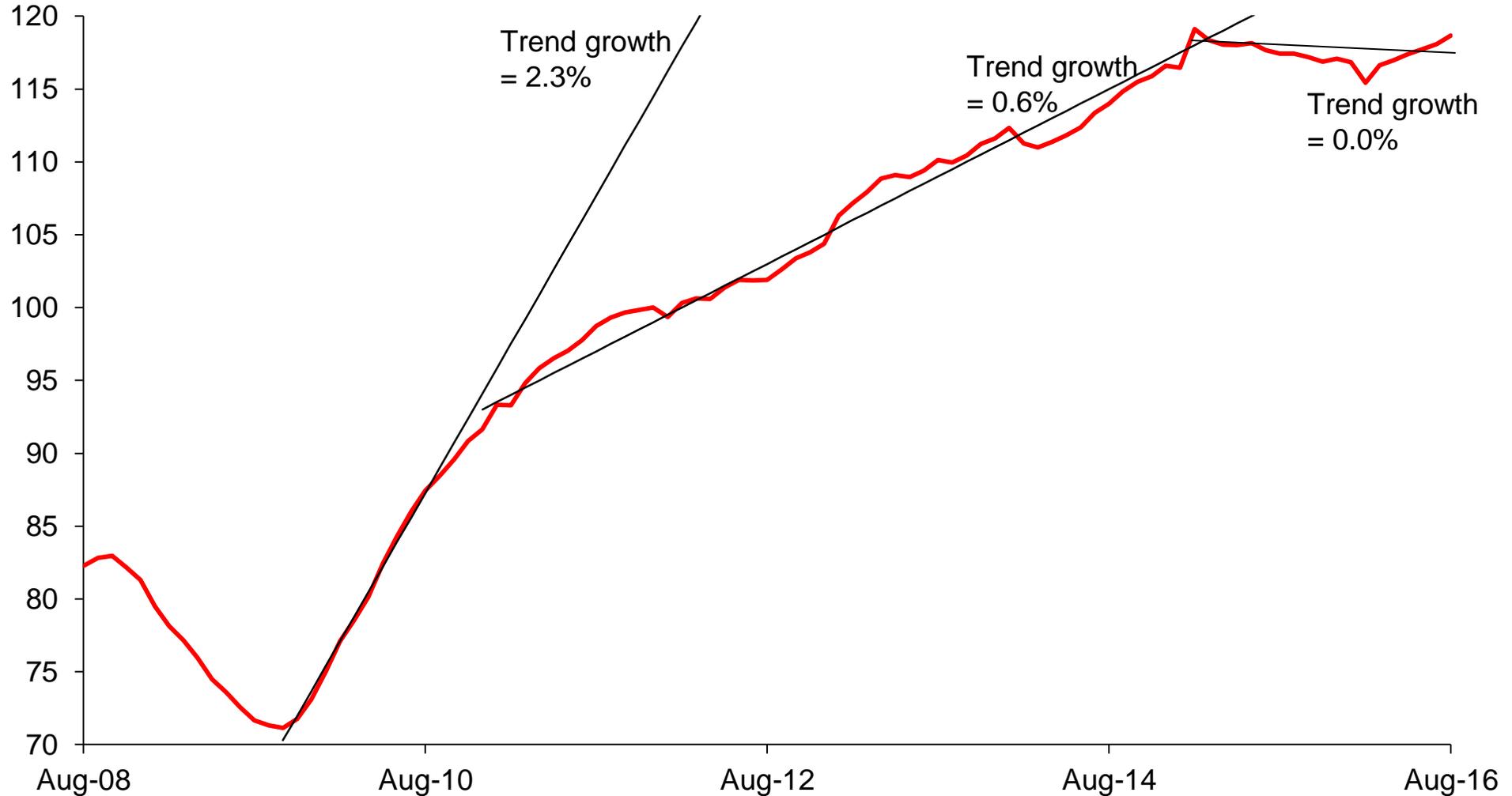


Bottom: We take the one-year- and two-year-ahead consensus forecasts for China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. For India we use fiscal year (FY16 = Apr 2016-Mar 2017). Asia ex-Japan growth is a GDP (in PPP terms)- weighted average of these forecasts.  
 Source: Consensus Economics Inc., CEIC and Nomura.

# The slowdown in global trade

## Export volumes – an aggregate of China, Korea, Taiwan, Singapore, Thailand and Malaysia

Index 2011=100, 12m rolling sum



Note: Composite index (weighted by 2015 nominal USD exports) of China, Korea, Taiwan, Singapore, Thailand and Malaysia  
 Source:CEIC and Nomura.

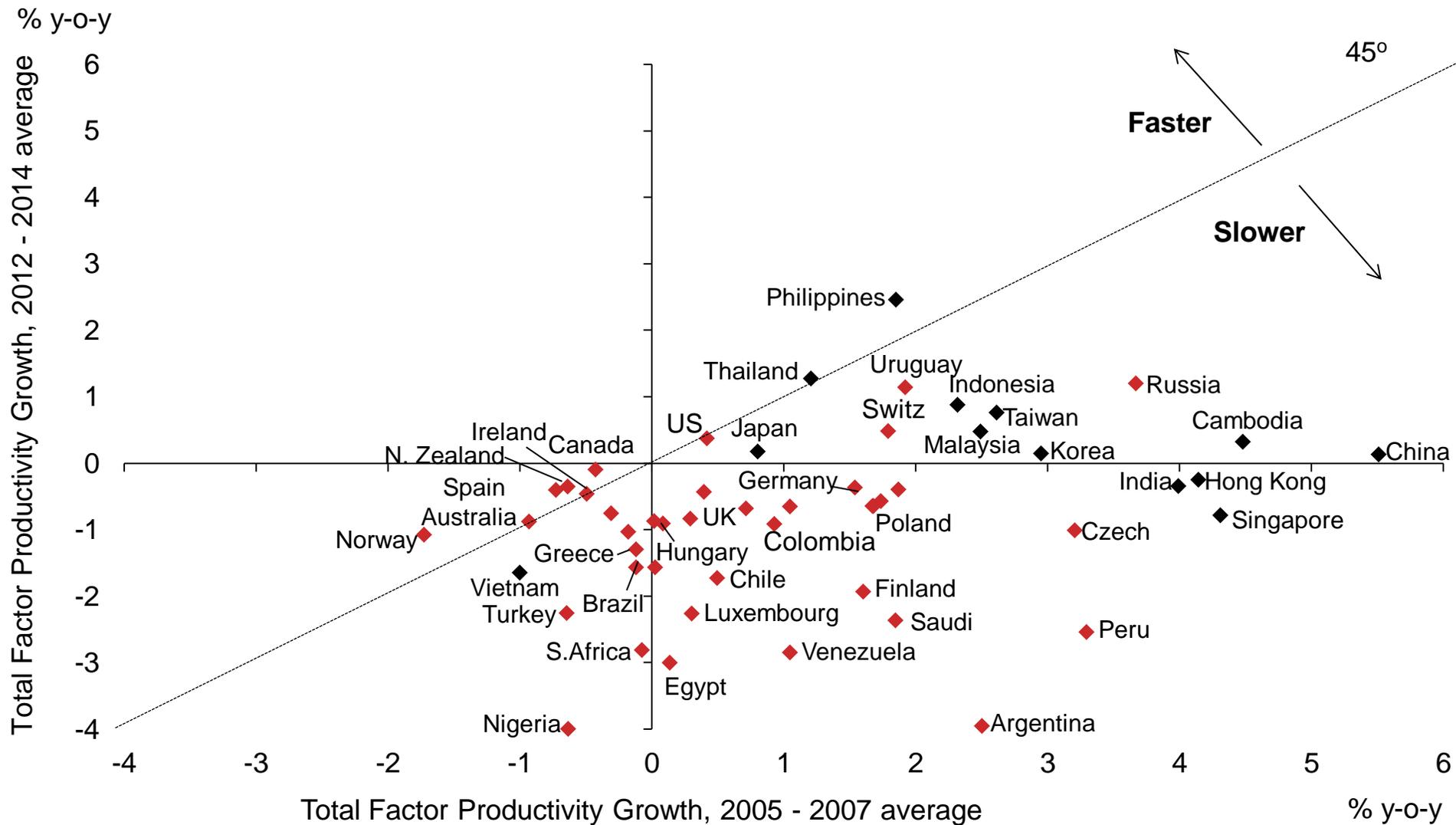
# Demographic headwinds have arrived

## Annual growth in working-age (15-64) populations

% y-o-y	Japan	China	HK	Taiwan	Korea	Thai	Sing	Indo	India	Malay	Phil
2008-12 average	-0.7	0.6	0.9	0.9	0.8	0.5	2.5	1.6	1.9	2.4	2.3
2013	-1.5	0.2	0.1	0.2	0.4	0.4	1.7	1.5	1.8	1.9	2.0
2014	-1.5	-0.1	0.0	0.1	0.3	0.3	1.6	1.5	1.7	1.9	1.9
2015	-1.1	-0.1	-0.2	0.1	0.3	0.2	1.3	1.6	1.7	1.9	1.9
2016	-1.0	-0.2	-0.2	-0.4	0.2	0.1	1.2	1.3	1.6	1.5	1.8
2017	-0.9	-0.3	-0.2	-0.4	-0.1	0.0	1.0	1.4	1.5	1.6	1.7
2018	-0.9	-0.3	-0.3	-0.6	-0.2	-0.1	0.9	1.4	1.4	1.5	1.7
2019	-0.8	-0.3	-0.5	-0.7	-0.4	-0.2	0.5	1.3	1.4	1.4	1.7
2020	-0.8	-0.3	-0.5	-0.9	-0.6	-0.4	0.4	1.1	1.4	1.2	1.6

# Weakening total factor productivity looks broad based

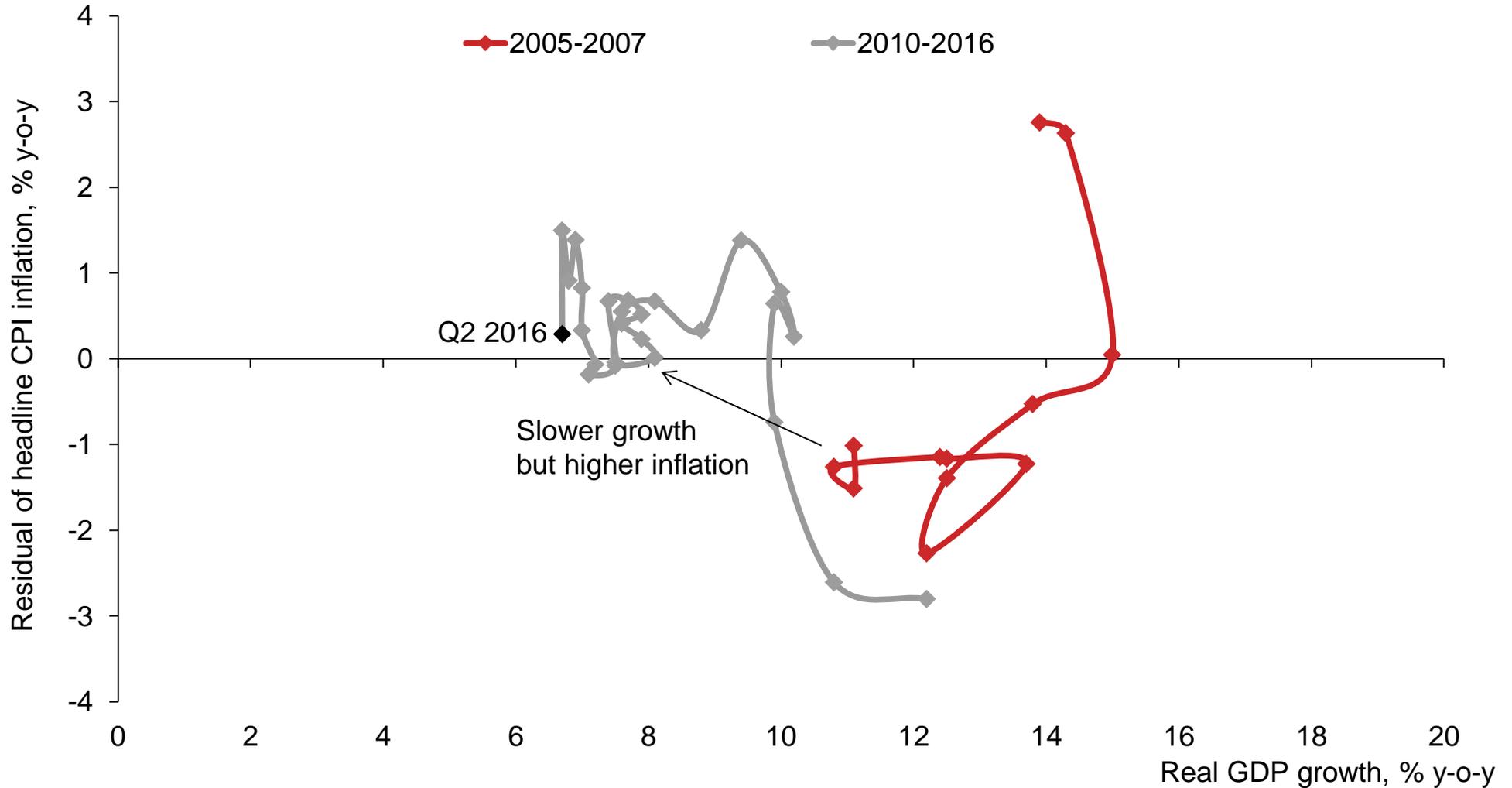
Total factor productivity growth pre- and post-crisis



Note: Asian countries are highlighted in black.  
 Source: The Conference Board's total economy database and Nomura.

# Another sign of slowing potential growth in China

Residuals from a regression of headline CPI inflation against import price inflation versus real GDP growth in China

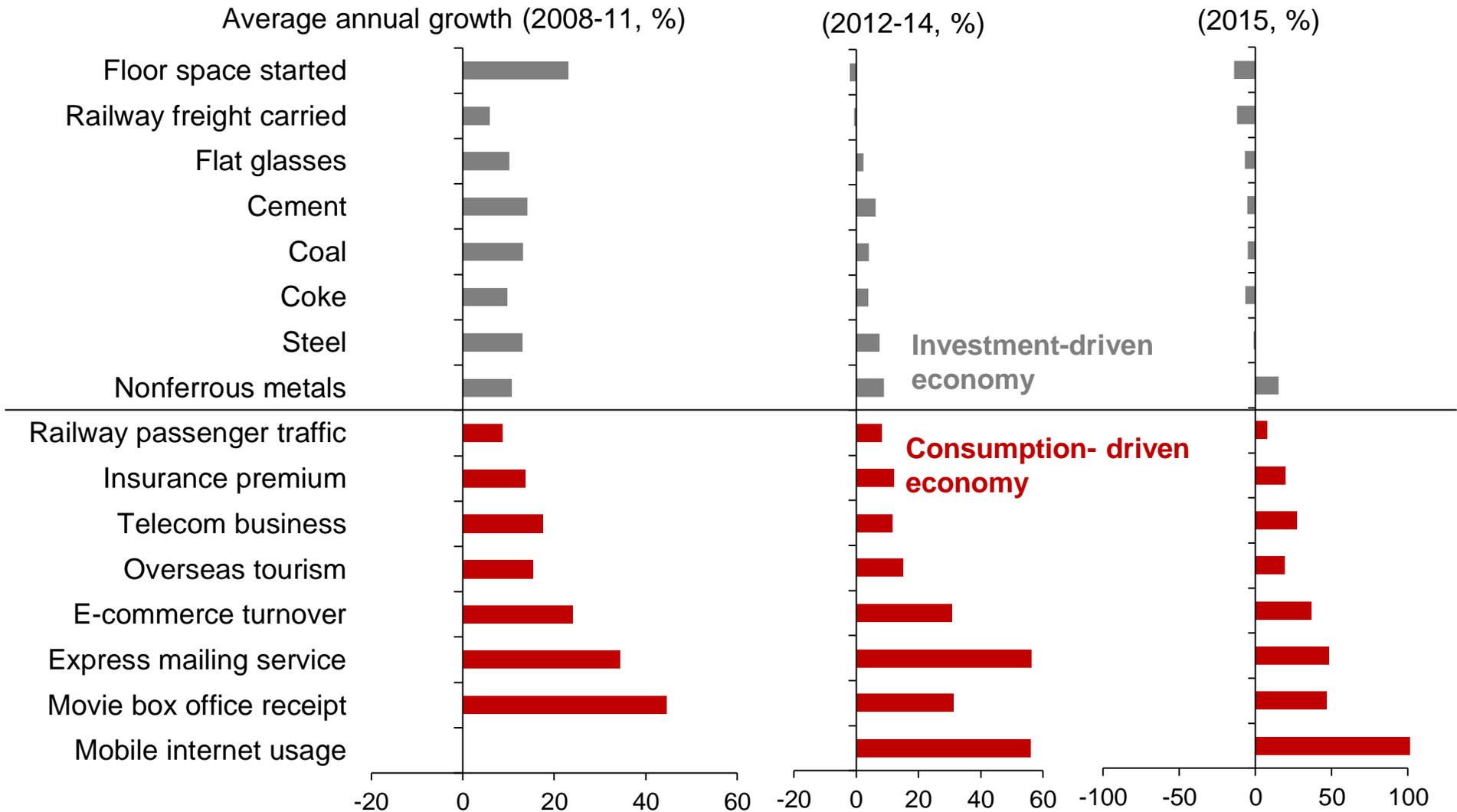


Note: The residual of headline CPI inflation is obtained from a simple OLS regression of headline CPI inflation against a constant and import price inflation.  
Source: CEIC and Nomura.



# China's old and new economies

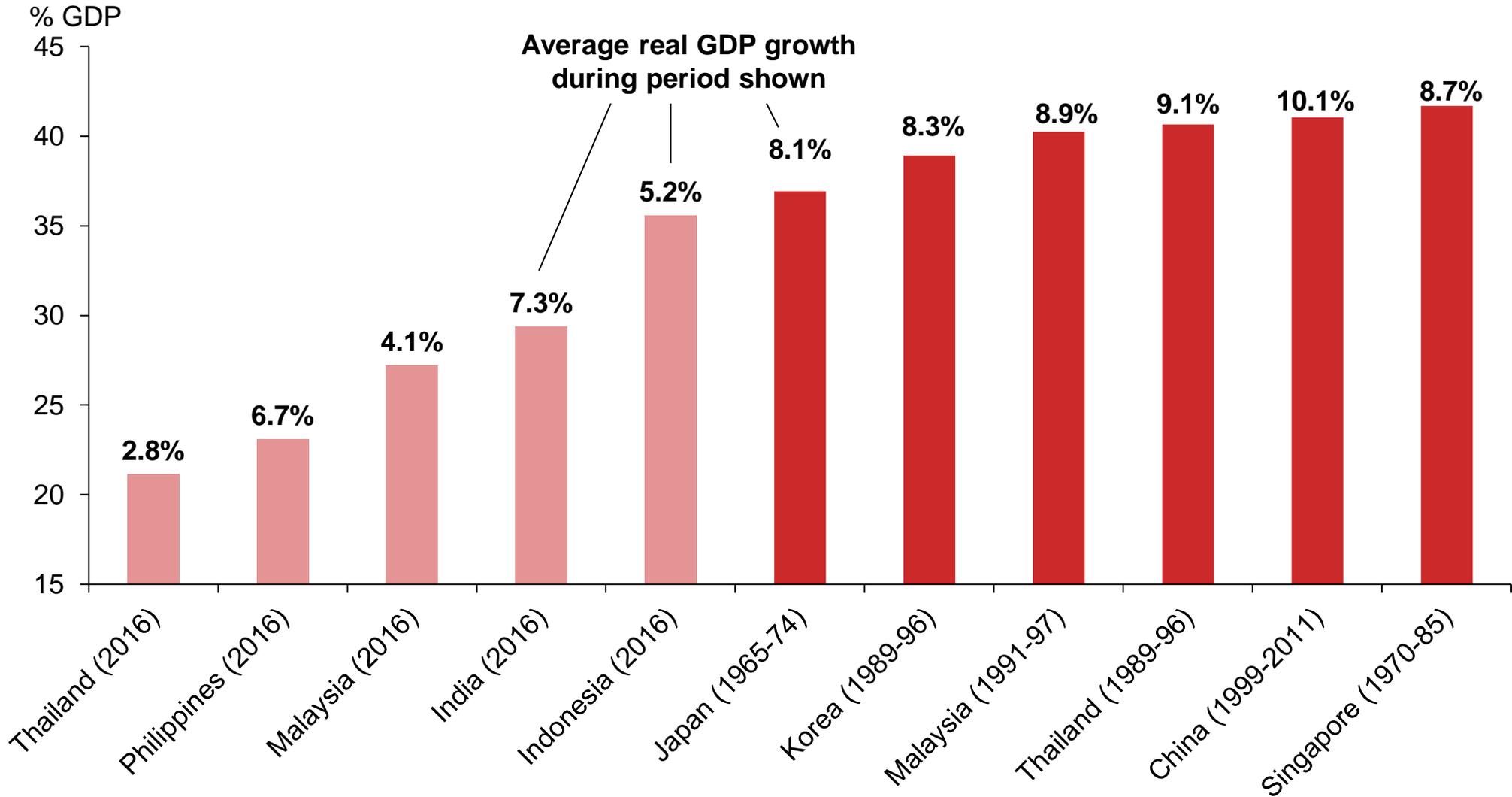
Many new-economy sectors are outpacing old-economy sectors



Note: Data for mobile internet usage is not available from 2008-11.  
Source: Wind, CEIC and Nomura.

# Asia's cubs have large growth potential to unlock

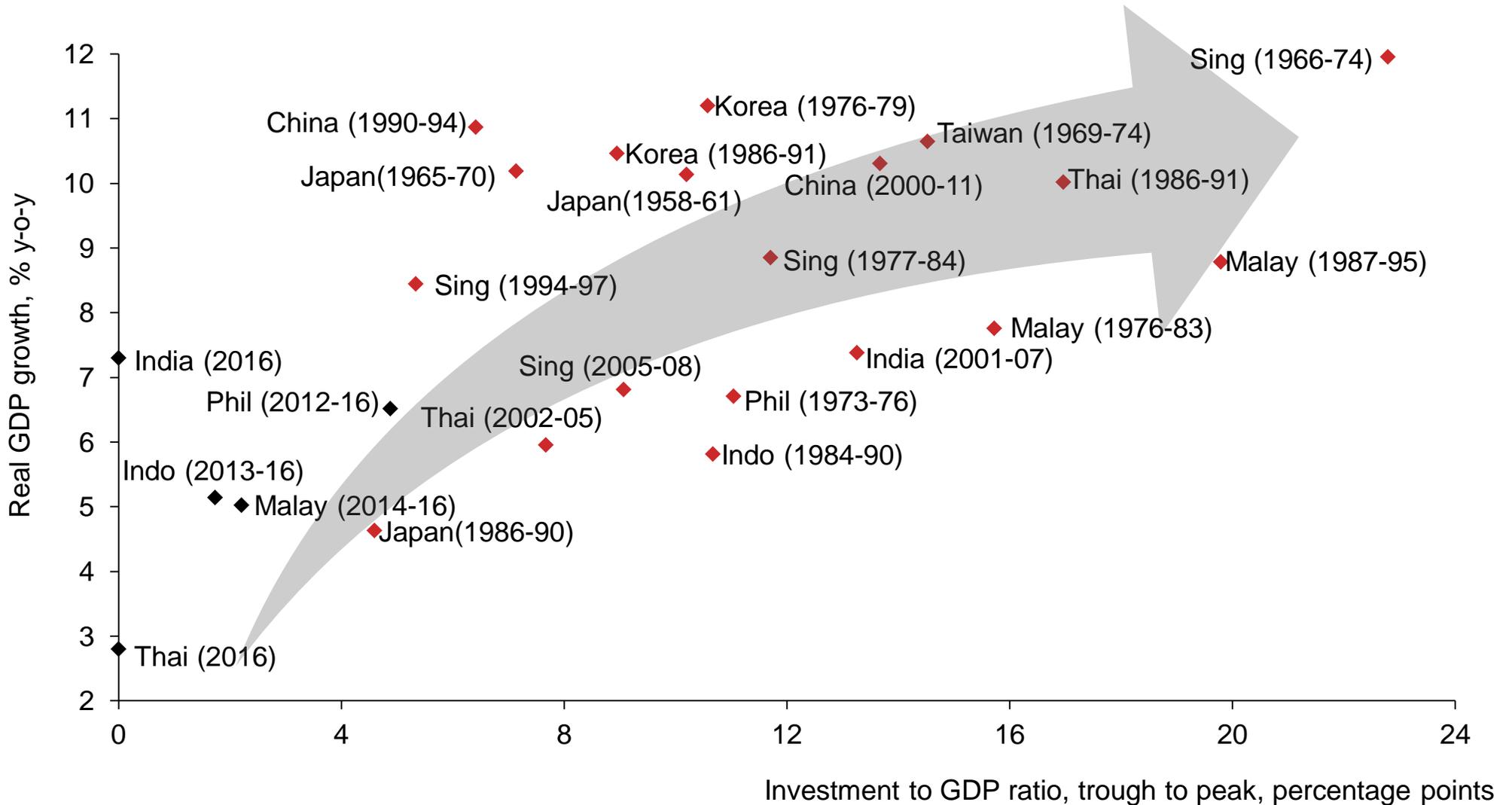
Investment share in GDP – lots of upside for Asia's cubs



Note: 2016 Real GDP growth for Asia's cubs are Nomuras forecasts.  
Source: World Bank, CEIC and Nomura.

# Some cubs could be on the cusp of investment take-offs

Real GDP growth during periods of investment-GDP take-offs



Note: Black dots represent Nomura's forecasts of real GDP growth in 2016 and investment acceleration level of the Asian cubs (India, Indonesia, Malaysia, the Philippines and Thailand). Red dots are past experiences of investment booms in selected Asian countries, defined as a minimum investment/GDP ratio of 21% that rises by at least five percentage points over the periods shown. Real GDP growth is the average over the period shown. Source: World Bank, CEIC and Nomura.

## The way forward... some thoughts

- ✓ Avoid a further build-up of private debt
- ✓ Adapt to major structural changes:
  - China rebalancing
  - Demographic trends
  - Weak foreign demand
- ✓ Deregulate services sectors
- ✓ Less monetary stimulus, more targeted fiscal stimulus
- ✓ Unlock the full growth potential of Asia's cubs

# Appendix A-1

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