



APIR

**Kansai and the Asia Pacific
Economic Outlook 2022-23
Part I**

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Part I: A Historical Turning Point

Chapter 1 Major Issues in the Asia-Pacific Region in 2022-2023

Section 1 The Destabilization of the Global Economy

Section 2 The US Economy under High Inflation

Section 3 Uncertainty in the Chinese Economy: From “Common Prosperity” to “Zero-COVID”

Section 4 The International Division of Labor in East Asia in the Post-Pandemic Era

Section 5 “Business and Human Rights” in the Era of Globalization

Section 6 Challenges and Prospects for a Cooperating Society with Asian Human Resources

Section 7 The Middle Class in the Asia-Pacific

Three Factors of Global Economic Instability

- 1. Inequality of Income Distribution**
- 2. Vulnerabilities in the Technological Structure**
- 3. Situation of Interdependence in the Energy Markets**

1. Inequality of Income Distribution

① Progression of inequality

◆ US-style liberal meritocratic capitalism

- Changing environment in trade unions that contributed to economic and political order and stability
 - ➔ • Decline in labor union organization rates
 - The wealthy moving income and assets to other countries

◆ Chinese-style political capitalism

- Great Gatsby Curve ➔ Stratification in assets and income
- Rising incomes of highly educated workers ➔ the need for “Common prosperity”

② Political Destabilization

- Widening political polarization ➔ rise of populist politicians
- Split between democrats and white working class
- The least healthy states voted for Trump and against Biden

The political structure of the U.S. has changed dramatically due to changes in the political parties supported by the economically challenged white middle class

2. Vulnerabilities in the Technological Structure

① Vulnerabilities in the Global Supply Chain of the Semiconductor Industry

- ◆ Many suppliers are concentrated in East Asia
- ◆ South Korea (8%) and Taiwan (92%) manufacture semiconductors (10nm and below)

➔ Single points of failure

If there is a problem in a particular region, the entire semiconductor manufacturing stops.

② Responding to risk

- ◆ Complete self-sufficiency by each region is unrealistic
 - Upfront investment of \$900 billion to \$1,225 billion
 - Annual operating costs of \$45 billion to \$125 billion
- ◆ Market-driven alternative approach scenario focused on key strategic risks is needed

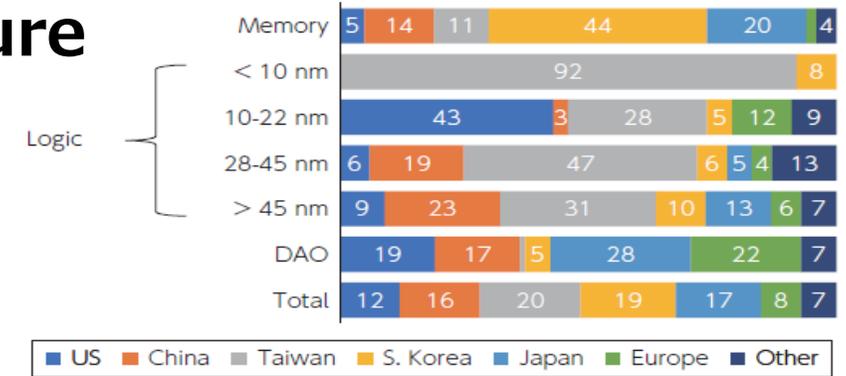


Figure 1-1-3 Breakdown of the global wafer fabrication capacity by region, 2019 (%)

Note: DAO means discretets, analog and others (including optoelectronics and sensors)
Source: Varas et al. (2021)

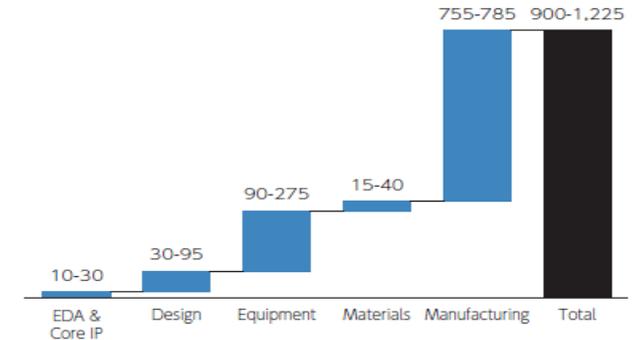


Figure 1-1-4 Scenario of complete semiconductor self-sufficiency: Upfront investment (USD 1 billion)

Source: Varas et al. (2021)

3. Interdependence in the Energy Markets

- ◆ **Percentage of Russia's energy exports increasing**
- ◆ **Shares of the major energy importers from Russia**
(in 2020)

- Crude oil : Europe (53.2%) China (32.1%)
- Liquefied natural gas : Japan(20.8%) China (17.1%)
- Natural gas : Germany(28.5%)
and Europe generally

- ◆ **Share of energy exporters to the European region**
(in 2020)

- Russia ranks first in both crude oil (29%) and natural gas (37.5%)
- Germany's share of natural gas imports from Russia via pipelines is as high as 55.2%
 - ➔ • Extremely difficult for Europe to replace natural gas from Russia in the short term
 - If the alternative policy continues in the medium term, the economic damage to Russia will be significant.

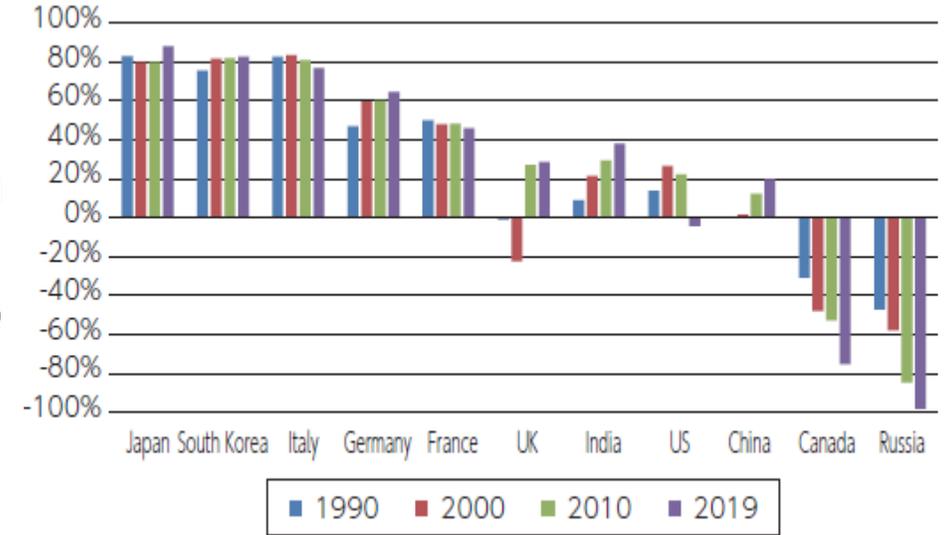


Figure 1-1-6 Changes in the energy import dependency of major countries (1990 to 2019)

Source: Prepared based on the IEA Data and Statistics

Chapter 1 Section 2

The US Economy under High Inflation

◆ The US Economy

Production : Steady recovery

Employment : Unemployment rate declines rapidly from mid-2021, as low as 3.6% in May 2022

Prices : March, April, and May 2022: 8.5%, 8.3%, and 8.6% y/y, respectively

Monetary policy : Shift to a tighter monetary policy

◆ Monetary Policy Shift

- End QE policy in March 2022
- Interest rate increase after March 2022

FF Rate Trends

| Date | Interest Rate Fluctuations(%) | Target Rate Range(%) |
|-----------|-------------------------------|----------------------|
| Mar. 2022 | 0.25 ↑ | 0.25 ~ 0.50 |
| May 2022 | 0.50 ↑ | 0.75 ~ 1.00 |
| Jun. 2022 | 0.75 ↑ | 1.50 ~ 1.75 |
| Jul. 2022 | 0.75 ↑ | 2.25 ~ 2.50 |
| Sep. 2022 | 0.75 ↑ | 3.00 ~ 3.25 |
| Nov. 2022 | 0.75 ↑ | 3.75 ~ 4.00 |
| Dec. 2022 | 0.50 ↑ | 4.25 ~ 4.50 |
| Feb. 2023 | 0.25 ↑ | 4.50 ~ 4.75 |
| Mar. 2023 | 0.25 ↑ | 4.75 ~ 5.00 |

Chapter 1 Section 2

The US Economy under High Inflation

◆ Expected Inflation Rate in the US Economy

- Expected inflation rates over the next year 5.3% (May 2022)
- Expected inflation rates over the next five years 3.0% (May 2022)
- The fact that the medium- to long-term expected inflation rate has not changed significantly indicates that people believe that the current high inflation is transitory due to supply shortages

◆ Risks to the U.S. Economy

- The Russian-Ukrainian war
- A possible recession due to the sharp monetary tightening by the FRB

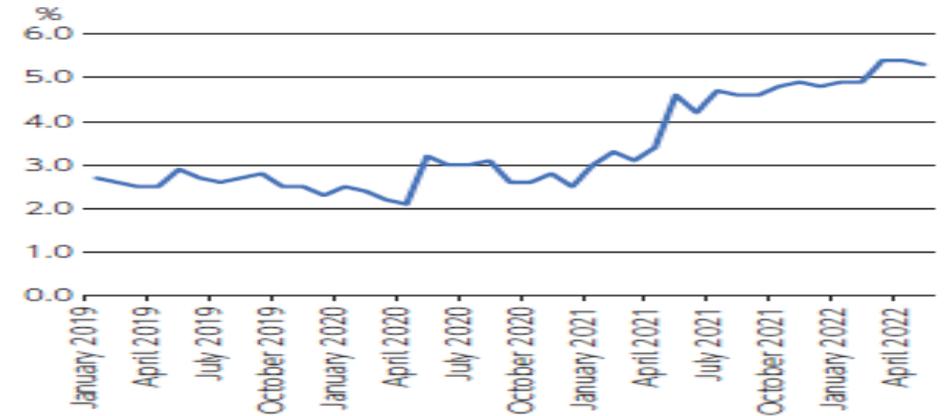


Figure 1-2-3

University of Michigan Surveys on Consumers' Expected Inflation Rates for the Next 12 Months (January 2019 to May 2022)

Source: University of Michigan

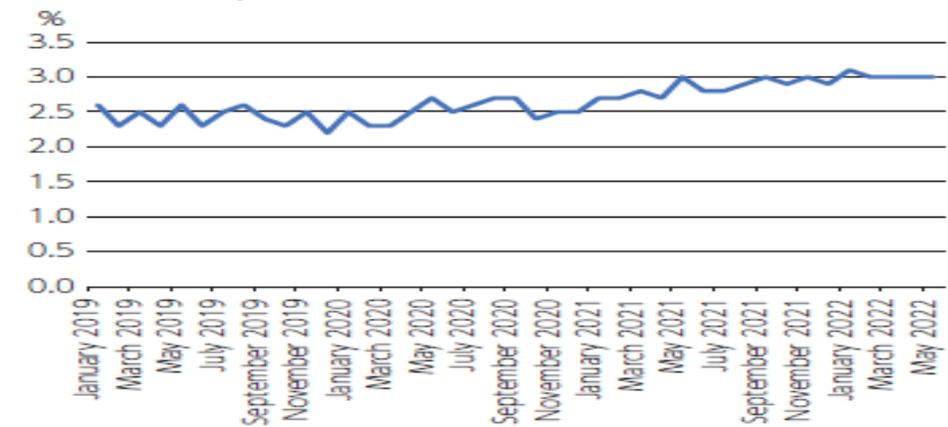


Figure 1-2-4

University of Michigan Surveys on Consumers' Expected Inflation Rates Over the Next Five Years (January 2019 to May 2022)

Source: University of Michigan

◆ The Adverse Effects of the Zero-Corona Policy

- GDP down 8.6% after one-month lockdown of four major cities(Beijing, Guangzhou, Shanghai, Shenzhen)
- 0.7% GDP loss even with only one city locked down

◆ Inadequate fiscal stimulus

- Bold monetary easing but no aggressive fiscal stimulus
 - ➔ Recession
- Reform policy for access to the five major factors of production (land, labor, capital, technology, and data), which are monopolized by state-owned enterprises and local governments
 - ➔ Aimed at improving efficiency on the supply side and unable to cover the drop in demand
- Factors that prevent fiscal stimulus
 - ① Anxiety over corporate bond defaults due to rapid growth in private sector debt
 - ② Manifestation of deteriorating local government financial conditions

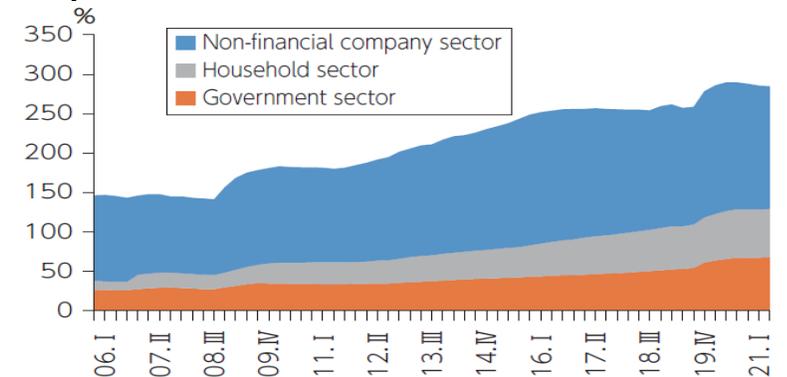


Figure 1-3-2 Change in debt outstanding (vs. GDP)

Material) Source: BIS website (<https://www.bis.org/>)

◆ **"Common Prosperity" as a Countermeasure for Economic Disparity**

- "Tertiary distribution" where individuals and organizations make "voluntary" donations
- Success stories of the "anti-corruption campaign"
- Transformation of the Jiang Zemin-Hu Jintao regime from a "rent model" to a "loyalty model"

◆ **The Attitude Required of the Japanese Business**

- It is dangerous to simply accept the what major policies of the Chinese government manifest and determine the direction of the country
- In the long term, it is necessary to consider how far we can collaborate with China in "promoting decarbonization policies" and "sharing data across borders" based on correct understanding of the actual situation

◆ **Two Challenges Facing Factory Asia**

- ① COVID-19
- ② Rising geopolitical tensions

◆ **IPNs in East Asia are robust**

- The impact of COVID-19 on Global Supply Chains (GSCs) can be divided into three types of shocks

① **Negative supply shock**: because of stagnant imports
➔ Temporary Impact

② **Negative demand shock** : Recession due to decline in economic activity
➔ Impact limited due to unprecedented mitigating policies

③ **Positive demand shock** : Demand for food and other necessities and personal computers
➔ As Asian economies are exporters of those, the damage was temporary and recovery was fast

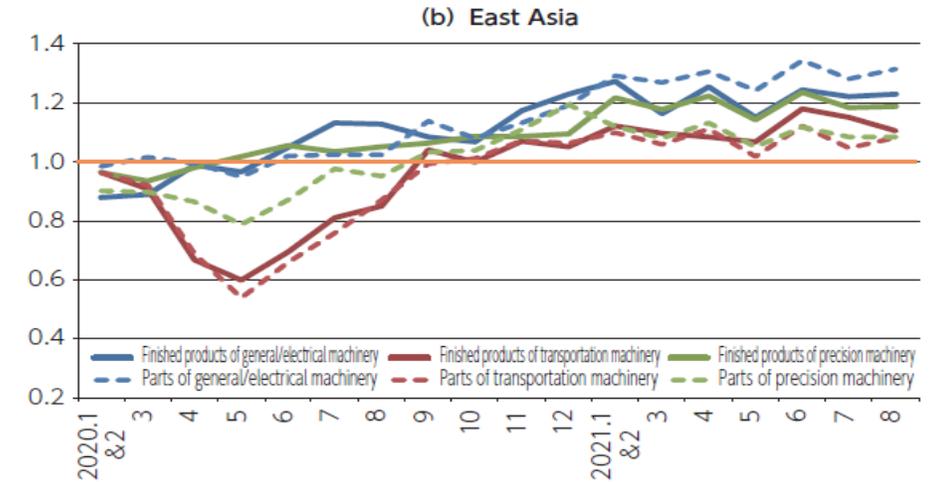


Figure 1-4-1 Machinery Exports to the World by Region (Index with Each Month of 2019 as 1)
Note: For the countries included here and detailed data compilation methods, refer to the source.
Source: Ando and Hayakawa (2021)

◆ Rising Geopolitical Tensions

- ① The confrontation between the US and China
 - ➔ Tariff war escalated into races for technological hegemony
- ② The Russian-Ukrainian war
 - ➔ Western countries forced to tighten export and direct investment controls

◆ Focus on geopolitical tensions, but real economy moving

- ① Japan's high-tech exports to China have not shrunk despite U.S.-China export restrictions
- ② Direct impact on Asian countries is minimal so far

◆ Aligning geopolitical risks and robust economic activity

- ① Clearly define the scope of trade and investment management, and keep compliance costs low for companies
- ② Trade, investment, and economic activities outside of strictly decoupled sectors should be kept under the rules-based international trade order
- ③ Japan should strategically develop a vision for the future of its economic relations with ASEAN

- ◆ The protection and promotion of human rights
 - ➔ In addition to the state, firms have been expected to play an active role

- ◆ The history of Guidelines related to Business and Human Rights
 - 1976 "Guidelines for Multinational Enterprises" (OECD)
 - 1977 "MNE Declaration" (ILO)

} **base**

 - ➔ **Negative impact of globalization**(widening inequality, environmental destruction, etc.) have been drawing attention, and **increased focus on conducive Responsible Business Conduct**
 - 2000 "United Nations Global Compact"
 - 2011 "**Guiding Principles on Business and Human Rights (Guiding Principles)**"
 - 2015 "Agenda 2030" "Sustainable Development Goals (**SDGs**)"
 - ➔ increased recognition of "SDGs" but lack of discussions on human rights
SDGs are based on human rights = Impossible to implement SDGs without

- ◆ **Guiding principles** - responsibilities of businesses.
- ◆ No penalties for governments or businesses ➔ Action plans developed in each country
➔ Trend: from **voluntary actions** to **legal obligations**
- ◆ Three principles of the Guiding Principles
 - ① Formulate a human rights policy and express its commitment
 - ② Implement **human rights due diligence**※
 - ③ **Remedies** in the event of human rights violations
 - ➔ Issues related to Human Rights Due Diligence
 - Need to address the entire value chain, not just the company's own sphere of activity
 - Not only our own domestic and overseas offices, but also domestic and overseas suppliers
 - Responsibility not limited to direct business partners but also to indirect business partners even without direct contracts

※Appropriate and ongoing corporate commitment to human rights.

Specifically, the process of identifying negative human rights impacts and risks, analyzing and evaluating risks, and formulating and implementing appropriate measures

◆ Current status of Japanese companies

① METI Survey

Companies with human rights policies : about 70%

Companies conducting human rights due diligence : over 50%

Of these, companies including indirect business partners : **25%**

② JETRO Survey

Companies with human rights policy : 38.1%

(large companies : 64.3%, small and medium-sized companies : 32.7%)

Of these, companies that require their own suppliers to comply with human rights : 65.4%

(Requests to domestic suppliers : 81.6% Requests to overseas suppliers : **26.0%**)

Companies that require compliance to their suppliers' suppliers : **10.6%**

➡ still a long way to go

◆ Future Issues

- Complete elimination of human rights risks in business may be virtually impossible
 - ➔ Need to **ascertain conditions in the entire** value chain and **identify the risks** on the premise that problems may occur
- Issue of foreign technical intern trainees
 - ➔ The United States has pointed out that the system allows the exploitation of foreign workers and encourages forced labor

If Japan is serious about promoting "sustainable development" and leading the world through it, all of its efforts must be based on a respect for human rights

Challenges and Prospects for a Cooperating Society with Asian Human Resources

◆ Human resources adaptable to the Fourth Industrial Revolution

Since the IT revolution, Asian countries have been actively promoting digital industries and fostering IT engineers

- Development of an education system that focuses on the Fourth Industrial Revolution
- Practical education such as internships with companies

India's Strengths

- Abundant supply of IT engineers
- Common language being English

Background of IT engineer Training in India

- Successful university entrance is possible with one subject (mathematics, physics, etc.)
- IT engineers with high remuneration expectations

◆ Contrasting Openness in Industrial policies between Openings in India and China

Table 1-6-1

Contrasting industrial liberalization policies in India and China

| | Manufacturing Industry | Digital Industry |
|-------|------------------------|------------------|
| China | Liberalized | Closed |
| India | Closed | Liberalized |

Source: Prepared by the author

Challenges and Prospects for a Cooperating Society with Asian Human Resources

- ◆ The Role of India in the New Cold War Era
 - "Quad" by Japan, the US, Australia, and India (Security and economic cooperation)
 - India's Non-Aligned and neutral-position



- Building closer ties with India is a challenge

- ◆ Promoting Economic Cooperation between Japan and India
 - Need to acquire highly qualified IT personnel in India

Table 1-6-2 Progress of the Quad

| Progress in cooperation between Japan, the US, Australia, and India | |
|---|--|
| 2006 | Then-Prime Minister Shinzo Abe proposed a framework for dialogue |
| November 2011 | Director-General-level meeting in the Philippines |
| September 2019 | Foreign Ministers' meeting in New York, US |
| October 2020 | Foreign Ministers' meeting in Tokyo. Confirmation of regular holding of meetings |
| November 2020 | Joint exercises by SDF and US-India-Australia |

Source: Compiled from the Nihon Keizai Shimbun, March 13, 2021.

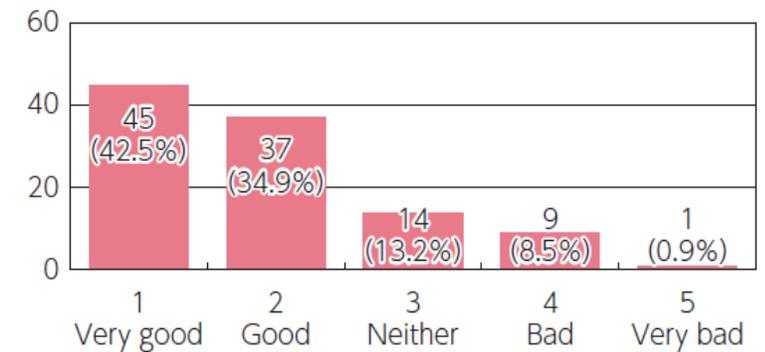


Figure 1-6-2 Indian engineers' impressions of Japan

Source: Compiled based on the results of the APIR questionnaire survey

Chapter 1 Section 7

The Middle Class in the Asia-Pacific

◆ The 21st century is the “Asian Century ”

Percentage of world nominal GDP

Asian countries
1980s : less than 20%



2050s : reach 52%

United States
about 30%



decreased to about 20%

◆ Rise of the Middle Class in Asian Countries

- Middle class : central in shaping consumption, values, and political systems and driving economic growth
- By 2030, the middle class in Asian countries will reach 3.5 billion, accounting for 65% of the world's middle class

Chapter 1 Section 7

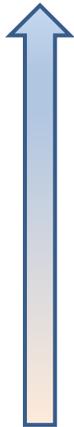
The Middle Class in the Asia-Pacific

- ◆ Analysis of the middle class in Asian countries (3 perspectives)
 - ① Income and Assets
 - Absolute Approach Based on absolute purchasing power
 - Relative Approach Estimated from median national income and national poverty line
 - Asset-based approach . . Definition based on assets rather than income
 - ② Education and Occupation
 - There is a strong correlation between education and income
 - ③ Culture and values (Figure 1-7-5)
 - Defined through values, cultural capital, lifestyle and aspirations
 - But values are strongly influenced by the dominant philosophy, politics, and religion of each country

Chapter 1 Section 7

The Middle Class in the Asia-Pacific

Secularity
Rationality
emphasizing



Tradition
Religion
emphasizing

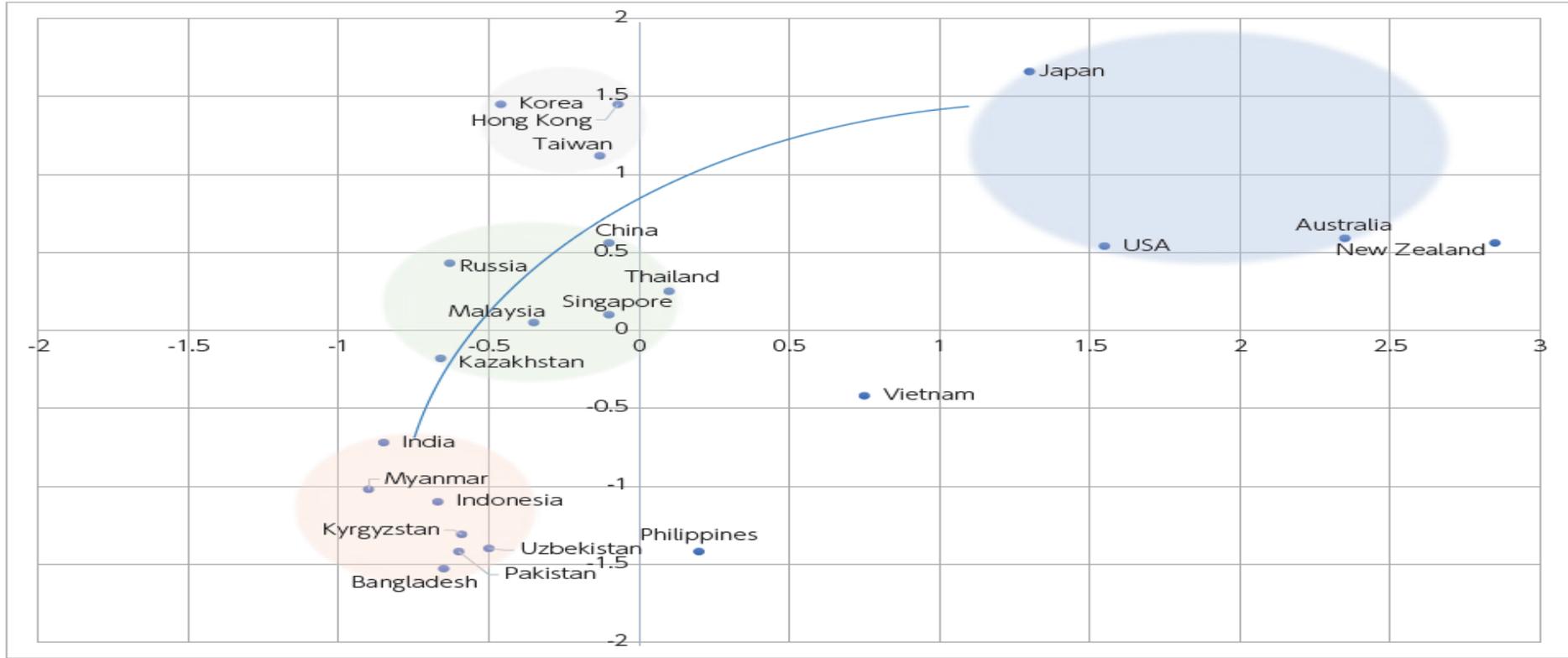


Figure 1-7-5

The location of countries in the Asia-Pacific on the Inglehart-Welzel World Cultural Map

Note: Based on the World Values Survey (2022).

Survival
Group
emphasizing



Expression
Individual
emphasizing



**Thank you for your
attention!**

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