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Asia in the coronavirus disaster: Which countries are emerging?
-- China overtakes U.S. in 2028-29

Masashi Uehara, Director and Principal Economist
Akira Tanaka, Senior Economist
Tamaki Sakura, Economist
Aiko Munakata, Economist
Go Yamada, Principal Economist
Asian Research Team

The Japan Center for Economic Research on Dec. 10 released its sixth Medium-Term Asian Economic Forecast, which provides a bird's-eye view of the region's economy over the next 15 years. The report -- titled "Asia in the coronavirus disaster: Which countries are emerging?" -- addresses the impact of the spread of COVID-19 and looks at how Asian economies are faring compared with others around the world. Based on this damage assessment, the report forecasts the economic growth (real gross domestic product growth rates), economic scale (nominal GDP) and income per capita (nominal GDP per capita) of 15 countries and territories across Asia and the Pacific.

Two main scenarios are considered: a "baseline" or standard scenario in which the effects of the coronavirus crisis are confined to the current economy, and an "aggravated coronavirus scenario," which affects not only the current situation but also larger structural trends such as globalization, urbanization and progress in innovation. In this more severe case, the crisis changes potential growth rates over the medium term.

In each scenario, China emerges from the crisis relatively strong, having quickly and successfully contained the coronavirus so far and prevented the damage from spreading. As a result, according to the projections, the Chinese economy overtakes that of the U.S. by 2028-29. By 2035, China's income per capita reaches $28,000 -- though this would still be short of the government's assumed target of $30,000.

■ Baseline scenario: U.S.-China reversal happens in 2029; Vietnam overtakes Taiwan in 2035

The standard scenario assumes that the coronavirus pandemic is a transient event, much like an earthquake, that will not affect economic structures over the medium term.

Under this assumption, in four to five years, various economic variables would return to trends seen before the global health crisis.

Due to the impact of the novel coronavirus, many countries are expected to suffer deeply negative growth rates for 2020. But while COVID-19 infections have spread to nearly every country worldwide, not all of them have been affected to the same degree. The differences seen now will make a considerable difference to countries' economic scale 15 years from now.

Only China, Vietnam and Taiwan are on track to maintain positive year-on-year growth rates in 2020. India's rate is likely to be negative by more than 10%, while the Philippines is expected to see a contraction of more than 8%. Hong Kong, Thailand, Canada, Malaysia and Singapore are all facing GDP shrinkage of more than 6%.

China's growth rate has been decelerating in recent years due to demographic decline and slowing investment, but the economy should still be expanding at a roughly 3% clip in 2035. In the U.S., where productivity is sluggish, the growth rate is projected to be only about 1% in 2035.

In 2029, China's economic scale is forecast to exceed that of the U.S., and by 2035, the gap is likely to be roughly equivalent to the size of Japan's economy. China's economic scale, including Hong Kong, in 2035 would reach $41.8 trillion, only slightly less than the combined scale of the U.S. and Japan at that point, at $42.3 trillion.

China is set to become a high-income country even earlier, in 2023, and its income per capita should reach $28,000 in 2035 -- comparable to Taiwan's figure today. This, however, would still be shy of the Chinese government's assumed target of $30,000.

Vietnam, meanwhile, is seen maintaining a growth rate of about 6% in 2035, thanks to strong exports. This would propel the Vietnamese economy past Taiwan's in 2035 in terms of scale, and make it the second-largest economy in Southeast Asia after Indonesia. Vietnam is poised to achieve upper middle-income status in 2023, with income per capita headed for $11,000 in 2035.

Taiwan, for its part, has been one of the most successful economies in terms of containing the coronavirus pandemic, but its growth rate is projected to drop to 1% in 2035 as a result of its aging population.

Over in India, its current growth rate will slow significantly due to the virus, but it is likely to experience a rapid recovery and should be capable of achieving 5% growth in 2035. By 2033, our baseline scenario has India overtaking Japan in terms of its economic scale, but its income per capita would still not reach the upper middle-income level by 2035.

■ Severe scenario: U.S.-China reversal occurs earlier, in 2028; China, including Hong Kong, surpasses combination of U.S. and Japan in 2035

The "aggravated coronavirus scenario" describes an outcome in which the coronavirus not only damages today's economy but also affects urbanization, trade openness, R&D spending and a host of other factors, undermining countries' potential growth rates over the medium term.

In the model used to formulate medium-term projections for Asia, GDP is estimated from labor input, capital input and productivity. And productivity is mainly determined by urbanization rates, R&D expenditures and the extent of open trade.

COVID-19 deaths in Europe and North America are higher than in Asia, and the damage to the U.S. and Canada is the heaviest among the 15 economies analyzed. At the same time, there is no end in sight to the outbreaks in India, the Philippines and Indonesia. These South and Southeast Asian countries, it should be noted, are characterized by high numbers of citizens working abroad and sending remittances home.

The above five countries would be hit especially severely in the medium term, under this "aggravated" scenario, with urbanization rates lagging behind the standard scenario.

A slowdown in global trade would affect each country's degree of trade openness, while flows of immigrant workers would be obstructed as well. On the other hand, this scenario assumes that digital innovation would continue to accelerate and that R&D spending would in fact be higher than in the standard scenario, except in the five hardest-hit countries.

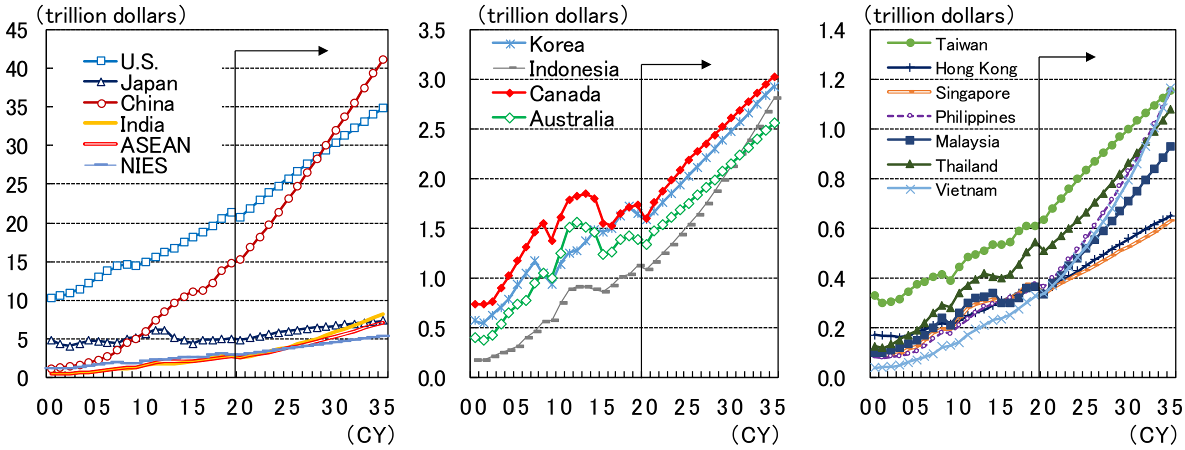
In the aggravated scenario, the growth rates of the U.S., Vietnam, Singapore and others in 2035 would be significantly lower than those under the standard scenario, largely due to trade blockages. Although China's trade openness would decline, too, this would be offset by an increase in research outlays. China would thus be relatively unaffected and would still emerge in a strong position. Growth rates in Japan and Australia, meanwhile, would rise significantly thanks to higher R&D investment.

All things considered, China's economic scale would surpass that of the U.S. in 2028, a year earlier than under the standard scenario. As of 2035, the gap with the U.S. would widen, bringing the economic scale of China including Hong Kong to $41.8 trillion -- slightly more than the $41.6 trillion for the U.S. and Japan combined.

India's economic scale would not catch up with Japan's even in 2035, because Japan would grow at a faster rate than under the standard scenario. Vietnam's economic scale in 2035 is expected to still be smaller than that of Taiwan.

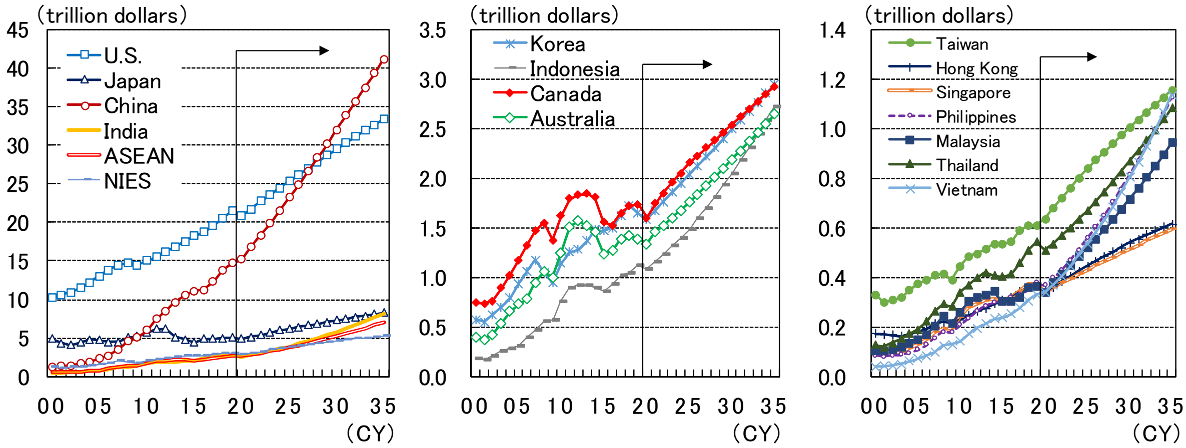
As for income per capita, China would enter high-income territory in 2023, as in the standard scenario. Its figure would be $28,000 in 2035, again matching the standard scenario and falling short of the $30,000 level.

Fig.1 Nominal GDP (baseline scenario)



Source: IMF, JCER

Fig.2 Nominal GDP (aggravated coronavirus scenario)



Source: IMF, JCER

(Contact: Asian Research Team 03-6256-7740)

Japan Center for Economic Research
Nikkei Bldg. 11F, 1-3-7 Otemachi, Chiyoda-ku
Tokyo 100-8066 JAPAN
TEL:03-6256-7710 ／ FAX:03-6256-7924