# Mizuho Flash: Asia Growth

**Economics & Strategy | Asia ex-Japan**

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## Growth Downgrades: A Conspiracy of Headwinds

**Table of Asia GDP Revisions Amid a Conspiracy of Downside Risks**

| Country | 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1* | | Q2^ | | Q3 | | Q4 | | Full year | |
| China | ~~18.5~~ | ↓18.3 | ~~7.7~~ | ↑7.9 | ~~6.9~~ | ↓6.1 | ~~5.3~~ | ↓4.9 | ~~8.8~~ | ↓8.5 |
| India | ~~1.0~~ | ↑1.6 | ~~19.7~~ | ↓18.8 | ~~8.5~~ | ↓8.2 | ~~5.8~~ | ↓5.3 | ~~8.1~~ | ↓7.7 |
| Korea | ~~1.2~~ | ↑1.9 | ~~6.0~~ | ↓5.9 | ~~4.9~~ | ↓4.6 | ~~4.9~~ | ↓4.3 | ~~4.2~~ | ↓4.1 |
| Singapore | ~~-0.5~~ | ↑1.3 | ~~13.3~~ | ↑14.3 | ~~6.9~~ | ↓6.3 | ~~4.7~~ | ↓4.5 | ~~6.4~~ | ↓6.3 |
| Malaysia | ~~-0.9~~ | ↑-0.5 | ~~8.7~~ | ↓8.4 | ~~4.0~~ | ↓2.8 | ~~5.3~~ | ↓4.2 | ~~4.2~~ | ↓3.5 |
| Indonesia | ~~-0.7~~ | →-0.7 | ~~5.7~~ | ↑7.1 | ~~5.3~~ | ↓4.7 | ~~5.2~~ | ↓4.9 | ~~3.9~~ | →3.9 |
| Thailand | ~~-3.3~~ | ↑-2.6 | ~~5.5~~ | ↑4.4 | ~~4.2~~ | ↓1.7 | ~~2.3~~ | ↓1.9 | ~~2.5~~ | ↓1.2 |
| Philippines | ~~-3.2~~ | ↓-4.2 | ~~9.8~~ | →9.8 | ~~7.2~~ | ↓6.6 | ~~5.8~~ | ↓5.4 | ~~4.6~~ | ↓4.3 |
| Vietnam | ~~5.7~~ | ↓4.5 | ~~7.2~~ | ↓6.6 | ~~6.1~~ | ↓5.6 | ~~6.0~~ | ↓5.8 | ~~5.8~~ | ↓5.6 |
| Australia | ~~2.4~~ | ↓1.1 | ~~8.2~~ | ↑8.6 | ~~5.3~~ | ↓4.5 | ~~4.2~~ | ↓3.8 | ~~4.7~~ | ↓4.5 |

* Q1 GDP data represent the deviation of actual against market consensus.

^ Q2 GDP data for China, Singapore, Korea, Indonesia and Vietnam show actual deviation from Mizuho's expectations. For the rest, it is the comparison of revisions to Mizuho's (end-June) forecast.

"It is stupidity rather than courage to refuse to recognize danger when it is close upon you."

**– Sherlock Holmes, "The Final Problem"**

In a nutshell: A **litany of downside risks confronting EM Asia dim prospects for unfettered recovery and demand that full-year 2021 growth projections be revised down as growth momentum looks set to falter in H2**; in turn **retarding a fuller recovery** from COVID. We have long warned of a **bumpy recovery in 2021 for EM Asia**, which inevitably lags developed economies given delays in vaccine procurement/rollout. Yet, our fault is not being pessimistic enough. In particular, **a trifecta of headwinds** comprising; i) delta variant disruptions; ii) China policy tightening and; iii) frustrating supply-chain kinks, **conspire to setback already lagging EM Asia recovery even further**. Layering on the **coincidence of political risks** (in some cases) **exacerbates the setback from these economic headwinds**. More so as **growing policy constraints compromise the ability to buffer negative shocks**. *To heed Holmes, the "danger" that is uncomfortably "close upon" EM Asia needs to be recognized*.

### A Trifecta of Delta, China & Supply Chain Headwinds Set to Retard Recovery

Admittedly, COVID (delta) variant threat, China policy risks and supply-chain disruptions are not all new. But the **rate at, and force with, which this trifecta of risks have converged** is worrying enough that it will be **negligent to ignore setback to the recovery momentum in H2 and delays in fuller COVID recovery into 2022** .

(COVID) Delta Variant: A **resurgence of COVID led by a far more transmissible "delta" variant**, while not confined to EM Asia, is **rendered especially devastating due to the double whammy of vaccine lags** (procurement, inoculation and efficacy[1]) and **strained healthcare capacity**. This combination of **high outbreak rate and low**

[1] Certain ASEAN countries have been struggling with vulnerabilities to delta variant even amongst those vaccinated. This potentially ups the burden of switching vaccines on already lagging vaccine progress, therefore further retarding the recovery in EM Asia.

**vaccination** (see Appendix Charts) **requiring more stringent iterations of containment** measures to compensate **entail significant setbacks to the recovery**; via activity/income suppression and supply-chain ripples. *And* ***delta risks emerging across provinces in China now presents a worrying risk of prolonging delta pain in EM Asia***.

China Policy: As grave a risk that a full-fledged delta breakout in China is, this is still an iteration of (COVID) "variant risks. Whereas, **China's policy risk**, one of its own doing, is that which derives from **credit tightening aimed at the property sector alongside hawkish regulatory stance on tech**, **private education**, and now **spilling over** more widely **to "social evils"/vice**. Consequent sell-off in these Chinese companies has unsettled international investors, and risks a larger scale pullout of capital if not assuaged. And the danger is that **adverse ripples**, while initially via financial channels, will eventually impact the real economy way **across EM Asia, if not the world**.

Supply-Chain: To be sure, **COVID is only partly to blame for supply-chain kinks** and the resultant dampener on economic growth. Whereas, **capacity constraints** (e.g. semiconductor chips), **weather disruptions** and the **shipping squeeze continue to interrupt, sometimes impede and dampen, activity**; which have a tendency to **resonate much farther down along the supply-chain**. And the economic costs from these **supply-chain disruptions** result not just from **delays** (and ***dampened activity***), but also from **higher costs that erode margins/suppress demand**.

### Interaction of Headwinds Amplifies Risks

Worrying the **interaction between these headwinds threaten to amplify downside risks**. Either from *compounding effects* (e.g *delta variant outbreak worsening delays in shipments/production*), *multiplier effects* via trade, tourism, investment and financial channels and/or *policy constraints* (e.g. *China risks curtailing scope for policy easing in EM Asia amid spill-over capital flight/currency sell-off risks, thereby undermining ability to mitigate delta fallout*).

### Exacerbated by Unfortunate Coincidence of Political Uncertainties …

**An already dim H2 2021 for EM Asia** due to the conspiracy of delta, China risks and supply-chains **appears grimmer yet in some cases; exacerbated by the unfortunate coincidence of political uncertainty**. *Myanmar's military coup* that has resulted in social tumult and rendered COVID a full-blown healthcare tragedy is *an extreme iteration*, but not an exception.

*Malaysia's unstable coalition* **risks politicking and political expediency distracting from, if not outright hijacking**, **efforts to arrest** the worst outbreak of **COVID** in the region; **and associated economic setback**. Meanwhile, *Thailand's simmering political tensions* highlight risks that **COVID restrictions may be artificially suppressing protests, which if resumed may still cast a pall of the recovery**.

### … & Frustrated by Self-Defeating Policy Strains

To add insult to the injury, **monetary and fiscal authorities may be forced to withhold support** as **fiscal strains from prolonged COVID damage** and **cost-push pressures from supply-chain disruptions test policy limits/dilemma**. Especially as the **threat of regional capital outflows from China (regulatory/tightening) risks**, **forces a painful subordination of growth and welfare to macro-stability and credit ratings risks**. The former (macro-stability) fears may force premature tightening in a fragile recovery. And perceived credit ratings risks could deny (debt-financed) fiscal relief for the fear of ratings agencies prematurely penalizing deterioration in credit metrics. Invariably, these policy strains will have a tendency to compromise the recovery.

### Growth Revisions: Tentative & Differentiated

While the "*danger*" of **growth recovery setback from the conspiracy of headwinds** is "*close upon*" EM Asia, the **lack of clarity challenges quantifying revisions further out** with a good degree of confidence.

As such we have **confined growth downgrades to H2 2021 given headwinds may be tempered in 2022** (perhaps even flip into tailwinds) in the context of; i) pick-up in vaccinations; ii) policy calibrations as Beijing balances regulation with recovery; iii) "pent-up" demand help boost recovery alongside abatement in the worst of supply-side cost-push.

Moreover, growth **downgrades across EM Asia will be highly differentiated**. This could be **due to** the *distortion of base effects*, such as Indonesia's exceptional H1 growth buffering H2 headwinds and Philippines' dismal 2020 flattering 2021 outcomes. Crucially, **differentiation may be based on** factors such as *varying impact from tourism multiplier* (warranting Thailand's significant downgrade from prolonged travel restrictions), *vaccine rollout advantages/lags*, *policy constraints* and *political uncertainties* (e.g. Malaysia).

## Main Take-Aways for Specific Economies

**GDP Growth Forecasts (% YoY)**

| | 2020 | | | | 2021 | | | | 2022 | | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | (FY18-19) | (FY19/20) | (FY20/21) | (FY21/22) | (FY22/23) | (FY23/24) |
| Australia | 1.4 | -6.2 | -3.7 | -1.0 | 1.1 | 8.6 | 4.5 | 3.8 | 3.9 | 3.4 | 3.2 | 2.9 | 1.9 | -2.4 | 4.5 | 3.3 | 3.0 |
| China | -6.8 | 3.2 | 4.9 | 6.5 | 18.3 | 7.9 | 6.1 | 4.9 | 5.6 | 5.8 | 5.8 | 6.7 | 6.0 | 2.3 | 8.5 | 5.7 | 5.6 |
| India | 3.1 | -24.4 | -7.4 | 0.5 | 1.6 | 18.8 | 8.2 | 5.3 | 5.8 | 10.3 | 6.6 | 7.4 (6.5) | 4.9 (4.0) | -7.1 (-7.5) | 7.7 (8.9) | 6.9 (6.8) | 6.4(6.5) |
| Indonesia | 3.0 | -5.3 | -3.5 | -2.2 | -0.7 | 7.1 | 4.7 | 4.9 | 6.7 | 7.2 | 7.0 | 5.2 | 5.0 | -2.1 | 3.9 | 6.6 | 5.5 |
| Malaysia | 0.7 | -17.1 | -2.6 | -3.4 | -0.5 | 8.4 | 2.8 | 4.2 | 7.2 | 5.7 | 9.6 | 4.8 | 4.3 | -5.6 | 3.5 | 8.0 | 4.8 |
| Philippines | -0.7 | -17.0 | -11.6 | -8.3 | -4.2 | 9.8 | 6.6 | 5.4 | 14.3 | 12.4 | 11.1 | 6.3 | 6.0 | -9.5 | 4.3 | 12.0 | 6.5 |
| Singapore | 0.0 | -13.3 | -5.8 | -2.4 | 1.3 | 14.3 | 6.3 | 4.5 | 3.0 | 5.8 | 4.3 | 3.5 | 1.4 | -5.4 | 6.3 | 3.9 | 3.0 |
| Korea | 1.4 | -2.7 | -1.1 | -1.4 | 1.9 | 5.9 | 4.6 | 4.3 | 2.5 | 2.4 | 2.8 | 2.7 | 2.0 | -1.0 | 4.1 | 2.8 | 2.7 |
| Thailand | -2.0 | -12.1 | -6.4 | -4.2 | -2.6 | 4.4 | 1.7 | 1.9 | 4.3 | 8.7 | 8.4 | 4.2 | 2.4 | -6.1 | 1.2 | 7.1 | 3.8 |
| Vietnam* | 3.7 | 0.4 | 2.6 | 3.8 | 4.5 | 6.6 | 5.6 | 5.8 | 6.9 | 7.2 | 7.4 | 7.1 | 7.0 | 2.9 | 5.6 | 7.2 | 6.6 |

**Vietnam has released Q1 2021 GDP on a new base but has not released historical data for the same. The 2020 growth rates in our table are based on the historical series.*

China: The **delta outbreak hitting China belatedly in H2** – warranting pockets of lockdown and travel restrictions – alongside **self-imposed credit tightening** (albeit selective)/ **hawkish regulatory moves**, suggest **faster deceleration in the economic momentum**. **But** given Beijing's acute awareness of the growth-regulation/prudential trade-off means that **tightening will likely be tempered or partially rolled back as needed later in H2**, thereby ***averting a much harsher slowdown; certainly avoiding a hard-landing*** given the social stability and geo-political stakes involved.

India: While activity is up from the pits of April-May "second wave", "**third wave" risks remains a danger**. What's more, **elevated and "sticky" inflation** not only intensify the RBI's policy dilemma but also compromise margins and disposable income. On balance, some (but not excessive) **growth knock-back comes with the territory of higher oil prices** (given our already below-consensus forecasts*). A particular "tail risk" is that of credit ratings downgrade* from borderline investment-grade ratings given growing fiscal strains and potentially impatient ratings agencies.

Korea: While COVID risks cloud the economic outlook, especially with **strain on households and small businesses being exacerbated in H2**, the aggregate growth story may be **alleviated by solid exports as well as the demand for chips** that augurs well for Korea's electronics industry. **Relative fiscal and monetary flexibility** also provides appreciable cushion, thereby buffering some of the external headwinds. As such downward revisions for Korea's H2 is fairly modest. But **worse-case outcomes of China shocks is a particular vulnerability that is worth highlighting**.

Singapore: Solid H1 growth has built buffer against full-year downward revisions. What's more, brisk progress on vaccinations in concert with the boost from property, pharmaceuticals, electronics and finance/business services helping to mitigate sluggish and interrupted recovery in hospitality and travel/tourism; especially with fiscal relief. So despite re-imposition of restrictions in Q3, full year growth is not adversely impacted. That said, the small and open nature of Singapore's economy means that complacency about delta, China and supply-chains is not an option.

Malaysia: A **devastating delta variant outbreak requiring harsher lockdown/travel restrictions** has **more than offset any lift expected from a strong recovery in oil** prices (for the only net oil exporter in the region). What's more, rolling political upheaval remains a huge risk to policy efficacy; partly reflected in Malaysia's worse COVID outcome relative regional advantages to its vaccine program. **Policy lapses in the context of political risks denying the proverbial "stitch in time" to contain COVID is unfortunately set to cost in terms of H2 growth stumble**.

Indonesia: Indonesia's **struggles with delta variant outbreak worsening considerably in Q3** and resultant fiscal strains are likely to **subject Indonesia to additional headwinds in H2**; **especially if high oil prices pressure** fiscal subsidy commitments and/or household consumption. Appreciable upside surprise in Q2 growth however mean that the degree of downside revisions for full-year are negligible. Fiscal strains and rupiah stability are risks to watch.

Thailand: **Low vaccination rates and delta resurgence** (globally and within Thailand) **dashing hopes for any meaningful resumption of tourism in 2021** is a key factor in **deep downward growth revisions**. While political undercurrents accentuate risks, they do not motivate direct growth downgrades. Perhaps **more worrying is growing policy dilemma as THB pressures impede the BoT's ability to enact further unqualified policy stimulus**. Silver lining being, resumption of tourism in 2022 potentially could provide a strong growth upswing amid pent-up demand.

Philippines: Resumption of lockdown **amid delta outbreak continues to suppress activity resumption**; and so the recovery path remains as bumpy, and the recovery momentum subdued; with fairly bolstered full-year 2021 growth flattered by exceptionally flattering base effects from prolonged negative growth in 2020. Given vaccine lags and rising oil prices amid elevated inflation set to defer more emphatic recovery dynamics out into 2022.

Vietnam: While Vietnam could potentially be well-placed to enjoy a pick-up in global demand led by the US, the setback from delta outbreak hitting industrial towns suggest some degree of restraint on recovery this year. Some aspects of supply-chain disruptions also hold back 2021; but shaking off COVID in 2022 could set the stage for a solid rebound.

Australia: Lockdowns in Greater Sydney, Victoria and Brisbane intensifying and extending threatens to take a big bite out of Q3 growth at the very least, with only partial offset from the resource sector. RBA's continued accommodation does not absolve the need for more fiscal relief (especially aimed at jobs). While the global infrastructure pivot should be positive for the Australian economy, brighter 2022 prospects may be tempered by China risks/friction.

**Appendix Charts on COVID** (Source: Our World in Data)