

What lies ahead for Asia's economies in a post-pandemic world?

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Economic experts convened recently at Chicago Booth's second Economic Outlook 2023 event to discuss the global outlook for Asia as it heads into a post-pandemic world. The panel coincided with the full reopening of China's borders on Feb. 7, but questions remain about how the world's second-largest economy will recover from three years of

isolation—and what it means for everyone else.

This year's panel of experts included Pranjul Bhandari, chief India and Indonesia economist and managing director at HSBC; Chang-Tai Hsieh, the Phyllis and Irwin Winkelried Professor of Economics and the PCL Faculty Scholar at Chicago Booth; and Randall S. Kroszner, the Norman R. Bobins Professor of Economics at Booth. The panel was moderated by Emily Tan, a senior correspondent for CNBC International. Dean Madhav V. Rajan delivered opening remarks, sharing that this year's Economic Outlook coincides with Booth's 125th anniversary; several more special global events will be held throughout 2023 in celebration.

The event was held virtually from Hong Kong and drew nearly 1,500 registrants from around the globe. Panelists discussed China's and India's outlook, the fallout from China's U.S. decoupling, and what to expect from interest rates.

Asia and the United States continue to battle inflation

Although Asia has fared better in the global struggle with inflation, it continues to feel ripple effects from the United States, where Kroszner said some observers are hoping for a soft landing where inflation drops without a rise in unemployment. The Federal Reserve continues to raise rates amid a strong labor market, albeit at a slower pace.

"The Fed is going to keep at it until they see the labor market weaken, because they are not going to be convinced inflation will come down on a sustainable basis unless the labor market does," he said. "The challenge is to weaken the labor market just a little bit without weakening it a lot."

The Reserve Bank of India is following a similar path, said Bhandari, as it slowly pumps the brakes on rate hikes. India's recent challenges included a strong dollar, a ballooning current account deficit, and an

exposure to oil prices, but it may finally be turning a corner, she said, thanks to a depreciation in the rupee and fiscal consolidation. The challenge for 2023 will be how to stem equity outflows.

In China, a question mark hangs over who will take leadership of the People's Bank of China when new appointments are announced in March, said Hsieh. Also unknown is the replacement for vice premier and politburo member Liu He, the Harvard-educated economist who led trade negotiations with the U.S.

Time needed to recover

China's full reopening is a global sea change, said Kroszner, citing how countries on China's supply chain will benefit. He also expects commodity prices to rise along with imports and exports. Domestic demand will also recover, but it may be slower than other parts of the world, as its COVID-Zero policy damaged trust in the government, he contends.

"I think some people are trying to apply what's happened in the West to what will happen in China—they will have this explosion of domestic demand. I don't see that," Kroszner said. "I think one of the lessons that was drawn from what happened over the last few years is that the high Chinese savings will stay high."

As COVID-Zero lifts, there are also signs that China could be softening on two of its other most controversial policies—its combative "wolf warrior diplomacy" and its government-led crackdown on conglomerates and [tech companies](#), Hsieh said. Whether that will happen for sure is not yet clear.

If China wants to hit its target goal of 5 percent growth, however, Kroszner said it will need to loosen its controls on the [private sector](#) as

its population continues to decline.

Deglobalization moves forward with U.S.–China competition

As the world struggles to understand what the future U.S.–China economic relationship could look like, the Biden administration continues to double down on decoupling, said Kroszner. New U.S. export controls and restrictions on American employees working at Chinese tech firms will make it more difficult for American and other global companies to do business there in the future, he said.

In Beijing, Hsieh said, the draconian and unprecedented new export controls "shook the Chinese leadership to the core."

"My sense is that the sanctions really hurt, and I think part of the shift toward the engagement window is that the Chinese authorities are trying to find a way out," Hsieh said. "And also, the fear is that sanctions are going to expand to more and more sectors, that they're just going to grow."

China's losses could be India's gains

India could be a major winner from U.S.–China decoupling, said Bhandari, as the United States pursues a policy of "friendshoring" that prioritizes like-minded countries. India and the United States have already signed the U.S.–India Initiative on Critical and Emerging Technology, but Bhandari said there is an opportunity to expand from trade to services and deeper tech cooperation.

As India takes a giant step forward, however, it needs to take time to rebalance, said Bhandari. The subcontinent's burgeoning high-tech and

startup sectors, which Bhandari collectively called "New India," contributes 15% of GDP but just 5% of employment. Faced with a growing population that needs at least 60 million new jobs in the coming decade, India needs to fill in the gaps by helping small companies scale up with digitization and also by breaking into new industries.

"India's big problem has been that it's grown rapidly, but in a way it just jumped from agriculture to services," Bhandari said. "It never really became a strong manufacturer and was never able to create those manufacturing jobs. But now we need to really revisit those parts of the economy because we need those jobs."

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