ASIA

The rise of regional connectivity in Emerging Asia

KEY TAKEAWAYS

Asian economies are showing robust growth influenced by sectoral dynamics and policy stimulus measures, while moderate inflation levels have allowed for less restrictive monetary policies.

Monetary policies across Asia are expected to become more accommodative in 2025, particularly in Indonesia and the Philippines. Governments are shifting from pandemic crisis management to strategic economic goals, such as sustainability and the digital transformation.

External demand and exports remain key growth drivers for Asian economies, supported by integrated regional trade networks, like RCEP, that have enhanced resilience across countries and sectors.

Asian economies continue to demonstrate robust growth, albeit at varying rates, influenced by sectoral and industrial dynamics (value chain participation) and policy stimulus measures.

Furthermore, Asia's **dominance in the information and communication technology (ICT) supply chain has intensified.** In 2017, the region accounted for 75% of the global USD 2 trillion ICT goods market. By 2021, this share had risen to nearly 80% of the USD 3 trillion in shipments. Advanced East Asian economies alone trade 60% of global ICT goods annually, while emerging markets like Vietnam and Malaysia are rapidly increasing their share in this sector.

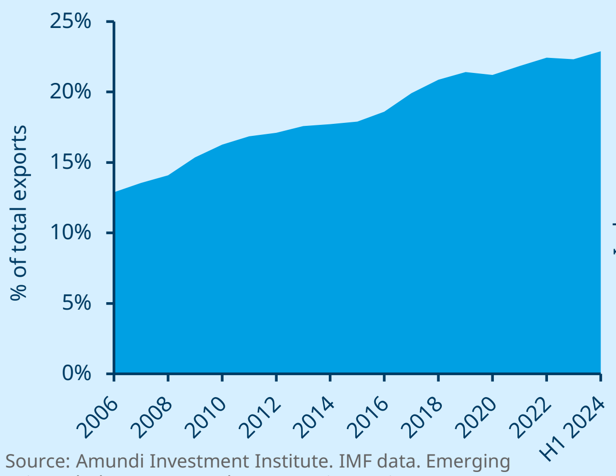
Fiscal and monetary policies, including stimulus packages and interest rate adjustments, have played a crucial role in supporting the recovery. Thanks to **relatively benign inflation trends across the region,** the monetary policy stance has never been as restrictive as in other Emerging Market regions. Therefore, the combination of more moderate inflation levels and less restrictive monetary policies has actually supported the growth recovery.

Asia's regional connectivity has increased further after the US-China trade war.

RCEP: The Regional Comprehensive Economic Partnership is a free trade agreement among the Asia-Pacific countries.

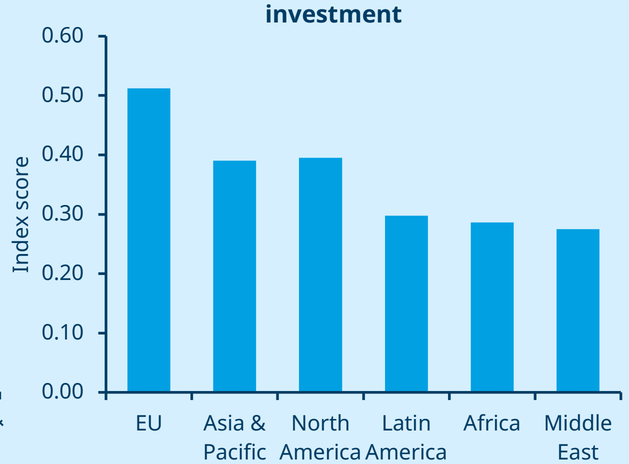
Higher inter-regional connectivity across Emerging Asia is reflected in trade dynamics

Emerging Asia interregional trade



Source: Amundi Investment Institute. IMF data. Emerging Asia excludes Japan, South Korea, Taiwan, Singapore, Hong Kong and Macau.

Regional integration in trade and investment



Source: Amundi Investment Institute. Asian Development Bank data for 2021. Dimensional index score for trade and investment across regions.

ASIA

In 2025, monetary policy will become incrementally more accommodative. **The easing cycle that just started should continue at a more moderated pace.** Bank of Indonesia and the Central Bank of the Philippines are expected to have the most room for easing. On the fiscal side, **several governments have shifted away from crisis management** (such as cash handouts) **to broader and more strategic economic goals** (such as long-term sustainability, digital transformation, upskilling the workforce and healthcare) with more targeted support programmes or tax incentives. While the fiscal measures remain an important support to growth, the return to more sustainable fiscal paths proves challenging. Even in countries with exceptionally strong growth or effectively managed expenditure controls, such as India and Indonesia, government debt ratios have only mildly decreased.

External demand and exports continue to be a key growth driver in the region, but could become a source of risk given new radical anti-trade measures. Far from further restricting trade, China still has scope at the Central level to smooth down new US tariffs. Over the years, **an integrated regional trade network** (the Regional Comprehensive Economic Partnership is one of the world's largest trading blocs) **has enhanced the regional resilience of several countries across several sectors:** not only for electronics and semiconductors, but also agriculture, and the automotive and textile sectors.

Key **Investment** Implications

- **Supportive outlook for equity** in the region: positive growth and earnings (although slightly decelerating to high single-digit numbers) and declining inflation. Valuation is key, as well as the resilience of growth.
- Our stable commodity prices outlook for 2025 offers support to Asian countries, mostly **commodity importers.**
- In China favour the domestic market as less exposed to tariffs.
- **India and Indonesia** are the region's best picks.

At the same time, trade integration has created interdependencies that could lead to a chain reaction of negative consequences in the event of radical anti-free trade initiatives against one or more countries in the region. Nevertheless, and notwithstanding the challenges posed by US-China trade tensions, **Asia as a whole has become more connected and has sustained the strength of its exports.** In particular, intra-regional trade in emerging Asia has risen to 23% of total exports in H1 2024, up from 21% in 2018 and just 10% at the start of this century.

India's growth journey: Fostering development while maintaining financial balance

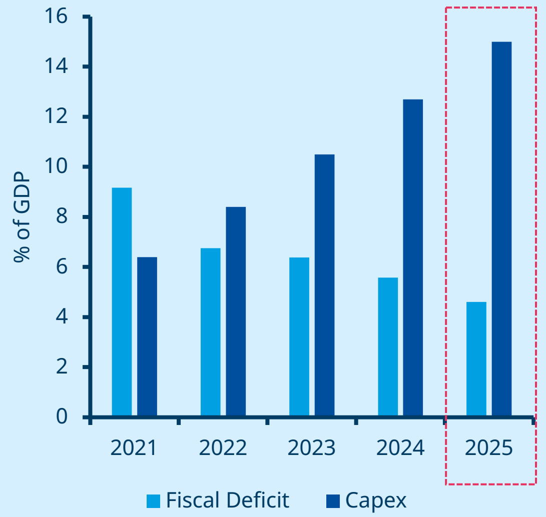
As we move towards 2025, India is experiencing a natural slowdown in its economic momentum. Weak performance in capital, infrastructure and construction production indicates a moderation in growth after the impressive gains of recent quarters. GDP growth is projected to settle between 6% and 7%, a **robust figure that underscores India's key role in driving global growth.**

The current account deficit, while deteriorating, is expected to remain manageable due to a lower oil bill and proactive efforts to enhance exports and integrate more deeply into the global value chain. However, ongoing investment cycles and infrastructure needs may keep the current account in deficit, estimated at around 1% of GDP.

Inflation, particularly its volatile food component, is anticipated to stay within the Reserve Bank of India's (RBI) target range into 2025, although the cost of living may rise towards the upper end of the range. To maintain a decent positive neutral rate, the RBI's room to ease monetary policy appears to be limited, in the order of 50bps-75bps.

In this evolving landscape, India aims to leverage its strengths to enhance its relevance in the global value chain and improve its infrastructure.

India: Between growth and macro financial stability



Source: Amundi Investment Institute, internal elaboration. Data as of 17 October 2024. Years refers to India's fiscal year.

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DEFINITION ABBREVIATIONS

Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

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