Country Forecast

Asia and Australasia

Regional overview

June 2023

Economist Intelligence
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Symbols for tables
“0 or 0.0” means nil or negligible; “n/a” means not available; “–” means not applicable

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Fact sheet

Asia-Pacific, 2022	
Population (m)	4,274
Population growth (%)	0.5
GDP (US$ bn; at market exchange rates)	35,035
GDP growth (%)	3.2
GDP per head (US$; at market exchange rates)	8,197
GDP per head (US$; at purchasing power parity)	16,00
Inflation (av; %)	4.3

Background: Asia and Australasia is an extremely diverse region in terms of culture, economic systems and living standards. It also accounts for more than 50% of the world's population. A number of subregional groups have been formed, most notably the Association of South-East Asian Nations (ASEAN), but rivalries between major regional powers will continue to delay progress on much broader political and economic integration. Asia and Australasia has been the world's fastest-growing region in economic terms for much of the past 25 years. Its share of global GDP (at purchasing power parity exchange rates) has risen from about 20% in the early 1980s to more than 40%.

Political structure: Asia and Australasia contains several long-established representative democracies, including the world's largest, India. Other countries in the region have struggled to make the transition to full democracy, and some, such as Thailand, Myanmar and Pakistan, have periodically fallen back under the sway of regimes controlled by the military. Many of the remaining authoritarian regimes in Asia, including China and Vietnam, have sought to strengthen and legitimise their grip on power by improving living standards rather than by relying on repression alone. Minority rights have been challenged in several countries, notably by majoritarian religious movements.

Policy issues: The cost of living will dominate the policymaking agenda in the early years of EIU's forecast period (2023-27). This will require a fiscal policy response that will slow fiscal consolidation efforts after the pandemic. Meanwhile, monetary policy will lean towards tightening while inflation remains high, at least for 2023, and this will cause some strains for households and companies. Asia is beginning to undergo significant shifts in its supply chains, as other markets become more competitive with China and geopolitical developments drive companies to consider other options. The climate-change agenda in the region has moved forwards and sustainability issues will become more central in policymaking.

Taxation: Tax systems and rates vary widely across the region, although many countries in East Asia have adopted a limited-government, low-tax model. Fiscal deficits will remain large because of the pandemic and cost-of-living support. Governments in many of the region's larger and poorer economies are attempting to improve revenue collection.

Foreign trade: The total merchandise trade surplus (on a balance-of-payments basis) of the 21 Asian and Australasian countries covered in this report stood at an estimated US$587.7bn in 2022. This contributed to an aggregate current-account surplus for the region of US$620.2bn.

Merchandise exports 2022	US$ bn	Merchandise imports 2022	US$ bn
China	3,591	China	2,714
Japan	747	Japan	897
South Korea	684	Hong Kong	629
Hong Kong	580	South Korea	732
Singapore	515	India	720

Summary

- Russia's invasion of Ukraine is set to have an important impact on geopolitics beyond Europe. In the Asia-Pacific region, the main concern will be how it shapes the approach of China and the US in the region and in their own bilateral relations. EIU forecasts a more complex and bifurcated geopolitical environment and a rise in defence spending.

- For many in Asia, Russia's invasion of a smaller, independent neighbour will reinforce concerns about Chinese intentions in the region, especially if China were to abandon its ambiguous stance on the crisis to align decisively with Russia. Many countries will raise their defence spending and seek stronger ties with the US to hedge against China.

- Asia will face difficult economic conditions in 2023. Several years of strong export growth in the region will reverse, as growth softens in the key EU and US markets. The outlook for domestic demand in Asia will also be challenging as interest-rate rises implemented in 2022 to curb inflation filter through local economies. More positively, China's sudden reopening in late 2022 will create some tailwinds for growth, especially for regional economies that attract Chinese tourists.

- South-east Asia has been the focus of investors' attention in Asia as they seek manufacturing alternatives to China. The free-trade area of the Association of South-East Asian Nations (ASEAN), as well as the bloc's centrality in various mega-regional free-trade agreements, has helped to smooth supply-chain linkages. Transport and digital infrastructure in the region is reasonable and improving. The region will remain attractive, but we believe that it will lose some of its appeal in 2023 as political risk resurfaces. Higher political risk in South-east Asia will present India with an opportunity to capture more attention from global manufacturers. From an investors' perspective, India offers policy continuity and there is little chance of a change in administration. India has an obvious advantage in terms of a large and youthful labour market, and there has been incremental progress in addressing weaknesses in terms of transport infrastructure, taxes and trade regulation.

Regional trends

	2022	2023	2024	2025	2026	2027
Population (m)	4,274	4,298	4,329	4,356	4,380	4,403
Total GDP (US$ bn at market exchange rates)	35,035	37,003	40,491	43,375	45,965	48,536
GDP growth (%)	3.2	4.2	3.9	3.6	3.6	3.5
Inflation (av; %)	4.3	3.6	2.8	2.4	2.4	2.4
Current-account balance (US$ bn)	620.2	790.5	803.1	854.5	934.0	960.2

Basic data, 2021

	Population (m)	GDP (US$ bn)	GDP per head (US$)	GDP at PPP (US$ bn)	GDP per head (PPP; US$)	GDP growth (% real change)	Consumer price inflation (av; %)	Current-account balance (% of GDP)
Cambodia	16.6	27.0	1,625	79.4	4,784	3.1	2.9	-45.7
Indonesia	269.8	1,185.9	4,396	3,581.8	13,277	3.7	1.6	0.3
Laos	7.4	18.8	2,536	64.0	8,621	2.5	3.8	2.4
Malaysia	33.6	373.0	11,109	971.3	28,929	3.1	2.5	3.8
Myanmar	53.8	67.1	1,247	256.9	4,775	2.0	6.2	-1.9
Philippines	113.9	393.4	3,454	1,010.9	8,877	5.5	4.4	-1.5
Singapore	5.5	397.0	72,795	635.2	116,483	7.6	2.3	18.1
Thailand	71.6	505.8	7,064	1,342.9	18,755	1.6	1.2	-2.1
Vietnam	97.5	369.9	3,795	1,138.0	11,676	2.6	1.8	-1.0
ASEAN[a]	**662.1**	**3,319.0**	**5,013**[b]	**9,016.4**	**13,617**[b]	**3.8**[b]	**2.1**[b]	**1.7**[b]
Australia	25.9	1,646.4	63,515	1,513.1	58,374	5.2	2.9	3.1
New Zealand	5.1	248.9	48,511	239.5	46,687	5.6	3.9	-6.0
Papua New Guinea	9.9	26.6	2,673	40.2	4,040	0.3	4.5	23.5
Australasia	**41.0**	**1,921.8**	**46,874**[b]	**1,792.8**	**43,726**[b]	**5.2**[b]	**3.0**[b]	**2.2**[b]
China	1,398.5	17,759.3	12,699	27,726.6	19,826	8.1	0.9	1.8
Hong Kong	7.4	369.2	49,555	488.5	65,567	6.3	1.6	11.1
Taiwan	23.4	775.7	33,186	1,534.4	65,643	6.5	2.0	14.7
Greater China	**1,429.8**	**18,904.2**	**13,221**[b]	**29,749.5**	**20,806**[b]	**8.0**[b]	**0.9**[b]	**2.5**[b]
Bangladesh	169.4	416.3	2,458	1,114.2	6,579	6.9	5.5	-3.8
India	1,407.6	3,170.6	2,253	10,223.6	7,263	8.8	5.1	-1.1
Pakistan	231.4	348.3	1,505	1,330.1	5,748	6.5	9.5	-3.5
Sri Lanka	21.8	87.3	4,007	319.5	14,674	3.3	6.0	-3.8
South Asia	**1,830.1**	**4,022.4**	**2,198**[b]	**12,987.4**	**7,097**[b]	**8.3**[b]	**5.7**[b]	**-1.6**[b]
Japan	124.6	5,004.7	40,162	5,369.3	43,088	2.1	-0.2	4.0
South Korea	51.8	1,811.0	34,940	2,426.3	46,812	4.1	2.5	4.9
North-east Asia	**176.4**	**6,815.7**	**38,628**[b]	**7,795.5**	**44,182**[b]	**2.7**[b]	**0.1**[b]	**4.2**[b]
Asia & Australasia	**4,139.5**	**34,983.2**	**8,451**[b]	**61,341.3**	**14,819**[b]	**6.0**[b]	**2.1**[b]	**2.3**[b]

[a] Association of South-East Asian Nations. [b] Weighted average.

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Political outlook

Russia's invasion of Ukraine continues to have an important impact on geopolitics beyond Europe. In the Asia-Pacific region, it is influencing the approach of China and the US both in the region and in their own bilateral relations. EIU expects a more complex and bifurcated geopolitical environment and a rise in defence spending.

US attention on the Indo-Pacific will diminish slightly

One likely consequence of the crisis is that the US will be less able to deliver in the near term on its Indo-Pacific strategy, which is designed to bring about finally the "pivot" in US military and diplomatic resources to Asia that was first promised in the late 2000s. The challenge posed to the international order by Russian actions and the potential threat that they represent to NATO will require an ongoing and robust US response. The US has pledged significant military aid and assistance to Ukraine and Europe. This does not necessarily mean a reduction in the US diplomatic or defence footprint in Asia, but it will probably affect plans to expand it.

Whether the distraction from the US government's goals in the Indo-Pacific will persist in the long term depends on the duration and development of the war in Ukraine, which we expect to be protracted. There is little doubt that the US views China as the main threat to its global primacy, and that its national security and economic interests in the Indo-Pacific have been steadily elevated over those elsewhere. However, such considerations could still be overridden if NATO members are drawn directly into conflict with Russia.

A more distracted US provides benefits for China in its own neighbourhood, as its rising influence will be subject to less opposition. Assuming that Chinese defence spending continues to grow rapidly and that the US will not be in a position to deploy more military resources to the region, the balance of power will shift more quickly than previously expected (although the US spends 2.5 times more on its military than China, this is distributed globally). Economically, the absence of the US would provide more room for China to shape the trade and investment rules of the region. China is an enthusiastic backer of the Asia-focused Regional Comprehensive Economic Partnership, which took effect at the start of 2022, and has applied for membership of another mega-regional trade deal, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The US-led Indo-Pacific Economic Framework for Prosperity (IPEF) looks set to be less influential than these much larger trade arrangements that involve tariff reductions.

Some countries may lean towards China in the hope of securing benefits

In this context, some countries may come to the view that it is wiser to "bandwagon" with China and accept it as the de facto regional hegemon, in the hope of securing benefits. Being stretched militarily could also hamper the ability of the US to project power in the region and to honour defence commitments. For China, this could reduce the risk associated with an effort to annex Taiwan and with enforcement of its sovereignty claims in the East and South China Seas. The broad sanctions that the US and others have imposed on Russia have also provided China with an illustrative example from which it can learn and prepare.

Regional strategic gains for China from the Ukraine war are not clear cut

Despite this, the strategic benefits for China in Asia are not clear cut. For many in the region, Russia's invasion of a smaller, independent neighbour will reinforce concern about Chinese intentions—especially if China were to abandon its stance of leaning moderately towards Russia on the crisis and instead align decisively with it, by means such as providing lethal military aid. Many countries will raise their own defence spending and seek stronger ties with the US to hedge against China. US allies such as Japan and South Korea may push for access to the country's nuclear technology, as Australia has done under the AUKUS security pact that it signed with the UK and US in 2021, and indicate a firmer willingness to assist in the defence of Taiwan. For Taiwan, the Ukraine crisis is also likely to prompt consideration of its preparedness to preserve its status, making China's ultimate goal of unification more challenging.

Countries that have aimed for neutrality in terms of the US-China relationship may lean more towards a US position. Singapore, for example, has been critical of Russia and, unusually, joined sanctions and called on China to exercise its influence over the country. Although India has refused to condemn Russia for its actions, it would not be against a broader effort to exert pressure on China, including through the Quad diplomatic grouping, comprising Australia, India, Japan and the US.

Moreover, if NATO maintains its solidarity in response to the crisis, European powers could also become more involved in Asia. France, Germany and the UK already have Indo-Pacific strategies similar to that of the US and, while their attention is likely to be focused on events closer to home for the time being, this could change—especially if they view the threat posed by Russia as being linked with China.

The emergence of a group of powers united around the idea of limiting China's regional influence could easily offset benefits for the country stemming from a period of US distraction. Indeed, the US may find it easier to project influence whether or not it is in a position to increase resources. This group of countries would hold more economic weight than any that China could comfortably include in its own coalition, such as war-weary Russia or North Korea. The mixed strategic benefits of the conflict explain the diplomatic tightrope that China has been walking so far throughout the crisis.

A more complex, bifurcated regional geopolitical environment

Risks associated with important regional flashpoints could also be exacerbated. If the Russia-Ukraine war constrains the ability of the US to act as a "global police officer", opportunistic actors could sense openings to further their agendas. North Korea's nuclear weapons programme will be an important risk to watch in Asia. The monitoring of non-traditional security threats such as terrorism could also be affected.

Overall, the Russia-Ukraine conflict adds another layer of complexity to the geopolitical environment in Asia. Higher defence spending will reduce the share of government budgets available for social and economic development needs. A trend towards political and economic bifurcation was already evident before Russia's invasion, as tensions between China and the US have deepened, and there is a high chance that even if it does not occur overnight, it will be accelerated by recent events. This will create ongoing challenges for international firms operating across multiple markets as regulatory divergence becomes more marked.

Within the crucible of US-China tensions, the South China Sea, the East China Sea and the Taiwan Strait will be the most closely watched theatres. Risks in the Strait have risen following events in August 2022, when China responded forcefully to a visit to Taiwan by the then speaker of the House of Representatives (the lower house of the US legislature), Nancy Pelosi. Although the US administration, under the presidency of Joe Biden, distanced itself from the visit, China still decided to implement economic penalties on Taiwan, held unprecedented military exercises around the island and conducted several missile tests. China is concerned that more official US-Taiwan ties could lead to a formal declaration of Taiwan's independence.

Tensions in the Taiwan Strait will remain dangerously high

Through its actions, China has established a dangerous new baseline in terms of how it will respond to future perceived provocation. Closer interactions between respective militaries will increase the risk of direct clashes in the future, although outright cross-Strait conflict remains outside our baseline view, given the very high political and economic stakes that would be involved for all parties. In its exercises, China did not go as far as making incursions into Taiwan's territorial waters or airspace—measures that would have surely elicited a response—and the US reaction, which included freedom-of-navigation operations in the Taiwan Strait, was fairly muted.

Amid China's rising geopolitical influence and willingness to adopt an assertive stance on foreign policy, border tensions between China and India will also remain. Clashes in the countries' disputed Himalayan border region left a number of soldiers dead in June 2020, and an initial de-escalation did not hold, with further (albeit non-deadly) confrontations occurring in September of that year. Diplomatic talks have since defused the crisis, and in September 2022 the two countries announced jointly that they would disengage in one area of dispute along the line of actual control (LAC, the de facto border). This will help to defuse near-term tensions. However, with troops and military equipment having amassed significantly at various points along the LAC, fresh escalation will remain a risk.

North Korean belligerence also remains a cause for concern, and we believe that the country will conduct a nuclear test before end-2023 for the first time since 2017. We remain pessimistic about any genuine denuclearisation of the Korean peninsula, and doubt that the levels of bilateral trust and long-term commitment required for a phased denuclearisation scenario can be achieved. In addition, we believe that the likelihood of North Korea giving up its nuclear arsenal is low. The most probable outcome is that shuttle diplomacy on North Korea will resume but will subsequently fall apart at some point over the next five years.

The covid-19 pandemic is no longer the main policy preoccupation

On the domestic political front, the pandemic has receded as the dominant regional theme, with governments having stepped away decisively from the economically costly social restrictions imposed in 2020-22. Even China dramatically abandoned its stringent approach to pandemic management in late 2022, with the economic costs associated with the zero-covid doctrine mounting in the face of the more infectious Omicron variant. The pivot came after unusual public protests against the policy and the conclusion of the 20th national congress of the ruling Chinese Communist Party (CCP). China's public health system has since undergone significant strains, but the economy has also benefitted from the reopening.

We still assume that further viral variants will emerge in the coming years, and policymaking will need to be adept in managing the public health risk. However, our baseline forecast is for future waves of the virus to be steadily less significant, aided by ongoing vaccine protection and developments in treatment.

The cost of living has become the main political challenge in most counties

Instead, the main challenge for governments will be addressing cost-of-living concerns that have emerged as a result of the inflationary effect of the Ukraine-Russia war on global commodities, especially energy and food. Higher global commodity prices have fed into firmer consumer prices across the region.

Households will look to their respective governments to continue to insulate them from high prices that could affect food and energy security and their ability to consume. Authorities with relatively comfortable fiscal positions have been able to provide subsidies on fuel and other items, or extend some of the cash handout schemes introduced during the pandemic. Commodity exporters such as Australia, Indonesia and Malaysia have been among the best placed to recycle fiscal revenue generated from exports into additional budget support. Pressure to support workers through stronger minimum-wage increases and by increasing pressure on firms will intensify, even if this risks perpetuating inflation. Restrictions placed on shipments of wheat and certain types of rice (India), palm oil (Indonesia) and live chickens (Malaysia) also show that some governments are willing to use disruptive methods to address supply challenges (although we expect them to be temporary).

In cases where inflation runs far ahead of income gains, political or social unrest could ensue. Sri Lanka's political crisis in 2022 was at least partly tied up with surges in inflation associated with critical supply shortages. Frontier economies such as Mongolia and Pakistan are especially vulnerable to political dislocation, owing to a lack of fiscal resources to combat prices and depreciating trends in local currencies that add to imported inflation. In more advanced economies, increased activism by organised labour groups will be an area to watch; such activity notably surfaced in South Korea last year.

Election watch

Asia experienced a number of consequential elections in 2022, including in Australia, the Philippines and South Korea, alongside a twice-a-decade political reshuffle in China. The electoral calendar for Asia in 2023 is almost as cluttered.

We forecast that **Thailand's** election in May would lead to an opposition victory and the departure of the administration headed by a former coup leader, Prayuth Chan-ocha. However, the result went further than we had anticipated, with opposition parties trouncing the ruling party and its closely tied splinter party in a clear call from voters for change from the current military-aligned government. Despite this result, the large military-linked contingent within the unelected Senate (the upper house of parliament) ensures that is far from an easy route to either the appointment of an opposition prime minister or autonomy in policymaking. Our current view is that the anti-establishment Move Forward Party, which has become the largest party in the lower house, will struggle to piece together a governing coalition by the time parliament assembles in late July, creating an opportunity for the more centrist opposition Pheu Thai Party to do so.

Pakistan's general election, due to be held by October, is unlikely to be a free and fair exercise, amid extreme political polarisation and divided institutions. We forecast that the current ruling coalition will retain power, abetted by the military, although its parliamentary majority will remain modest, keeping political stability fragile. Irrespective of the electoral outcome, widespread social unrest and protests are likely over 2023-24, as living conditions deteriorate in the country amid high inflation and unemployment. Although the current IMF package is likely to be restarted, any fresh IMF assistance to avert a debt default will entail even tougher fiscal reforms and, consequently, greater social unrest.

The incumbent Labour Party in New Zealand faces a tough campaign

In **New Zealand**, where a general election will be held in October 2023, the ruling Labour Party faces a tough re-election campaign under its new leader, Chris Hipkins. The surging cost of living and a slowing economy have weighed on the popularity of the party and contributed to the resignation of the former prime minister, Jacinda Ardern. Our baseline forecast is still for another Labour victory, with Mr Hipkins seen as responding effectively to unprecedented natural disasters since taking office. However, Labour will probably require the formal support of smaller parties to form a government.

Cambodia's election in July will result in another overwhelming victory for the ruling Cambodian People's Party (CPP), led by the prime minister, Hun Sen; the party currently holds every seat in the national legislature. The CPP has moved to bar the last major opposition Candlelight Party, a faction of the now disbanded Cambodia National Rescue Party, from participating in the polls, in a sign that the CPP is not interested in whether international opinion views the electoral process as free or fair. The US and the EU will voice criticism and will hold back on the restoration of Cambodia's previous trade privileges. However, Western countries will fear that going too far in their opprobrium will push Cambodia even closer to China.

Election watch[a]

	Presidential	Parliamentary
Australia	–	2025[b]
Bangladesh	2023[c]	2024
Cambodia	–	2023
China	2023[c]	2023[c]
Hong Kong	2027[d]	2025[e]
India	2027[c]	2024[f]
Indonesia	2024	2024
Japan	–	2025[g]
Laos	2026[c]	2026[c]
Malaysia	–	2027
Myanmar	–[h]	–[h]
New Zealand	–	2023
Pakistan	2023[c]	2023[i]
Papua New Guinea	–	2027
Philippines	2028	2025[b]
Singapore	2023	2025
South Korea	2027	2024
Sri Lanka	2024	2025
Taiwan	2024	2024
Thailand	–	2027
Vietnam	2026[c]	2026[c]

[a] For the 21 countries covered by this report. Fixed dates or latest possible dates for elections. [b] For the House of Representatives (the lower house) and half of the Senate (the upper house). [c] Indirectly elected. [d] For the post of chief executive. [e] Only 40 of the 70 seats in the Legislative Council (Hong Kong's parliament) are directly elected. [f] For the Lok Sabha (the lower house). [g] For the House of Representatives (the lower house). [h] Elections suspended indefinitely [i] For the National Assembly (the lower house).

Source: EIU.

Economic outlook

International assumptions

	2022	2023	2024	2025	2026	2027
Real GDP growth (%)						
US	2.1	1.0	1.0	2.2	2.2	2.0
Japan	1.0	1.1	1.2	0.8	1.0	0.9
Euro area	3.6	0.8	1.4	1.7	1.7	1.6
World (market exchange rates)	3.1	2.1	2.5	2.7	2.7	2.7
World (PPP exchange rates)	3.4	2.8	3.1	3.2	3.3	3.3
World trade growth (%)						
Goods	4.0	2.1	3.2	3.6	3.7	3.9
Consumer price inflation (%)						
US	8.0	3.8	2.2	1.9	2.0	2.1
Japan	2.5	2.4	0.9	0.9	1.0	1.1
Euro area	8.4	5.8	2.7	2.1	1.9	1.9
Export price inflation (%)						
Manufactures (US$)	-2.2	5.3	4.2	3.3	2.3	2.1
Commodity prices (% change unless otherwise indicated)						
Oil (Brent; US$/b)	99.8	80.8	76.7	72.8	70.3	66.9
Non-oil commodities	14.6	-11.0	-1.1	-0.1	-0.4	-0.4
Food, feedstuffs & beverages	21.9	-10.6	-4.8	-3.6	-1.1	-1.0
Industrial raw materials	4.6	-11.6	4.8	4.9	0.4	0.4

The global economy was more resilient than expected in late 2022

Despite strong headwinds, mostly related to the ripple effects from the war in Ukraine and high global inflation, the global economy has proven resilient so far in 2023. Europe avoided a recession in the winter of 2022/23, in part owing to warmer than usual temperatures and to the rapid switching to alternative energy sources following Russia's decision to turn off gas flows. US consumer spending has also held up better than EIU initially expected, with the labour market and consumer spending strengthening further in early 2023. Finally, China's exit from its government's zero-covid policy has also supported global activity. We therefore expect global growth to stand at a modest—but not anaemic—2.2% in 2023.

Global GDP growth is still expected to slow in 2023

Despite the brighter outlook, growth of 2.2% this year would still represent a slowdown. The war is affecting the global economy via higher commodity prices, supply-chain disruptions and Russia's weaponisation of energy supplies. This situation will persist throughout 2023 (and probably beyond), as we expect the war to become a protracted conflict with no clear resolution. The economic impact of the war is felt especially strongly in Germany and central Europe, where energy-intensive industries will struggle to remain competitive. The UK economy is also being disproportionately hit by the cost-of-living crisis, given its reliance on private consumption, and we expect it to be one of the few economies in the region (alongside Germany) to only narrowly avoid a recession in 2023. In the US, we still expect annual growth to slow sharply this year, to 1%, as the pace of consumer spending becomes unsustainable in the face of high inflation and a steep rise in interest rates. In China, the initial rebound in consumer activity after the lifting of the government's zero-covid policy has been strong. We expect it to pick up even further in the coming months, and forecast full-year growth of 6.1%.

The war in Ukraine will keep a floor under commodity prices

We expect global commodity prices to continue easing from their 2022 peaks this year, but to remain well above pre-war levels. However, China's reversal of its zero-covid policy will put upward pressure on oil prices, which we expect to remain above US$75/barrel in the medium term. An EU ban on seaborne Russian oil imports (since late 2022), China's reopening (in early 2023) and the decision by OPEC+ members in April to cut production will all exacerbate market tightness. We expect European gas prices to ease gradually in 2023-24 but to remain above 2019 levels, weighing on households and businesses. The possible tightening of Western sanctions (for instance on refined Russian oil) will fuel price volatility.

Global inflation will remain high in 2023

We expect global inflation to ease slightly, from an estimated 9.2% in 2022 to 7.2% in 2023. High global commodity prices, continued supply-chain disruptions from the war in Ukraine and, in some parts of the world, the still-strong US dollar will keep annual inflation well above 2019 levels. However, we expect inflation to lose some momentum as global demand softens and commodity prices start to ease back from their 2022 peaks. We expect central banks to maintain their aggressive policy stance in an effort to bring inflation under control, even as global growth slows. Interest rates in most major economies will peak by mid-2023, and in most cases will then stay on hold until 2024.

Risks abound for the global economy

Several potential scenarios could derail our forecasts. The most impactful of these include: an escalation of the war in Ukraine (there is little prospect for an end to the hot war this year or next); social unrest arising from high inflation (especially given that high levels of public indebtedness constrain emerging countries' room for manoeuvre to mitigate the impact on households); an escalation of tensions around Taiwan (following China's frequent military manoeuvres around the island); financial contagion following the collapse since March of three US regional banks and turmoil at a Swiss banking giant, Credit Suisse; the emergence of a new variant of covid-19 (or of another highly infectious disease) that is especially aggressive; and extreme weather events that further fuel global inflation. If one (or several) of these scenarios were to materialise, a global recession this year or next would be likely.

Fears about global food supplies are high

Fears about global food supplies remain high amid risks to grain exports from Russia and Ukraine (together, these countries account for around one-third of global wheat trade). Fears of a war-induced shortage of fertiliser have proven overblown; however, Russia's willingness to hold up its end of a deal that allows the passage of grains out of Ukraine remains in doubt. In addition, food prices remain high and are still rising (owing to extreme weather events and high energy and transport costs), fuelling the risk of social unrest.

Regional economic growth outlook

Economic growth
(% change, market exchange rate weights)

	2022	2023	2024	2025	2026	2027
World	3.1	2.1	2.5	2.7	2.7	2.7
US	2.1	1.0	1.0	2.2	2.2	2.0
Japan	1.0	1.1	1.2	0.8	1.0	0.9
Asia & Australasia	3.2	4.2	3.9	3.6	3.6	3.5
Australasia	3.5	1.6	2.6	1.8	1.7	2.2
ASEAN	5.6	4.2	4.7	4.9	4.8	4.7
South Asia	6.5	5.6	6.1	6.3	6.5	6.0

The end of China's zero-covid policy will lift Asia growth, but challenges remain

Economic conditions in Asia have not been as challenging so far in 2023 as we had previously anticipated. Previously, we had expected Asia's growth to be unchanged from 2022, when it was pulled down by China's zero-covid policy. Now, the outlook is brighter. China's economic reopening arrived earlier and was more sudden than we anticipated. Demand in the US and the EU, the primary markets for Asian exports, has so far proved resilient to higher interest rates. We now forecast Asia and Australasia's regional GDP growth to accelerate to 4.2% in 2023, from 3.2% last year.

Instability in the Western banking system has emerged as a downside risk to our forecast. Asia's banking systems are well insulated but not immune from the collapse of Switzerland's Credit Suisse and two regional US banks. These individual bank failures mean that there is a limited direct channel for financial contagion, although there will be some indirect effects in Asia stemming from a tighter global credit environment, selling pressures on local banks and weaker demand. However, parallels with the 2008-09 global financial crisis appear limited; Asia's banks have been risk-averse in their lending and are much better capitalised than in the earlier period.

Limited regional spillover from China's reopening

China's reopening will be a major factor shaping the outlook for Asia in 2023. Our real GDP growth forecast for China in 2023 now stands at 6.1%, compared with 4.7% in late 2022. Private consumption spending will drive this rebound, as the services sector normalises and consumers spend savings built up over the pandemic. We have a more conservative outlook on investment growth, with the property market still struggling and the authorities switching to a tighter fiscal position. The contribution to growth made by exports will fall as global growth decelerates.

China's reopening will benefit Asian economies exposed to its consumer sector. Firmer demand for imported consumer goods will help to lift agricultural shipments from South-east Asian economies, for example. However, the main focus will be on a revival in Chinese outbound tourism. We have revised up our forecasts for GDP growth in Hong Kong and Thailand, two markets that relied heavily on mainland Chinese visitors in the pre-pandemic era. Challenges in restoring international flights and resuming large-scale visa and passport issuance in China suggest that the rebound in travel will build gradually, but will become more discernible in the second half of 2023 and in 2024.

The benefits of China's reopening will be less apparent to Asian commodity producers. Our forecast upgrades for Australia and Indonesia have been more modest than might have been expected, given that China is the largest market for both countries' exported commodities. This reflects our view of a still-tepid investment environment in China. Markets also appear to have come round to this view, with the prices of hard commodities that are sensitive to Chinese demand, such as crude oil, gas and iron ore, having fallen back after jumping initially on news of China's reopening.

There could be negative spillover effects for the region from China's reopening. Concerns that Chinese demand will exert pressure on commodity prices, complicating efforts to tame inflation in the region, now seem misplaced. In fact, the normalisation of the country's supply chains seems likely to act as a disinflationary force. However, China's reopening could also galvanise investor sentiment in its economy, drawing capital that might have otherwise been routed to emerging markets elsewhere in Asia. There may also be a return of Chinese entrepreneurs and talent from markets that lured them away during the pandemic, such as Singapore. Overall, we believe that higher geopolitical risk and poor prospects for the liberalisation of China's business environment mean that these are risks to watch rather than likely developments.

Less pressure to tighten interest rates but limited scope to cut

Global banking instability will reduce the impetus behind monetary policy tightening in Asia. Central banks in the region have raised policy rates at a less aggressive pace than the Federal Reserve (Fed, the US central bank) since 2022. Global economic uncertainty will further encourage a less hawkish approach, even if a majority of Asia's major central banks do not have financial stability as an explicit objective of their monetary policy (in such cases, macroprudential measures will be used rather than policy rates). Even before the recent volatility, we had expected most of the central banks in the region that have engaged in tightening to bring their rate rises to an end by mid-2023, similar to the Fed. Central banks in China and Vietnam has gone so far as to cut their policy rates.

Still, interest rates are generally unlikely to move back down quickly. Economic conditions will not be so grim as to prompt such action, and with inflation forecast to remain stubbornly above-target in many markets, a shift to accommodative policy settings would undermine the credibility of central banks in terms of fulfilling their core mandate. We no longer forecast interest-rate cuts in Australia and India in 2023, for example, and believe that even the Bank of Japan (that country's central bank) will take steps this year to begin normalising its ultra-accommodative policy settings. An environment of higher borrowing costs will encourage households and businesses to deleverage and to be more selective in their spending and investment decisions. We forecast that there will be reductions in interest rates in 2024, but these will be only moderate in scope.

A more stable outlook for exchange rates, with downside risks

Changes in the monetary policy environment will help to underpin confidence in local currencies. The conclusion of the Fed's rate increases in mid-2023 will end the scope for further major adjustments in interest-rate differentials across markets. This will be supportive of Asian currency valuations, after significant depreciations across the region in 2022 (averaging 8% in nominal terms), driven by expectations of Fed tightening.

Moderating import bills will also help to stabilise exchange rates. High prices for imported energy weighed on the trade balances of many Asian economies in 2022. The easing in prices for crude oil and natural gas that we forecast will help to reverse this trend, supporting demand for local currencies, even if the challenging outlook for exports is likely to prove an offsetting factor. Japan's narrowing trade deficit will contribute to an expected strengthening in the value of the Japanese yen against the US dollar this year, after its slump last year.

Volatile markets will remain exceptions to greater exchange-rate stability. Significant currency depreciation is still expected in Pakistan, for example, as the country undergoes ongoing economic strife and political uncertainty. Sustained global financial instability is one of the principal risks that could lead to a return of downward pressure across a wider number of Asian currencies, as capital departs from emerging markets in search of safe-haven assets.

Inflation

Inflation

(% change unless otherwise indicated)

	2022	2023	2024	2025	2026	2027
Consumer price inflation (%)						
World	9.2	7.1	4.8	3.6	3.4	3.2
Asia & Australasia	4.3	3.6	2.8	2.4	2.4	2.4
Australasia	6.6	4.1	1.9	2.1	2.0	1.8
ASEAN	5.1	3.8	2.1	2.1	2.7	2.7
South Asia	9.2	6.7	5.2	4.7	4.4	4.7
Export price inflation (%)						
Manufactures	-2.2	5.3	4.2	3.3	2.3	2.1
Commodities						
World oil price (Brent; US$/b)	99.8	80.8	76.7	72.8	70.3	66.9
World non-oil commodities (US$)	14.6	-11.0	-1.1	-0.1	-0.4	-0.4
Food, feedstuffs, beverages	21.9	-10.6	-4.8	-3.6	-1.1	-1.0
Industrial raw materials	4.6	-11.6	4.8	4.9	0.4	0.4

Business environment rankings

Business environment rankings

	2018-22 Total score (out of 10)	Global rank (out of 82)	2023-27 Total score (out of 10)	Global rank (out of 82)	Change in total score	Change in rank
Australia	8.03	13	8.03	12	0.00	1
Bangladesh	4.69	70	5.17	70	0.47	0
China	5.81	55	5.98	57	0.17	-2
Hong Kong	8.15	10	8.25	7	0.10	3
India	5.29	63	6.29	50	1.00	13
Indonesia	5.39	60	5.96	58	0.57	2
Japan	7.50	23	7.63	24	0.13	-1
Malaysia	7.25	27	7.47	26	0.22	1
New Zealand	8.12	12	8.21	9	0.10	3
Pakistan	4.60	73	4.33	76	-0.27	-3
Philippines	5.66	56	6.12	55	0.46	1
Singapore	8.58	1	8.70	1	0.12	0
South Korea	7.35	26	7.73	20	0.37	6
Sri Lanka	5.01	67	4.96	71	-0.05	-4
Taiwan	7.64	18	7.80	17	0.16	1
Thailand	6.51	39	7.18	33	0.67	6
Vietnam	5.82	54	6.58	45	0.76	9

Source: EIU.

EIU's business environment rankings seek to measure the quality and attractiveness of the business environment and its key components in 82 of the world's largest economies, including 17 from Asia. The quantitative assessment of the business environment—based on opportunities for and hindrances to the conduct of business—enables a country to be ranked on its overall position and in each of the categories, on both a global and a regional basis. The model ranks countries according to investment conditions in the past five years (2018-22) and our forecast of how business conditions will evolve in the next five years (2023-27). This allows us to use the regularity, depth and detail of our forecasting to generate a unique set of forward-looking business environment rankings on a regional and global basis.

Asia and Australasia remains mid-ranked globally because of regional disparities

Based on our rankings for 2023-27, the business environment will continue to be more favourable in Asia than in Eastern Europe, Latin America and the Middle East and Africa. However, its score remains behind those of North America and Western Europe. There are wide gaps between the global rankings of Asia's top three countries (Singapore, Hong Kong and New Zealand) and its worst performers (Pakistan and Sri Lanka). These reflect the widely varying levels of economic development and political stability in these countries.

Overall regional scores

	2018-22 Total score	2023-27 Total score
	(out of 10)	(out of 10)
North America	8.2	8.4
Western Europe	7.6	7.6
Eastern Europe	6.2	6.4
Asia & Australasia	6.6	6.8
Latin America	5.4	5.8
Middle East & Africa	5.3	5.7
World average	**6.6**	**6.5**

Source: EIU.

Asia's ranking improves, owing to FTAs

Singapore will retain the world's best business environment in the forecast period, with Hong Kong, New Zealand, Australia and Taiwan also ranking in the global top 20. As a region, Asia's score for *policy towards foreign trade* is improving. This partly reflects the impact of free-trade agreements (FTAs) adopted in the past five years, the effects of which will be felt in our five-year forecast period (2023-27).

India and Vietnam achieve best absolute improvements

The countries whose ranking improves the most compared to before the pandemic are India, Thailand and Vietnam. India rises by 13 places in the latest ranking, while Vietnam improves by nine places and Thailand moves to 33rd position. All three counties are benefiting from firms pursuing a "China+1" policy of having supply chains in China and another Asian market at a time of heightened US-China tensions. In terms of absolute improvements in score, India and Vietnam are the front-runners. India's huge population represents substantial market opportunities as well as a large labour force. A common thread in their success is reforms to increase labour-market flexibility and improve infrastructure quality through public investment and reduced bureaucratic barriers.

Security focus of economic policy weighs on China's score

China falls by two places to 57th in our latest rankings. The country's pivot away from zero-covid policies has reduced an important source of uncertainty for business. Its score, however, remains weighed down by regulatory developments that, through their focus on building greater economic security and supply chains, are likely to cause challenges for business, especially foreign enterprises. Many of these developments are tied to the worsening in China's relations with the US.

Definitions

The subregions

The forecast summary table is constructed using figures for those countries where the Economist Intelligence Unit provides five-year forecasts

Asia and Australasia

Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam

Asia and Australasia (excl Japan)

Australia, Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, New Zealand, Pakistan, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam

Australasia

Australia, New Zealand

ASEAN

Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam

Greater China

China, Hong Kong, Taiwan

South Asia

Bangladesh, India, Pakistan, Sri Lanka

Data summary

Asia-Pacific

Asia-Pacific[a]

	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]	2023[c]	2024[c]	2025[c]	2026[c]	2027[c]
Economic growth (market exchange rates; %)										
GDP	4.5	3.5	-1.3	6.2	3.2	4.2	3.9	3.6	3.6	3.5
Private consumption	4.5	3.5	-3.8	6.5	4.6	5.5	3.9	3.8	3.8	3.8
Government consumption	5.2	4.3	3.1	4.3	3.9	3.8	3.5	3.2	3.1	3.1
Gross investment	5.6	1.5	-0.8	4.8	2.6	3.3	4.2	3.8	3.6	3.8
Exports of goods & services[d]	5.4	0.4	-4.3	13.3	2.2	2.4	4.4	4.0	4.1	4.2
Imports of goods & services[d]	6.0	-0.6	-5.8	11.3	4.2	3.0	4.3	4.4	4.3	4.3
Domestic demand	5.0	2.9	-1.7	5.5	3.8	4.5	3.9	3.7	3.6	3.7
GDP growth per head	3.6	2.7	-2.1	5.4	2.6	3.6	3.2	3.0	3.1	3.0
Economic growth (PPP weights; %)										
GDP	5.4	4.3	-1.2	6.9	3.8	4.9	4.5	4.2	4.3	4.1
Population, income and market size										
Population (m)	4,159	4,192	4,224	4,253	4,274	4,298	4,329	4,356	4,380	4,403
GDP (US$ bn at market exchange rates)	29,935	30,717	30,804	35,125	35,035	37,003	40,491	43,375	45,965	48,536
GDP per head (US$ at market exchange rates)	7,198	7,328	7,293	8,259	8,197	8,608	9,353	9,958	10,495	11,023
Private consumption (US$ bn)	14,317	14,799	14,469	16,311	16,295	17,561	19,203	20,590	21,859	23,134
Private consumption per head (US$)	3,443	3,531	3,426	3,836	3,813	4,085	4,436	4,727	4,991	5,254
GDP (US$ bn at PPP)	52,320	55,587	55,902	61,585	68,381	74,815	79,834	84,844	90,309	96,187
GDP per head (US$ at PPP)	12,581	13,262	13,235	14,481	16,000	17,405	18,441	19,478	20,621	21,846
Price inflation (%)										
Consumer prices (av)	2.4	2.5	2.5	2.1	4.3	3.6	2.8	2.4	2.4	2.4
The labour market										
Labour force (m)	1,862	1,893	1,890	1,907	1,920	1,936	1,955	1,968	1,980	2,001
Current account (US$ bn)										
Current-account balance	294.9	483.4	769.5	830.0	620.2	790.5	803.1	854.5	934.0	960.2
Current-account balance (% of GDP)	1.0	1.6	2.5	2.4	1.8	2.1	2.0	2.0	2.0	2.0
Trade balance	389.1	452.3	773.0	756.2	587.7	575.1	663.0	777.0	833.7	891.0
Services balance	-167.7	-121.5	-117.0	-50.2	-20.2	36.5	47.8	51.4	59.7	40.2
Income balance	-62.8	-10.2	-49.8	-57.3	-150.4	-38.5	-133.4	-205.9	-207.3	-235.3
Current transfers balance	134.0	160.0	163.0	180.5	202.8	217.3	225.8	231.9	247.8	264.4
Memorandum items										
Share of world population (%)	55.0	55.0	54.9	54.8	54.6	54.9	55.3	55.7	54.2	54.1
Share of world GDP (% at market exchange rates)	35.0	35.4	36.5	36.8	35.3	35.2	36.2	36.7	36.9	37.1
Share of world GDP (% at PPP)	40.8	41.3	42.1	42.2	42.4	43.3	44.0	44.4	44.9	45.3
Share of world exports (%)[d]	36.1	36.2	38.5	38.6	36.7	37.4	38.4	39.1	39.7	40.3

[a] Comprises Australia, Bangladesh, Cambodia, China, Hong Kong, Indonesia, India, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Pakistan, Papua New Guinea, Singapore, South Korea, Sri Lanka, Thailand, Taiwan and Vietnam. [b] EIU estimates. [c] EIUt forecasts. [d] Includes intra-regional trade.

Oceania

Oceania[a]

	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]	2023[c]	2024[c]	2025[c]	2026[c]	2027[c]
Economic growth (market exchange rates; %)										
GDP	2.9	2.1	-1.7	5.2	3.5	1.6	2.6	1.8	1.7	2.2
Private consumption	2.7	1.4	-5.3	5.3	6.1	1.9	2.0	2.1	1.7	2.4
Government consumption	4.0	6.0	7.6	5.6	5.1	2.9	2.3	2.0	2.3	2.3
Gross investment	3.2	-3.1	-3.5	13.0	2.9	0.1	3.2	1.6	2.7	2.3
Exports of goods & services[d]	4.7	3.2	-9.9	-2.0	3.0	3.7	3.7	2.2	2.3	2.5
Imports of goods & services[d]	4.7	-0.5	-13.1	6.7	10.9	2.6	3.1	3.3	4.0	3.4
Domestic demand	3.1	1.2	-2.2	7.2	5.1	1.7	2.4	2.0	2.0	2.4
GDP growth per head	1.1	0.3	-3.2	3.9	2.3	0.7	1.3	0.6	0.7	1.2
Economic growth (PPP weights; %)										
GDP	2.9	2.2	-1.7	5.2	3.5	1.6	2.6	1.9	1.8	2.3
Population, income and market size										
Population (m)	39.1	39.9	40.5	41.0	41.5	41.9	42.4	42.9	43.3	43.8
GDP (US$ bn at market exchange rates)	1,650	1,621	1,595	1,922	1,976	2,105	2,132	2,298	2,337	2,351
GDP per head (US$ at market exchange rates)	42,156	40,664	39,402	46,869	47,609	50,299	50,289	53,558	53,913	53,719
Private consumption (US$ bn)	905	871	826	965	992	1,090	1,104	1,191	1,207	1,214
Private consumption per head (US$)	23,125	21,841	20,415	23,526	23,901	26,029	26,036	27,750	27,856	27,733
GDP (US$ bn at PPP)	1,531	1,611	1,623	1,793	1,978	2,085	2,176	2,259	2,346	2,453
GDP per head (US$ at PPP)	39,103	40,416	40,091	43,721	47,671	49,813	51,330	52,642	54,121	56,054
Price inflation (%)										
Consumer prices (av)	1.9	1.7	1.0	3.0	6.6	4.1	1.9	2.1	2.0	1.8
The labour market										
Labour force (m)	18.9	19.3	19.4	19.7	20.2	20.4	20.8	21.2	21.4	21.7
Current account (US$ bn)										
Current-account balance	-34.7	5.7	35.5	42.2	1.4	13.2	28.2	28.4	17.9	10.7
Current-account balance (% of GDP)	-2.1	0.4	2.2	2.2	0.1	0.6	1.3	1.2	0.8	0.5
Trade balance	24.3	53.1	48.4	92.1	117.2	117.0	117.9	118.6	110.2	102.5
Services balance	-3.1	0.7	9.5	-2.3	-28.2	-18.4	-11.4	-5.6	-4.8	-1.4
Income balance	-55.1	-47.7	-20.8	-45.2	-84.7	-82.6	-75.2	-81.5	-84.5	-87.6
Current transfers balance	-0.8	-0.5	-1.5	-2.4	-2.9	-2.9	-3.1	-3.1	-3.0	-2.8
Memorandum items										
Share of world population (%)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Share of world GDP (% at market exchange rates)	1.9	1.9	1.9	2.0	2.0	2.0	1.9	1.9	1.9	1.8
Share of world GDP (% at PPP)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Share of world exports (%)[d]	1.6	1.8	1.8	1.9	2.0	2.0	2.0	1.9	1.9	1.9
External debt										
Total external debt (US$ bn)	1,716	1,819	2,098	1,897	1,730	1,729	1,713	1,699	1,696	1,687
Total external debt (% of GDP)	104.0	112.2	131.5	98.7	87.6	82.1	80.3	73.9	72.6	71.8
Debt-service ratio, paid (%)	–	–	–	–	–	–	–	–	–	–

[a] Comprises Australia, New Zealand and Papua New Guinea. [b] EIU estimates. [c] EIU forecasts. [d] Includes intra-regional trade.

ASEAN

ASEAN[a]

	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]	2023[c]	2024[c]	2025[c]	2026[c]	2027[c]
Economic growth (market exchange rates; %)										
GDP	5.2	4.4	-4.1	3.9	5.6	4.2	4.7	4.9	4.8	4.7
Private consumption	5.5	5.5	-4.4	2.2	7.0	4.5	5.1	5.1	4.7	4.8
Government consumption	4.9	3.7	4.0	4.6	0.0	3.7	3.9	3.7	3.6	3.5
Gross investment	7.2	1.4	-9.7	7.2	5.5	2.7	4.8	6.1	5.7	5.6
Exports of goods & services[d]	7.1	0.5	-6.5	12.7	7.0	2.9	5.0	5.0	4.7	4.7
Imports of goods & services[d]	8.6	-0.5	-8.6	14.7	7.0	3.0	5.4	5.5	4.7	5.0
Domestic demand	6.0	4.0	-5.1	4.0	5.7	3.9	4.9	5.2	4.9	4.9
GDP growth per head	4.1	3.4	-5.0	3.1	4.7	3.4	3.8	4.1	4.0	4.0
Economic growth (PPP weights; %)										
GDP	5.3	4.6	-4.1	3.7	5.6	4.4	4.9	5.1	4.9	4.9
Population, income and market size										
Population (m)	644.3	650.5	656.6	662.1	668.0	673.7	679.4	684.9	690.3	695.5
GDP (US$ bn at market exchange rates)	3,033	3,217	3,049	3,346	3,594	3,869	4,180	4,452	4,728	5,060
GDP per head (US$ at market exchange rates)	4,708	4,945	4,644	5,053	5,380	5,743	6,152	6,500	6,850	7,275
Private consumption (US$ bn)	1,661	1,796	1,732	1,821	1,933	2,091	2,261	2,422	2,579	2,765
Private consumption per head (US$)	2,577	2,761	2,638	2,751	2,893	3,103	3,329	3,537	3,736	3,976
GDP (US$ bn at PPP)	8,070	8,593	8,354	9,059	10,204	11,052	11,791	12,627	13,516	14,493
GDP per head (US$ at PPP)	12,525	13,210	12,724	5,053	5,380	5,743	6,152	6,500	6,850	7,275
Price inflation (%)										
Consumer prices (av)	2.8	2.2	1.2	2.1	5.1	3.8	2.1	2.1	2.7	2.7
The labour market										
Labour force (m)	321.5	324.5	327.3	332.5	339.5	341.1	344.9	348.1	351.1	353.4
Current account (US$ bn)										
Current-account balance	56.7	87.7	114.0	60.0	68.1	107.2	105.9	111.0	124.6	139.2
Current-account balance (% of GDP)	1.9	2.7	3.7	1.8	1.9	2.8	2.5	2.5	2.6	2.8
Trade balance	110.6	120.3	201.7	196.2	193.7	189.2	174.9	169.6	173.4	180.8
Services balance	30.0	43.9	-28.9	-40.8	-22.2	16.4	30.2	37.4	46.3	54.1
Income balance	-127.9	-120.5	-107.5	-145.4	-152.0	-150.4	-152.7	-151.0	-149.3	-150.1
Current transfers balance	44.0	44.1	48.6	50.1	48.7	52.0	53.5	55.0	54.3	54.4
Memorandum items										
Share of world population (%)	8.5	8.5	8.5	8.5	8.5	8.6	8.7	8.8	8.5	8.5
Share of world GDP (% at market exchange rates)	3.6	3.7	3.6	3.5	3.6	3.7	3.7	3.8	3.8	3.9
Share of world GDP (% at PPP)	6.3	6.4	6.3	6.2	6.3	6.4	6.5	6.6	6.7	6.8
Share of world exports (%)[d]	7.5	7.6	7.9	7.7	8.1	8.0	8.0	8.1	8.3	8.5
External debt										
Total external debt (US$ bn)	1,620	1,750	1,903	1,954	1,989	2,030	2,092	2,145	2,202	2,266
Total external debt (% of GDP)	53.4	54.4	62.4	58.4	55.4	52.5	50.0	48.2	46.6	44.8
Debt-service ratio, paid (%)	8.4	10.2	9.8	9.9	9.0	9.9	9.7	8.9	8.3	7.8

[a] Association of South-East Asian Nations; comprises Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. [b] EIU estimates. [c] EIU forecasts. [d] Includes intra-regional trade.

South Asia

South Asia[a]

	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]	2023[c]	2024[c]	2025[c]	2026[c]	2027[c]
Economic growth (market exchange rates; %)										
GDP	6.4	3.8	-5.0	8.7	6.5	5.6	6.1	6.3	6.5	6.0
Private consumption	7.2	5.2	-4.6	10.1	11.2	7.4	6.2	6.7	6.7	7.1
Government consumption	6.2	3.3	1.1	4.6	2.7	5.8	3.7	3.5	3.2	3.4
Gross investment	11.5	-1.9	-9.2	16.2	8.4	7.6	7.1	5.0	5.4	6.2
Exports of goods & services[d]	11.4	-1.8	-9.8	25.5	10.0	7.3	9.0	9.5	7.8	9.5
Imports of goods & services[d]	9.8	-0.2	-13.1	23.2	22.1	10.5	9.1	8.2	8.3	7.6
Domestic demand	8.4	2.7	-5.5	11.3	9.5	7.3	6.2	5.9	6.0	6.5
GDP growth per head	5.1	2.7	-6.0	7.7	5.6	4.5	5.0	5.2	5.5	4.9
Economic growth (PPP weights; %)										
GDP	6.4	3.8	-5.0	8.7	6.5	5.5	6.0	6.3	6.5	6.0
Population, income and market size										
Population (m)	1,774	1,794	1,813	1,830	1,846	1,864	1,884	1,903	1,922	1,941
GDP (US$ bn at market exchange rates)	3,475	3,592	3,425	4,011	4,212	4,434	4,754	5,132	5,483	5,886
GDP per head (US$ at market exchange rates)	1,959	2,003	1,890	2,192	2,282	2,378	2,524	2,696	2,853	3,032
Private consumption (US$ bn)	2,167	2,283	2,183	2,552	2,755	2,943	3,147	3,399	3,674	4,017
Private consumption per head (US$)	1,221	1,273	1,205	1,394	1,492	1,579	1,670	1,786	1,912	2,069
GDP (US$ bn at PPP)	11,345	11,985	11,551	13,099	14,869	16,271	17,549	19,011	20,648	22,369
GDP per head (US$ at PPP)	6,395	6,682	6,372	7,157	8,056	8,727	9,316	9,989	10,744	11,522
Price inflation (%)										
Consumer prices (av)	4.2	4.5	6.8	5.7	9.2	6.7	5.2	4.7	4.4	4.7
The labour market										
Labour force (m)	621.5	636.0	608.8	627.7	656.3	678.6	691.4	704.2	716.8	731.4
Current account (US$ bn)										
Current-account balance	-94.4	-43.1	32.1	-64.8	-131.9	-90.3	-61.6	-54.6	-52.7	-51.2
Current-account balance (% of GDP)	-2.7	-1.2	0.9	-1.6	-3.1	-2.0	-1.3	-1.1	-1.0	-0.9
Trade balance	-246.2	-204.5	-140.0	-255.0	-352.1	-363.2	-358.4	-374.5	-381.2	-388.0
Services balance	74.6	79.3	83.4	97.6	119.8	149.7	163.9	183.6	196.0	205.2
Income balance	-39.3	-40.5	-42.0	-46.5	-48.4	-32.5	-31.8	-36.0	-47.3	-51.6
Current transfers balance	116.6	122.6	130.7	139.1	148.8	155.6	164.8	172.3	179.8	183.3
Memorandum items										
Share of world population (%)	23.5	23.5	23.6	23.6	23.6	23.8	24.1	24.3	23.8	23.9
Share of world GDP (% at market exchange rates)	4.1	4.1	4.1	4.2	4.2	4.2	4.2	4.3	4.4	4.5
Share of world GDP (% at PPP)	8.9	8.9	8.7	9.0	9.2	9.4	9.7	10.0	10.3	10.5
Share of world exports (%)[d]	2.1	2.2	2.0	2.2	2.3	2.3	2.4	2.5	2.6	2.6
External debt										
Total external debt (US$ bn)	730.3	787.3	810.6	891.3	905.5	947.1	980.3	1,004	1,031	1,061
Total external debt (% of GDP)	21.0	21.9	23.7	22.2	21.5	21.4	20.6	19.6	18.8	18.0
Debt-service ratio, paid (%)	10.3	9.4	13.3	7.8	9.6	9.5	9.4	7.2	6.3	5.9

[a] Comprises Bangladesh, India, Pakistan and Sri Lanka. [b] EIU estimates. [c] EIU forecasts. [d] Includes intra-regional trade.

Guide to the business rankings model

Outline of the model

The business rankings model measures the quality or attractiveness of the business environment in the 82 countries covered by *Country Forecast* using a standard analytical framework. It is designed to reflect the main criteria used by companies to formulate their global business strategies, and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years. This allows EIU to utilise the regularity, depth and detail of its forecasting work to generate a unique set of forward-looking business environment rankings on a regional and global basis.

The business rankings model examines 11 separate criteria or categories, covering the political environment, the macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, the labour market, infrastructure and technological readiness. Each category contains a number of indicators that are assessed by EIU for the last five years and the next five years. The number of indicators in each category varies from five (foreign trade and exchange regimes) to 13 (political environment), and there are 91 indicators in total.

Almost half of the indicators are based on quantitative data (eg GDP growth), and are mostly drawn from national and international statistical sources for the historical period (2018-22) and from EIU assessments for the forecast period (2023-27). The other indicators are qualitative in nature (eg quality of the financial regulatory system), and are drawn from a range of data sources and business surveys adjusted by EIU for 2018-22. All forecasts for the qualitative indicators covering 2023-27 are based on EIU assessments.

Sources used in the business rankings model include Akamai Technologies, *State of the Internet*; CIA, *World Factbook*; EIU, *Country Risk Service*, *Country Commerce*, *Democracy Index*, *Risk Briefing*; IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions*; International Institute for Management Development, *World Competitiveness Yearbook*; International Labour Organisation, *International Labour Statistics Yearbook*; International Telecommunication Union, *ICT Indicators Database*; Transparency International, *Corruption Perceptions Index*; UN Conference on Trade and Development, *Ecommerce Index*; World Bank, *World Development Indicators*, *Doing Business*; World Economic Forum, *Global Competitiveness Index*; World Intellectual Property Organisation, *IP Facts and Figures*.

Calculating the rankings

The rankings are calculated in several stages. First, each of the 91 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business). The aggregate category scores are derived on the basis of simple or weighted averages of the indicator scores within a given category. These are then adjusted, on the basis of a linear transformation, to produce index values on a 1-10 scale. An arithmetic average of the ten category index values is then calculated to yield the aggregate business environment score for each country, again on a 1-10 scale.

The use of equal weights for the categories to derive the overall score reflects in part the theoretical uncertainty about the relative importance of the primary determinants of investment. Surveys of foreign direct investors' intentions yield widely differing results on the relative importance of different factors. Weighted scores for individual categories based on correlation coefficients of recent foreign direct investment inflows do not in any case produce overall results that are significantly different from those derived from a system based on equal weights.

For most quantitative indicators the data are arrayed in ascending or descending order and split into five bands (quintiles). The countries falling in the first quintile are assigned scores of 5, those falling in the second quintile score 4 and so on. The cut-off points between bands are based on the average of the raw indicator values for the top and bottom countries in adjacent quintiles. The 2018-22 ranges are then used to derive 2023-27 scores. This allows for intertemporal as well as cross-country comparisons of the indicator and category scores.

Measurement and grading issues

The indices and rankings attempt to measure the average quality of the business environment over the entire historical or forecast period, not simply at the start or at the end of the period. Thus, in the forecast we assign an average grade to elements of the business environment over 2023-27, not to the likely situation in 2027 only.

The scores based on quantitative data are usually calculated on the basis of the numeric average for an indicator over the period. In some cases, the “average” is represented, as an approximation, by the recorded value at the mid-point of the period (2020 or 2025). In only a few cases is the relevant variable appropriately measured by the value at the start of the period (eg educational attainments). For one indicator (the natural resources endowment), the score remains constant for both the historical and forecast periods.

List of indicators in the business rankings model

Political environment
1. Risk of armed conflict
2. Risk of social unrest
3. Constitutional mechanisms for the orderly transfer of power
4. Government and opposition
5. Threat of politically motivated violence
6. International disputes or tensions
7. Government policy towards business
8. Effectiveness of political system in policy formulation and execution
9. Quality of the bureaucracy
10. Transparency and fairness of legal system
11. Efficiency of legal system
12. Corruption
13. Impact of crime

Macroeconomic environment
*1. Inflation
*2. Budget balance as % of GDP
*3. Government debt as % of GDP
*4. Exchange-rate volatility
*5. Current-account balance as % of GDP
6. Quality of policymaking
7. Institutional underpinnings
8. Asset prices

Market opportunities
*1. GDP, US$ bn at PPP
*2. GDP per head, US$ at PPP
*3. Real GDP growth
*4. Share of world merchandise trade
*5. Average annual rate of growth of exports
*6. Average annual rate of growth of imports
*7. The natural resource endowment
*8. Profitability
9. Regional integration
10. Proximity to markets

Policy towards private enterprise and competition
1. Degree to which private property rights are protected
2. Government regulation on setting up new private businesses
3. Freedom of existing businesses to compete
4. Promotion of competition
5. Protection of intellectual property
6. Price controls
7. Distortions arising from lobbying by special interest groups
8. Distortions arising from state ownership/control
9. Minority shareholders

Policy towards foreign investment
1. Government policy towards foreign capital
2. Openness of national culture to foreign influences
3. Risk of expropriation of foreign assets
4. Availability of investment protection schemes
5. Government favouritism

Foreign trade and exchange controls
1. Capital-account liberalisation
**2. Tariff and non-tariff protection
*3. Ease of trading
*4. Openness of trade
5. Restrictions on the current account

Taxes
**1. The corporate tax burden
*2. The top marginal personal income tax
*3. Value-added tax
*4. Employers' social security contributions
5. Degree to which fiscal regime encourages new investment
6. Consistency and fairness of the tax system
7. Tax complexity

Financing
1. Health and soundness of banking sector
*2. Stockmarket capitalisation
*3. Distortions in financial markets
4. Quality of the financial regulatory system
5. Access of foreigners to local capital market
6. Access to medium-term finance for investment

The labour market
*1. Labour costs adjusted for productivity
*2. Availability of skilled labour
3. Quality of workforce
4. Degree to which language skills meet business needs
*5. Health of the workforce
6. Level of technical skills
*7. Cost of living
*8. Incidence of strikes
9. Restrictiveness of labour laws
10. Extent of wage regulation
11. Hiring of foreign nationals

Infrastructure
*1. Mobile network coverage
*2. Broadband connection speed
*3. The infrastructure for retail and wholesale distribution
*4. Extent and quality of road network
*5. Extent and quality of rail network
*6. Quality of the ports' infrastructure
*7. Quality of air transport infrastructure
*8. Reliability of electricity supply
*9. Rents of office space

Technological readiness
*1. Patent applications
*2. Quality of e-commerce business environment
*3. Scope of e-government
*4. Cyber-security preparedness
*5. Internet use
*6. Mobile-phone subscriptions
*7. R&D as % of GDP
*8. Research infrastructure

Note. A single asterisk (*) denotes a purely quantitative indicator. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

