Asia Pacific: Regional Profile  
Economic Profile | December 2015

KEY POINTS

 Growth of the Asia Pacific region’s real GDP is expected to fall from the figure of 5.6% recorded in 2014 to 5.3% in 2015.
 China’s economy will continue to slow in 2015 when real GDP grows by 6.7%. Domestic demand and exports are the main drivers. Manufacturing and investment are struggling while the property market is under stress. Growth is the slowest in more than 20 years but this outcome can be viewed (in part) as a by-product of Beijing’s efforts to change its development strategy. In the second quarter of 2015, the economy grew by 7.0% from a year earlier.
 India’s real GDP should increase by 7.2% in 2015 – down slightly from 7.3% in 2014. Strong gains in private consumption are a major driver. New policy initiatives intended to alleviate structural bottlenecks should lead to a pickup in investment. A sharp drop in exports prevents even faster rates of growth.
 Japan’s economy will grow by just 0.5% in 2015 after a slight contraction in 2014. Gains in corporate profits and an improving labour market provide minimal support. Weaknesses in demand and limited progress in the implementation of much-needed pro-growth reforms are disappointments. Many Japanese analysts fear that without stronger action from the central bank the economy could slip into a technical recession in the third quarter as manufacturing output continues to fall.

FACTS
Regional Composition
The region is defined to consist of 46 countries. They include Afghanistan, American Samoa, Armenia, Azerbaijan, Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Japan, Kazakhstan, Kiribati, Kyrgyzstan, Laos, Macau, Malaysia, Maldives, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, North Korea, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, South Korea, Sri Lanka, Taiwan, Tajikistan, Thailand, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu, Vietnam and Western Samoa.

GOVERNMENT
Political Stability and Risks
Afghanistan’s present government has limited influence outside Kabul. The Taliban continues to control much of the region in the south of the country. In rural areas, opium production is one of the leading sources of employment. Approximately 13% of all households in the country are engaged in opium production. With China’s 56 officially-recognised ethnic groups, unrest of some minorities is becoming a serious problem. The government has implemented a sweeping crackdown of Uighurs suspected of involvement in riots and terrorist plots. Discontent among Han residents of Xingjian is also a concern.
In India income inequality is on the rise as the economy expands. The government estimates that a third of the electorate subsists on less than US$1 a day. As the middle class prospers, it becomes more urgent that authorities find ways to help the poor. Poverty rates have fallen, but large parts of the country, particularly in the north, have barely been touched by higher growth.

Japan's gross debt is too large and climbing. Without policy changes, the debt will continue to rise as the population ages.

In North Korea, famine has reportedly killed hundreds of thousands of people over the past decade. Most of Pakistan's tribal lands are now under the nominal control of the army and paramilitaries but strong resistance continues from local tribesmen, supported by jihadists. Sectarian strife is commonplace with frequent attacks on the minority Shias. Pakistan's three ethnically divided provinces, Sindh, Baluchistan and the North West Frontier, have long harboured secessionist movements.

Seoul fears that any breakdown in the tenuous nuclear agreement with North Korea could have a negative impact on investment and exacerbate the current slowdown in domestic demand.

ECONOMY

Economic Structure and Major Industries

Agriculture represents a relatively small part of the GDP in the region – around 7.5% - however it is an important industry for many of the rural population in some countries, for instance China and India. Manufacturing represents an impressive 27.9% part of the GDP of the Asia Pacific region. The main economies are the motor and consumer electronics industries of Japan and China. In China’s agriculture sector, rice is the main food crop, but tea, sugar and fibre crops are also important cash earners. China is also the world’s biggest producer and consumer of cotton. Farm output is expected to rise during this decade but looming water shortages could prove to be a serious bottleneck. Manufacturing accounts for 28.4% of GDP and employs 29.0% of the work force. China is the world’s largest car market. Car penetration in China is still modest, but sales have begun to slow. Passenger car sales are expected to rise by less than 2% in 2015 – a sharp drop over recent trends. Large amounts of excess capacity in other parts of the manufacturing sector mean that many firms are not profitable. Services make up 47.2% of GDP. The value of bank loans has swelled to nearly 140% of GDP and is even larger when the role of shadow banks is considered.

India’s agriculture sector employs 48.9% of the workforce. Progress is hindered by low levels of public investment, poorly maintained irrigation systems and inadequate roads. Less than one-third of all crop land is irrigated and most farming is at the subsistence level. Manufacturing accounts for 12.2% of GDP and employs 10.4% of the workforce. The textile industry provides work for up to 35 million and indirectly benefits more than twice that number. The industry, however, is extremely fragmented and inefficient. Services contribute 57.5% of India’s GDP. The real value of tourist receipts rose by 10.0% in 2014 and gains of 6.2% are expected in 2015. The banking system is rudimentary and small relative to the rest of the economy. Government-controlled banks are still responsible for a large amount of bad debt.

In Indonesia, agriculture employs 34.5% of the workforce. Indonesia is the world’s third largest producer of rice and the leading producer of palm oil. With more than 7.7 million hectares of unused farmland, the
country has considerable potential to raise farm output. Manufacturing accounts for 23.7% of GDP and employs 12.9% of the workforce. Foreign investors have launched several billion-dollar projects including a petroleum refinery and a large steel plant. Several different car makers have also made sizeable investments in recent years. The service sector accounts for 40.6% of GDP. A boom in utilities is mainly due to a government programme to switch to gas from more expensive fuels. The tourist industry has much potential but is underdeveloped.

The Japanese agricultural sector is small and slowly contracting. The sector employs 3.7% of the workforce. Efficiency is hampered by the small and scattered nature of farmlands and high input costs. Domestically produced food items are extremely expensive. Manufacturing contributes 17.7% of GDP. The sector presently employs 17.6% of the workforce but the number of workers has been steadily falling. Japan's largest manufacturing firms appear to be the worst affected by China’s recent slowdown. Their problems are a reflection of the relentless shift of manufacturers to cheaper production sites and growing markets elsewhere in Asia. The tourist sector is benefiting from a cheaper yen. The real value of tourist receipts rose by 29.4% in 2014 and growth of 4.7% is forecast for 2015. Bank lending is near a four-year high, suggesting that the central bank's monetary stimulus is encouraging consumer spending and investors.

South Korea's agriculture sector employs 5.7% of the workforce. The amount of land available to farmers has steadily declined over the past two decades. Farmers nonetheless enjoy a very high level of protection and government support. Manufacturing represents 30.0% of GDP and employs 17.4% of all workers. The sector relies upon a number of large, family-owned conglomerates known as chaebol. These firms account for 85% of GDP, although they employ only 13% of the workforce. The service sector makes up 58.7% of GDP. The sector is excessively protected and productivity is very low – about half the average in manufacturing. Seoul continues to exert widespread influence over the banking system.

**Evaluation of Market Potential**

Beijing’s major challenge is to accelerate the transition from an investment- and export-led economy to one driven by consumer demand. The goal is to make China’s economy more reliant on services and consumption but more reforms are still needed. The engine for much of this additional consumption is China’s emerging middle class, which is expected to exceed 600 million in the first few years of the next decade.

India’s pace of growth will gradually slow, falling to about 6.6% per year by the end of the decade. The government plan to promote a “made in India” programme acknowledges development of the manufacturing sector is a major goal. At just 12% of GDP, the sector is less than half the size of China’s. No poor Asian country has risen to middle-income status with such a modest manufacturing sector. New policies to facilitate the transfer of labour and resources to the manufacturing sector are needed.

Indonesia’s economy is in a state of transition, with future growth likely to depend less on the primary sector and consumer spending, and more on processing and manufacturing industries as well as services. Annual growth of real GDP is expected to be around 5.5% in the medium term. The IMF predicts that Indonesia will be the world’s fifth largest economy by 2030.
Japanese real GDP should rise by 1.2% in 2016 but the pace will gradually decelerate in later years, falling to around 1.0% by the end of the decade. Small gains in corporate and household income should offer some support. The recent conclusion of the Trans-Pacific Partnership (TPP) trade agreement should provide an additional boost to the economy. The potential rate of growth is estimated to be 1.6%. To raise this measure officials are working to increase the labour supply and further deregulate agriculture and services.

Boosted by an uptick in consumption and investment, growth of South Korea’s real GDP should reach 3.0% by 2017 before gradually falling to about 2.5% in 2020. A rise in investment is a high priority in order to increase productivity growth. A new fiscal stimulus equal to 1.4% of GDP that was announced in 2015 should spur growth in the next few years.

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