

# OUTLOOK 2022

From Recovery to Reinvention

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# Our goal for today's event

For you to understand the recovery and reinvention of the APAC business environment, and to be able to incorporate the relevant macroeconomic, geopolitical, technology, and demographic trends into your planning

# Today's agenda

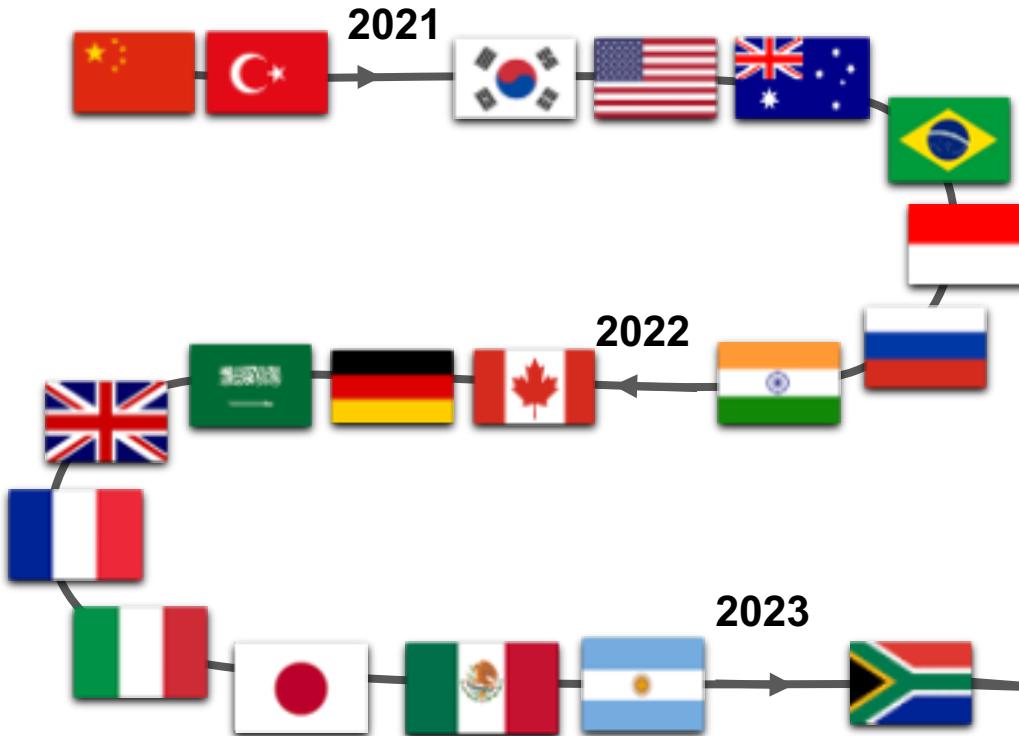
- Global factors affecting Asia
- Regional trends
- Q&A



# Global factors affecting Asia

# Road to recovery is long but getting shorter!

Most G20 countries get back to their Q4 2019 level of GDP this year or next



## Factors that will affect recovery:

- Different levels of risk aversion, and public / political tolerance for uncertainty
- Timing of initial and subsequent lockdown measures
- Fiscal space and commitment, monetary policy flexibility
- Sectoral composition and export market exposure

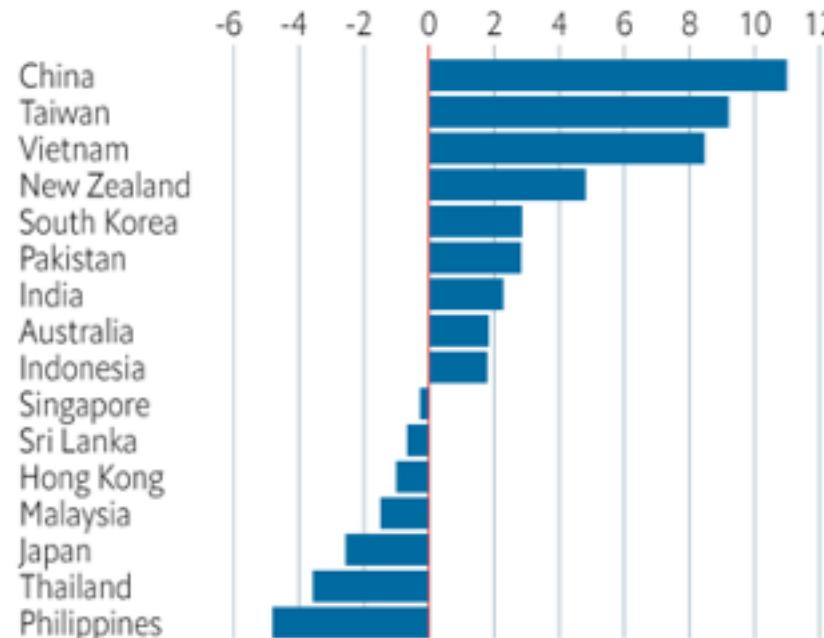
## “Seeing through” the vaccine rollouts

Businesses moving forward with investments and hiring, but remain flexible to changing scenarios

# Mixed prospects for individual economies

Positive forecast for region hides market-level idiosyncrasies

**Asia: Real GDP growth, 2019Q4 to 2021Q4**  
(% change)



Most markets that faced GDP losses last year will not recover until at least 2022

Logistics strains and elevated freight costs will impact profits

Remittances dropped sharply in 2020 and are only recovering slowly

Electronics and healthcare demand remain strong amid ongoing global chip shortage

Service- and tourism-focused economies (such as Thailand and the Philippines) remain vulnerable to a slow vaccine rollout

Source: The Economist Intelligence Unit.

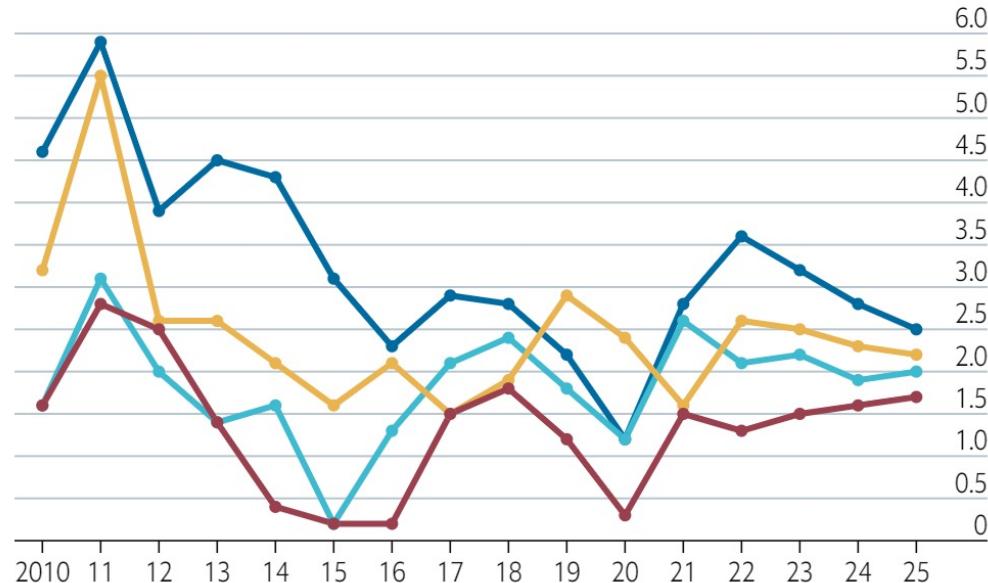
# Surge in inflation unlikely: enough spare capacity

Inflation spike from recovering demand in 2021, but we see this as temporary

## ASEAN economies face divided inflation concerns

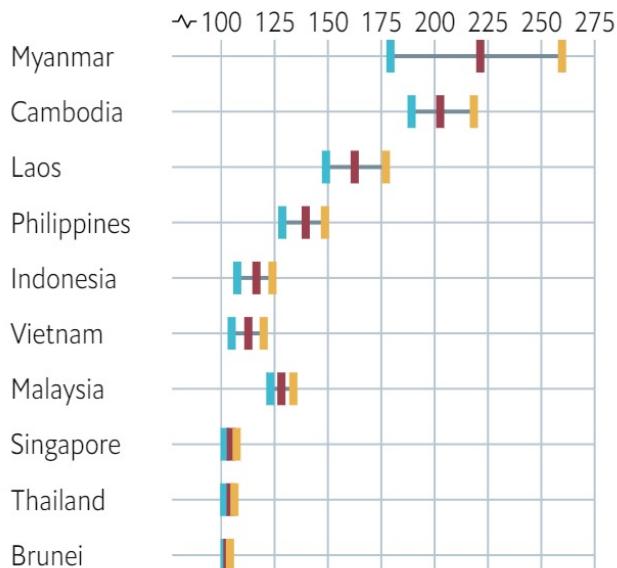
(Consumer price index, average % change p.a.)

— ASEAN — North America — China — Euro Area



(Consumer price index, 2010=100)

2021 2023 2025



Source: The Economist Intelligence Unit.

# Tech in the post pandemic world

How has the pandemic reshaped digitalisation, and will it stick?

Will digital payments, online retail and fintech trends stick as we emerge from the pandemic?

## Consumer demands are increasing

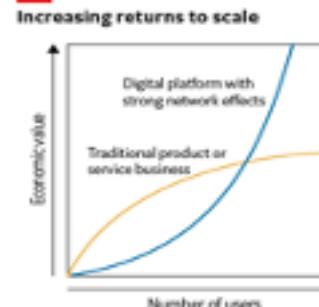
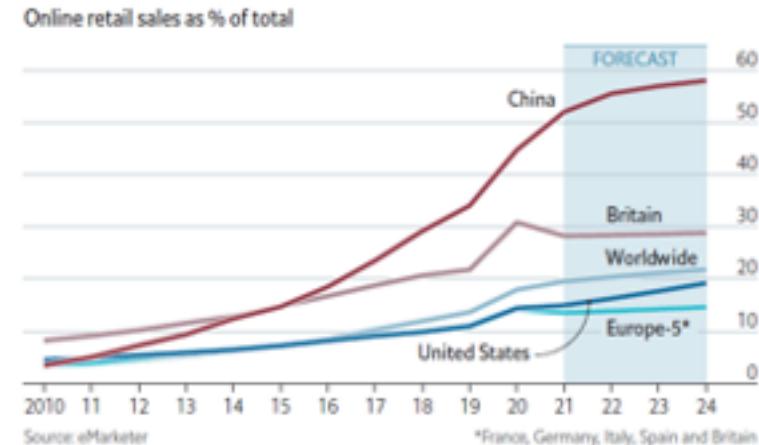
Use of online services is now commonplace, habit forming and will remain - cannot take away the benefits that consumers have enjoyed so far

## Investments have already been made

Falling cost of technology and rollout of 5G are avenues for further digital growth that are already being built

Affordable devices, more digital/e-commerce activity and new services/platforms add to economies of scale

Companies need a tech audit to understand biggest gaps in infrastructure, skills and platforms before committing



# Across generations

~60% of customers will maintain new digital habits

I will maintain some of my new online shopping habits even after the pandemic ends

**66%** Millennials

**61%** Gen Z

**60%** Gen X

**55%** Baby Boomers

"The dramatic growth seen over the last six months may be unsustainable, of course, but it looks highly likely that people who have been forced into online shopping for the first time...are unlikely to return to previous habits."

Jonathan Myers, CEO, PZ Cussons



# Digital transformation in finance sector

## A fintech financing boom

### Late to the party

Finance, like health care, has been slower to engage in digital transformation

Banking-as-a-service interest is high

Compliance concerns, cybersecurity, and organisational cultures have slowed adoption

“People will always need banking; they may not always need banks.”

### Funding is moving into fintech

Q2 2021 saw \$34bn venture capital funding

VC's have sold \$70bn in stakes in fintech startups in 2021, nearly twice as much as 2020

Wealth-tech and insure-tech picking up



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# Regional trends

# Emerging market growth

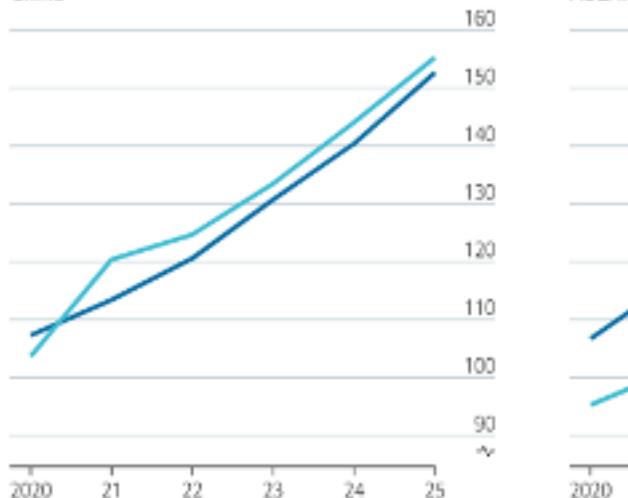
Covid-19 has raised China's growth path, but cut that of ASEAN

## Emerging markets face differing growth impact from the pandemic

Nominal GDP levels (US\$, 2020=100)

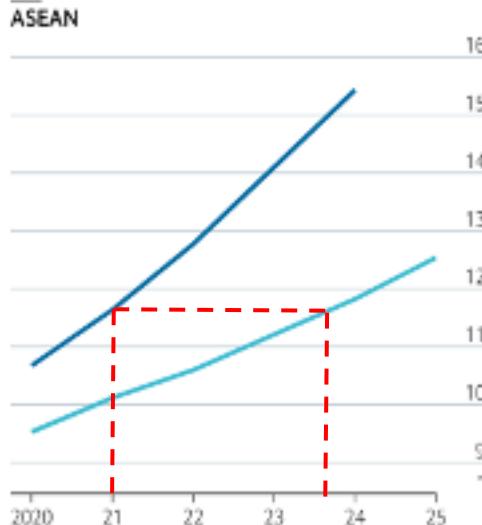
Pre-Covid forecasts (Jan 2020) Current forecasts (Aug 2021)

China



Source: The Economist Intelligence Unit.

Pandemic goods demand, strong RMB, front-loaded coal use, and strategic iron ore diversification will drive faster 2022-25 growth



ASEAN faces 2+ years of lost growth, as tourism collapses and lockdowns extend

## Past convergence

EMs had the advantage of tech transfer and large manpower base to attract investment

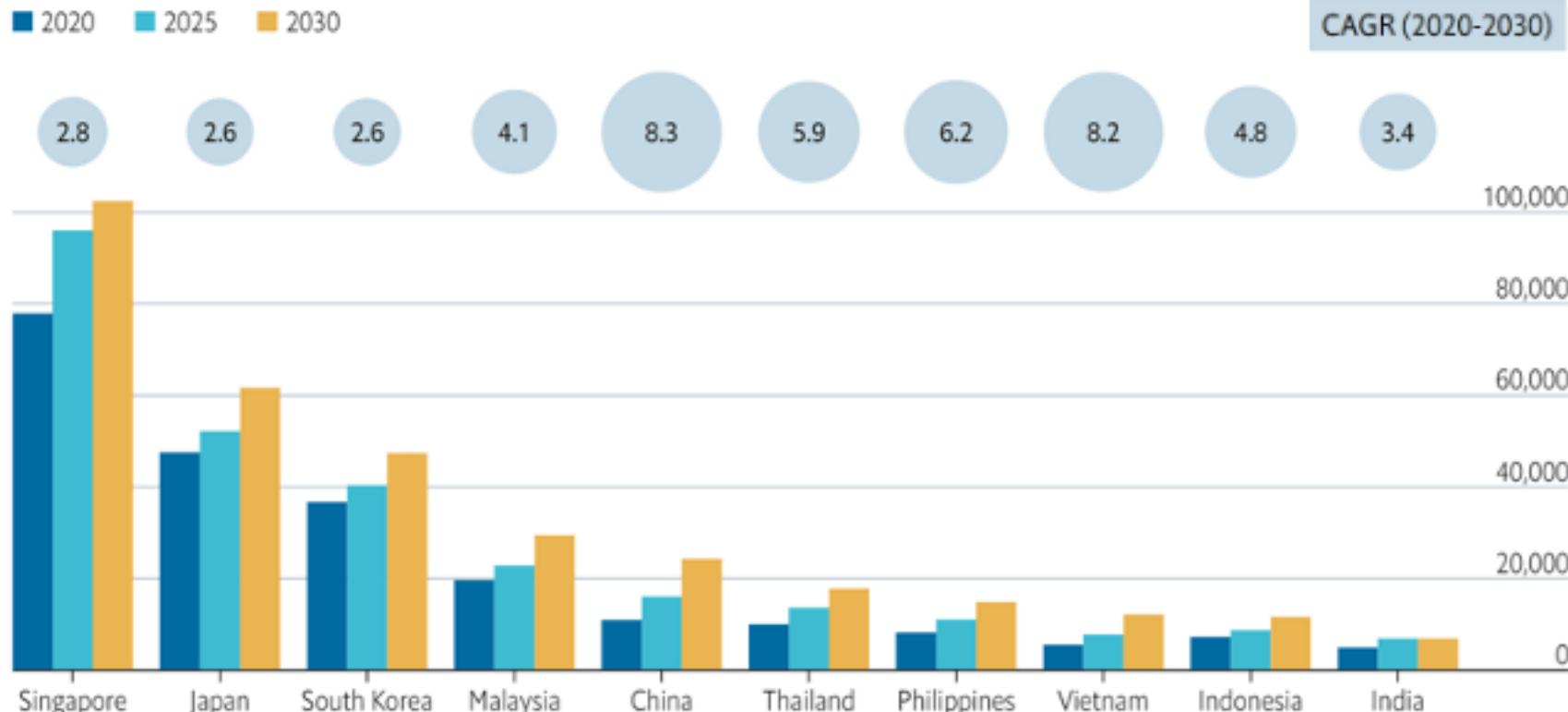
## Return to wealthier markets

Geopolitics, automation and the search for supply-chain reliability may shift investments back to rich-world countries

Many EMs lack infrastructure and skills to participate in post-Covid growth trends

## Chinese, Vietnamese households will experience the highest income growth

Median nominal disposable income earned by households p.a., US\$



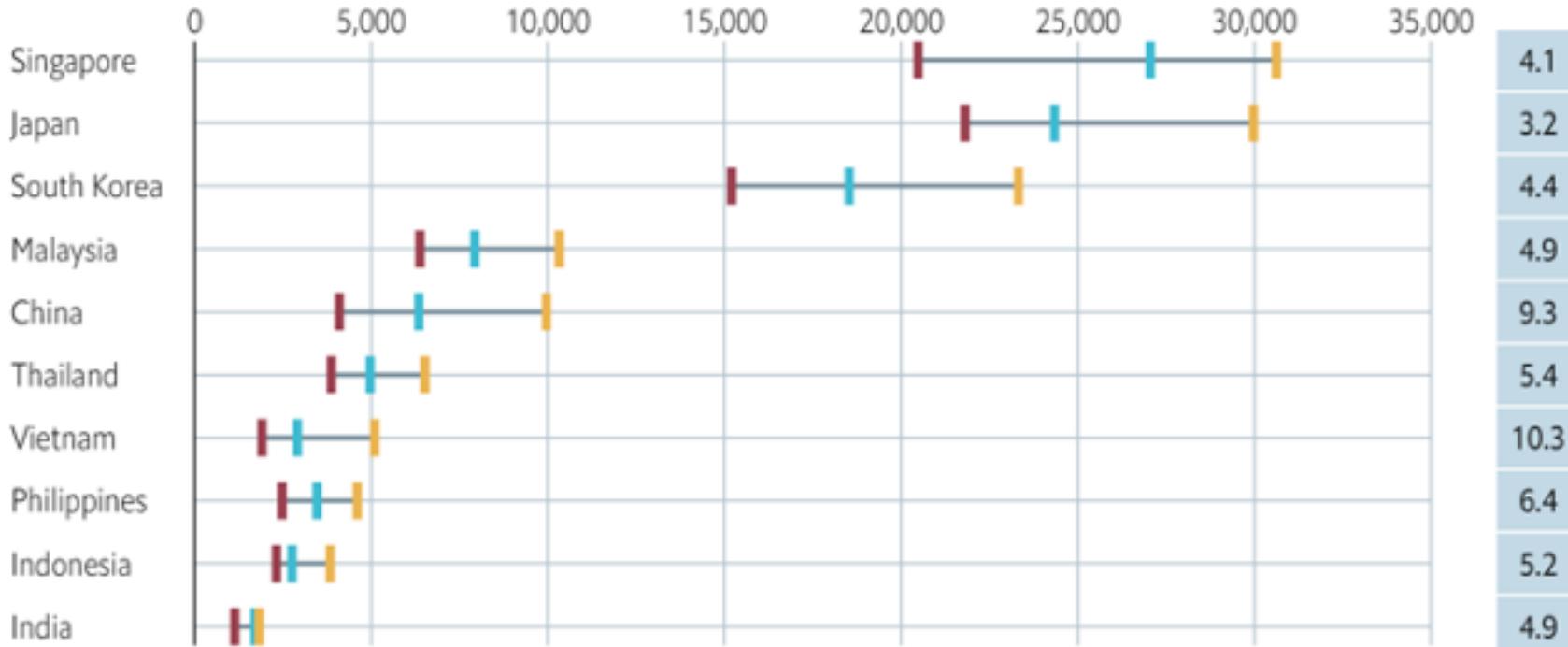
Source: The Economist Intelligence Unit.

## Private consumption will have the highest growth rate in Vietnam

Private consumption per head (US\$)

■ 2020   ■ 2025   ■ 2030

CAGR (2020-2030)



Source: The Economist Intelligence Unit.

# Insurance: Five-year forecast

Return to growth in 2021, but tied to pace and nature of economic recovery

## Progress of vaccinations and control of Covid-19 will guide economic recovery

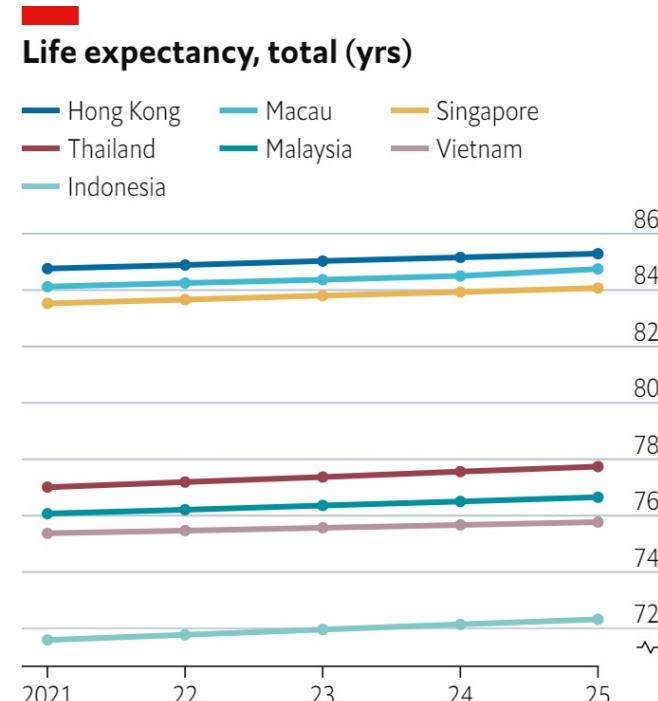
- Increased economic security will spur a return to protection and savings products
- Increase in projects, properties and durable goods will drive damage and liability coverage

## Populations are changing in Asia

- Weak state coverage will spur aging citizens to turn to private providers
- Rising middle class will drive home and vehicle ownership (which come with mandatory coverage)

## EMs are increasingly attracting interest

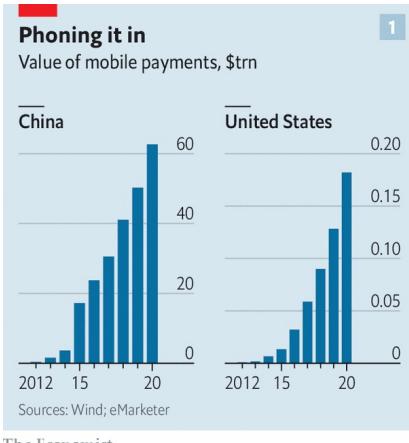
Western firms (Allianz, AXA, Metlife, Prudential PLC) are expanding operations through acquisitions and organic growth, or raise capital and enhance positions in EMs through IPOs



Source: The Economist Intelligence Unit.

# Digital payments

## Buying with bytes



**Wallets topped payment methods in Asia Pacific in 2020**  
(% of total spend)

■ Wallets ■ Credit cards ■ Debit cards ■ Cash ■ Other



Digital wallets will continue to remain the preferred payment method in Asia and will dominate the emerging markets of India, China and SEA

Card adoption, both physical and contactless, will continue in the region, as more people enter the formal workforce.

- The volume and value of their transactions will come under pressure from these wallets

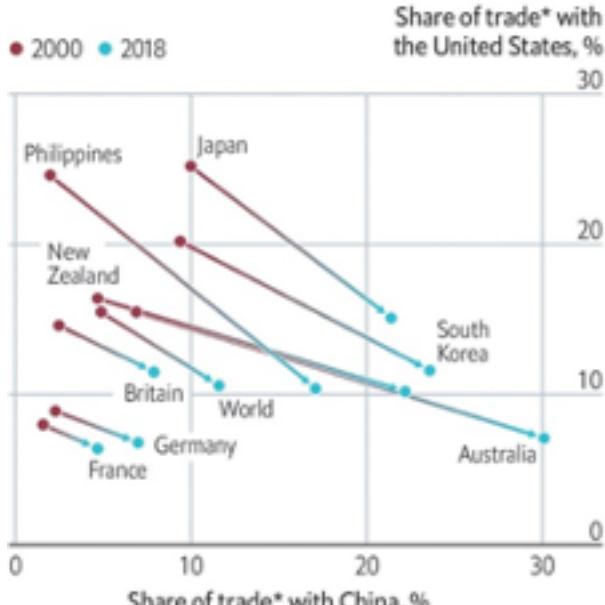
Governments, especially in SEA, are looking to connect their real-time payment systems, thereby creating lucrative opportunities in the cross-border payments market

# Supply chains are shifting

Self-sufficiency or de-globalisation?

Reshoring and regionalisation are on-going, given tariffs and other non-tariff barriers

## Tipping towards Beijing



Source: IMF

\*Imports and exports

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## The end of globalisation as we know it?

Governments are keen to keep production of strategic goods within borders as a form of security...

...focus is on building resilience rather than de-globalisation

## Regionalisation of supply chains instead of reshoring

Decline of just-in-time model for supply chains

Stockpiling / protection of strategic goods

Drive towards automation, but move is slow and expensive

## Power is shifting towards Asia

Asian markets had best practices for coronavirus response

Asia now represents more than 1/3 of global GDP

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# Regulatory environments

Making it easier, or harder, to do business

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## Singapore

Positioning itself as a tech-finance hub, with strong support from MAS

## Malaysia

Deadline to get to 70% stake of local insurance companies is flexible at the moment

## Thailand

Limit of foreign ownership of local companies is 49%, but can request permission for 100%

## Vietnam

Banking and insurance sectors are opening gradually to greater foreign participation

## Hong Kong

“Fast Track” provides dedicated queue for entrants with a solely digital distribution channel



# Cyberattack

It's more than just getting hacked

## “Supply chain” attack

- Attacks on the products that defend you
- 2011 RSA attack affected millions of login tokens
- 2020 SolarWinds attack compromised US government

## Uncontrolled spread

- Attackers can lose control of their tools
- Viruses and other malware may spread unchecked
- 2017 NotPetya attack caused US\$10bn damage

## Infrastructure attack

- Attacking water, power, oil, transportation, finance
- May be criminal, may be state actors
- 2015/2016 attacks on Ukraine’s power grid

## Striking oil

United States

Ransom payments, \$'000

Average — Median

250

200

150

100

50

0

Median size of companies targeted by ransomware

Employees

250

200

150

100

50

0

Sources: Coveware; Colonial Pipeline Company

The Economist



# Climate change

Slow buildup, sudden impact

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## Extreme weather events

- Annual insured losses from catastrophic events have grown more than 20 times since 1970s
- Business disruption losses add on to physical losses
- [Wildfires, American heat wave, European floods](#)

## Infrastructure impact

- Affecting building foundations
- Transportation, power sites impacted
- Rendering buildings unsafe, facilities unusable

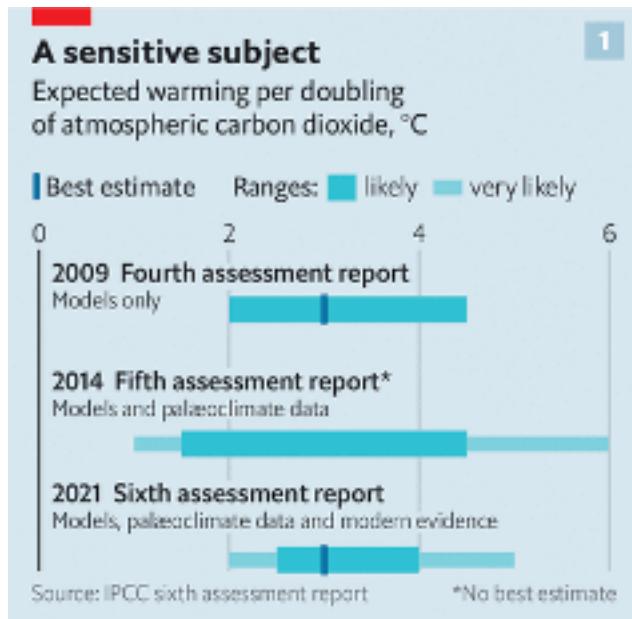
## Government policies

- Net-zero emission targets
- Changes to government programs
- [Korea's "Green New Deal"](#)



# The climate will keep warming

Positive results will only come in the long run



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*Intergovernmental Panel on Climate Change, Aug 2021*

Without deep emissions cuts, global warming of 1.5°C and 2°C will be exceeded during the 21st century.

Global warming will continue to mid-century despite cuts.

Already seeing increases in extreme weather, as well as reductions in Arctic sea ice.

Many changes irreversible for centuries to millennia.

Modelling by non-profit Climate Action Tracker since COP26 began finds warming is on track to reach

- 2.7°C on **current policy**
- 2.4°C if **all 2030 NDCs** are implemented in full
- 1.8°C if **all announced policies** are implemented in full

# Assessing the potential damage

The risks are apparent

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## 2016 Risky Business (by 2100)

- Coastal infrastructure (\$35 billion in damage, \$500 million in property below sea level)
- Agriculture (10% loss in productivity, 50-70% loss in key states)
- Energy demand (\$12 billion in energy costs),
- Human health and productivity (down 3%)

## 2018 Trump Administration Report (by 2090)

- Labor-related losses as a result of extreme heat: \$155 billion annually
- Deaths from temperature extremes \$141 billion annually
- Coastal property damage \$118 billion annually

*This is just in the United States*



# Demographics

Aging societies need workforce change, digital transformation needs new skills

## Populations are shrinking, aging

Birth rates in many developed and developing markets have been declining for decades

No “quick fix” to the effect of birth rates on workforce

## Reevaluating how work gets done

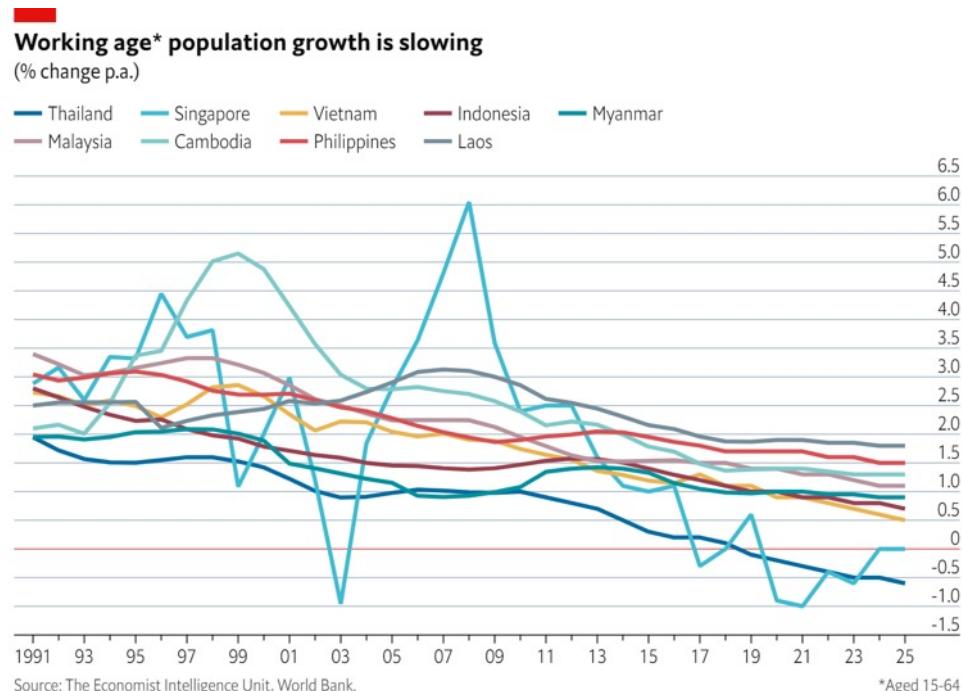
Workforce planning and role changes

More use of apps and digital processes by firms and customers

## Increased tech and sustainability focuses require new skills

Upskilling and reskilling employees

Bringing new people into workforce



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