



5 November 2024

Economic Letter from Asia

Election Uncertainty

A HAVER ANALYTICS® publication

Link to online article: <https://haverproducts.com/economic-letter-from-asia/>

Written by [Tian Yong Woon](#)

Election Uncertainty

In this week's letter, we focus on political uncertainty and its potential risks to economic growth. We begin with Japan, where the long-ruling Liberal Democratic Party (LDP) faced a significant electoral setback last weekend, losing its ability to form a majority in the lower house, even with its coalition partner's support. This development has sparked a period of political flux, complicating efforts to predict Japan's policy trajectory. Market reactions have partially reflected these concerns (Chart 1), though responses to the Bank of Japan's decision to maintain its current policy settings have been muted (Chart 2), which is understandable given that the outcome was largely anticipated.

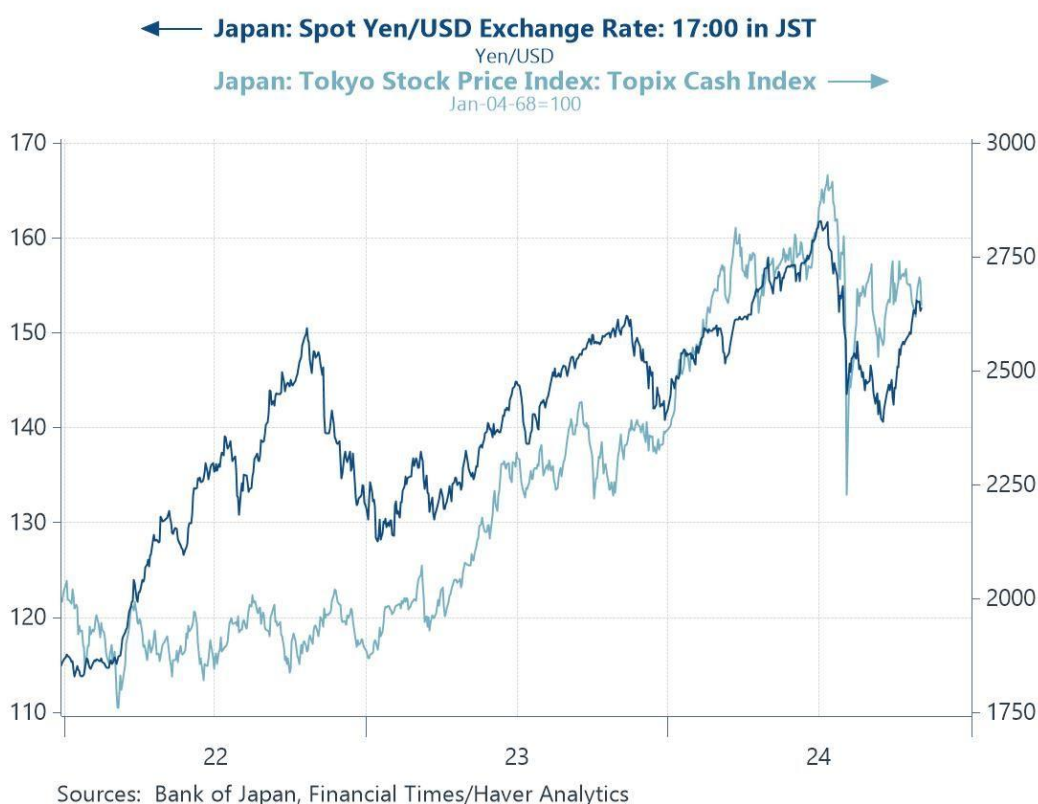
The uncertainty surrounding elections extends to the United States, where the presidential race between Donald Trump and Kamala Harris remains too close to call by many measures. Observers are particularly interested in how the election results might impact relations with China. US-China relations have been the focus of various trade-related measures by the US over the past decade, including tariffs and product controls (Chart 3). However, it's worth noting that the US's hawkish stance on China may well persist regardless of the incoming president. On a more optimistic note, expectations for China's near-term growth have improved (Chart 4), bolstered by a recent series of easing measures from its authorities. Nevertheless, uncertainty lingers regarding the economy's ability to achieve its 5% growth target for the year.

Finally, we examine developments in other advanced Asian economies, where industrial production growth has shown signs of easing in recent months (Chart 5). We discuss the potential implications of continued declines in this growth on exports and, consequently, on the growth rate of these economies, many of which rely heavily on exports as a primary growth driver (Chart 6).

Japan's lower house elections and the October BoJ meeting

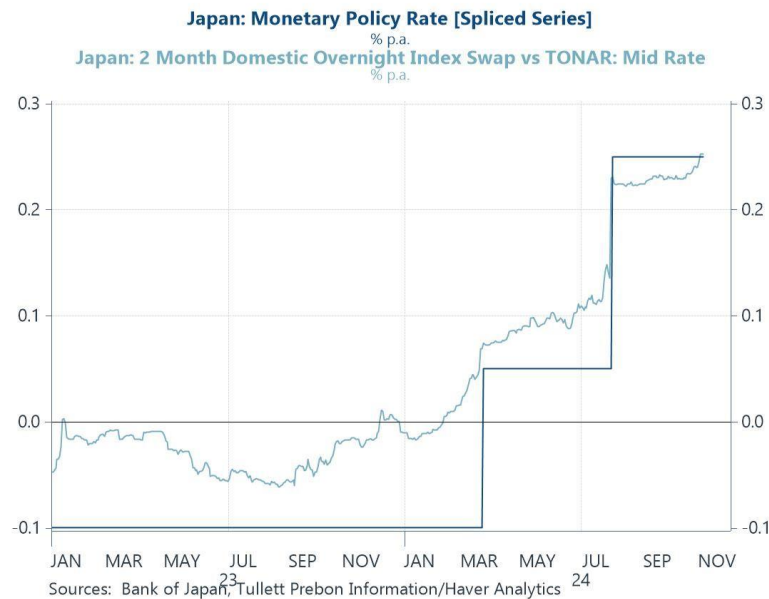
Japan's ruling party, the Liberal Democratic Party (LDP), experienced a significant electoral upset last weekend, losing its majority in the lower house of Parliament. Even with the support of its coalition partner, Komeito, the LDP is now unable to form a majority. This shift puts Prime Minister Ishiba's position at risk, as he may need to seek support from parties outside his usual allies to advance his policy agenda if he remains in office. Given this uncertainty, political maneuvering is expected to intensify in the coming weeks, with a special parliamentary session scheduled for November 11 to elect Japan's next Prime Minister. In response to the initial news, the yen weakened further, reflecting market concerns, while equities saw a slight uptick (Chart 1).

Chart 1: Japanese equities and the yen



Amid the interim political uncertainty, the Bank of Japan (BoJ) left its policy settings unchanged at its October meeting, as widely anticipated. However, the bank's updated outlook report revealed some shifts in its expectations for the near future. Specifically, the BoJ now forecasts slightly higher real GDP growth but lower headline inflation for fiscal year 2025, based on median projections, while keeping most other forecasts unchanged. While the anticipated outcome did not lead to significant market movements, some nuances caught the market's attention. Notably, BoJ Governor Ueda indicated that the bank will no longer state it has "ample time" to determine the timing of rate hikes, suggesting a potential increase in the pace of tightening. Nevertheless, while markets are eyeing the BoJ's December meeting as a potential opportunity for further policy adjustments, the implied probabilities of a rate hike currently suggest anything but certainty.

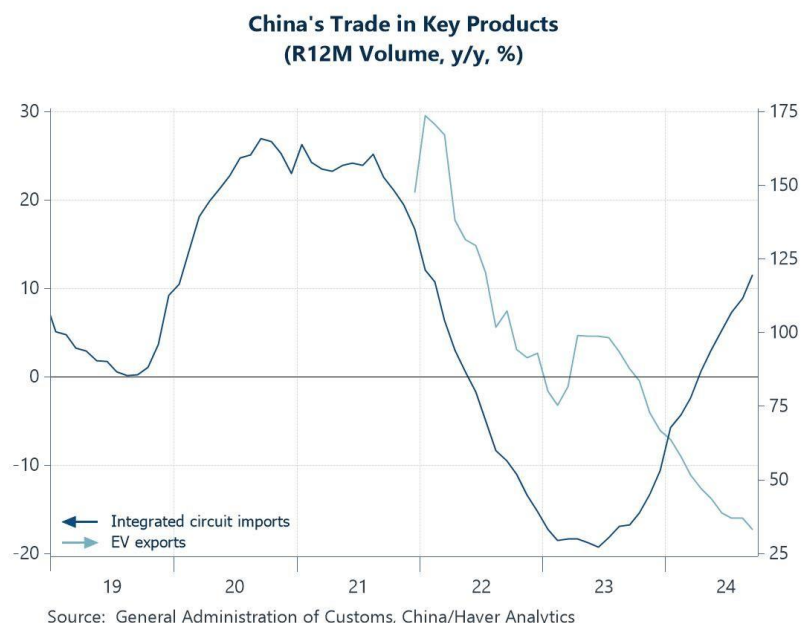
Chart 2: Japan policy rate and 2-month OIS vs. TONAR



China, US elections, and growth prospects

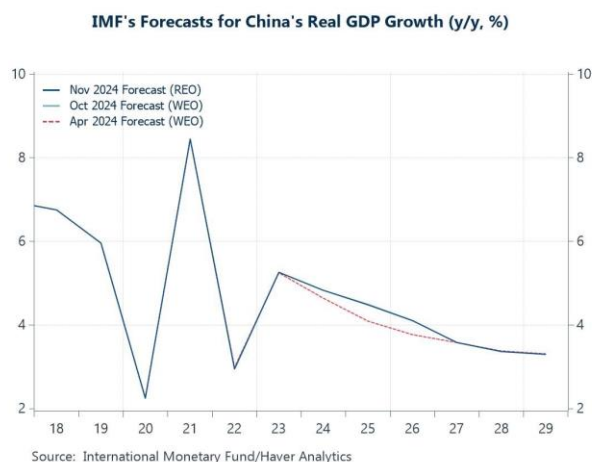
Uncertainty extends beyond Japan to include China, particularly regarding the outcome of the upcoming US presidential elections. Much remains uncertain for China as observers closely assess the potential actions of an incoming US president. Key concerns include the possibility of continued US efforts to curb China's advancements in critical technologies, such as artificial intelligence, and trade-related restrictions aimed at addressing overcapacity in electric vehicles (EVs) and other sectors (Chart 3). Notably, presidential candidate and former President Trump has proposed significantly raising tariffs on goods imported from China if elected. However, regardless of who takes office, it is likely that China will continue to face frictions with the US, as the latter has maintained a hawkish stance toward China over the past decade, regardless of the sitting president.

Chart 3: China EV exports and semiconductor imports



Nonetheless, China may be looking at slightly brighter economic prospects ahead, although growth risks—particularly from ongoing tensions with the US—could intensify. The IMF continues to project, in its latest Regional Economic Outlook (REO) report, that China’s economy will grow by 4.8% in 2024, consistent with its October WEO report and up 0.2 ppts from its April forecast (Chart 4). However, if this expectation is realized, it would mean China will miss its 5% growth target for this year, a risk that economists increasingly believe will unfold. Admittedly, however, much of the potential for a rebound in China’s economy hinges on the effectiveness of the recent easing measures announced by authorities in the past weeks. The IMF also cautioned that persistent downward price pressure stemming from China could provoke trade tensions, as competitors facing squeezed margins might resort to retaliatory actions.

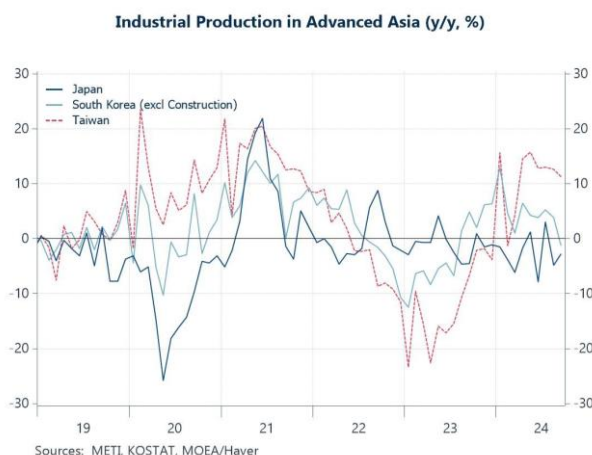
Chart 4: IMF forecasts for China’s real GDP growth



More on advanced Asia

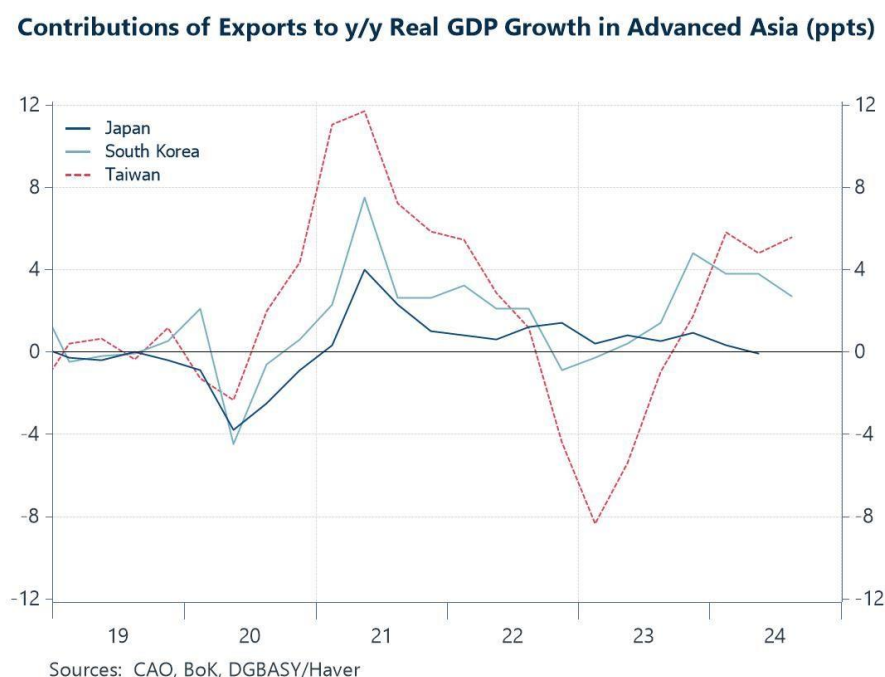
In advanced Asian economies, recent data on the industrial sector indicates a slowdown (Chart 5). Notably, South Korea’s industrial production, excluding construction, fell into contraction in September, declining by 1.3% y/y. This decrease was largely driven by a 3% drop in semiconductor production, raising concerns among observers as it marks the first decline in over a year. Some analysts worry this may signal a temporary cooling in AI-related chip demand. Meanwhile, Japan’s industrial production, although showing slight improvement, is still contracting, with a y/y decrease of 2.8%. In Taiwan, industrial production continued to register double-digit growth, but the latest figures have reinforced a trend of slowing growth in recent months.

Chart 5: Industrial production growth in advanced Asia



The trends of weak or declining growth in industrial production directly impact the growth dynamics of advanced Asian economies, where much of the manufacturing is geared towards exports. This issue is particularly pronounced in South Korea and Taiwan, which rely heavily on goods exports. In contrast, Japan has seen contributions from exports to real GDP growth diminish in recent quarters (Chart 6). Furthermore, these advanced economies have experienced only modest growth contributions from other sources, such as private consumption. If the current downturn in production continues—potentially due to waning demand—it could significantly affect exports. This would be especially detrimental for export-reliant economies, which have few alternative growth drivers to sustain their economies. This situation contrasts with many other Asian economies, particularly those in ASEAN, where domestic consumption has played a meaningful role in driving growth.

Chart 6: Contributions of exports to y/y real GDP growth in advanced Asia



About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: Japanese equities and the yen

Series 1: [X158JBB@INTDAILY](#)

X158JBB@INTDAILY [Japan: Spot Yen/USD Exchange Rate: 17:00 in JST (Yen/USD)]

Series 2: [S158TPX@INTDAILY](#)

S158TPX@INTDAILY [Japan: Tokyo Stock Price Index: Topix Cash Index (Jan-04-68=100)]

Chart 2: Japan policy rate and 2-month OIS vs. TONAR

Series 1: [R158TAR@INTDAILY](#)

R158TAR@INTDAILY [Japan: Monetary Policy Rate [Spliced Series] (% p.a.)]

Series 2: [M158N2M@INTDAILY](#)

M158N2M@INTDAILY [Japan: 2 Month Domestic Overnight Index Swap vs TONAR: Mid Rate (% p.a.)]

Chart 3: China EV exports and semiconductor imports

Series 1: [yyr%\(movt\(N924IKJ0@EMERGEPR,12\)\)](#)

N924IKJ0@EMERGEPR [China: Imports: Electronic Integrated Circuits (NSA, Bil.Units)]

Series 2: [yyr%\(movt\(N924IJ8F@EMERGEPR,12\)\)](#)

N924IJ8F@EMERGEPR [China: Exports: Electric Cars (NSA, Thous.Metric Tons)]

Chart 4: IMF forecasts for China's real GDP growth

Series 1: [R924GPCY@IMFREQ](#)

R924GPCY@IMFREQ [China: Real Gross Domestic Product (Y/Y % Change)]

Series 2: [C924GPCP@IMFWEO](#)

C924GPCP@IMFWEO [China: Real GDP[Oct 2024](Y/Y %Chg)]

Series 3: [J924GPCP@IMFWEO](#)

J924GPCP@IMFWEO [China: Real GDP[Apr 2024](Y/Y %Chg)]

Chart 5: Industrial production growth in advanced Asia

Series 1: [yyr%\(JPNIIP@JAPAN\)](#)

JPNIIP@JAPAN [Japan: IP: Mining and Manufacturing (NSA, 2020=100)]

Series 2: [yyr%\(N542D@EMERGEPR\)](#)

N542D@EMERGEPR [South Korea: IP Industry excl Construction (NSA, 2020=100)]

Series 3: [yyr%\(N528D@EMERGEPR\)](#)

N528D@EMERGEPR [Taiwan: IP Industry excl Building Construction (NSA, 2021=100)]

Chart 6: Contributions of exports to y/y real GDP growth in advanced Asia

Series 1: [JNNXCT@JAPAN](#)

JNNXCT@JAPAN [Japan: Contrib to Chgs in Real GDP: Exports of Goods & Services (NSA, % Pts)]

Series 2: [N542NXT@EMERGEPR](#)

N542NXT@EMERGEPR [S Korea: Exports of Goods & Services: Contrib to Y/Y%Chg in Real GDP (NSA, %Pt)]

Series 3: [Q528NXT@EMERGEPR](#)

Q528NXT@EMERGEPR [Taiwan: Exports of Goods and Services: Contrib to Y/Y%Chg in Real GDP (NSA, %Pt)]

For more info on our databases, please email sales@haver.com

