

# The outlook for 2023: Opportunities emerging from volatility

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2023 promises to be another year of great economic uncertainty. While many of the key influencing factors of 2022 – high inflation, high-interest rates, strong US Dollar, geo-political tensions, etc. – will continue to exert their influences in 2023, one of the critical factors affecting the global and Asia-Pacific economies, in particular, will be the extent of turmoil caused by China's rapid withdrawal from its dynamic zero-covid policy. Other risks for 2023 could be high-impact natural disasters, escalation of the Russia-Ukraine conflict or any other geopolitical disturbances, and the duration and extent of belt-tightening by Central Banks worldwide in response to inflation. Under combinations of various scenarios for such key risk drivers, the global economy is forecast to exhibit 0-4% growth in 2023, with 2% being the most likely scenario, with a stronger recovery expected during the second half of 2023.

In 2023, decarbonization will continue its steady march with a switch to renewables, growth in electrification and digitization of supply chain operations providing significant investment opportunities. The defence sector will see elevated spending due to geopolitical tensions. The aerospace and tourism sectors will rebound sharply with the expected opening of China to overseas travel by late 2023. The infrastructure and commercial property

sectors will witness moderate growth in Asia-Pacific, while the residential property sector will see challenges because of high mortgage rates. Big technology players and tech unicorns will continue to suffer due to policy pressures in most countries.

Other than China's reopening, Asia-Pacific economies will benefit from a possible de-escalation of tensions between China-USA, China-India, India-Pakistan, etc. In addition, 2023 – not a year of big elections in the region or USA – will see a stabler policy environment to deal with global and local challenges such as climate change, fiscal and monetary policy, etc. Large emerging economies such as India, Indonesia, and Vietnam will see growth in the range of 6-8%. Foreign investments in manufacturing, consumer spending, and infrastructure investments will drive this growth. China is expected to grow at 4-5%, a marked improvement over 2022. This will also boost the growth of many other regional economies – including Japan – that are dependent on trade with Asia's largest economy. Major economies in the Middle East will show strong, if more moderated, growth in 2023 as government spending continues in light of sustained high energy prices.

The Bank of Japan's policy reversal regarding interest rates will finally release some pressure on the Yen and

import-driven inflation. Japan's removal of travel restrictions and the resulting growth in tourism and overseas foreign investment by Japanese companies will have spin-off effects on the entire economy. Japan has embarked strongly on the sustainability journey with a visible change in the conduct of businesses and the public over the last three years. In 2023, Japan will therefore present sizeable opportunities in areas such as energy transition, electrification, digitized manufacturing, and services automation. There is also a clear trend of Japanese companies redoubling their efforts to become more innovative. This will result in the launch of a slew of new products and digital services in 2023 and beyond in a wide variety of areas, such as digital health, smart logistics, property management, enhanced food, recycling / upcycling and financial services. Consequently, underlying technologies related to cybersecurity, sensors, new materials, decarbonization, etc., will be focus areas for organizations. Japanese conglomerates are also investing in products and services generated through business model innovations that are aligned with mega-trends such as she-economy, the ageing population, and the Future of Mobility. This calls for sophisticated techniques and tools for innovation management, such as digitized idea generation, idea evaluation and collaboration, a portfolio approach to R&D management, and decentralized processes incorporating external partners.

In summary, 2023 promises to be another year of volatility. Such an environment offers not just challenges but also opportunities. Innovation, Digitization, and a drive to Sustainability will set apart the winners from the others.

#### <Biography>

Shivaji Das is the Regional Leader for APAC, responsible for sales and business development. With over 15 years of experience in strategy consulting, he provides strategic direction to a diverse set of clients across the US, Latin America, Africa and Asia in new business models, regional economic development, financial planning, market entry strategy and creative economy.

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