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East Asia to remain fastest growing region in the world in 2015– UN report

*But growth could be at risk if China experiences sharper-than-expected slowdown
or global liquidity tightens sharply*

Bangkok /19 January — East Asia is projected to remain on a path of robust growth in 2015 with many countries in the region experiencing solid growth rates, says the United Nations *World Economic Situation and Prospects 2015 (WESP)* released today.

East Asia's gross domestic product (GDP) is estimated to have grown by 6.1 per cent in 2014, moderately down from 6.4 per cent in 2013 and well below the pace recorded in the period before the global financial crisis. *WESP* projects economic growth will maintain the 6.1 per cent rate in 2015, before settling at 6.0 per cent in 2016.

The report explains part of the regional slowdown by China's transition to a more consumption- and service-oriented and more environmentally sustainable macroeconomic system, which has led to a gradual slowdown in GDP growth. Last year the Chinese economy expanded by an estimated 7.3 per cent, down from 7.7 per cent in 2013 as growth in exports and investment slowed. A further gradual deceleration to 7.0 per cent in 2015 and 6.8 per cent in 2016 is forecast. This lower growth trajectory is in line with the Government's focus on raising the quality of development and reflects the attempt to balance sustaining economic growth with curbing financial risks.

China's transition to more moderate growth is expected to be offset by higher growth in other East Asian economies, such as Indonesia, Singapore, Thailand and Viet Nam. For example, Viet Nam is expected to see a strengthening of growth due to stronger investment.

Malaysia and the Philippines were among the best-performing countries in East Asia in 2014 on the back of strong consumption and investment demand. While overall conditions in both countries are expected to remain benign, a moderation in growth is projected for 2015.

In the Republic of Korea, growth picked up to 3.4 per cent in 2014 from 3.0 per cent in 2013. Easier monetary policy and a gradual improvement in external demand are expected to support activity in 2015-2016. Papua New Guinea is set to record a jump in GDP growth in 2015 as it starts to export liquefied natural gas.

Given the region's solid growth outlook, the labour market situations are likely to remain robust. With few exceptions, unemployment rates in the region are low. However, widespread vulnerable employment – own-account workers and contributing family workers who are less likely to have formal work arrangements, and are therefore more likely to lack decent working conditions, adequate social security and effective representation – remains a particular concern in lower-income economies, including Indonesia, the Philippines and Viet Nam.

Less global liquidity and a slowdown in China pose downside risks

The key downside risks for East Asia are related to the upcoming tightening of global liquidity conditions and to the slowdown of China's economy. The United States Federal Reserve's expected increase in interest rates could lead to a marked adjustment in credit conditions for East Asia's emerging economies, resulting in weaker investment and consumption growth than currently anticipated. This risk factor is particularly relevant for countries with high household or corporate debt, such as the Republic of Korea, Malaysia and Thailand, and for economies with potential housing-market bubbles, including Hong Kong SAR, Singapore and Thailand.

A sharper-than-expected slowdown in China would have a severe impact through trade and finance channels on other economies in the region, in particular commodity exporters such as Cambodia and Indonesia. The slowdown in China has already impacted growth in Hong Kong SAR, where business investment weakened and tourist spending dropped over the past year.

As a result of higher interest rates in the United States and a pick-up in domestic inflation, an increasing number of East Asian central banks are expected to gradually tighten monetary policy in the latter part of the forecast period.

Governments are providing additional fiscal stimulus to support growth

In several countries, Governments tried to further stimulate economic activity in 2014. In China, authorities implemented measures to support domestic demand, including tax relief for small firms and accelerated fiscal and infrastructure spending. The Government in the Republic of Korea announced a sizeable stimulus package, targeting low-income households, small firms and the property market, and introduced for 2015 the most expansionary budget since 2009. In Thailand, the military Government unveiled plans to spend \$75 billion over eight years to improve transport infrastructure. Most East Asian economies have the fiscal space to further boost investments in human and physical capital.

Exports present a mixed picture

Several countries, such as Malaysia, the Philippines and Viet Nam, saw dynamic export growth in 2014, led by strong international demand for electrical and electronic products. Export growth was less buoyant, but still solid, in other parts of the region, including China, the Republic of Korea, Singapore and Taiwan Province of China. These economies saw export revenues grow by an estimated 3-5 per cent in 2014. However, export revenues were flat in Thailand and contracted slightly in Indonesia and Thailand due to country-specific factors.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO).

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/>

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