World Economic Situation and Prospects 2012

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Press Release

East Asian economy faces headwinds, UN says, as risks tilt to the downside

UN economists report that increasingly robust domestic consumption only partly offsets weakness in external demand

Bangkok/Beijing, 17 January 2012: With weaker export markets, East Asia's growth is projected to decline to 6.9 per cent in both 2012 and 2013, down from 7.2 per cent registered last year, according to *World Economic Situation and Prospects 2012* (WESP), the United Nations annual economic report launched today. China's economy expanded by 9.3 per cent in 2011, with growth expected to slow down to 8.7 per cent in 2012 and 8.5 per cent in 2013 (*see table at the end of the release*).

The risks for East Asia's developing countries are tilted to the downside, the UN warns. Deep and prolonged recessions in major developed economies could have a severe impact on growth across the region, with falling exports and increased uncertainty possibly triggering a downturn in private investment and consumption. The report adds that should growth in China decelerate to about 7 per cent in the next two years, the rest of the region would see a more pronounced slowdown than currently expected. In its pessimistic scenario, the report projects average growth in East Asia to decline to 5.6 per cent in 2012 and 5.7 per cent in 2013.

Robust domestic consumption growth

Growth of exports and investment weakened across East Asia in 2011, whereas consumption continued to expand at a solid pace, supported by rising wages and incomes as well as low real interest rates. This trend, *WESP* notes, is expected to persist in 2012. Countries with large domestic demand bases, notably China and Indonesia, will therefore be in a better position to maintain robust growth than the more export-oriented economies.

More jobs but vulnerable employment remains high

Labour markets in East Asia remain favourable for now, as employment in the manufacturing and service sectors continued to increase in 2011 amid strong domestic demand. In most economies, open unemployment rates are near or below the pre-crisis levels of 2007-2008. But they remain subject to risks of a turnaround due to falling demand from developed countries. The Republic of Korea has the lowest unemployment rate among the Organization for Economic Cooperation and Development (OECD) countries, estimated at 3.1 per cent in October 2011. However, despite recent progress, the proportion of vulnerable employment to total employment remains high in several countries, including Indonesia, Thailand and Viet Nam.

Real wages continued to move up in 2011 on the back of productivity gains and policy measures such as minimum wage hikes. This trend is expected to continue in the outlook period, especially in the economies with lower per capita incomes and larger domestic demand bases such as China, Indonesia and Viet Nam. China's twelfth Five-Year Plan (2011-2015) aims to increase the minimum wage by at least 13 per cent per year.

Inflation projected to decline

WESP says that higher food prices were the main contributor to accelerating inflation, which averaged 5.1 per cent in 2011 in the East Asian economies, up from 3.2 per cent in 2010. Inflation ranged from 1.5 per cent in Taiwan Province of China to 18.5 per cent in Viet Nam. A softening of international commodity prices will likely reduce inflationary pressures in the outlook, which projects average inflation to decline gradually to 3.9 per cent in 2012 and 3.4 per cent in 2013.

Central banks are now targeting output growth rather than inflation

Most central banks, including the People's Bank of China, have gradually started to shift their focus towards stimulating economic growth and away from fighting inflation. Bank of Indonesia has been the most proactive in supporting domestic demand, cutting its main policy rate by 75 basis points in the fourth quarter of 2011. In 2012, central banks are expected to further ease monetary policy unless global economic conditions improve significantly.

Growth in intra-regional trade boosts exports and imports

Compared to 2010, annual export earnings are estimated to have increased by about 20 per cent in China, Indonesia and the Republic of Korea. Export growth slowed considerably in the second half of the year, however, as demand from developed economies weakened, especially for electronics, and international commodity prices eased. Trade within the region as well as with other emerging countries continued to grow at a robust pace.

Since demand in developed economies is projected to remain sluggish in 2012 and 2013, East Asia's imports are expected to grow faster than its exports and lead to a slight narrowing of external surpluses across the region. With the exception of Viet Nam, all East Asian economies recorded a current-account surplus in 2011. China's external surplus, which had reached 10.6 per cent of GDP in 2007, declined to about 3.5 per cent of GDP in 2011.

Governments spend more to compensate for falling export earnings

Several governments including those of Indonesia, the Philippines and Thailand announced new, moderate-sized fiscal stimulus measures in the fourth quarter of 2011 to mitigate the impact of slowing exports. Most East Asian economies continue to hold strong fiscal positions, with relatively low levels of public debt. In the Philippines, the Republic of Korea and Singapore, budgets strengthened further in 2011, with the latter two countries and the Hong Kong Special Administrative Region (SAR) registering fiscal surplus. By contrast, Indonesia, Malaysia and Thailand experienced a widening of deficits, as government spending increased markedly. China's central government deficit stood at about 1.5 per cent of GDP in 2011. *WESP* indicates that while most governments in East Asia have ample fiscal space, large-scale stimulus packages should be implemented only if growth and employment outlooks deteriorate significantly.

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Join Rob Vos, Director of UN/DESA's Development Policy and Analysis Division (DPAD) and economists from DPAD's Global Economic Monitoring Unit on 20 January from 9:00 - 10:00 am EST for a live Facebook chat (http://on.fb.me/wesp2012) on the world economy. Follow us on Twitter (https://twitter.com/#!/UNDevelopPolicy) at #WESP2012.

World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

http://www.un.org/en/development/desa/policy/wesp/index.shtml

Developing Asia: Rates of growth of real GDP, 2008-2013[a]

Annual percentage change						
	2008	*2009*	*2010*	*2011*[b]	*2012*[c]	*2013*[c]
East and South Asia	**6.2**	**5.2**	**8.8**	**7.1**	**6.8**	**6.9**
East Asia	6.4	5.1	9.2	7.2	6.9	6.9
Brunei Darussalam	-1.9	-1.8	4.1	2.4	1.6	1.5
China	9.6	9.2	10.4	9.3	8.7	8.5
Hong Kong SAR[d]	2.3	-2.7	7.0	4.9	4.1	4.5
Indonesia	4.9	4.6	6.1	6.5	6.3	6.4
Korea, Republic of	2.3	0.3	6.2	3.9	3.6	4.0
Malaysia	4.8	-1.6	7.2	4.6	4.4	5.0
Myanmar	10.2	10.4	10.4	5.1	4.7	5.1
Papua New Guinea	6.6	5.5	7.1	7.6	5.5	5.2
Philippines	4.2	1.1	7.6	4.3	4.4	4.9
Singapore	1.5	-0.8	14.5	5.0	4.0	4.5
Taiwan Province of China	0.7	-1.9	10.9	4.4	3.9	4.3
Thailand	2.5	-2.3	7.8	2.3	4.1	4.2
Viet Nam	6.3	5.3	6.8	5.8	6.0	6.3
South Asia	5.8	5.5	7.2	6.5	6.7	6.9
Bangladesh	6.2	5.7	6.1	6.5	6.4	6.7
India	7.5	7.0	9.0	7.6	7.7	7.9
Iran, Islamic Republic of	1.0	0.1	1.0	2.6	3.0	3.1
Nepal	6.1	4.4	4.6	3.9	4.3	4.4
Pakistan	1.6	3.6	4.1	3.3	4.1	4.4
Sri Lanka	6.0	3.5	8.0	7.9	7.2	7.0

Source: United Nations, *World Economic Situation and Prospects 2012*.

a Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Baseline scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.

d Special Administrative Region.

Developing Asia: the downside scenario[a]

Annual percentage change						
			Downside scenario		*Difference with the baseline scenario*	
Rates of growth of real GDP	*2010*	*2011* [b]	*2012* [c]	*2013* [c]	*2012*	*2013*
World	**4.0**	**2.8**	**0.5**	**2.2**	**-2.1**	**-1.0**
Developed economies	2.7	1.3	-0.9	1.1	-2.1	-0.8
European Union	2.0	1.6	-1.6	1.0	-2.3	-0.6
Japan	4.0	-0.5	0.5	1.2	-1.5	-0.8
United States	3.0	1.7	-0.8	1.1	-2.3	-0.9
Economies in transition	4.1	4.1	-2.0	3.3	-5.9	-0.9
Developing economies	7.5	6.0	3.8	4.5	-1.7	-1.4
East and South Asia	8.8	7.1	5.6	5.7	-1.2	-1.2
East Asia	9.2	7.2	5.6	5.7	-1.3	-1.2
China	10.4	9.3	7.8	7.6	-0.9	-0.9
South Asia	7.2	6.5	5.7	5.8	-1.0	-1.1
India	9.0	7.6	6.7	6.9	-1.0	-1.0

Source: United Nations, *World Economic Situation and Prospects 2012*.

a Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Downside scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.