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# World Economic Situation and Prospects 2013

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## UN: Weak demand for exports slows East Asian economic growth

*Slowdown in China and recession in Europe weigh on economic activity in East Asia;  
regional growth expected to pick up mildly in 2013*

**Bangkok, 17 January**— The World Economic Situation and Prospects 2013 (WESP) forecasts average economic growth in East Asia to pick up mildly to 6.2 per cent in 2013 and 6.5 per cent in 2014, from an estimated 5.8 per cent in 2012. Last year's growth was down markedly from 7.1 per cent in 2011 and 9.2 per cent in 2010 as export growth faltered and investment spending in many economies slowed.

The report, released today, said that economic woes in Europe, Japan and the United States and a sharper-than-expected slowdown in China weighed on economic growth in East Asia in 2012. Current-account surpluses in the region declined due to the slump in exports. Household consumption, however, continued to grow at a robust pace, supported by resilient labour markets and lower inflation.

### China's growth lowest in a decade

Economic growth in China slowed from 9.2 per cent in 2011 to an estimated 7.7 per cent in 2012, the lowest rate in more than a decade. Weaker export demand and a sharp decline in investment growth, especially in the real estate sector, dampened overall output growth.

The report predicts that China's economic growth will accelerate slightly to 7.9 per cent in 2013 and 8.0 per cent in 2014, as activity is supported by the loosening of monetary and fiscal policy. There are, however, substantial downside risks for the Chinese economy given uncertainties about external demand and various domestic growth challenges. While a hard landing of the economy in 2013/14— with annual growth slowing to about 5 per cent — is unlikely, it would have major global and regional repercussions.

### Higher-income and export-dependent economies see below potential growth

East Asia's higher-income and export-dependent economies—Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China—saw a sharp drop in growth in 2012 as less demand for exports led to lower capital spending. According to WESP, these economies are likely to experience moderate recovery in 2013 and 2014, but growth is projected to remain well below potential.

## Southeast Asian economies sustain growth momentum

The slowdown in China and the higher-income economies of East Asia contrasts with the solid growth momentum in Indonesia, Malaysia, the Philippines and Thailand, where buoyant consumption and investment demand largely offset lower net exports. The strong growth performance in the Philippines and Thailand was supported by significant rises in public investment, but also reflects a base effect following weak growth in 2011. Growth in this group of countries is forecast to remain fairly stable in 2013.

## Job markets remain resilient despite slowdown

The WESP report found that labour markets in East Asia have so far remained resilient to the slowdown in growth, although unemployment rates edged up in some of the region's export-dependent economies over the course of 2012. In several countries, including Malaysia, the Republic of Korea and Singapore, the unemployment rate remained close to historic lows as solid domestic demand helped partly offset the impact of weaker exports and manufacturing activity.

Unemployment in Indonesia declined to 6.3 per cent in the first quarter of 2012, about half the rate of 2006. As in other East Asian countries, the report said, most of the new jobs in Indonesia were created in the service sector, where productivity continues to be much lower than in the manufacturing sector.

## Inflationary pressures remain low

According to WESP, inflation has declined significantly in East Asia over the past year as domestic demand moderated and many international commodity prices eased. For the region as a whole, consumer price inflation averaged 2.9 per cent in 2012, well below the 4.9 per cent recorded in 2011. Regional inflation is projected to average 3.1 per cent in 2013 and 3.5 per cent in 2014, in line with an expected gradual growth recovery.

## More expansionary monetary and fiscal policies

The report notes that monetary and fiscal policies have become more expansionary to counter the slowdown. Against the backdrop of slowing economic activity and reduced inflationary pressures, East Asia's monetary authorities have shifted focus from containing inflation to stimulating growth. However, unless the regional outlook deteriorates significantly, central banks will maintain their cautious approach to monetary policy.

On the fiscal side, China's Government is likely to maintain a proactive policy stance, with an increase in public investment spending on infrastructure in 2013. Going forward, the report said, fiscal deficits are projected to narrow as a share of GDP in most countries, as income growth and government revenues are expected to strengthen gradually and authorities remain committed to long-term fiscal sustainability.

## Risks to continued economic growth

While East Asia's economic fundamentals remain strong, the WESP report cautions that there are significant downside risks to the region's economic outlook. A sharp deceleration in the pace of growth in China would have a severe impact on economic activity throughout the

region, with high-income countries likely to suffer most from lower demand for their exports. Similarly, a further deterioration of the sovereign debt crisis in Europe remains a major risk factor for East Asia since it would likely lead to renewed turmoil on financial markets and a sharp contraction in global trade activity.

Table:

**East Asia: rates of growth of real GDP, 2009-2014**

	2009	2010	2011	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>
<b>East Asia</b>	<b>5.2</b>	<b>9.2</b>	<b>7.1</b>	<b>5.8</b>	<b>6.2</b>	<b>6.5</b>
Brunei Darussalam	-1.8	2.6	2.2	1.2	1.6	1.8
China	9.2	10.3	9.2	7.7	7.9	8.0
Hong Kong SAR <sup>c</sup>	-2.6	7.0	5.0	1.4	2.5	3.1
Indonesia	4.6	6.2	6.5	6.2	6.2	6.3
Korea, Republic of	0.3	6.3	3.6	2.1	3.0	3.5
Malaysia	-1.5	7.2	5.1	5.0	4.4	4.9
Myanmar	10.6	10.4	5.5	5.6	6.0	6.0
Papua New Guinea	6.1	7.6	8.9	9.4	4.2	6.1
Philippines	1.1	7.6	3.7	6.2	5.4	5.5
Singapore	-1.0	14.8	4.9	1.4	2.5	3.3
Taiwan Province of China	-1.8	10.7	4.0	1.1	2.4	2.9
Thailand	-1.1	7.5	0.1	5.3	4.6	5.0
Viet Nam	5.3	6.8	5.9	5.0	5.7	6.2

Source: UN/DESA, based on data of the United Nations Statistics Division and individual national sources.

Note:

<sup>a</sup> Partly estimated.

<sup>b</sup> Baseline scenario forecasts, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.

<sup>c</sup> Special Administrative Region of China.

*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.

On the web: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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