
World Economic Situation and Prospects 2014

UN report predicts a slight pick-up in growth in East Asia as developed economies recover

East Asia remains the fastest-growing region in the world, but the US Fed's exit from monetary stimulus and vulnerabilities in China pose downside risks

Bangkok/Beijing, 20 January—East Asia is expected to experience moderate economic growth over the next two years as developed economies – the region's main trade partners – gradually recover, says the United Nations *World Economic Situation and Prospects 2014 (WESP)* released today.

Average gross domestic product (GDP) growth in the region stood at 6.0 per cent in 2013, slightly up from 5.9 per cent in 2012. A further mild increase to 6.1 per cent is projected for 2014 and 2015, mainly due to a recovery in exports amid improving conditions in developed countries.

In 2013, slow export growth persisted across East Asia as demand in its major trading partners – particularly Europe and the United States – remained fairly sluggish. In most East Asian economies, net exports did not contribute significantly to overall growth. Instead, household consumption remained the main driver of growth, whereas the contribution from investment declined slightly.

The report predicts that private consumption and investment will continue to expand at a robust pace in most East Asian countries, supported by stable labour market conditions, low inflation and fairly accommodative monetary policies. Fiscal policies will remain moderately expansionary, providing support for growth. However, the report warns that growth could be threatened by a sharp slowdown in the Chinese economy, as well as an abrupt tightening of external financing conditions triggered by the US Federal Reserve Bank's exit from monetary expansion.

China's growth slows

After weakening in the first half of 2013, China's economy gained momentum in the second half, driven by stronger domestic demand. Investment was supported by minor fiscal stimulus measures, including tax breaks for small businesses and accelerated construction spending. Full-year growth in China is estimated at 7.7 per cent in 2013, the same pace as 2012.

Looking ahead, a further gradual slowdown to 7.5 per cent in 2014 and 7.3 per cent in 2015 is projected, in line with the Government's objective of a more sustainable growth path. Over the past year, East Asia has largely adjusted to China's slower pace, but a sharper-than expected slowdown, or hard landing, would adversely affect the region's economies, the report says.

Unemployment remains low but uneven across countries

Unemployment rates in East Asia are generally low, although considerable differences between and within countries exist. In the Republic of Korea, the unemployment rate declined to 2.7 per cent in September 2013, down from 2.9 per cent in 2012, mainly owing to expansion in service sectors. Official unemployment rates are also relatively low in other economies, such as China, Malaysia, Singapore, Thailand and Viet Nam.

Two exceptions are Indonesia and the Philippines. In Indonesia, the unemployment rate rose from 5.9 per cent to 6.3 per cent from the first to the third quarter of 2013 amid slowing economic growth and increased

labour supply. In the Philippines, the unemployment rate rose to 7.3 per cent in July as the economy failed to create sufficient full-time jobs to accommodate the growing labour force. The Philippines was also hit by a severe typhoon in November 2013, which caused many deaths and widespread destruction. The macroeconomic impact was, however, relatively limited, with only a mild reduction in the full-year growth rate for 2013 and reconstruction activities possibly adding to growth in 2014.

In 2014 and 2015, unemployment rates across East Asia are expected to remain fairly stable, given the expected moderate growth in most countries. However, informal employment is a pressing concern in some countries as it tends to be associated with low wages, weak productivity, and lack of benefits and job security.

Countries prepare for US Fed tapering

Monetary policy has remained supportive of economic growth across East Asia. In line with low inflation and subdued external demand, several Central Banks reduced interest rates during the first half of 2013. However, this easing is unlikely to continue provided that domestic demand remains robust and the US Federal Reserve Bank continues to taper its Quantitative Easing (QE) programme in 2014.

QE seeks to stimulate the US economy by purchasing long-term financial assets on a large scale, which in turn increases the money supply and lowers interest rates. As the Fed winds down its QE programme, interest rates in the US will eventually rise, and this could lead investors to pull out their assets from East Asian economies and seek higher yields in the US. Outflows of capital would in turn depreciate East Asian currencies.

In some cases, renewed strong capital outflows may add pressure on central banks to raise domestic interest rates, thereby dampening economic growth. Tighter liquidity conditions and higher global and regional interest rates could pose considerable challenges, particularly for countries with high levels of household debt, such as Malaysia, the Republic of Korea and Thailand. To address financial market volatility, East Asian countries are increasingly looking to regional monetary and financial cooperation.

Fiscal policy remains supportive of growth

Fiscal policy has continued to support growth across East Asia as many Governments have been trying to counter the slowdown in domestic demand. The Chinese Government implemented several targeted measures, including scrapping taxes for small firms and boosting investment in infrastructure and railways. The ROK passed a supplementary budget in May 2013, which includes expenditure on public-sector jobs, business start-ups, mortgage subsidies and trade financing for small exporters. Malaysia, the Philippines and Thailand are pushing for large infrastructure projects.

In most economies budget deficits and government debt levels as a share of GDP remain low. However, debt levels of local governments and state-owned enterprises, which are generally not recorded in government balance sheets, have been rising rapidly in some cases, most notably in China. Accordingly, total debt might exceed official government statistics and vulnerability to international monetary conditions is probably higher than these figures suggest.

In 2014 and 2015, fiscal balances are likely to improve slightly in most economies, given fairly robust growth conditions. Several governments such as those in Malaysia and the Republic of Korea, have also developed tax reform plans with a view to widening the tax base and diversifying the revenue sources.

Trade growth expected to recover mildly in 2014

East Asia's trade and current-account surpluses have narrowed since the global financial crisis. In 2013, the region's combined current-account surplus stood at about 3 per cent of GDP, compared with a high of 8.3 per cent in 2007. This significant decline can be attributed to the protracted weak demand in developed economies and the robust growth in consumption and investment demand across East Asia during the initial recovery from the crisis.

In 2013, East Asia's exports and imports grew slowly, in line with the subdued conditions in key destination markets, notably Europe and the United States. Looking ahead, trade growth is projected to recover mildly in 2014 and 2015, but will remain well below the pre-crisis level. In some economies, such as Indonesia and Malaysia, export sectors may benefit in the short run from the recent depreciation of the national currencies.

Table: East and South Asia: Rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
East Asia	9.3	7.1	5.9	6.0	6.1	6.1
Brunei	2.6	3.4	0.9	1.7	2.1	2.0
China	10.4	9.3	7.7	7.7	7.5	7.3
Hong Kong SAR ^c	6.8	4.9	1.5	2.8	3.5	3.3
Indonesia	6.2	6.5	6.2	5.7	5.6	5.9
Korea Rep	6.3	3.7	2.0	2.8	3.5	3.6
Malaysia	7.4	5.1	5.6	4.4	4.8	5.0
Myanmar	10.2	6.9	6.2	5.3	6.1	6.4
Papua New Guinea	7.6	11.3	9.2	5.4	5.7	13.5
Philippines	7.6	3.6	6.8	6.7	6.2	6.3
Singapore	14.8	5.2	1.3	3.6	3.7	4.0
Taiwan Province of China	10.8	4.1	1.3	1.8	2.9	3.4
Thailand	7.3	0.3	6.4	2.9	4.2	4.6
Viet Nam	6.4	6.2	5.2	5.3	5.7	6.0

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

Note:

^a Partly estimated.

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

^c Special Administrative Region of China.

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

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

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