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UN economists see robust growth in the short-term, but mid-term perils

Global economy surges in 2004, but dangerous imbalances continue to mount

(UNITED NATIONS, NEW YORK, 14 January) Spurred by low interest rates and stimulative fiscal measures in the United States especially, and by the rapid rise of China as a major importer as well as export powerhouse, world economic growth is expected to accelerate to 3½ percent in 2004, the United Nations said today. Developing country growth rates, in general, are picking up in the wake of expansion in the major economies, according to the UN *World Economic Situation and Prospects 2004*.

Employment generation continues to be a problem in most countries, however. Nearly all economies experienced an increase in unemployment or under-employment in the past few years of global slowdown, and employment always lags other aspects of a recovery.

“As the recovery still depends on low interest rates and expansionary fiscal measures, policymakers should be careful not to choke off the recovery or prospects for needed job growth through a premature withdrawal of stimuli or precipitate tightening,” said Under-Secretary-General for Economic Affairs José Antonio Ocampo at a press launch today at UN Headquarters in New York.

But continued and growing international imbalances, manifested in the large US external deficit and matching surpluses in a handful of other economies, also pose a serious threat, UN economists warn. How

Table 1. Growth of world output and trade, 2000-2004

(Annual percentage change)

	2000	2001	2002	2003 ^a	2004 ^b
World output	3.9	1.3	1.7	2.5	3½
Developed economies	3.4	1.0	1.2	2.0	3
United States	3.7	0.5	2.2	3.0	4
Japan	2.8	0.4	-0.4	2.5	2½
EU-15	3.4	1.6	1.0	0.9	2¼
Economies in transition	6.7	4.4	3.9	5.1	4¾
Central and Eastern Europe	3.9	2.7	2.7	3.3	4
Baltic States	5.5	6.7	6.2	6.4	6
Commonwealth of Independent States	9.3	5.7	4.7	6.5	5¼
Developing economies	5.8	2.1	3.2	3.8	5
Africa	3.3	3.1	2.9	3.2	4¼
East Asia	7.6	3.5	5.9	5.3	6¼
China	8.0	7.3	8.0	8.5	8½
South Asia	5.0	4.6	4.5	5.9	6
Western Asia	6.4	-1.1	2.4	2.6	4
Latin America and the Caribbean	3.9	0.4	-0.7	1.4	3½
World trade	11.5	-0.7	3.0	4.7	7½

Memorandum item:

World output growth with PPP-based weights^c

4.6 2.2 2.7 3.3 4

a Partly estimated.

b Forecasts.

c Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars.



these imbalances eventually unwind “will have profound implications for the future stability, efficiency and equity of the world economy”, says the beginning-of-the-year economic overview.

A re-alignment of exchange rates, as has been advocated in some quarters, is unlikely to prove effective in correcting imbalances and could produce adverse effects, according to *WESP '04*. Also to be avoided is the temptation to deploy protectionist measures to lessen current account deficits and to protect jobs. Job growth is hampered largely by domestic cyclical factors, as well as the need for structural reform in some countries, rather than by the transfer of employment to developing countries.

A preferable adjustment process would involve coordinated policy actions to narrow structural growth differentials among the major economies, as well as international cooperation to facilitate sustained growth in the developing countries and thereby improve demand overall. In particular, UN economists see a need for the US to reduce its government deficit, while Europe and Japan take measures to boost long-term growth.

Recovery in the United States currently is exceptionally strong, with business spending finally matching and soon outpacing household expenditure, and a long-awaited improvement in employment just underway. In Japan, a recent upsurge in demand and export growth may mark a turning point after a decade of stagnation. European growth remains subdued, but signs of a modest upturn are emerging.

After three very bad years since 2000, Latin America is expected to resume growth of greater than three per cent in 2004. Growth in Africa may exceed four per cent, while last year's surge in the transition economies will moderate only slightly. Led by India and China, average growth in South and East Asia should increase to 6¼ per cent, almost a percentage point higher than in 2003. In Western Asia, growth now projected at four per cent could be driven higher or lower, depending on progress or lack of it in resolving geopolitical tensions and in the reconstruction in Iraq.

No certain return to 1990s-style growth

But it should not be assumed that a repeat of the sustained high level of economic growth often seen during the 1990s is underway, the UN cautions.

While global trade is projected by *WESP '04* to grow by seven per cent this year, it is unlikely that the buoyancy of pre-2000 years will be repeated, especially given setbacks in the Doha round of trade negotiations. Foreign direct investment of \$660 billion in each of the last two years is less than half of the peak level achieved in 2000, and its recovery, as well as that of other international capital flows, is expected to be subdued. Moreover, the dampening effects of geopolitical tensions and threats of international terrorism are more prevalent now than in the years immediately before 2001.

Therefore, UN economists urge careful measures to nurture the recovery and avoid a precipitous unwinding of international imbalances.

“A particularly adverse possibility would be a rapid depreciation of the United States dollar and an abrupt reversal of its trade deficit,” *WESP '04* says. “If the consequent adjustment mainly involved a substantial cut in consumption, investment and import demand in the United States, the global economic recovery would probably be aborted, reverting to another slowdown.”

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