

# World Economic Situation **and** Prospects

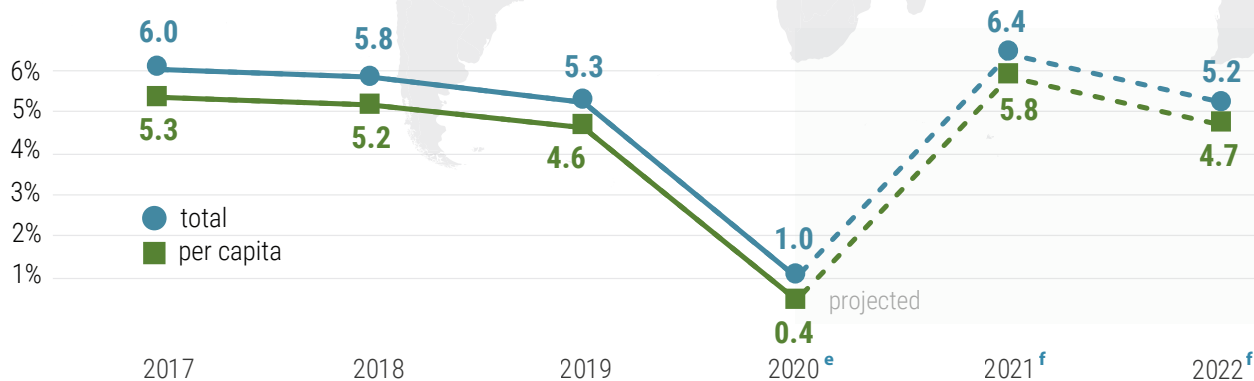
2021



United Nations

# East Asia

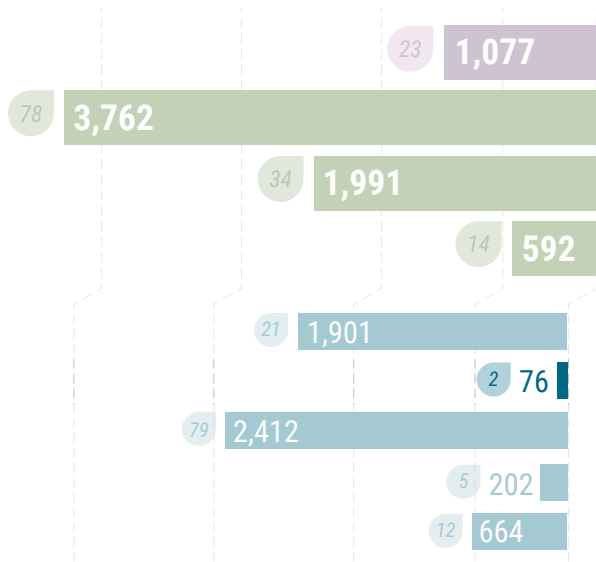
## GDP Growth



## COVID-19 Cases per 100,000 people

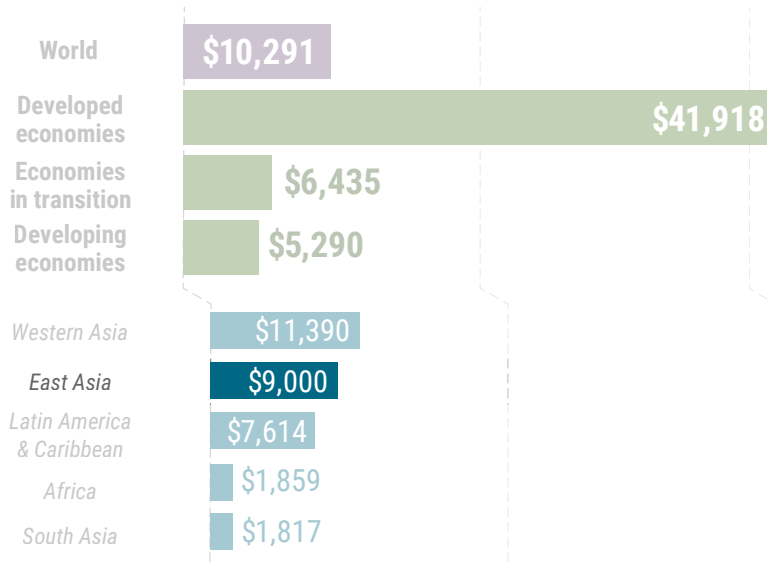
by 1 January 2021

● COVID-19 related deaths per 100,000



## GDP per capita

2020



**Note:** The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2021*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.

**e:** 2020 estimates, **f:** 2021-22 forecasts.

**Source for COVID-19 data:** UNDESA calculations, based on data from Johns Hopkins University.

## East Asia: growth is projected to rebound but downside risks are high

- The pandemic has set back the region's progress towards sustainable development
- Recovery in domestic demand needs to be supported by monetary and fiscal stimulus measures
- Key downside risks to the growth outlook stem from the potential for renewed lockdowns, rising trade tensions and persistent financial market volatility

East Asia's GDP growth decelerated sharply to 1.0 per cent in 2020, marking the region's weakest expansion since the Asian financial crisis (figure III.8). Measures designed to contain domestic outbreaks, including widespread restrictions on mobility and enforced business closures, significantly curtailed household spending and investment activities; and the region's investment prospects have been further dampened by heightened uncertainties and risk aversion. In many economies, however, the introduction of large policy stimulus packages provided some support to domestic demand during the year. On the external front, export volumes contracted owing to supply chain disruptions and weakened global economic activities. While, looking ahead, East Asia is projected to recover from a low base, with growth rebounding to 6.4 per cent in 2021, before moderating to 5.2 per cent in 2022, these growth projections are deeply contingent on the successful containment of the virus, both domestically and abroad. Indeed, with multiple waves of the pandemic threatening to trigger a renewal of lockdowns, downside risks to East Asia's growth outlook are high. Importantly, the pandemic has inflicted long-lasting socioeconomic damage on many parts of the region, with a disproportionate impact on the vulnerable segments of society.

Figure III.8  
**Real GDP growth in East Asia**



Source: UN DESA.

Note: Data for 2020 are estimations and data for 2021 and 2022 are forecasts (f = forecast).

**Prospects for a recovery depend on the type and effectiveness of pandemic containment measures**

The growth prospects for East Asia, compared with the prospects for other developing regions, suggest relatively greater resilience. With a large number of countries in the region successfully containing the virus, East Asia is likely to be the only developing region to observe positive growth in 2020. Nevertheless, the aggregate figures mask a wide divergence in the projected recovery paths of its different economies, with China being the main driver of the region's growth. For all countries, however, one of the major determinants of the strength of the short-term economic recovery will be the type and effectiveness of pandemic containment measures. Although it was the initial epicentre of the COVID-19 outbreak, China quickly contained the outbreak's spread, enabling a quick rebound in growth. In the South-East Asia subregion, most countries also imposed widespread social distancing restrictions, which resulted in sharp contractions in economic activity, particularly private consumption. However, while Singapore, Thailand, and Viet Nam flattened the curve relatively quickly and with shorter lockdowns, Indonesia, Myanmar and the Philippines are still struggling with high daily levels of new infections. In the latter group, a more prolonged period of limited mobility and weak sentiments will depress consumer spending and private investment, thus constraining the pace of recovery.

In contrast, the Republic of Korea and Taiwan Province of China did not impose large-scale social distancing regulations but, instead, utilized a strategy of extensive testing, contact tracing and targeted quarantines to control domestic outbreaks. As public confidence and domestic demand were less adversely impacted, these economies averted a severe economic downturn and had returned to a path of positive quarter-on-quarter growth by the third quarter. Indeed, the Asian Development Bank (2020) recently found that as compared with school and workplace closures, gathering bans, mass testing and contact tracing were associated with smaller output losses.

**Growth prospects of the trade-dependent economies hinge on the strength of the global economic recovery**

The pandemic's shock to global demand as well as its disruptions to production networks had a visible impact on East Asia's trade performance in 2020. Between January and October, nominal merchandise exports in the region contracted by 0.8 per cent compared with the same period in the previous year. However, the decline in East Asia's export performance was less severe than that of other developed and developing regions. For several East Asian economies, a surge in global demand for pandemic-related goods partially offset significantly weaker demand in other export sectors, such as commodities and automobiles. Economies that are deeply integrated into the region's electrical and electronic (E&E) production networks, including China, the Republic of Korea, and Taiwan Province of China, benefited from an increase in shipments of semiconductors, laptops and other work-from-home products. China also experienced a strong increase in exports of medical goods and protective equipment. As the effects of the pandemic subside, however, demand for these goods will eventually normalize.

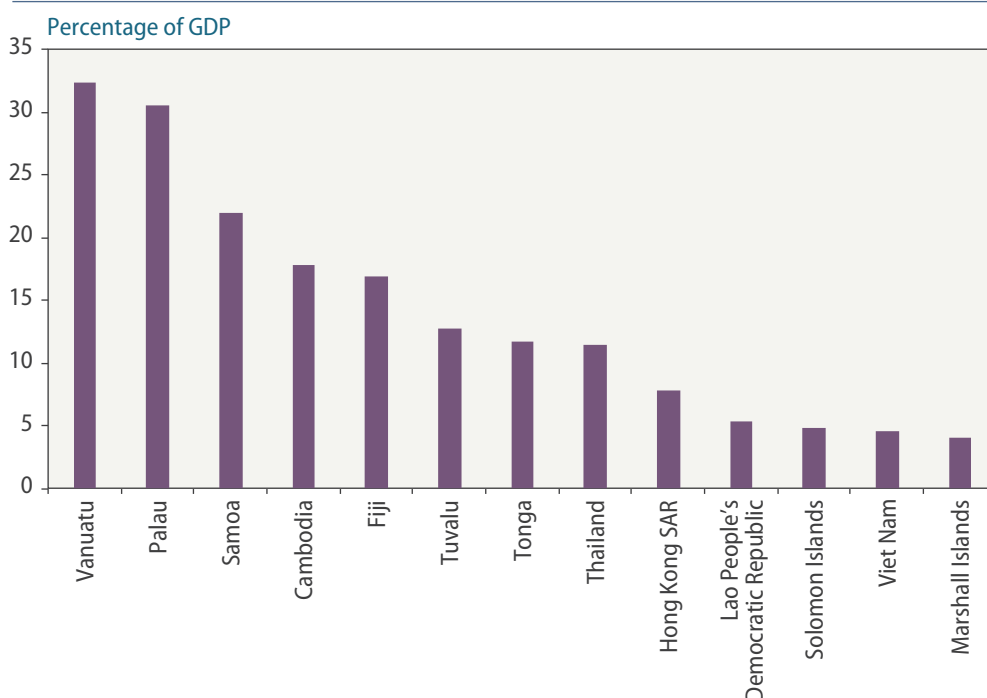
Recent leading trade indicators, such as new export orders and business sentiments, point towards continued trade weakness ahead; and given strong external headwinds, the region's trade outlook is highly fragile. Several of East Asia's major trading partners, including many countries in Europe, could face a more prolonged period of lockdowns, which would weigh on their import demand. In 2020, trade tensions between China and the United States re-escalated, extending deeper into the areas of technology and telecommunication. While trade-related tensions between these two major economies could abate given the election of a new United States Administration, they are unlikely to dissipate completely considering the long-standing and complex nature of the issues under dispute.

The growth outlook for the East Asian economies will also be strongly influenced by their degree of reliance on other external sources of income, in particular tourism, remittances and commodities. Given the slow reopening of borders and cautious consumer behaviour, a swift rebound in international travel appears highly unlikely. This bleak outlook has severe implications for the growth prospects of the tourism-dependent economies in the region, given the importance of the tourism industry as a source of foreign exchange earnings, employment and income. Before the pandemic, international tourism receipts accounted for 18 per cent of GDP in Cambodia and 11 per cent of GDP in Thailand. The level of economic reliance on tourism is even higher in the Pacific island States. Indeed, in Fiji, Palau, Samoa and Vanuatu, international tourism receipts account for 17–32 per cent of GDP (figure III.9). Within these countries, the prolonged slump in tourist arrivals threatens the viability of many small and medium-sized enterprises, while at the same time affecting the livelihoods of low-skilled workers who depend on income derived from tourism-related industries.

**The pandemic shock has severely impacted economies that rely heavily on other external sources of income, in particular tourism, remittances and commodities**

Figure III.9

### International tourism receipts in selected East Asian economies, 2019



Source: UN World Tourism Organization.

The deterioration of global economic conditions will also hurt countries with a high reliance on remittance inflows. In the Philippines and Viet Nam, for example, remittances account for about 9 per cent and 6 per cent of GDP, respectively. However, from January to August 2020, the Philippines saw a contraction in remittance inflows by 2.6 per cent, a stark contrast to solid annual average growth in remittances of 4.1 per cent over the past five years. As migrant workers in host countries face employment losses and wage cuts, households in recipient countries could see a large decline in this major source of their income, which would constrain private consumption.

Growth will rebound  
in China, supported by  
stimulus measures

At the same time, the commodity-exporters, such as Brunei Darussalam, Indonesia, Mongolia and Timor-Leste, will confront strong headwinds arising from the renewed decline in global commodity prices. Not only will persistently low commodity prices hurt export revenues but they could also drive large capital outflows, exerting downward pressure on exchange rates. In addition, the collapse in commodity-related income will further weaken the fiscal positions of these economies, constraining the ability of their Governments to utilize additional fiscal stimulus measures to counter the pandemic and support domestic demand.

In China, early lockdown measures were successful in quickly containing the domestic spread of COVID-19, which enabled an economic recovery to unfold from the second quarter of 2020 onward. Following a deep GDP contraction of 6.8 per cent in the first quarter, growth picked up on the back of a rebound in industrial production and exports, as pandemic control measures were gradually removed. Growth was also supported by an increase in infrastructure investment as well as a modest revival in private consumption. Against this backdrop, the Chinese economy is likely to have expanded by 2.4 per cent in 2020, making it the only major economy in the world to have experienced positive growth in 2020.

Looking ahead, China's GDP growth is projected to increase to 7.2 per cent in 2021, before moderating to 5.8 per cent in 2022; but given the highly challenging environment, monetary and fiscal stimulus will remain in place over the outlook period. The economic recovery, however, is expected to be uneven across sectors. Public spending on infrastructure investment is likely to strengthen, supported by a rise in the issuance of local government special-purpose bonds. In contrast, private consumption is likely to recover at only a moderate pace, as weak sentiments constrain the willingness of consumers to purchase discretionary items. Also, amid elevated uncertainty over future income and employment prospects, household savings have risen to an estimated level of more than 35 per cent of disposable income. In addition, despite the initial strong revival in manufacturing production, growth in private investment will be dampened by the fragile outlook on domestic and external demand.

The region is subject to  
bouts of high volatility  
in international financial  
markets

Amid persistent uncertainty surrounding the duration and impact of the pandemic, financial markets in East Asia will remain subject to abrupt shifts in investor sentiment over the outlook period. In the first quarter of 2020, widespread COVID-19 outbreaks and sudden lockdowns across the world caused strong financial market turbulence and an increase in demand for safe-haven assets. Against this backdrop, the region experienced substantial portfolio outflows during the first quarter, reflected in large equity market declines and domestic currency depreciations. In Indonesia, the Philippines and Thailand, stock markets weakened by about 30 per cent compared with the previous quarter.

Financial market conditions in East Asia improved in the second quarter, as investor sentiments were supported by massive liquidity injections and unprecedented monetary stimulus measures taken by central banks, particularly in the developed economies. Moreover, financial markets began to stabilize as mobility restrictions and lockdown measures around the world were gradually eased. Nevertheless, the emergence of new waves of infections across the world in the latter part of the year continued to trigger periodic bouts of market volatility in the region.

Inflation will remain  
muted amid subdued  
domestic demand and  
low commodity prices

Inflationary pressures are expected to remain subdued in most East Asian economies, reflecting weak aggregate demand and low global commodity prices. In 2020, headline inflation remained below central bank targets in several countries and areas, including the

Republic of Korea, Taiwan Province of China and Thailand. Malaysia, Singapore and Thailand experienced deflation during the year amid a sharp contraction in economic activities. In contrast, inflation edged up in China and Viet Nam as an increase in domestic food prices more than offset conditions of weaker demand.

In most countries of the region, core inflation will remain low over the outlook period, amid a projected slow recovery in economic activity and soft labour-market conditions. Given renewed lockdowns in many parts of the world, disruptions to production and trade could result in supply shortages, thereby exerting upward pressure on product prices in the region. In addition, depreciation in domestic currencies due to heightened financial market volatility could drive up the cost of imported goods.

The severe economic shock from the pandemic prompted swift monetary policy easing by central banks across the region (figure III.10). Some of the more aggressive interest rate cuts were seen in the Philippines, Mongolia, Myanmar and Viet Nam, where policy rates were reduced by between 175 and 300 basis points during the year. In the Republic of Korea and Thailand, interest rates were brought down to a record low of 0.5 per cent.

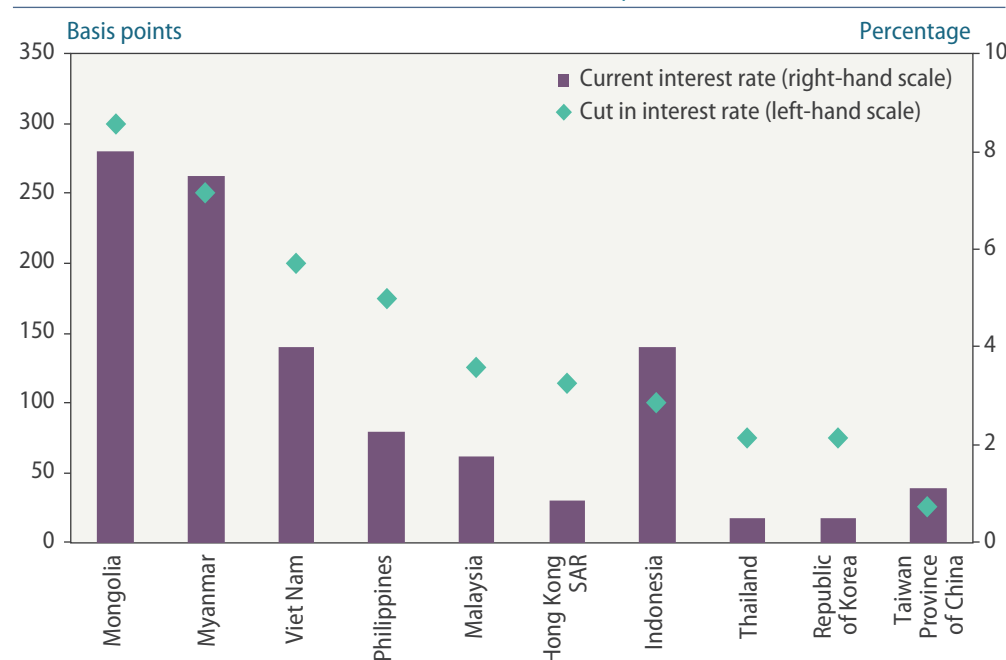
Alongside interest rate cuts, central banks in the region deployed a range of other policy tools aimed at stabilizing financial markets and supporting credit flows. These measures included lowering reserve requirement ratios, loosening countercyclical capital buffers and setting up special credit facilities. Several central banks also announced loan extensions and debt moratoriums to ease cash flow to households and businesses. For the first time, given the severity of the shock, central banks in Indonesia, the Philippines and the Republic of Korea introduced quantitative easing measures through the outright purchase of government bonds.

Amid a highly fragile growth outlook, monetary policy in East Asia is likely to remain expansionary, with further easing measures expected in parts of the region. However, given the existence of very low interest rates in many countries, central banks do not have much

Monetary policy will remain expansionary, given the fragile economic outlook and elevated downside risks

Figure III.10

### Interest rate cuts in selected East Asian economies, 2020



Source: National authorities.



space for embarking on further rate cuts, which may lead to more experimentation with unconventional monetary policy measures in the region. Hofman and Kamber (2020) caution, however, that pursuing unconventional monetary policies may entail risks for central banks that lack certain key preconditions for the conduct of such policies, for instance, credibility (p. 3). In addition, while a more prolonged period of low borrowing costs and high liquidity will provide some support to growth in the short term, it is likely to exacerbate financial vulnerabilities, particularly high indebtedness. It is worthy of note in this regard that household debt-to-GDP ratios in Hong Kong Special Administrative Region, Malaysia and the Republic of Korea have risen to above 80 per cent of GDP, exceeding those of several developed countries including Japan and the United States.

**Fiscal stimulus measures have been critical in providing support to households and businesses**

Polymakers across East Asia have rolled out large fiscal stimulus packages aimed at reducing the adverse health, economic and social consequences of the pandemic. The size of these packages have ranged from less than 2 per cent of GDP in countries such as Myanmar and the Lao People's Democratic Republic to about 20 per cent of GDP in Singapore. There were also differences among countries with respect to policy priority areas based on national circumstances. To ease cash flow for businesses, particularly small and medium-sized enterprises, the measures that were introduced included tax reliefs, soft loans that came with favourable interest rates and lending guarantees, as well as utilities and rental subsidies. Many countries, including Malaysia, Singapore and Thailand, also implemented wage subsidies to help firms retain employment. To support household incomes and consumer spending, countries in the region announced a range of measures including income tax cuts, cash transfers and the expansion of unemployment benefits. Looking ahead, fiscal policies in the region are likely to remain expansionary so as to aid economic recovery from the pandemic. In Indonesia, the Philippines and Thailand, public spending on infrastructure is likely to be an important driver of growth over the outlook period.

**Downside risks to the region's growth outlook have intensified**

While the prospects for an effective COVID-19 vaccine indicate that it is on the horizon, the East Asia region still faces multiple downside risks to its growth outlook. The occurrence of new waves of the pandemic before the successful development and distribution of the vaccine could lead to renewed lockdowns, which would in turn cause deeper and more prolonged economic slumps. On the financial front, stronger market turmoil could trigger a sharp tightening in credit conditions and large asset price declines, which would not only amplify the weaknesses in the real economy, but also exacerbate existing financial vulnerabilities, including high corporate and household debt.

**The pandemic has intensified challenges to sustainable development in the region**

The pandemic is threatening to reverse much of the progress made by the East Asian region in advancing its development agenda. Across the region, unemployment rates have risen to multi-year highs amid prolonged disruptions to economic activity. Importantly, job losses due to the pandemic have been disproportionately higher in the informal sector, where workers often earn low incomes and are vulnerable based on their employment conditions. Hence, countries characterized by a higher degree of informality are most at risk of experiencing significant setbacks to poverty eradication and a widening of inequality. In Cambodia, Indonesia and Myanmar, informality affects close to 90 per cent (or even more) of all workers (ILO, 2018). Given the high level of informality and a large digital divide, the share of workers that can work from home in South-East Asian and Pacific economies is much lower than the world average (ILO, 2020b).



The pandemic provides an opportunity for East Asian economies to reprioritize policies in order to enhance the region's resilience to future shocks. It is imperative for the region to improve social protection and public health emergency preparedness if it is to support the vulnerable segments of society. ESCAP (2019) estimates that to achieve the Sustainable Development Goals, the developing countries of Asia and the Pacific would need an additional annual investment of \$1.5 trillion (or 5 per cent of GDP), including \$669 billion for the provision of a social protection floor, targeted cash transfers for the poor, nutritious food, quality education and universal health-care systems.

As the effects of climate change on the region intensify, Governments will need to explicitly incorporate environmental sustainability into all policies going forward. This would entail, inter alia, accelerating green public investment, including in clean energy and climate-resilient infrastructure. Such investments have the potential to create jobs that are more secure, which would help to partially offset some of the job losses due to the pandemic.

**Policymakers need to pursue recovery strategies that are greener and more inclusive and that promote a more resilient development path**