

World Economic Situation and Prospects 2011

Press Release

Asia's developing economies sustain robust growth, leading global recovery – UN

China and India remain the engines of growth in East and South Asia

Bangkok, 18 January 2011 – China and India have sustained their leading role in driving the economic recovery in Asia and the world, says the UN annual economic report, *World Economic Situation and Prospects 2011 (WESP)*. Gross domestic product (GDP) in East and South Asia expanded by 8.4 per cent in 2010, up from 5.1 per cent in 2009, the report states. A moderate slowdown is expected in the near outlook with GDP forecast to grow, on average, by 7.1 per cent in 2011 and 7.3 per cent in 2012.

East and South Asia: Rates of growth of real GDP, 2007-2012^a

Annual percentage change						
	2007	2008	2009	2010 ^b	2011 ^c	2012 ^c
East and South Asia	9.3	6.2	5.1	8.4	7.1	7.3
East Asia	9.6	6.4	4.9	8.8	7.2	7.4
Brunei Darussalam	0.2	-1.9	-0.5	1.2	1.3	1.5
China	13.0	9.6	9.1	10.1	8.9	9.0
Hong Kong SAR	6.4	2.2	-2.8	6.5	4.4	4.6
Indonesia	6.3	6.0	4.5	6.1	6.2	6.4
Malaysia	6.5	4.7	-1.7	7.1	5.0	5.3
Myanmar	11.9	3.6	1.3	5.0	4.7	5.1
Papua New Guinea	7.2	6.7	4.5	6.2	6.7	7.0
Philippines	7.1	3.7	1.1	6.8	4.6	5.1
Republic of Korea	5.1	2.3	0.2	6.2	4.5	4.7
Singapore	8.5	1.8	-1.3	13.5	4.6	5.0
Taiwan Province of China	6.0	0.7	-1.9	9.0	4.5	4.9
Thailand	4.9	2.5	-2.2	7.3	4.8	5.1
Viet Nam	8.5	6.3	5.3	6.6	6.8	7.0
South Asia	8.5	5.8	5.5	7.0	7.0	7.2
Bangladesh	6.3	6.0	5.7	5.7	6.0	6.2
India	9.4	7.5	6.7	8.4	8.2	8.4
Iran (Islamic Republic of)	7.8	1.0	1.8	3.0	3.1	3.4
Nepal	3.4	6.1	4.9	3.8	4.4	4.6
Pakistan	5.6	1.6	3.4	3.3	3.8	4.2
Sri Lanka	6.8	6.0	3.5	7.0	6.8	6.8

Source: United Nations, *World Economic Situation and Prospects 2011*.

- ^a Regional averages are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.
- ^b Partly estimated.
- ^c Forecasts, based in part on Project LINK.

East Asia: growth remains strong though moderating in the outlook

According to the report released today, East Asia remains the fastest-growing region in the world. Economic activity expanded by 8.8 per cent in 2010 as the region recovered rapidly from the global crisis. China and the highly export-oriented economies of Singapore and Taiwan Province of China achieved the fastest growth rates in the region.

Loose monetary conditions and a recovery in export demand led to a rapid expansion in business investment. Household consumption also picked up, on the back of higher wages and rising employment. While the recovery is increasingly being supported by private sector demand, government spending continued to provide significant stimulus in many countries, especially in the first half of 2010.

The outlook for East Asia is favourable, although growth is expected to moderate owing to weakening global conditions and fading government stimulus. Regional growth is forecast to average 7.2 per cent in 2011 and 7.4 per cent in 2012. Given the subdued outlook in developed economies, countries with large and buoyant domestic markets, such as China, Indonesia and Viet Nam, are in a better position to maintain the growth momentum than the economies more heavily dependent on exports, says *WESP*. GDP growth in China is forecast to decelerate from 10.1 per cent in 2010 to 8.9 per cent in 2011 and 9.0 per cent in 2012.

WESP says labour market conditions in East Asia generally improved in 2010. Strong growth boosted employment across the region, especially in the manufacturing, construction and service sectors. In most economies, unemployment is back to or below pre-crisis levels. Average real wages increased, with China seeing significant minimum wage hikes in several provinces. In the outlook, unemployment and underemployment rates are expected to decline slowly and real wages are forecast to increase further.

Consumer price inflation in East Asia picked up in 2010, but mostly remained within the target range of central banks. Average inflation in the region rose from a low of 0.7 per cent in 2009 to 3.2 per cent in 2010. Most of the increase in consumer price indices over the past year can be attributed to higher food prices. In China, for example, food prices increased by about 6 per cent during the first three quarters of 2010, well above the 3 per cent increase in the consumer price index. Inflation is forecast to average about 3 per cent in both 2011 and 2012, says the UN report.

Despite the economic rebound, authorities have been cautious on tightening monetary policy, keeping interest rates near the very low levels adopted in 2008 and 2009. In China, Malaysia, the Republic of Korea, Taiwan Province of China and Thailand, policy rates were raised between 25 and 75 basis points. Growth of money supply and credit in China has returned to a more sustainable pace in the course of 2010.

WESP says that most central banks are expected to tighten monetary conditions slowly in 2011, keeping their eye on the strength of the recovery in developed economies and on the risk of further encouraging capital inflows by increasing policy rates.

Total export earnings in many East Asian economies were up by more than 25 per cent compared to 2009, despite a slowdown in the second half of the year. The manufacturing sector accounted for most of the growth, as demand for machinery and electrical equipment increased rapidly. Overall, intraregional trade rebounded faster than trade with the United States and European countries. In 2011, export revenues are expected to grow further, although at a much slower pace than in 2010, as demand from developed economies weakens.

However, *WESP* states that, with import demand slowing markedly, trade surpluses have begun to widen again, most notably in China and the Republic of Korea. The full-year surplus is therefore expected to increase in most economies in 2011. By contrast, trade surpluses as shares of GDP are likely to continue to decline to levels well below those reached in the years before the global financial crisis.

While East Asia has rebounded strongly from the crisis and is expected to continue on a firm recovery path, the report warns against several downside risks. A key risk is the massive inflow of short-term capital to some economies owing to very low interest rates and abundant liquidity in developed countries. The surge in capital inflows has put upward pressure on exchange rates and is inflating asset price bubbles and accelerating inflation.

In 2010, several East Asian currencies, most notably the Malaysian ringgit and the Thai baht, appreciated significantly against the dollar and the renminbi. Indonesia, the Republic of Korea, Taiwan Province of China and Thailand have put in place capital control measures to limit the impact of volatile foreign capital on the exchange rate. Since most East Asian economies rely heavily on external demand, competitive devaluations, combined with other protectionist measures, would be particularly damaging to growth in the region, says *WESP*.

Continued robust, though uneven, growth in South Asia

The global economic crisis had only a limited impact on South Asia, and economic activity gained further strength in 2010, most notably in India and Sri Lanka, the UN report states. For the sub-region as a whole, GDP expanded by 7.0 per cent in 2010. Growth is forecast to decelerate only slightly to 6.9 per cent in 2011, before seeing a mild acceleration to 7.2 per cent in 2012.

Strong inflationary pressures continue to be a major concern for policymakers, however. In several countries, consumer price inflation has remained in the double-digits, especially because of sharp increases in food prices. In response, a number of central banks, most notably the Reserve Bank of India, tightened monetary policy in 2010. *WESP* says that high inflation remains a key challenge for most countries in South Asia, with weighted-average regional consumer price inflation standing at 11.0 per cent in 2010. In the outlook, inflation is forecast to decline moderately in most countries – averaging 8.7 per cent in 2011 and 7.7 per cent in 2012 – as a result of tighter monetary conditions and a slower rise in food prices.

India continued to lead the sub-region's recovery in 2010, owing to a rapid expansion in gross fixed capital formation, increased government spending and robust growth in private consumption. The manufacturing sector expanded at a fast pace, driven by strong domestic and external demand. Total export earnings increased by about 25 per cent in 2010. Agricultural output was boosted by good monsoon rains. After accelerating to 8.4 per cent in 2010, *WESP* forecasts that growth will moderate to 8.2 per cent in 2011, mainly as a result of tighter monetary and fiscal policies. Sri Lanka's economy rebounded strongly in 2010, as all economic sectors were reaping a peace dividend.

In contrast to these two economies, economic growth in the Islamic Republic of Iran, Nepal, Pakistan, and – to a lesser extent – Bangladesh is much more subdued, owing mostly to country-specific factors such as political uncertainties, weak infrastructure and a poor investment climate. In the Islamic Republic of Iran, economic activity in 2010 was supported by higher oil prices, but it continues to be below potential owing to insufficient investment in the hydrocarbon industry in recent years and slow growth in private consumption. In Pakistan, the worst flooding in the history of the country inflicted immense economic damage, destroying large parts of the infrastructure in the affected areas, including roads, bridges, irrigation systems and power plants, as well as crops.

In India, employment in export-oriented industries increased in 2010 owing to stronger global demand, while in Sri Lanka, the unemployment rate declined markedly. Nonetheless, most countries continue to face tremendous employment challenges such as ongoing high rates of vulnerable and informal employment, low productivity in the agricultural sector and widespread youth unemployment. In Sri Lanka, 18.6 per cent of young men and 24.6 per cent of young women were unemployed in the second quarter of 2010. The employment situation is particularly dire in Pakistan, where more than 5.3 million jobs were lost or affected by the flooding.

Fiscal deficits have widened. Sri Lanka's budget deficit rose to about 10 per cent of GDP in 2009 and India's to almost 7 per cent. In 2010, Governments of both countries have started to implement fiscal consolidation plans, based on a combination of increased tax and non-tax revenues and lower expenditures. Owing to strong economic growth and reduced fuel subsidies, India is in a good position to achieve the target of reducing its deficit to 4.8 per cent of GDP in 2011. Sri Lanka's budget situation benefited from improved security conditions, which facilitated improved tax collection and allowed for a gradual reduction in defence spending, says *WESP*.

The UN report states that downside risks for the outlook for South Asia are related to the expected tightening of monetary and fiscal policies amidst relatively weak global conditions. Moreover, if international energy and food prices increase in 2011 and become more volatile, policymakers will find it even more difficult to bring inflation back to target and to consolidate fiscal balances. In Pakistan, a further deterioration of the security situation would hinder the reconstruction of the flood-hit areas and lead to a sharper economic slowdown.

East Asia key to rebalancing the global economy

Global imbalances were symptoms of the problems that caused the global financial crisis of 2008-2009, the UN report observes. The world's biggest economy, the United States, was running large deficits, which were financed through large savings surpluses in Germany and Japan, but in particular also in a number of East Asian countries. The United States deficit ran as high as \$718.1 billion in 2007 (6 per cent of its GDP), counterbalanced in part by a surplus of \$427.8 billion or 9.8 per cent of the combined GDP of four East Asian economies (China, Indonesia, Malaysia and Thailand). These imbalances were reduced somewhat because of the crisis in 2009, but they remain large by historical standards and are projected to widen again with the present pattern of the recovery, which could further weaken the value of the United States dollar and create greater uncertainty in financial markets (*see global press release*).

WESP suggests that the East Asian economies can help in the rebalancing of the world economy and at the same time sustain their growth dynamics by relying more on their domestic and regional markets. The rebalancing would need to be tailored to country conditions, however. In China, for instance, policy reforms aiming at larger coverage and scope of social protection systems, at fostering a more inclusive financial system and at promoting real wage growth should provide a major boost to household consumption and domestic market expansion. In Indonesia, Malaysia and Thailand, the priority should be to provide additional incentives to investment, both private and public, to strengthen domestic demand. Some gradual realignment of exchange rates will also be needed, but *WESP* warns against a narrow focus on exchange rate policies, as those will not suffice to achieve a sustainable rebalancing of the world economy.

For interviews or to obtain more information, contact Newton Kanhema, tel 1-212-963-5602, e-mail kanhema@un.org, UN Department of Public Information

<http://www.un.org/esa/policy/wess/wesp.html>

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.

Issued by the UN Department of Public Information, DPI/2584 B