



UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

UHERO FORECAST PROJECT  
ASIA-PACIFIC FORECAST:  
PUBLIC SUMMARY

## PACIFIC RIM WILL EDGE FORWARD AFTER WEAK 2013

DECEMBER 6, 2013





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## ASIA-PACIFIC FORECAST

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## EXECUTIVE SUMMARY

The Asia-Pacific region has seen another year of lackluster growth. The global environment for exports—the region’s lifeblood—has remained exceptionally weak, as the European debt crisis has lingered and US fiscal contraction and inaction have slowed the world’s largest economy. Developed economy weakness and a deliberate policy shift have limited the growth impetus from China as well. 2014 promises to be marginally better, now that Europe has begun to emerge from recession and the worst of the US budget drag is hopefully behind us.

- In the US, the year was dominated by federal budget concerns, starting with the fiscal cliff, then the sequester, and finally the government shutdown. Throughout all this turmoil, the private sector has proven resilient, adding nearly 2 million payroll jobs. With monetary policy remaining accommodative, the US economy will grow 2.3% next year and pick up greater momentum thereafter. Following a weak 2013, Canada’s growth will firm as business investment begins to pick up and the housing market maintains relative strength.
- The Japanese economy was buoyed by the announcement of Abenomics, a three-pronged reform program aimed at jolting the recession-riddled country out of its deflationary malaise. But in addition to stimulative monetary and fiscal elements, the plan also prescribes two rounds of consumption tax hikes over the next two years. These will drag down real GDP growth to 1.5% in 2014 and 0.8% in 2015.
- Some of the vigor has gone out of Australia and New Zealand this year. Both countries are benefiting from exchange rate depreciation and reconstruction after natural disasters, and housing markets have also fared well. But in Australia personal consumption and business investment have been tepid, and in New Zealand the agricultural sector suffered from a drought spell. As these weaknesses are reversed, economic growth will accelerate to about 3% in both countries over the next two years.
- China’s 7.7% growth through the first nine months of the year is substantially below the double-digit gains experienced over the past decade. Firms selling their goods domestically have benefited from rising Chinese incomes, while export-oriented firms have felt the weight of weak global demand. As China joins the ranks of middle income countries, its domestic service economy will expand and consumption will replace investment as the main economic driver. Growth will remain in its recent more subdued range, trending toward 7% over the next several years.
- Despite weak conditions in the rich world, the East Asian countries that are most trade-dependent—including Korea, Taiwan, Singapore, and Hong Kong—are managing to do slightly better this year than they did in 2012. They will see growth in excess of 3% by 2014. In contrast, most of the

developing countries of Southeast Asia have seen healthy growth soften a bit this year, amid weaker global commodity markets, the draw-down of post-crisis stimulus measures, and country-specific factors.

- With global trade stabilizing and growth prospects improving somewhat in the developed world, the region is positioned for moderately better performance in 2014. The primary risks are related to policy changes in high income countries, particularly whether fiscal contraction in the US, Japan, and Europe might deflate recoveries in major economies, and whether the unwinding of easy monetary policies could prompt large-scale capital outflows from the developing world and associated financial difficulties.

#### Growth Rates of Real Gross Domestic Product

	2010	2011	2012	2013	2014	2015
North America						
United States	2.5	1.8	2.8	1.6	2.3	2.8
Canada	3.4	2.5	1.7	1.6	2.6	2.8
Asia and Oceania Developed						
Japan	4.7	-0.6	2.0	2.0	1.5	0.8
Australia	2.6	2.4	3.7	2.6	2.8	3.1
East and Southeast Asia						
China	10.3	9.2	7.7	7.6	7.5	7.3
Republic of Korea	6.3	3.7	2.0	2.6	3.3	3.6
Gross World Product	4.0	2.8	2.4	2.1	2.9	3.2

Source: UHERO. Based in part on United Nations LINK Global Economic Outlook, October 2013. Figures for 2013 - 2015 are forecasts. Gross World Product is calculated at 2005 prices and exchange rates.



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