



UHERO FORECAST PROJECT
ASIA-PACIFIC FORECAST:
PUBLIC SUMMARY

DEVELOPING COUNTRIES BUOY ASIAN GROWTH

DECEMBER 7, 2012





UHERO

THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAII

ASIA-PACIFIC FORECAST

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EXECUTIVE SUMMARY

The never-ending European debt debacle and stuttering US recovery have taken a bite out of Asia-Pacific growth this year. Higher income Asian economies have suffered the most from the trade falloff. At the same time, labor markets and fiscal conditions in East and Southeast Asian developing countries remain far stronger than in the developed world. As a result, growth prospects for the region continue to look rosier than in much of the rest of the world, if softer than we saw in the early post-crisis rebound.

- The dominant story in the global economy continues to be the ongoing debt crisis in Europe. The continent has fallen back into recession, mired in a vicious cycle of fiscal austerity, falling demand and employment, and further worsening of government budget balances. There have been some signs of relief from the worst of the debt crisis in recent months, but the situation in Europe remains precarious, and weakness will persist for an extended period of time.
- Economic conditions in the US have shown tentative signs of improvement in recent months. Consumer spending has begun to firm, the unemployment rate has fallen below 8%, and the housing market has turned up. While we are hopeful of a resolution to the looming fiscal cliff, the federal government will be an increasing drag in coming years. This will act as a restraint as the private sector recovery advances.
- Japan's economy has been hammered in recent months by plunging exports, which have in turn dragged down investment and consumer spending. GDP fell sharply in the third quarter and the country has likely re-entered recession. Public demand, which has been supported by post-quake reconstruction, will begin to tail off, and Japan's massive government debt will prevent further stimulus. Political tensions with China and lingering power shortages are also concerns. Given these various drags on growth, we expect only slow improvement as we move into 2013.
- Both Australia and New Zealand were hit by natural disasters over the past two years. Now reconstruction and a return to more normal activity levels is raising measured growth. But the global slowdown is nevertheless exacting a toll. The slowing of production in China and India has reduced the demand for Australian minerals at the same time that it has softened commodity prices. In New Zealand, reconstruction will continue to prop up overall growth, even as the global slump undermines exports.
- China continues to face downside pressure on growth from both gloomy external demand and the policy-induced cooling-off of its domestic real estate market. Output growth has decelerated sharply from more than 10% in 2010 to the mid-7% range this year. Export sector weakness has been reflected in subdued manufacturing performance, and stricter regulation of China's real estate

sector has halved the rate of real estate investment. On the plus side, there are early signs that the worst of the trade and production downturn may now be behind us, and fiscal, trade, and monetary policies will continue to be supportive of a growth pickup.

- Much of developing East and South-East Asia share a common story: the slump in Europe is dragging on growth, while domestic demand and labor markets remain healthy. Those countries that are most trade-dependent—including Korea, Taiwan, Singapore, and Hong Kong—have seen the sharpest slowdowns over the past year. Conditions have held up better in many of the emerging ASEAN countries, where domestic consumption and investment demand has largely offset the effects of lower export earnings. Generally, the developing economies of East and Southeast Asia will see moderately stronger growth in the coming year.

Growth Rates of Real Gross Domestic Product

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------|------|------|------|------|------|------|
| North America | | | | | | |
| United States | -3.1 | 2.4 | 1.8 | 2.3 | 2.5 | 3.0 |
| Canada | -2.8 | 3.2 | 2.4 | 1.8 | 2.2 | 2.8 |
| Asia and Oceania Developed | | | | | | |
| Japan | -5.5 | 4.6 | -0.7 | 2.0 | 0.7 | 1.8 |
| Australia | 1.5 | 2.4 | 2.3 | 3.0 | 2.6 | 3.3 |
| East and Southeast Asia | | | | | | |
| China | 5.1 | 9.2 | 7.1 | 5.9 | 6.3 | 6.7 |
| Republic of Korea | 9.2 | 10.4 | 9.3 | 7.7 | 8.0 | 8.2 |
| Republic of Korea | 0.3 | 6.2 | 3.6 | 2.5 | 3.2 | 3.5 |
| Gross World Product | -2.3 | 4.1 | 2.7 | 2.3 | 2.6 | 3.4 |

Source: UHERO. Based in part on United Nations LINK Global Economic Outlook, October 2012. Figures for 2012 - 2014 are forecasts. Gross World Product is calculated at 2005 prices and exchange rates.

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