

UHERO Global Economic Forecast:
Asia Leads World Recovery

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**University of
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EXECUTIVE SUMMARY

After a deep, synchronized recession, growth is resuming across a broad swath of the global economy. Leading the rebound are the dynamic Asian economies. These countries, which were hit hard by last year's collapse of world trade, have now seen a return to export-led growth, much of it originating from demand within the region. Growth has also returned to the U.S. and Japan, but the depth of the decline, lost household wealth, and lingering credit problems mean that full recovery will take a number of years.

- This year will mark the first since the 1930s to see a net decline in global output. Next year, real gross world product will rise by 2.5%, with respectable growth in the developing countries offset in part by a weak recovery in the developed world.
- We now have clear evidence that the long, deep U.S. recession has ended. Overall economic recovery will be constrained by weakness in consumer spending. For 2009 as a whole, GDP is expected to decline by 2.5%, rising by 2.4% in 2010. The limited pace of economic growth will not be sufficient to prevent an additional rise in the unemployment rate.
- Japan's economy took a big hit from last year's collapse of world trade, but GDP has now expanded for two quarters. Japan will benefit from rebounding Asian export demand, but trade with the U.S. and Europe will be limited by tepid growth in those regions. On an annual basis, we expect 2009 GDP growth to come in at -5.5%, with growth of 2.2% in 2010.
- Developing East Asia slowed dramatically last year, because of an unprecedented export collapse. Now exports are recovering as firms in the region work to rebuild inventories that were allowed to dwindle over the past year. Fiscal policy is also playing an important role. Growth in China has recovered from a steep fall last year. Much of the recovery so far is attributable to fiscal stimulus and a sharp expansion of credit that was engineered by the government. After 8.4% growth this year, China is expected to accelerate to 8.7% growth in 2010.
- The hardest-hit East Asian countries last year were the small, export-dependent economies, including Hong Kong, Singapore, Taiwan, Malaysia and Thailand. These countries are seeing output losses of 2.7% to 3.8% this year, and will only regain a portion of these losses in 2010. Korea, which suffered from last year's sharp drop in global demand for capital goods, returned to positive growth in the second quarter and will expand by 3.5% next year. South Asian countries have fared better because of firm domestic demand and limited reliance on exports. India managed to grow at a 5.9% rate in the first half of this year and is expected to accelerate to 6.5% growth in 2010.
- Most European countries have seen deeper recessions than the U.S. The German economy has been particularly hard hit because of its heavy reliance on capital goods exports, and the deep German recession has spilled over to other European economies. High unemployment, a strengthening Euro, and the removal of fiscal stimulus are expected to restrain the EU to only modest growth in 2010.
- The Eastern European transition economies have been the hardest hit of all world regions. This is partly because of extensive trade links with Western Europe, but also because full-blown financial crises have erupted in some countries. The new EU members as a group will contract by 3.4% this year and expand by 1.6% in 2010.

- In Latin America, the countries that are most dependent on the U.S. market have seen the deepest recessions. These are generally the Caribbean nations and Mexico. Prospects for African recovery have improved with the firming of many commodity prices.
- Global recovery now appears to be widespread, but we continue to be concerned about a number of vulnerabilities in the current environment, including a restrained recovery of consumer spending and the dependence on the monetary and especially fiscal stimulus. Further out, we worry about the failure so far to adequately address the financial sector vulnerabilities that led to last fall's credit crisis.
- The anticipated slow pace of global growth will likely mean a sub-par recovery for Hawai'i, too. The tepid outlook for U.S. and global recovery will limit the pace of Hawai'i visitor industry recovery. Lingering financial sector problems will also weigh on the Hawai'i economy. One bright spot is the declining value of the dollar, especially against the yen, which will support higher spending by Japanese visitors.

Growth Rates of Real Gross Domestic Product

	2005	2006	2007	2008	2009	2010
World	3.5	4.0	3.9	1.9	-2.2	2.5
US	3.1	2.7	2.1	0.4	-2.5	2.4
Japan	1.9	2.0	2.3	-0.7	-5.5	2.2
EU	2.0	3.1	2.8	0.9	-4.0	0.6
Economies in Transition	6.5	8.0	8.4	5.5	-6.4	1.6
South, East Asia	7.7	8.7	9.4	6.1	4.3	6.4
China	10.4	11.6	13.0	9.0	8.4	8.7
West Asia	6.8	6.0	4.9	4.5	-1.2	3.8
Latin America	4.7	5.6	5.5	4.0	-2.2	2.9
Africa	5.6	6.2	6.1	5.6	1.6	4.3

Source: UHERO. Forecasts other than U.S. and Japan based in part on United Nations LINK Global Economic Outlook, preliminary, October 26, 2009. Figures for 2009 and 2010 are forecasts. Gross World Product is calculated at market exchange rates.

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