



Policy uncertainty in advanced economies impacts Asia-Pacific growth

Asia-Pacific economies have paid a heavy price for the uncertainty in economic and fiscal policies in the euro zone and the United States over the past five years. The *Survey* estimates this has involved a 3 per cent loss in Asia-Pacific GDP, equivalent to an output loss of \$870 billion.

“In the past few years, the world economy has been characterized not only by lower growth but also by increased economic uncertainty. Near-term economic prospects have become more unpredictable, with sharp upward and downward revisions in growth projections. Policy uncertainty in developed economies is the main factor behind this environment,” says the *Survey*.

Uncertainty in advanced economies delays consumer spending and business expansion, tightens credit flow and triggers massive inflows and sudden outflows of foreign capital, especially in emerging Asia-Pacific economies.

Economic uncertainty has also increased within the Asia-Pacific region in recent years as evident in the volatility of daily stock market indices and the rapid destocking and restocking of inventories. Changes in inventories as a share of GDP were more pronounced during 2008-2009 in **Malaysia, Republic of Korea, Thailand and Hong Kong (China)**.

Lower levels of economic volatility support growth by boosting market confidence and reducing bond market distress. In the **Philippines, Turkey and Hong Kong (China)**, the estimated annual reductions in GDP caused by volatility linked to economic uncertainty in developed countries are found to range from 7 to 9 per cent. ESCAP analysis shows that a relatively modest improvement in market confidence and reduction in bond market distress can have a sizeable positive impact on GDP growth.

Governments can use countercyclical and proactive fiscal and supportive financial policies to offset the adverse impact of policy uncertainty in the developed world. Governments should design these policies in such a way that the measures also address long-term issues such as infrastructure shortages, including access to modern energy, preserving and improving skills of the workforce and other development deficits.

These country-level policy responses can strengthen market optimism and reduce financial risks. ESCAP estimates show that proactive fiscal and financial policies could, on average, reduce by 75 per cent, the economic output loss caused by policy uncertainty in developed countries and significantly moderate the resulting loss in employment.

Thus, an estimated 2.6 million jobs a year could be saved in **China** and as many 800,000 a year in the **Russian Federation** through proactive policies to counter the impact of economic policy uncertainty in developed countries.