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 Structural Reforms Key to Long-Term Growth and Prosperity
 SINGAPORE, April 7, 2014 - Developing countries in the East Asia Pacific region will see stable economic growth this year, bolstered by a recovery in high-income economies and the markets modest response so far to the Federal Reserves tapering of its quantitative easing, according to the East Asia Pacific Economic Update released today by the World Bank. Developing East Asia will grow by 7.1 percent this year, largely unchanged from 2013, the report says. As a result, East Asia remains the fastest growing region in the world, despite a slowdown from the average growth rate of 8.0 percent from 2009 to 2013. In China, growth will ease slightly, to 7.6 percent this year from 7.7 percent in 2013. Excluding China, the developing countries in the region will grow by 5.0 percent, slightly down from 5.2 percent last year. "East Asia Pacific has served as the worlds main growth engine since the global financial crisis, said Axel van Trotsenburg, World Bank East Asia and Pacific Regional Vice President. "Stronger global growth this year will help the region expand at a relatively steady pace while adjusting to tighter global financial conditions. Larger Southeast Asian economies, such as Indonesia and Thailand, will face tougher global financial conditions and higher levels of household debt. Malaysias growth will accelerate modestly, to 4.9 percent in 2014. Its exports will increase, but higher debt servicing costs and ongoing fiscal consolidation will weigh on domestic demand. In the Philippines, growth could slow to 6.6 percent, but accelerating reconstruction spending would offset the drag on consumption from the effects of natural disasters in 2013. The smaller economies are expected to grow steadily. In Cambodia, renewed reform momentum after the elections is expected to help maintain growth at 7.2 percent this year, but labor market instability could pose downside risks. Steady progress in structural reforms will help Myanmar grow at 7.8 percent. But with limited progress in structural reforms in banking and other sectors, the Vietnamese economy is expected to grow modestly, at 5.5 percent this year. Most of the Pacific Islands and Timor-Leste remain dependent on aid and remittances from advanced economies. Risks to the regional forecast remain. "A slower-than-expected recovery in advanced economies, a rise in global interest rates, and increased volatility in commodity prices on account of recent geo-political tensions in Eastern Europe serve as reminders that East Asia remains vulnerable to adverse global developments, said Bert Hofman, Chief Economist of the World Banks East Asia and Pacific Region. On the bright side, as last years tapering episode demonstrated, flexible currencies will help East Asia deal with external shocks, including potential capital-flow reversals. In addition, most countries have adequate reserves to cover temporary trade and external shocks. Over the longer term, to keep growth high, developing East Asia should redouble efforts to pursue structural reforms to increase their underlying growth potential and enhance market confidence, Hofman said. Structural reforms are key to reducing vulnerabilities and enhancing the sustainability of long-term growth. China has already begun a series of reforms in finance, market access, labor mobility and fiscal policy to increase the efficiency of growth and boost domestic demand. Over time, these measures will put the economy on a more stable, inclusive and sustainable footing. Some initiatives that the government has already announced, such as tax reform and lowering barriers to private investment, may also spur growth in the short term. Successful reforms in China could bring considerable benefits to trade partners supplying it with agricultural products, consumption goods and modern services. Conversely, spillovers from a disorderly rebalancing in China could hurt regional and global growth, especially in countries relying on natural resource exports. The rest of the regions developing countries could also benefit from structural reforms, such as facilitating international trade and promoting foreign direct investment, especially in the services sector. In this context, the establishment of the ASEAN Economic Community in 2015 could boost intra-regional investment and exports and provide an important source of growth, the report says. Cambodia. Cambodias economic growth remains strong with 7.4 percent in 2013 despite the adverse effects posed by political uncertainty and labor unrest. This growth has been led by the acceleration of garment exports and continued growth in tourism, supported by a strengthened global economy. The current account deficit narrowed as a result of slower imports, which in turn contributed to slower revenue collection, resulting in an increased fiscal deficit. Economic growth for 2014 is projected to reach 7.2 percent based on a continued global economic recovery, the return of stability to the domestic economic environment and renewed confidence over the rest of the year. Potential further political uncertainty and labor unrest and an economic slowdown in China may pose downside risks. Cambodias economy has withstood domestic pressures and managed to sustain its high growth, said Alassane Sow, the World Bank Country Manager. "This strong growth may help Cambodia to achieve its goal in reducing poverty by one percent per year. As we all know, almost 3 million people remain poor and over 8.1 million are near-poor. They are still at high risk of falling back to poverty. Enrique Aldaz-Carroll, Senior Country Economist for the World Bank Cambodia Country Office said "Managing domestic pressures will help Cambodia make the most out of the global economic recovery. Successfully negotiating wage issues would serve the interests of both workers and firms. Further improving domestic revenue collection will help provide a cushion for any future shocks and finance higher demands for priority spending, including the public sector wage bill. The East Asia and Pacific Update is the World Banks comprehensive review of the regions economies. It is published twice yearly and is available free of charge at <http://www.worldbank.org/eapupdate>. 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