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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, but face overheating risks that could require further monetary tightening. In Cambodia, renewed reform momentum after the elections is expected to help stabilize 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. The East Asia and Pacific Economic Update is the World Banks comprehensive review of the regions economies. It is published twice yearly and is available free of charge at www.worldbank.org/eapupdate. In Singapore: Dini Djalal: +62-21-5299-3156. In Washington D.C.: Jane Zhang: +1 (202) 473-1376. janezhang@worldbank.org http://www.pressrelations.de/new/pmcounter.cfm?n_pnr_=561903

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