Cambodia and Developing East Asia Pacific Growth Remain Robust in 2015

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Lower Oil Prices Offer Opportunity for Fiscal Reforms
Cambodia continues to enjoy robust growth, albeit at a slightly slower pace
Economic growth will ease slightly in developing countries in East Asia and Pacific this year, even as the region benefits from lower oil prices and a continued economic recovery in developed economies, according to the East Asia Pacific Economic Update released today by the World Bank.
The developing economies of East Asia are projected to grow by 6.7 percent in 2015 and 2016, slightly down from 6.9 percent in 2014. Chinas growth is expected to moderate to around 7 percent in the next two years compared with 7.4 percent in 2014. Growth in the rest of developing East Asia is expected to rise by half a percentage point, to 5.1 percent this year, largely driven by domestic demand - thanks to upbeat consumer sentiment and falling oil prices - in the large Southeast Asian economies. Several smaller economies, especially commodity exporters such as Mongolia, will see lower growth.
"Despite slightly slower growth in East Asia, the region will still account for one-third of global growth, twice the combined contribution of all other developing regions," said Axel van Trotsenburg, World Bank East Asia and Pacific Regional Vice President. "Lower oil prices will boost domestic demand in most countries in the region and provide policy makers a unique opportunity to push fiscal reforms that will raise revenues and reorient public spending toward infrastructure and other productive uses. These reforms can improve East Asias competitiveness and help the region retain its status as the worlds economic growth engine."
Low global oil prices will benefit most developing countries in East Asia, especially Cambodia, Laos, the Philippines, Thailand, and the Pacific island countries. But the regions net fuel exporters, including Malaysia and Papua New Guinea, will see slower growth and lower government revenues. In Indonesia, the net impact on growth will depend on how much a decline there will be for its coal and gas exports.
The headwinds facing the world economy continue to pose risks to East Asias globally-integrated economies. The recovery in high-income countries continues to be slow and uneven, and a downturn in the eurozone and Japan would weaken global trade. Higher U.S. interest rates and an appreciating U.S. dollar, along with diverging monetary policy paths across advanced economies, could raise borrowing costs, generate financial volatility and reduce capital flows to East Asia. The continued strengthening of the U.S. dollar against other major currencies also could hurt highly-dollarized economies such as Cambodia and Timor-Leste.
"East Asia Pacific has thrived despite an unsteady global recovery from the financial crisis, but many risks remain for the region, both in the short and long run," said Sudhir Shetty, Chief Economist of the World Banks East Asia and Pacific Region. "To address these risks, improving fiscal policy is key. With low oil prices, countries - whether oil importers or exporters - should reform energy pricing to usher in fiscal policies that are more sustainable and equitable."
In most of the larger East Asian economies, efforts to bolster revenues and restructure spending can help fill the gap in infrastructure investments and create more funding for social protection and insurance programs, which are already under pressure amid rapid aging in the region, the report says. In the major fuel exporting countries and Mongolia, fiscal consolidation is required.
Lower oil prices, in particular, create an opportunity for governments to reduce fuel subsidies and raise energy taxes, the report says. Across much of the region, fuel subsidies and related tax expenditures have strained public finances and weakened current accounts. Some countries, including Indonesia and Malaysia, recently took steps to cut fuel subsidies, but Shetty said the momentum needs to be sustained and broadened, even if oil prices begin to recover.
In China, as it shifts to a consumption-led, rather than an investment-led, growth model, the main challenge is to implement reforms that will ensure sustainable growth in the long run. Policies to spur growth, the report says, should support restructuring efforts.
In the medium term, the report says, countries should expand and upgrade physical infrastructure and improve public access to higher education and health care. In the long term, countries will need to find ways to sustain productivity growth, contain health care costs and expand the revenue base for social security.
"Cambodias real growth rate is expected to moderate to 6.9 percent in 2015 and 2016, as it confronts stronger competition in garment exports, continued weak agriculture sector growth, and softer growth in the tourism sector," said Sodeth Ly, World Bank Cambodia Country Economist.
To maintain high growth, he suggests to sustain stability in the labor market, improve the business environment, road transportation and access to finance for rice producers and millers, and to invest in agriculture productivities.
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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