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Changing global outlook highlights the need for structural reforms to sustain growth and share prosperity
MANILA, October 7, 2013 - Developing East Asia is growing at a slower pace but the Philippines expects to buck this trend in the next three years, says the East Asia and Pacific Economic Update released today by the World Bank. The positive forecast for the Philippines is attributed to strong private consumption on the back of vibrant remittances, continuing expansion of business process outsourcing and increasing government spending on infrastructure.
According to the report, the growth forecast for developing countries in the East Asia and Pacific is 7.1 percent for 2013, and 7.2 percent for 2014. Excluding China, the region is expected to grow at 5.2 percent in 2013 and 5.3 percent in 2014.
The Philippines is forecast to grow by 7 percent this year and 6.7 percent in 2014, a revision from the reports previous forecast in May of 6.2 percent and 6.4 percent, respectively.
The 2013 growth forecast for China is 7.5 percent, down slightly from last years 7.8 percent as it shifts from an export-oriented economy and focuses on domestic demand. Growth in larger middle income countries including Indonesia, Malaysia, and Thailand is also softening in light of lower investment, lower global commodity prices and lower than expected growth of exports.
"East Asia Pacific continues to be the engine driving the global economy, contributing 40 percent of the worlds GDP growth?more than any other region. With overall global growth accelerating, now is the time for developing economies to make structural and policy reforms to sustain growth, reduce poverty and improve the lives of the poor and vulnerable, said Mr. Axel van Trotsenburg, World Bank East Asia and Pacific Regional Vice President.
"Reforms to enhance competition, protect property rights, simplify business regulations, and increase investment in infrastructure, education and health will boost the Philippines efforts to achieve inclusive growth?the type that creates more and better jobs and reduces poverty, said Mr. Motoo Konishi, World Bank Country Director for the Philippines.
According to World Bank Lead Economist Rogier van den Brink, the Philippines strong macroeconomic fundamentals, characterized by low and stable inflation, healthy external balance and stronger government finances have shielded the economy from the persistent weaknesses in the global economy.
As the recovery picks up in the United States (US), Japan and the Eurozone, with growth accelerating in the second quarter of 2013, developing countries in East Asia stand to benefit because of their high trade shares in the economy. But they need to be better prepared for potentially disruptive adjustments.
Over the past few months, speculation about the withdrawal of quantitative easing in the US led to stock market sell-offs and currency depreciation, hurting countries with large foreign participation in their financial markets.
"The Federal Reserves decision to delay tapering stabilized markets for now, giving countries a second opportunity to take measures to lower risks from future volatility, said Mr. Bert Hofman, World Bank East Asia and Pacific Chief Economist.
"Reducing reliance on short term and foreign currency denominated debt, accepting a weaker exchange rate when growth is below potential, and building policy buffers to respond to changing global liquidity conditions are some of the ways that can help countries be prepared.
The impact of tapering on capital inflows in the region may also be offset by "Abenomics, Japans new strategy to revive growth, which could increase Japanese investment in the region.
The expansive fiscal and monetary response to the global economic crisis has also built up vulnerabilities in many countries. Authorities need to be ready to respond to a steady increase in interest rates in advanced economies, and redouble their efforts to restore and maintain financial stability.
In the long term, as higher global interest rates are likely to affect investment, accelerating growth and poverty reduction depends critically on advancing structural reforms. Countries need to improve their investment climate and invest more in infrastructure, while making public investment more efficient.
Firmer global growth prospects can help developing countries pursue reforms enabling them to benefit from the recovery and put their own growth on a more solid footing. Governments need to address fiscal risks and create space to support long-term growth, with measures including reducing energy subsidies.
"Structural reforms that will give people the opportunity to share in the gains of progress hold the key to future growth, said Mr. Hofman.
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 http://www.worldbank.org/eapupdate .

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