Overview: Last year marked another year of weakening growth in the East Asia and Pacific region with growth moderating to 7.2 percent in 2013, from 7.4 percent in 2012. Growth in China was unchanged from the 7.7 percent recorded in 2012. A one percentage point slowdown in growth in the rest of the region reflects a moderation of economic activity in Indonesia, Malaysia, and Thailand where weak commodity revenues and policy tightening to address economic imbalances, accumulated during the years of above-potential growth, cut into activity. Toward the end of 2012, authorities in the region began to tighten policies to unwind imbalances, contributing to sharp declines in economic activity in the first quarter of 2013 when external demand was still weak.

The impact of domestic adjustment was exacerbated by a tightening of international financial conditions in 2013Q2. Despite the mid-year financial turbulence, growth in the region has been strengthening since 2013Q1, supported by improved external demand, lower imports, and policy stimulus in China. Since August 2013, capital inflows to the region have also rebounded, although pressures on regional assets and currencies, especially in Indonesia and Thailand, continued throughout 2013. Sentiment has turned up and both industrial production and exports have started to firm, but performance remains uneven across the region. In China, quarterly GDP growth picked up to a 9.3 percent annualized rate in 2013Q3. Quarterly GDP growth in the rest of the region also accelerated to an annualized rate of 5.2 percent in 2013Q3, mainly because of better net exports resulting from lower imports.

Outlook: Economic prospects for the region reflect several counterbalancing factors, including the impact of normalization of long-term interest rates, which is projected to weigh on prospects for several middle-income countries (Indonesia, Malaysia, and Thailand). At the same time, the recovery in import demand from high-income countries should spur acceleration in global trade and regional exports. Declining commodity prices are, however, projected to weigh on commodity exporters (Indonesia, Malaysia, Mongolia, and Papua New Guinea). Overall, growth in the region is expected to stay flat at around 7.2 percent in 2014 and ease insignificantly to 7.1 percent in each of 2015 and 2016. This is about 2 percentage points slower than during the pre-crisis boom years but broadly in line with potential. Aligning real growth with the potential growth rate in several major middle-income economies in 2014 will help alleviate domestic vulnerabilities generated during the years of expansionary policies. Full-year growth for China is expected to remain at around 7.7 percent in 2014, but the quarterly pace should slow somewhat toward the second half of the year, with growth projected to stabilize at around 7.5 percent for each of 2015 and 2016. Growth in the rest of the region should also be broadly stable in 2014 but is projected to pick up in 2015 to 5.7 percent, reflecting modest acceleration in Indonesia and Thailand, and reconstruction efforts in the Philippines.

Risks: The outlook is subject to significant domestic and external risk. An abrupt tightening of international financing conditions could reduce capital flows, exerting financing pressures in the region. The baseline assumes a gradual adjustment of global financial conditions, but a more disorderly reaction of financial markets to a normalization of conditions in the United States and elsewhere cannot be excluded. Although major tail-risks have subsided, they have not been eliminated and include rebalancing in China, protracted recovery in the Euro Area and fiscal policy uncertainty in the United States.

In China, concerns over the high levels of investment and associated lending prompted authorities to adopt a program designed to restructure the economy away from a policy induced investment-led model. Successfully engineering such a restructuring represents a formidable challenge. Although a tail risk, an involuntary abrupt decline in investment rates could have significant impacts on Chinese GDP, and important knock-on effects in the region. In the Euro Area, much has been achieved, but the remaining formidable challenges weaken prospects for a more solid recovery. Setbacks in sustainable resolution of debt and fiscal issues in the United States could spark an acute global crisis in case of a debt default. In addition, although currently contained, an escalation of country-level (Thailand, for example) as well as bilateral and geo-political tensions may undermine regional growth prospects.

East Asia and Pacific forecast summary

(annual percent change unless indicated otherwise)

					Est.	Forecast		
	00-09[a]	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GDP at market prices (2010 US$)								
Cambodia	7.4	6.0	7.1	7.3	7.0	7.0	7.0	7.0
China	9.4	10.4	9.3	7.7	7.7	7.7	7.5	7.5
Fiji	1.3	0.1	1.9	2.3	2.4	2.1	2.2	2.3
Indonesia	4.6	6.2	6.5	6.2	5.6	5.3	5.5	5.5
Lao PDR	5.5	8.5	8.0	8.2	8.0	7.7	8.1	8.1
Malaysia	3.9	7.2	5.1	5.6	4.5	4.8	4.9	4.9
Mongolia	5.8	6.4	17.5	12.4	12.5	10.3	10.0	7.7
Myanmar	9.7	5.3	5.9	6.5	6.8	6.9	6.9	6.9
Papua New Guinea	3.0	7.7	10.7	8.1	4.0	8.5	20.0	5.0
Philippines	4.0	7.6	3.6	6.8	6.9	6.5	7.1	6.5
Solomon Islands	2.8	7.0	10.7	4.8	4.0	3.5	3.7	4.0
Thailand	3.5	7.8	0.1	6.5	3.2	4.5	5.0	5.2
Timor-Leste	3.3	9.5	12.0	8.3	8.1	8.0	7.7	8.6
Vietnam	7.1	6.8	6.2	5.2	5.3	5.4	5.4	5.5

Source : World Bank.

World Bank forecasts are frequently updated based on new information.

Samoa; Tuvalu; Kiribati; Democratic People's Republic of Korea; Marshall Islands; Micronesia, Federated States; N. Mariana Islands; Palau; and Tonga are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.