# Appendix: Regional Outlooks

## East Asia and Pacific

### *Recent developments*

In 2007 the economies of East Asia and Pacific recorded robust growth of 10.5 percent, up from 9.7 percent in 2006 (table A.1). This pace was the highest in over a decade and came despite growing concerns about the potential impact of the slowdown in the U.S. economy, rising volatility in global financial markets, and soaring fuel and food prices. The key driving force for growth in many East Asian countries in 2007 was domestic demand; exports to markets other than the United States provided additional impetus for a number of countries. Consumer spending accelerated in most of the region's economies, while business investment was particularly strong in Indonesia (12.1 percent) and Vietnam (20.8 percent). Weakening U.S. demand for East Asian exports was offset to a large degree by continued strong momentum in developing-country and other high-income-country export markets. In particular, East Asia benefited from robust import demand among the oil exporters of the Middle East and North Africa and from the Europe and Central Asia region. Moreover, the sharp fall in the value of the dollar now favored increased shipments to Japan as well.

China continued to lead regional output gains with another robust double-digit growth

**Table A.1 East Asia and Pacific forecast summary**
*annual percentage change unless indicated otherwise*

| Indicator | 1991–2000[a] | 2005 | 2006 | 2007 | Forecast 2008 | Forecast 2009 | Forecast 2010 |
|---|---|---|---|---|---|---|---|
| GDP at market prices (2000 $)[b] | 8.4 | 9.1 | 9.7 | 10.5 | 8.6 | 8.5 | 8.4 |
| GDP per capita (units in $) | 7.1 | 8.2 | 8.9 | 9.6 | 7.7 | 7.7 | 7.6 |
| PPP GDP[c] | — | 9.3 | 10.0 | 10.8 | 8.7 | 8.6 | 8.5 |
| Private consumption | 7.3 | 8.5 | 9.3 | 9.9 | 8.0 | 7.4 | 6.7 |
| Public consumption | 9.0 | 10.2 | 8.4 | 9.4 | 9.6 | 8.6 | 7.7 |
| Fixed investment | 10.3 | 10.6 | 3.2 | 6.2 | 9.0 | 9.7 | 11.4 |
| Exports, GNFS[d] | 11.7 | 17.9 | 18.7 | 16.3 | 11.3 | 13.7 | 15.6 |
| Imports, GNFS[d] | 11.3 | 12.7 | 14.2 | 12.3 | 11.6 | 14.5 | 17.6 |
| Net exports, contribution to growth | 0.3 | 3.1 | 3.4 | 3.5 | 1.3 | 1.4 | 1.2 |
| Current account bal/GDP (%) | 0.1 | 5.7 | 8.4 | 9.9 | 8.6 | 8.4 | 8.0 |
| GDP deflator (median, LCU) | 6.6 | 5.5 | 6.2 | 5.5 | 2.1 | 3.6 | 3.4 |
| Fiscal balance/GDP (%) | −0.7 | −1.4 | −0.7 | −1.0 | −1.2 | −1.2 | −1.2 |
| *Memorandum items: GDP* | | | | | | | |
| East Asia excluding China | 4.8 | 5.4 | 5.7 | 6.2 | 5.8 | 6.2 | 6.3 |
| China | 10.4 | 10.4 | 11.1 | 11.9 | 9.4 | 9.2 | 9.0 |
| Indonesia | 4.2 | 5.7 | 5.5 | 6.3 | 6.0 | 6.4 | 6.5 |
| Thailand | 4.5 | 4.5 | 5.1 | 4.8 | 5.0 | 5.4 | 5.5 |

*Source:* World Bank.
— Not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP is measured in constant 2000 $.
c. GDP is measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.

performance of 11.9 percent, up from 11.1 percent in 2006. Growth in East Asia and Pacific countries excluding China registered 6.2 percent, up from 5.7 percent in 2006, supported by strong consumer spending and an unexpected upturn in investment. GDP gains averaged 6.6 percent, up from 6 percent in 2006, for oil-exporting countries in the region. Leading these countries was Vietnam, which gained access to the World Trade Organization in early 2007; since 2000 Vietnam has become the fastest-growing southeast Asian economy, thanks to investment growth, booming exports, and foreign direct investment (FDI). In the oil-importing countries of the region, GDP growth rose to 11.2 percent, from 10.4 percent in 2006, though output advances eased slightly in Thailand.

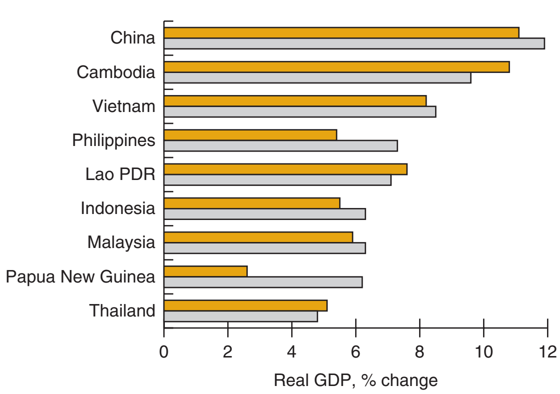
GDP growth was strong in Cambodia (9.6 percent) and in Vietnam (8.5 percent), driven by domestic consumption and booming private investment. The main drivers for Indonesia's economic growth in 2007 (6.3 percent) shifted during the year. External demand was the driving force in the first half of 2007, while investment and consumer demand played an important role in the second half. Malaysia's GDP grew 6.3 percent in 2007, up from 5.9 percent in 2006; the increase was supported mainly by domestic demand that offset slower export growth. The Philippines economy expanded by 7.3 percent, its highest growth in three decades, largely on higher public investment and private consumption (figure A.1).

The surge in commodity prices over the past six to nine months—especially for food—has pushed headline inflation higher and sparked concerns about adverse effects on the poor. Higher primary commodity prices have also generated a complicated pattern of national income gains and losses around the region.

Overall, worsening terms of trade are estimated to have cost East Asia income losses of approximately 0.9 percent of regional GDP per year on average over 2004–07. Within the region, net energy and non-energy primary commodity exporters such as Indonesia, Malaysia, and Vietnam are estimated to have received windfall terms-of-trade gains of 1–2 percent of GDP per year during 2004–07. However, significant net oil importers including Lao People's Democratic Republic, the Philippines, and Thailand are estimated to have experienced terms-of-trade losses of 1.5–2 percent of GDP in 2004–07, while China saw more moderate income losses of approximately 0.9 percent of GDP per year (figure A.2).

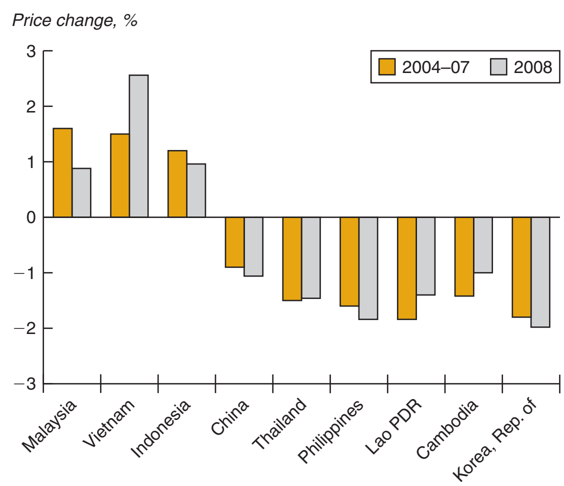
Higher food prices are expected to have relatively small effects on the level of national income even if they carry particularly adverse effects on the poor. But the effects of higher food prices, combined with those of additional increases in oil and metals prices, would cost the region an aggregate income loss of approximately 1 percent of GDP in 2008. Moreover, they could have a more negative effect if the global credit market crisis results in significantly lower growth in East Asia.

**Figure A.1 Growth accelerates across most East Asia and Pacific countries in 2007**




*Source:* World Bank.

**Figure A.2 Income gains/losses due to commodity price changes**




*Source:* World Bank.

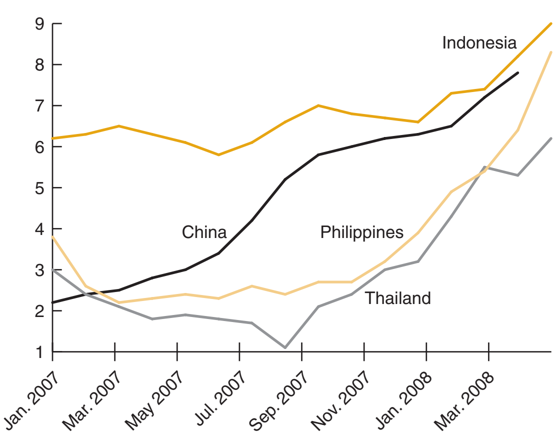
Higher prices for fuel and other commodities, especially food, have contributed to rising inflation pressures in East Asia. In a few countries—China and Vietnam—inflation, particularly food inflation, is generally higher than in other emerging markets. Headline inflation exceeds 19 percent in Vietnam and nearly 8 percent in China. Food inflation in China and Vietnam was running above 20 percent and 30 percent, respectively, as of March 2008. In addition to higher imported food prices, specific factors in each country have contributed to higher prices. Examples are an outbreak of disease among pigs in China and bad weather in Vietnam.

Inflation had accelerated sharply in the Philippines and Thailand to rates above 8 percent and 6 percent, respectively, by April 2008 (figure A.3). For several countries in which inflation is in double digits, economies have experienced rapid monetary growth driven in part by strong, unsterilized capital inflows. In Vietnam monetary growth was running above 47 percent. In contrast, China has maintained its controlled appreciation of the yuan against the dollar and increased the pace of appreciation since October 2007. It has also been more successful in sterilizing capital inflows, and money and credit have grown at about the pace of nominal GDP, while reserves have accumulated sharply.

A range of policy responses has been designed to protect the poor through existing or new safety net programs, or through moderating the rise in food prices by one means or another. The instruments applied are generally fiscal measures such as taxes and subsidies or administrative measures. In general, administrative measures such as price controls may be helpful for managing expectations and could stabilize conditions for short periods, but they suffer from serious drawbacks in the way they affect incentives in the medium to longer terms. On the supply side, price controls typically discourage supply and lead to a reduction of both quantity and quality. On the demand side, capping prices in the face of changing market conditions prevents both the reduction in demand and the substitution to other similar products that would normally allow markets to rebalance. One concern is that administrative controls could be imposed across a broader range of countries should conditions in commodity markets deteriorate further.

**Figure A.3 Trends in inflation for selected East Asian countries**

*Headline CPI indices, % change year over year*




*Source:* National Agencies through Haver Economics.

The macroeconomic effects of U.S. and global financial volatility and associated financial sector losses in East Asia seem relatively limited. Most of the region's larger economies are running large current account surpluses and have sharply reduced their net external liabilities over the past decade. East Asia is a large net supplier of funds to the global financial system rather than a borrower. In 2007 net current account surpluses totaled close to 10 percent of regional GDP (World Bank 2008). Initial assessments by regulators, credit rating agencies, and investment banks suggested that emerging East Asian financial sector exposure to U.S. subprime-related assets was relatively limited.

*Capital flows.* Net private capital flows to East Asia and Pacific remained strong at $228 billion in 2007, up from $203 billion in 2006, while net official flows continued to be negative. The rise in private flows was largely attributable to an increase in net private debt flows ($18 billion), which was amplified by a moderate increase in net equity flows. The significant expansion in private debt flows mirrored a surge in cross-border loans by commercial banks, which picked up by $23 billion in 2007, with China accounting for $17 billion of that total. Note that net FDI inflows to the region remained robust at $117 billion, up from $105 billion the previous year, but the region's share of FDI among developing countries in aggregate fell from 29 percent in 2006 to 26 percent in 2007. Once again, China was the top FDI destination among developing countries, though its share continued to decline

**Table A.2 Net capital flows to East Asia and Pacific**
*$ billions*

| Indicator | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007p |
|---|---|---|---|---|---|---|---|---|---|
| Current account balance | 50.0 | 45.3 | 35.5 | 53.8 | 70.3 | 88.4 | 173.4 | 292.6 | 409.3 |
| *as % of GDP* | 3.2 | 2.7 | 2.0 | 2.7 | 3.1 | 3.4 | 5.7 | 8.4 | 9.9 |
| Net equity flows | 51.7 | 51.8 | 50.7 | 63.2 | 69.3 | 89.6 | 130.3 | 159.8 | 166.0 |
| Net FDI inflows | 50.4 | 45.2 | 48.9 | 59.4 | 56.8 | 70.3 | 104.2 | 105.0 | 117.4 |
| Net portfolio equity inflows | 1.3 | 6.6 | 1.8 | 3.8 | 12.5 | 19.3 | 26.1 | 54.8 | 48.6 |
| Net debt flows | −11.7 | −16.3 | −8.1 | −10.4 | 1.6 | 35.3 | 49.6 | 35.1 | 58.4 |
| Official creditors | 12.5 | 6.6 | 3.2 | −7.9 | −7.2 | −5.3 | −2.8 | −7.6 | −2.3 |
| World Bank | 2.4 | 1.8 | 0.9 | −1.7 | −1.5 | −1.9 | −0.6 | −0.4 | −1.1 |
| IMF | 1.9 | 1.2 | −2.5 | −2.7 | −0.5 | −1.6 | −1.6 | −8.5 | 0.0 |
| Other official | 8.2 | 3.5 | 4.8 | −3.5 | −5.2 | −1.7 | −0.6 | 1.3 | −1.2 |
| Private creditors | −24.2 | −22.9 | −11.3 | −2.5 | 8.8 | 40.6 | 52.4 | 42.7 | 60.7 |
| Net medium- and long-term debt flows | −10.9 | −13.1 | −13.0 | −12.4 | −9.7 | 8.0 | 7.2 | 15.0 | 28.8 |
| Bonds | 0.9 | −0.7 | 0.4 | 0.1 | 1.8 | 9.7 | 7.8 | 5.5 | 6.5 |
| Banks | −12.0 | −11.3 | −11.8 | −10.2 | −8.4 | 0.2 | 1.6 | 11.1 | 29.1 |
| Other private | 0.2 | −1.0 | −1.6 | −2.3 | −3.1 | −1.9 | −2.2 | −1.6 | −6.8 |
| Net short-term debt flows | −13.3 | −9.9 | 1.7 | 9.9 | 18.5 | 32.6 | 45.2 | 27.7 | 31.9 |
| Balancing item[a] | −60.6 | −71.8 | −30.1 | −18.6 | −4.3 | 23.8 | −134.6 | −194.7 | −137.2 |
| Change in reserves (− = increase) | −29.3 | −8.9 | −47.9 | −88.1 | −136.8 | −237.2 | −218.7 | −292.8 | −496.5 |
| *Memorandum item* | | | | | | | | | |
| Worker's remittances | 15.7 | 16.7 | 20.1 | 29.5 | 35.4 | 39.1 | 46.6 | 52.8 | 58.0 |

*Source:* World Bank.
*Note:* p = projected.
a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

relative to other countries. It is also notable that net FDI outflows from China increased by almost $14 billion, mainly through cross-border acquisitions and investments in newly established overseas trade and economic zones (table A.2).

### *Medium-term outlook*

The latest data from the region indicate that the momentum of output and trade remains strong and that the underlying trend rate of growth is not driven by year-to-year fluctuations in world demand, but rather by fundamentals like improvements in productivity, innovation, quality control, education, and skills, all of which are unlikely to be affected by the financial turmoil or by a slowing global market. Although risks have increased in the context of slowing global economies, medium-term economic prospects for the East Asia and Pacific region remain strong. GDP growth is expected to ease by almost 2 percentage points to 8.6 percent in 2008, the lowest since 2002. Growth should continue to moderate into 2009 and 2010, at a pace of 8.5 percent and 8.4 percent, respectively. Despite the softening trend, overall GDP growth is still significant and higher than in other developing regions. Lower export growth will be one of the main factors sending output gains lower. Export growth is expected to continue to temper into 2008 and early 2009 as the decline of exports to the United States is compounded by a slowdown in the European Union and Japan. The contribution of net exports to GDP growth for the region softens from 3.5 points in 2007 to 1.2 points by 2010.

In China while the uncertain global outlook may slow exports, the country's growth is expected to remain robust, as domestic demand plays a significant and growing role in the economy, and Chinese exporters are able to seek alternative markets to the United States. GDP growth is projected at 9.4 percent for 2008, a substantial 2.5 percentage points lower than in 2007 (table A.3). As external demand is anticipated to pick up in 2009 and 2010, the pace at which China's growth slows should moderate to 9.2 percent and 9 percent, respectively. Growth in other East Asian countries is projected to slow to 5.8 percent in 2008 before picking up to 6.2 percent in 2009 and 6.3 percent in 2010.

### *Risks and uncertainties*

The economic outlook for East Asian countries remains favorable, but this outlook is subject to a number of downside risks. Countries in the region are vulnerable to a continued acceleration in inflation tied to higher food and fuel prices, the possibility of a sharper-than-expected slowdown among the high-income countries, and a potential deterioration in global financial conditions.

**Table A.3 East Asia and Pacific country forecasts**

*annual percentage change unless indicated otherwise*

| Country/indicator | 1991–2000[a] | 2005 | 2006 | 2007 | Forecast 2008 | Forecast 2009 | Forecast 2010 |
|---|---|---|---|---|---|---|---|
| **Cambodia** | | | | | | | |
| GDP at market prices (2000 $)[b] | — | 13.5 | 10.8 | 9.6 | 7.5 | 7.0 | 7.0 |
| Current account bal/GDP (%) | — | −10.9 | −8.7 | −10.8 | −18.7 | −15.8 | −12.0 |
| **China** | | | | | | | |
| GDP at market prices (2000 $)[b] | 10.4 | 10.4 | 11.1 | 11.9 | 9.4 | 9.2 | 9.0 |
| Current account bal/GDP (%) | 1.5 | 7.1 | 9.6 | 11.7 | 10.2 | 9.9 | 9.5 |
| **Fiji** | | | | | | | |
| GDP at market prices (2000 $)[b] | 2.1 | 0.7 | 3.6 | −3.9 | 2.0 | 2.0 | 2.0 |
| Current account bal/GDP (%) | −3.7 | −14.0 | −25.0 | −20.8 | −25.4 | −26.8 | −26.8 |
| **Indonesia** | | | | | | | |
| GDP at market prices (2000 $)[b] | 4.2 | 5.7 | 5.5 | 6.3 | 6.0 | 6.4 | 6.5 |
| Current account bal/GDP (%) | −0.4 | 0.1 | 3.0 | 2.7 | 1.4 | 1.1 | 0.8 |
| **Lao PDR** | | | | | | | |
| GDP at market prices (2000 $)[b] | — | 7.1 | 7.6 | 7.1 | 7.6 | 8.2 | 8.0 |
| Current account bal/GDP (%) | — | −23.7 | −14.4 | −22.8 | −26.7 | −26.3 | −26.3 |
| **Malaysia** | | | | | | | |
| GDP at market prices (2000 $)[b] | 7.1 | 5.0 | 5.9 | 6.3 | 5.6 | 6.0 | 6.2 |
| Current account bal/GDP (%) | −0.4 | 15.2 | 16.9 | 14.3 | 15.8 | 14.9 | 14.3 |
| **Papua New Guinea** | | | | | | | |
| GDP at market prices (2000 $)[b] | 4.8 | 3.4 | 2.6 | 6.2 | 6.0 | 5.0 | 4.5 |
| Current account bal/GDP (%) | 2.3 | 3.6 | 3.8 | 7.5 | 16.8 | 15.3 | 13.0 |
| **Philippines** | | | | | | | |
| GDP at market prices (2000 $)[b] | 3.0 | 4.9 | 5.4 | 7.3 | 5.8 | 6.1 | 6.2 |
| Current account bal/GDP (%) | −3.1 | 2.0 | 4.9 | 4.3 | 2.4 | 2.9 | 3.8 |
| **Thailand** | | | | | | | |
| GDP at market prices (2000 $)[b] | 4.5 | 4.5 | 5.1 | 4.8 | 5.0 | 5.4 | 5.5 |
| Current account bal/GDP (%) | −1.2 | −4.4 | 1.1 | 6.6 | 4.1 | 3.4 | 3.3 |
| **Vanuatu** | | | | | | | |
| GDP at market prices (2000 $)[b] | 4.1 | 6.5 | 7.2 | 5.0 | 3.8 | 3.5 | 2.5 |
| Current account bal/GDP (%) | −8.2 | −24.3 | −22.1 | −19.2 | −30.9 | −26.7 | −21.9 |
| **Vietnam** | | | | | | | |
| GDP at market prices (2000 $)[b] | 7.6 | 8.4 | 8.2 | 8.5 | 8.2 | 8.5 | 8.5 |
| Current account bal/GDP (%) | −5.1 | −0.6 | −0.4 | −9.7 | −6.3 | −6.4 | −7.6 |

*Source:* World Bank.
*Notes:* Growth and current account figures presented here are World Bank projections and may differ from targets contained in other Bank documents. American Samoa, the Federated States of Micronesia, Kiribati, the Marshall Islands, Myanmar, Mongolia, Northern Mariana Islands, Palau, the Democratic People's Republic of Korea, the Solomon Islands, Timor-Leste, and Tonga are not forecast owing to data limitations. — Not available.
a. Growth rates over intervals are compound averages; growth contributions, ratios, and the GDP deflator are averages.
b. GDP is measured in constant 2000 $.

Surging rice and commodity prices in the region are posing a risk of social unrest and higher production costs. Inflation is fueled by surging international food prices compounded by domestic shortfalls because of severe weather in the beginning of 2008. Combining the effects of higher food prices with those of additional increases in oil and metals prices, the region could experience an aggregate income loss of approximately 1 percent of GDP in 2008. A second downside risk is the depth and duration of any U.S. downturn, given the still dominant role that U.S. import demand plays in most economies of the region. A slowdown in the United States more severe than projected would exacerbate the slowdown in East Asian and Pacific exports and the moderate slowing of growth anticipated in the baseline. But the impact of a slowing U.S. economy will take time to flow through trade and financial channels.