

Launch of the World Bank's East Asia Economic Update 2010
"Robust Recovery, Rising Risks"

The World Bank's half-yearly review of the developing economies of the East Asia and Pacific Region, the **East Asia and Pacific Economic Update**, titled "**Robust Recovery, Rising Risks**", was launched in **Institute of Southeast Asian Studies (ISEAS) on 22 October 2010**. Based on the latest data and analyses, **Mr. Vikram Nehru**, the World Bank's Chief Economist for East Asia and Pacific Region, presented trends in the region's recovery and growth prospects, as well as drew attention to emerging policy challenges.

The Update highlights that the economic recovery in East Asia and the Pacific is robust, but attention must now turn to managing emerging risks which may pose challenges to macroeconomic stability. The Update notes that output has recovered to above pre-crisis levels throughout developing East Asia, and is expanding at near pre-crisis rates in some countries. Real GDP growth is likely to rise to 8.9 percent in the region in 2010 (6.7 percent excluding China), up from 7.3 percent in 2009 and in line with the average growth rate during 2000-2008. Private sector investment is once again driving the growth, confidence is on the rise, and trade flows have returned to pre-crisis levels.

Yet, greater confidence in the region's growth prospects and concerns about tepid economic expansion in advanced economies is creating the need for policy makers to perform a delicate balancing act – in particular, around the return of large capital inflows, which have risen sharply this year and have helped the exchange rates to appreciate substantially despite interventions by central banks. Larger inflows have also contributed to increase in asset prices. Most monetary authorities have refrained from introducing capital controls so far.

With economic recovery on firmer footing, the authorities in most East Asian countries are cautiously unwinding their stimulus measures. Fiscal deficits will remain higher than before the crisis, at least for a while, as governments address infrastructure gaps and maintain social safety nets to protect the poor, providing an appropriate defense against subdued prospects for advanced economies. Many countries in the region are also focusing on addressing medium-term growth challenges. Increasingly, the need for China to rebalance the economy by altering the pattern of growth and investment is becoming critical for sustainability.

Commodity exporters such as Mongolia, Timor Leste, Papua New Guinea and Lao PDR must ensure a transparent framework to use resource-related revenues for development. The middle-income countries of the region, excluding China, need to raise investment in physical and human capital and encourage innovation if they are to eventually attain high-income status.