



The World Bank

East Asia & Pacific Region

Contact: In Washington: Melissa Fossberg 202- 458-4145
mfossberg@worldbank.org
 In Bangkok: Kimberly Versak: 66-2-256-7792
kversak@worldbank.org

East Asia on solid ground, set to grow by 6 percent in 2004 Thailand records strongest growth since crisis; Growth prospects continue to be favorable

BANGKOK April 20, 2004 — Fueled by growing exports, low interest rates, and high investment in China, Vietnam, and Thailand, East Asia's economy is expected to grow by more than 6 percent in 2004, the strongest since the beginning of the global slowdown in early 2000, according to the latest East Asia and Pacific Regional Update, the World Bank's twice-yearly look at the region's economies.

"With the strong recovery in the United States and Japan, increased demand for East Asian exports and the long-awaited rebound in the high-tech sector, the outlook for the region is very positive both for the big countries and for the smaller ones," said **Regional Vice President for East Asia and Pacific Mr. Jemal-ud-din Kassum**.

"By the end of 2003, the low and middle-income countries of the region were growing at a combined rate of 7.6 percent, their fastest rate since 1996. This strong recovery to pre-crisis levels of growth also bodes well for the region's poor, with an estimated 49 million moving above the \$2 a day line in this latest upsurge," Mr. Kassum said.

Global investment in information and communications technology and high tech electronics has rebounded and is rapidly growing, to the benefit of many Asian economies. This recovery will likely further growth in intra-regional production and trade networks, centered on China, which is taking in a growing number of its neighbors' exports.

Thailand's growth in 2003 accelerated to 6.7 percent – the highest growth rate since the crisis – and is expected to exceed 7 percent in 2004 according to the World Bank's latest **Thailand Economic Monitor**, released as part of the East Asia Regional Update. High growth in export earnings of 17 percent – driven by exports to China and ASEAN countries – and private investment growth of 18 percent made last year's growth more broad-based than in previous years. **Mr. Kazi Matin, Lead Economist for South East Asia** based in Bangkok, said *"Thailand's recovery has gone from strength to strength, with the highest growth rate projected for 2004. Investor and consumer confidence remains high. This year,*

East Asia Economic Growth

	2002	2003	2004	2005
East Asia	5.9	5.7	6.3	5.9
Develop. E. Asia	6.6	7.6	6.9	6.5
S.E. Asia	4.4	5.1	5.4	5.4
Indonesia	3.7	4.1	4.5	5.0
Malaysia	4.1	5.2	5.5	5.5
Philippines	4.4	4.5	4.2	4.1
Thailand	5.4	6.7	7.2	6.5
Transition Econ.				
China	8.0	9.1	7.7	7.2
Vietnam	6.0	7.2	7.0	7.2
Small Countries	1.5	4.0	4.3	4.1
Newly Ind. Econ.	4.8	3.0	5.4	4.9
Korea	7.0	3.1	5.3	5.3
3 other NIEs	3.0	2.9	5.5	4.5
Japan	-0.3	2.7	3.1	1.4

World Bank East Asia Region; April 2004.

growth is also supported by a 10 percent increase in public investment, reversing six years of declining public investment. However, the key to sustaining this high growth rate into the future depend on whether private investment will expand at a faster rate and be more productive – and that will depend on whether critical structural reforms are sustained.”

China still driving the region, but for how long?

Long the driver of regional growth, China’s imports surged 40 percent in 2003 – with imports from Korea, Singapore and Thailand rising by 50 percent or more – and figures from the first quarter of 2004 show continued growth, fueled by demand for inputs to its manufactured exports, mostly from China’s neighbors. Intra-regional trade still accounts for around 70 percent of the growth in exports of East Asia’s developing economies, as has been the case for the past three years. But this trend will surely slow as China cools from its current rapid growth rates. The Chinese authorities are working hard to slow the country’s pace of growth to a more manageable level. To do this, they must balance the need to continue creating jobs and reforming the economy while keeping the economy stable and slowing down excessive investment, the report says. Just what effect this slow down will have on China’s neighbors remains to be seen.

*“Although it is true that slower growth in China would hurt other economies in the region, our view is that the impact would be modest,” said **Mr. Homi Kharas, Chief Economist for the East Asia and Pacific Region.** “Even a 10 percent reduction in the growth of China’s imports would result in a loss of less than 1 percent of gross domestic product (GDP) in Korea and Taiwan (China) and less than half of one percent GDP in a country like Thailand. And if this slowdown took place in 2004, it would be offset by an acceleration of Japanese imports from the region and higher global trade growth.*

“The real risk to the region,” Mr. Kharas noted, “comes not from slower growth in China but from a hard landing, which will take skillful and coordinated policymaking to avoid.”

In another positive sign for the region, domestic and foreign investment are also showing signs of recovery. Net portfolio flows to six large regional economies – China and the five post-crisis economies, Indonesia, Korea, Malaysia, Philippines and Thailand – are estimated to have jumped to around \$33 billion from a net outflow of \$9 billion in 2002. FDI into China has remained stable at about 4 percent of its GDP since 1990, while Korea, Malaysia, Philippines, and Thailand are receiving about 2 percent of GDP or about the same as the world average. Gross FDI inflows into Thailand totaled around \$7 billion in 2002-2003, relative to pre-crisis levels of \$3.5 billion, while net inflows ran at \$1-2 billion.

Increasingly other regional economies are also looking forward to solid investment growth. Looking forward, a combination of low interest rates, availability of credit, and higher corporate profits and productivity are an impetus to an upturn in investment spending around the region.

Foreign direct investment (FDI) inflows to six main East Asian economies are estimated at about \$60 billion in 2003, about \$1.5 billion higher than in 2002. But of this total, about \$53.5 billion went to China and only about \$6.5 billion to the other five economies, Indonesia, Korea, Malaysia, Philippines, Thailand, whose combined share of FDI continues to fall while China’s share rises.

Rising commodities prices – good for the small economies

*“In the present recovery growth and poverty reduction are being more widely shared around the region, thanks in part to rising commodity prices, which are boosting incomes in several of the low-income, commodity exporting countries,” said **Lead Economist Mr. Milan Brahmbhatt, principal author of the Regional Update.** Oil and primary commodity prices for cotton, , rice,*

rubber, metals, and edible oils like palm oil rose 10 to 20 percent in 2003 and have continued to rise in early 2004.

Higher commodity prices will benefit some of the smaller economies in the region, in particular, like Mongolia and Papua New Guinea as well as some of the larger ones like Vietnam and Indonesia. Higher prices will, on the other hand, tend to eat into the income of the more developed commodity importing economies, but so far not by enough to damage the overall recovery.

“To ensure that these windfalls truly benefit countries over the long term, particularly in the poorest countries, revenues must be managed well, which historically has not been the case,” Mr. Brahmhatt concluded.

The special focus section of the report looks at the lessons from China, Indonesia, Korea, and Malaysia in reducing poverty on a large scale, the subject of the upcoming Shanghai Poverty Conference, May 25-27, and an ongoing global dialogue on ways to accelerate poverty reduction.

The Regional Update is produced in April and October by the World Bank's East Asia and Pacific Region. The full report, plus a special report "Scaling Up Poverty Reduction in East Asia" as well as data tables and individual country reports, will be available 12 am EDT, April 20, on the World Bank's East Asia page: www.worldbank.org/eapupdate

The Thailand Economic Monitor is produced twice yearly by the World Bank Office Thailand. Copies are available at www.worldbank.or/th; and by calling 66-2-256-7792, ext 719.

###