Agenda

• Recent developments
• Opportunities
• Policy
Recovery resumed in 2021 Q4 …

GDP relative to pre-pandemic

INDEX: 2019Q4 =100

Source: Haver Analytics, World Bank.
Note: The figures show seasonally adjusted real GDP indexed to 2019Q4

East Asia and Pacific Economic Update, April 2022
...but was uneven across countries

Source: Haver Analytics, World Bank.
Note: Latest value is 2021 compared to 2019.
Three international developments are shaping external conditions for the EAP countries

China
- Structural slowdown
- Financial stress
- COVID-19 shock

United States
- Cyclical slowdown
- Inflation
- Financial tightening

Russia-Ukraine
- Food and fuel disruptions
- Financial volatility
- Reduced confidence

External economic conditions

Real shocks depend on country’s trade exposure and resilience

Financial shocks depend on country’s financial exposure and resilience

EAP country economic performance

Source: World Bank staff illustration

East Asia and Pacific Economic Update, April 2022
Channel 1: The fuel and food price spikes will hurt those dependent on commodity imports

Net exports of mineral fuels

- Oil
- Petroleum gases
- Coal

Sources: UN Comtrade, World Bank.
Notes: Net export of selected commodities as a share of GDP, average 2015-19.

East Asia and Pacific Economic Update, April 2022
Channel 2: The global growth slowdown will affect those dependent on foreign demand

Relative importance of ultimate destination for the value added produced in EAP countries

Percent of GDP

Vietnam, Cambodia, Thailand, Malaysia, Lao PDR, Myanmar, Philippines, Indonesia

Source: OECD Trade in Value Added database.
Note: The chart plots the share of EAP countries’ total value added absorbed in major economies in 2018.

East Asia and Pacific Economic Update, April 2022
Channel 3: Financial tightening will affect those with large current account deficits and external debt

External financing needs

Short-term debt
Debt service
Current account deficit

Mongolia
Cambodia
Malaysia
Solomon Isl.
Lao PDR
Fiji
Thailand
Indonesia
Philippines
China
Vietnam
Myanmar
EMDE

Percent of GDP

Source. International Monetary Fund. World Development Indicators. World Bank. Fitch Solutions
Note: The figure shows decomposition of external financing needs in 2022 estimates. EMDE shows the unweighted average of EMDEs.

East Asia and Pacific Economic Update, April 2022
The potential impact on EAP countries’ real income of selected international scenarios

Source: World Bank Staff estimates

East Asia and Pacific Economic Update, April 2022
Hence, downgrades in growth projections for 2022

Notes: Percent growth of GDP at market prices.

East Asia and Pacific Economic Update, April 2022
Opportunities
Some evidence already of value chain shifts from China to EAP countries

China’s share in EAP intermediate imports

EAP’s share in US final goods imports (RHS)

China’s share in US final goods imports

Percent

Source: Author’s calculations based on customs trade data from China, European Union, Japan and the U.S.

East Asia and Pacific Economic Update, April 2022
Gains in trade share were unevenly spread across EAP countries

Share in US final goods imports

Source: China, EU, Japan and US customs trade data and World Bank staff estimations.
Note: A. The figure shows the share in US final goods imports.

East Asia and Pacific Economic Update, April 2022
COVID has accelerated technology adoption

Notes: Event study plot where the x axis shows event time in weeks – relative to the first COVID cases. COVID cases taken from Oxford Covid-19 Government Response Tracker. Unweighted averages includes country fixed effects and standard errors are clustered at country-level. Bars reflect 95% confidence intervals. Coefficients are normalized relative to the omitted category at week t-1, the week before the first COVID cases.

East Asia and Pacific Economic Update, April 2022
Firms: Shrinking sales and employment

Source: World Banks Business Pulse Surveys, 2020-21

East Asia and Pacific Economic Update, April 2022

Percent

Sales

Employment

Micro Small Medium Large

Micro Small Medium Large

-60 -50 -40 -30 -20 -10 0

-25 -20 -15 -10 -5 0

0 0

0 0

0 0

0 0

-60 -50 -40 -30 -20 -10 0

-25 -20 -15 -10 -5 0

Micro Small Medium Large
Households: Shrinking incomes and rising prices

Real earnings (Indonesia)

Index: 2019 =100

- Industry
- Agriculture
- Services

Food insecurity

Percent of households

Wealth quintile

Poorest households

Richest households

Source: World Bank staff estimates; World Bank High-frequency Household Phone Surveys 2020-21.

East Asia and Pacific Economic Update, April 2022
Fiscal policy space is shrinking because of increasing debt, impeding the revival of public investment.

General government debt

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of GDP</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>50</td>
<td></td>
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<tr>
<td>China</td>
<td>25</td>
<td></td>
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<tr>
<td>Philippines</td>
<td>20</td>
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<tr>
<td>Myanmar</td>
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<tr>
<td>Vietnam</td>
<td>5</td>
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<tr>
<td>Indonesia</td>
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<td>Cambodia</td>
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<td>Nauru</td>
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<td>Kiribati</td>
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<td>Tuvalu</td>
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<td>Timor-Leste</td>
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<tr>
<td>Micronesia</td>
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<tr>
<td>Marshall Islands</td>
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</tr>
</tbody>
</table>

Public and private investment contribution to investment growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020-21</td>
<td></td>
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</tr>
</tbody>
</table>


Notes: B. Shows decomposition of real investment growth. 2015-19 and 2020-21 refers to average during each respective period. Decomposition of investment growth for 2020-21 represents team’s assessment for Cambodia, China, Indonesia, Philippines, and Vietnam.

East Asia and Pacific Economic Update, April 2022
Government assistance has not been selective; targeted fiscal assistance could have a bigger impact

Share of households receiving government assistance during the pandemic

Simulated poverty impacts of cash transfers using different targeting approaches, given a fixed budget

Note: A. Simulations illustrate the poverty impacts of better targeting social assistance resources in a large middle-income country. B. shows latest quarterly data in 2021
2. Monetary policy needs to strike a fine balance between external pressures and domestic needs

Real interest rate differential with the US (Jan. 2022)

Inflation (Feb. 2022 or latest)

Source: Haver Analytics
Note: The real interest rate denotes nominal policy rate minus CPI inflation at the end of January 2022.

East Asia and Pacific Economic Update, April 2022
Financial sector risks need to be identified and addressed

Solvency (Deposit to loan ratio)

- EMDE median

Liquidity (Liquid assets to short term liabilities)

- EMDE median

Source: International Monetary Fund, Fitch Solutions, World Bank, national sources.

Notes: Refers to 2021 data.

East Asia and Pacific Economic Update, April 2022
3. Eliminating non-tariff barriers to trade could open new trade opportunities

Share of import value subject to new import restrictions

Digital services trade restrictiveness index (2021)

Source: Global Trade Alert; World Integrated Trade Solution (WITS) database, OECD.

East Asia and Pacific Economic Update, April 2022
4. Strengthening human capital and infrastructure would boost technology diffusion

**Inadequate workforce skills**
Difficulty hiring adequately skilled workers – across a range of skills (Malaysia)

- Foreign language skills
- Managerial and leadership skills
- Writing skills
- Technical (other than IT), vocational, or job-specific skills
- Computer or general IT skills
- Interpersonal and communication skills
- Work ethic and commitment

**Access to broadband**

Note: Left panel shows the share of firms cited difficulty by skill, based on IT = Information technologies. Right: Colors reflect the average reported speeds within each 25 kilometers cell, subject to a minimum number of 100 tests per cell. Gray areas reflect either lack of broadband availability or an insufficient number of reported tests.
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