EAST ASIA and PACIFIC

Regional output expanded by an estimated 6.3 percent in 2016, slightly slower than in 2015. Strong domestic spending, supported by generally benign financing conditions, largely offset weak export growth. China continued on the path of gradual deceleration and rebalancing. In the rest of the region, growth remained steady at 4.8 percent, as higher growth in commodity importers offset a slowdown in commodity exporters, which continue to adjust to lower prices. During 2017-19, regional growth is expected to moderate to 6.1 percent, with a gradual slowdown in China partly offset by a pickup in the rest of the region. Downside risks to the outlook increased compared to June. They include heightened policy uncertainty in major advanced economies; financial market disruptions; growth disappointments in major economies; as well as rising protectionist sentiments. Key policy challenges include an orderly rebalancing in China, and strengthening medium-term fiscal policies and macro-prudential frameworks across the region. Structural reforms that support long-term growth are a priority to mitigate the effects of protracted weakness in advanced economies.

Recent developments

Growth in the East Asia and Pacific (EAP) region slowed slightly, from 6.5 percent in 2015 to 6.3 percent in 2016, in line with previous expectations (Table 2.1.1). In China, output expanded at a 6.7 percent rate in 2016 (Figure 2.1.1). Output growth in the region excluding China was 4.8 percent, unchanged from 2015, as a modest acceleration in commodity importers was offset by weaker growth in commodity exporters, which continue to adjust to lower commodity prices. Narrowing domestic and external imbalances, and stronger policy buffers amid solid growth, have contributed to improved regional resilience to external headwinds (World Bank 2016a).

China

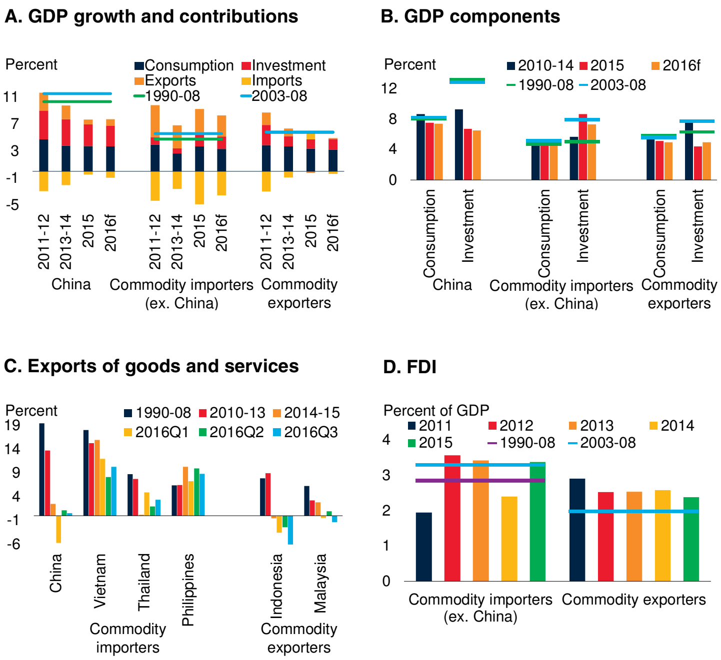
Growth in China continues to slow gradually, and activity is rebalancing away from industry to services (Zhang 2016). Output expanded by an estimated 6.7 percent in 2016, slightly down from 6.9 percent in 2015. The services sector, which now constitutes about half of GDP, has overtaken industry as a driver of growth. Industrial production growth has stabilized at around 6 percent year-on-year after several years of sluggish activity due to widespread overcapacity. As overcapacity eased and prices of raw materials began to recover, producer price inflation, which has been negative since 2012, bottomed out.

Accommodative policies continued to support economic activity, including multiple policy interest rate cuts in 2015 that were complemented by fiscal measures since mid-2015. Policy-supported infrastructure investment, has partly offset a decline in private investment (Chapters 1 and 3; Lardy and Huang 2016). Accommodative monetary policy continued to fuel credit growth, led by a rapid expansion of lending to households (around 19.5 percent on average in 2016 compared to 16 percent on average in 2015). Total credit to the non-financial sector (core debt) rose to new highs (255 percent of GDP in the second quarter of 2016) (BIS 2016). Housing prices in major cities also reached new records. In 2016, prices grew on average by 47 percent in Shenzhen, around 30 percent in Hefei, Nanjing, Shanghai, and Xiamen, and 20 percent in Beijing. Prices started to stabilize in Shenzhen since May,

Note: This section was prepared by Ekaterine Vashakmadze with contributions from Hideaki Matsuoka, Jongrim Ha, and Shu Yu. Research assistance was provided by Liwei Liu.

FIGURE 2.1.1 Growth

Growth slowed to 6.3 percent in 2016 and is expected to edge down to 6.1 percent in 2017-19. This reflects the gradual slowdown in China and a modest pickup in the rest of the region. Strong domestic demand—helped by low inflation, easier financing conditions, and robust FDI flows—has largely offset weak export growth.



Sources: Haver Analytics; International Monetary Fund; United Nations Conference on Trade and Development; World Development Indicators, World Bank.
A. Commodity exporters include Indonesia, Malaysia, Mongolia, Myanmar, Papua New Guinea, Tonga, and Timor-Leste. Commodity importers include Cambodia, the Philippines, Samoa, the Solomon Islands, Thailand, Tuvalu, Vanuatu, and Vietnam. 1990-08 and 2003-08 show average GDP growth.
B. Commodity exporters include Indonesia, Lao, PDR, and Malaysia. Commodity importers include Cambodia, Philippines, Solomon Islands, Thailand, and Vietnam.
C. For Vietnam and China, 2016 data are exports of goods.
D. FDI inflows. Weighted average.

followed by other major cities since October, reflecting tighter property regulations.

Financial markets have remained stable since February 2016. Capital outflows have eased, but remain sizable (net capital outflows were estimated at around 4 percent of GDP in the second quarter of 2016) (Figure 2.1.2). Foreign reserves continued to fall in 2016 (declining $0.3 trillion during January-November 2016), but at a slower pace than in 2015. The renminbi has depreciated around 7 percent against the U.S. dollar
and around 5 in trade-weighted terms during 2016. Notwithstanding these movements, the renminbi remains about 40 percent above the 2005 levels in nominal trade-weighted terms (about 50 percent above the 2005 levels in real trade-weighted terms).

China's net foreign asset position remains firmly positive (16.3 percent of GDP at the end of the first quarter of 2016).

Rest of the region

Growth in the rest of the region remained at 4.8 percent—close to its long-term average, as feeble external demand was largely offset by robust domestic demand. Low and declining inflation enabled EAP central banks to ease or maintain accommodative monetary policy stances in 2016 (Figure 2.1.3). Growth picked up in commodity importers, led by Thailand and the Philippines. In the Philippines, growth was boosted by the accelerated implementation of public investment projects and continued strong growth of services exports. In Thailand, activity was further buoyed by improved confidence. Exports of goods provided support to growth in Cambodia, which enjoys sizable foreign direct investment into its garments sector (World Bank 2016b). Severe drought and weak exports weighed on growth in Vietnam.

An acceleration of output in commodity importers was offset by softening activity in commodity exporters (Lao PDR, Malaysia, Myanmar, Mongolia, Papua New Guinea), which continue to adjust to lower commodity prices. In Malaysia, lower revenue from energy exports narrowed the current account surplus and weighed on growth, but resilient domestic demand provided some support. In Myanmar, growth moderated reflecting a correction in the real estate market, an adjustment in the construction sector, and weak external demand. Growth slowdown was sharper in smaller, less diversified commodity exporters (Mongolia and Papua New Guinea), where the adjustment involved a correction of large imbalances. In contrast, Indonesia—the largest commodity-exporting country in the region—has adjusted rapidly to lower commodity prices. Furthermore, accommodating monetary policy helped lift domestic demand, contributing to a modest rise in Indonesian growth to 5.1 percent in 2016.

Following a period of stability since February 2016, financial markets experienced renewed volatility toward the end of the year amid heightened policy uncertainty in the United States and market reaction to the U.S. federal funds rate hike in December. Net capital inflows, which had resumed in 2016 reflecting accommodative monetary policies in advanced economies, eased towards the end of the year (Figure 2.1.4). In contrast to global trends, FDI to the EAP region remained buoyant, especially to Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Thailand, and Vietnam. Economic liberalization, regional integration, including through Association of Southeast Asian Nations (ASEAN) Economic Community (AEC), and a return of domestic political stability were among the reasons for the resilience of FDI to the EAP region (Uttama 2016). Chinese investors continue to be heavily involved in various projects across the region and Japan remains another important source of FDI flows to several regional economies.

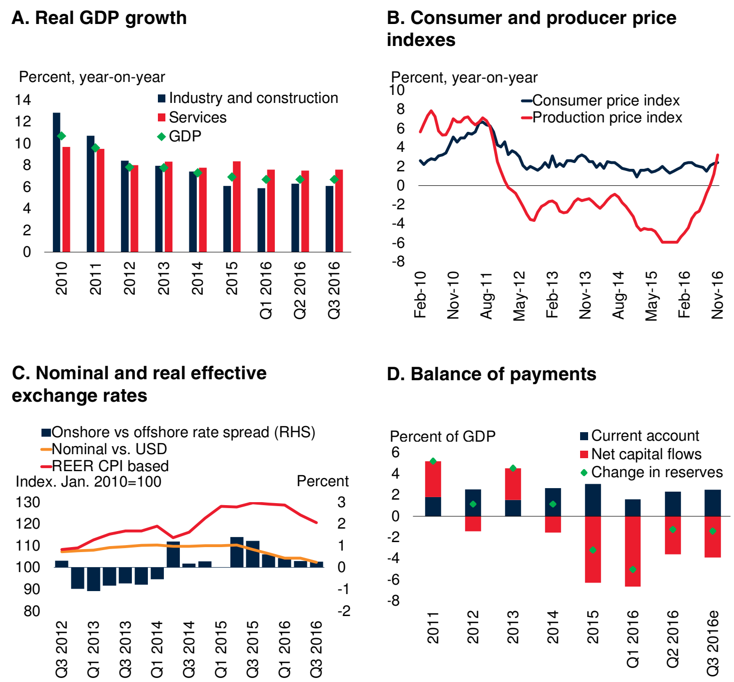
Corporate and sovereign risk spreads, which rose across the region in late 2015 and early 2016, have generally narrowed (IMF 2016a). Regional currencies have remained broadly stable against the U.S. dollar for most of 2016, with the exception of the Mongolian tugrik. However, they came under renewed pressure in the last quarter of the year, especially in Malaysia, reflecting heightened global volatility and prompting authorities to introduce additional measures to enhance liquidity in the foreign exchange market.

Vulnerabilities

In China, the continued rapid expansion of credit to state-owned enterprises and households has increased macroeconomic risks (Arslanalp and Tsuda 2014, World Bank 2016a; Figure 2.1.5). Policy tightening in Indonesia (until 2015) and tighter macro-prudential regulations in Malaysia and Thailand have helped contain financial stability risks (BIS 2016; IMF 2015a,b). However, household balance sheets in Malaysia and Thailand remain vulnerable due to elevated borrowing before the 2013 taper tantrum. Sizable external financing requirements remain a source of vulnerability in Indonesia, while shallow policy

FIGURE 2.1.2 China: Activity, exchange rates, and external accounts

Growth in China continues to gradually slow and rebalance. The services sector, which now constitutes about half of GDP, has overtaken industry as a driver of growth. Producer price inflation bottomed out, as adjustment in overcapacity sectors eased and prices of raw materials leveled off. Financial markets have stabilized. Net capital outflows have eased after a 20 percent drawdown of foreign reserves from the August 2014 peak. Pressures on the renminbi also eased.



Sources: Bloomberg, Haver Analytics, International Monetary Fund, World Bank.
D. e = estimate.

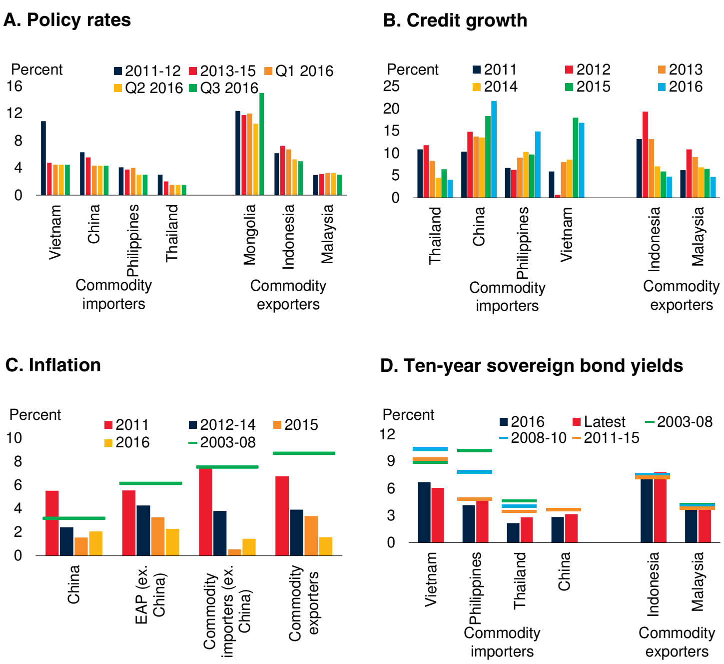
buffers are a concern in smaller countries (Mongolia, Papua New Guinea, especially, and to some extent in Lao PDR and Vietnam). In the Philippines and Vietnam, credit continues to grow rapidly, although the stock of debt remains at moderate levels.

Outlook

The baseline forecast envisages an easing in growth to 6.1 percent on average in 2017-19, in line with June projections. This involves a gradual slowdown in China, which offsets a pickup of activity in the rest of the region. Growth in the region excluding China is projected to accelerate from 4.8 percent in 2016 to 5.2 percent on average in 2018-19. This largely reflects a

FIGURE 2.1.3 EAP region: Selected indicators

Since the taper tantrum of mid-2013, policy tightening in Indonesia (until 2015), and tighter macro-prudential regulations in the rest of the region, have helped to reduce, but did not eliminate vulnerabilities. Credit growth has moderated across the region (except in China, the Philippines and Vietnam). In combination with low inflation, this enabled EAP central banks to ease or maintain an accommodative monetary policy stance in 2016. Low and declining inflation has helped to lower bond yields, but they remain relatively elevated in Indonesia and Vietnam by comparison to other regional EMDEs.



Sources: Haver Analytics, International Monetary Fund, World Bank.
A. Policy rates are average of end-of-period data.
B. Average year-on-year growth from January to September for 2016. Data for Vietnam in 2016 are through August and China through October.
D. Last observation is December, 2016.

recovery of growth in commodity exporters to its long-term average rate. Growth in commodity importers excluding China is projected to remain broadly stable.

China

In China, growth is projected to continue its orderly slowdown from 6.7 percent in 2016 to 6.4 percent in 2017-19. Macroeconomic policies are expected to support key domestic drivers of growth despite the softness of external demand, weak private investment, and overcapacity in some sectors. The pace of rebalancing from investment to consumption, and from industry to services is expected to moderate. This outlook depends on the smooth progress of structural reforms, including progress in reducing financial excesses.

Commodity exporters

Growth in commodity-exporting economies is projected to recover from 4.9 percent in 2016 to its long-term average of 5.3 percent in 2018, as they make progress in adjusting to the lower commodity price environment. In Indonesia, growth is expected to accelerate from 5.1 percent in 2016 to 5.4 percent on average in 2017-19, helped by a pickup in private investment (World Bank 2016c). In Malaysia, growth is projected to recover to 4.5 percent in 2017-19 as adjustment to lower energy prices eases and commodity prices stabilize (World Bank 2016d). In Myanmar, growth is projected at 7 percent on average in 2017-18, helped by a pickup in foreign and domestic private investment. In Lao PDR, growth is expected to remain around 7 percent, supported by investment in the power sector and growing regional integration (Table 2.1.2).

The growth outlook has deteriorated markedly in several small commodity exporters of the region, where the terms-of-trade shock has exacerbated domestic vulnerabilities (Mongolia, Papua New Guinea). Part of the slowdown in Papua New Guinea was related to Liquefied Natural Gas (LNG) output reaching capacity in 2015-16. In Timor-Leste, growth in the non-oil economy is expected to rebound to between 5 and 6 percent in the medium term, led a recovery of public investment.

Commodity importers

Growth in commodity-importing economies is projected to remain at around 5.0 percent on average in 2018-2019, in line with the long-term average. Helped by improved confidence and accommodative policies, growth in Thailand is projected to rise toward its trend rate of about 3.4 percent. Among the large commodity importers, Vietnam and the Philippines continue to have the strongest growth prospects, although capacity constraints will likely limit acceleration in the medium term and could cause overheating pressures. In the Philippines, growth is projected to accelerate to 6.8 percent on average in 2017-19, supported by ongoing infrastructure projects, strong consumption, buoyant inflows of remittances, and strong revenue from services exports. In Vietnam, output is expected to expand at an average of 6.3 percent in 2017-19, with all categories of demand buoyed by strong FDI and manufacturing exports. Growth prospects are also strong in Cambodia. Growth will ease only slightly, and will remain around 6.9 percent in 2016–18, supported by strong garment exports, and real estate and construction activities.

The outlook for the small Pacific Island countries depends on the development of regional fisheries and growth in tourism. They remain vulnerable to risks arising from natural disasters, climate change, terms-of-trade shocks, and sharp declines in FDI.

Risks

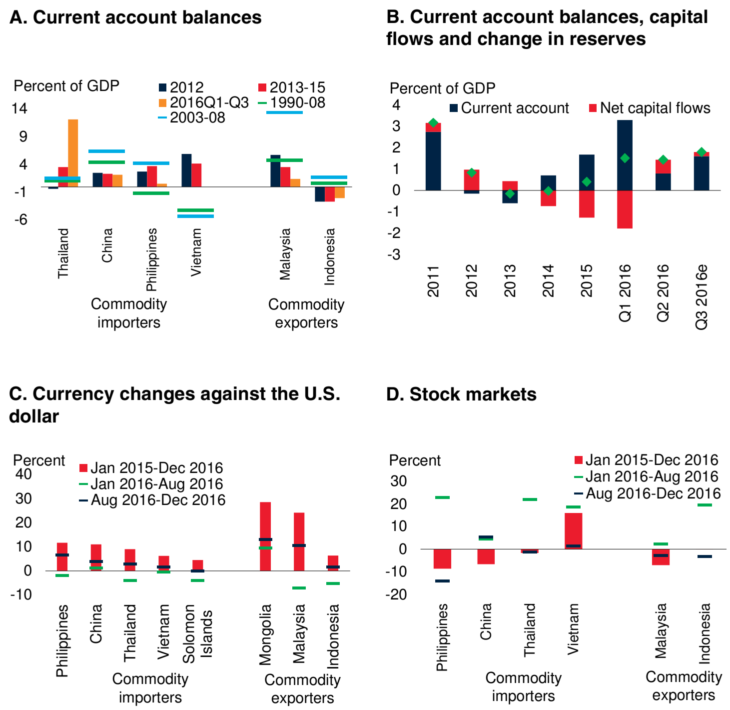
Risks to the baseline forecast have tilted further to the downside since June. They include heightened policy uncertainty in the United States and Europe amid mounting protectionist pressures, financial market disruptions, and growth disappointments in major economies.

Policy uncertainty, either domestic or in major advanced economies, tends to raise risk premiums and depress investment and activity (Chapters 1 and 3). According to estimates, a one standard deviation shock to an index of domestic political risks, which is a low probability risk in the EAP region, reduces emerging market and developing economy (EMDE) investment growth by about 2 percentage points within a year (Chapter 3, Box 2). A similar shock to uncertainty in major advanced economies could roil financial markets (Figure 2.1.6). Furthermore, should the uncertainty in major economies materialize into an actual slowdown in activity, the outlook for EAP growth would weaken as trade declines and financial flows slow.

In addition to heightened policy uncertainty in key major advanced economies, protectionist pressures have mounted globally, contributing to a post-crisis high in new trade restrictions in 2016. Rising protectionist sentiments creates uncertainty about the future of well-established trading relationships, thereby adding risks to the regional outlook. Even within the parameters of current

FIGURE 2.1.4 EAP region: Selected indicators (cont'd)

Unlike Thailand, current account surpluses narrowed in Malaysia and the Philippines, while tight policies until 2015 helped to reduce current account deficit in Indonesia. Financial market conditions have been stable in the second and third quarters of 2016 and have been accompanied by net capital inflows to the region. Regional currencies, except the Mongolian tugrik, as well as equity and bond markets have recovered before renewed market volatility in late 2016, which was related to heightened policy uncertainty in the advanced economies.



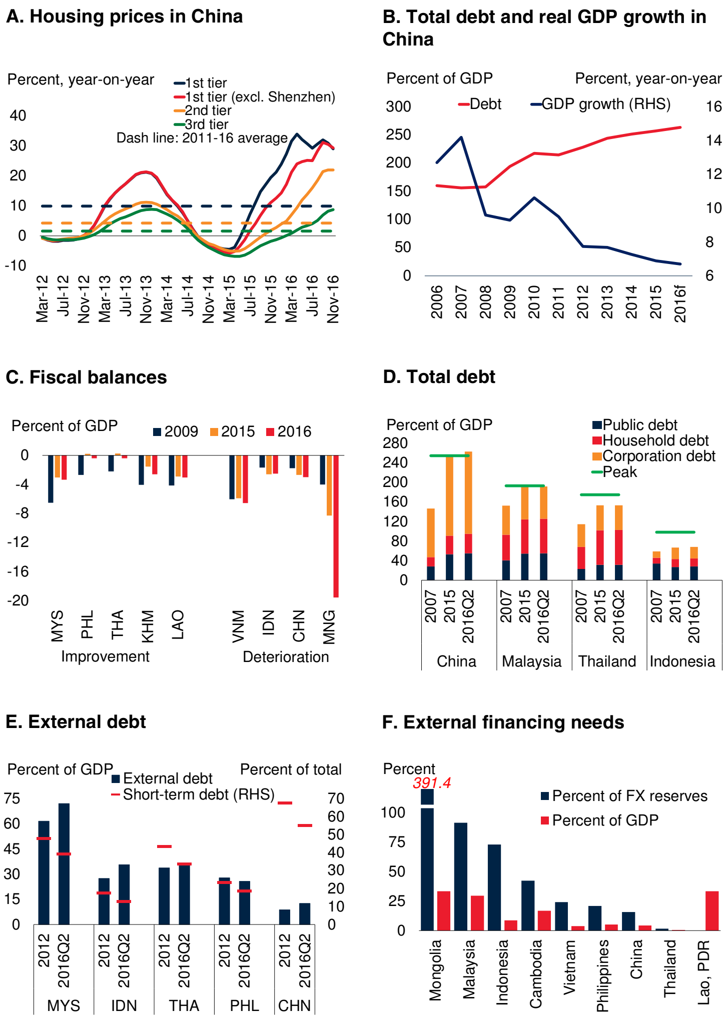
Sources: Bloomberg, Haver Analytics, International Monetary Fund, World Bank staff estimates.
B. Sample includes Indonesia, Malaysia, Thailand, and Philippines; e = estimate.
C. Positive values indicate depreciation.
D. Percent change. 2016 data are through November.

international safeguards, WTO members could legally triple import tariffs (Chapter 1). These welfare losses would disproportionately affect the more open economies in the EAP region, which relies on trade as a key engine for growth.

An unexpected deceleration in major economies, especially in the Unites States or weaker-than-expected global trade would dampen growth in the region (Figure 2.1.7). A faster-than-expected slowdown in China would also have sizable regional spillovers (Dizioli et al. 2016; Zhai and Morgan 2016; World Bank 2016b). A one-time, 1-percentage-point unexpected decline in China's growth rate reduces growth by around 0.4 percentage point after two years in Indonesia, Malaysia, and Thailand. The magnitude of

FIGURE 2.1.5 Vulnerabilities

In China, a sharp increase in house prices, particularly in first-tier cities, raised financial stability concerns. Foreign currency reserves are generally adequate but, in a few cases, foreign indebtedness is high. Stocks of outstanding domestic debt remain elevated in China, Malaysia, and Thailand.



Sources: Bank of International Settlements, Haver Analytics, International Monetary Fund, Quarterly External Debt Statistics, World Bank.
C.E. MYS = Malaysia, PHL = Philippines, THA = Thailand, KHM = Cambodia, LAO = Lao, PDR, VNM = Vietnam, IDN = Indonesia, CHN = China, MNG = Mongolia.
D. Peak data for China is in 2016, Malaysia in 2015, Thailand in 1997, and Indonesia in 2001.
E. For Malaysia, short-term debt data is for 2015Q4, 2016Q2 data is not available.
F. The data are from 2016. External financing needs for Mongolia is 391.4.

spillovers from China would be more pronounced if growth shocks are amplified by deteriorated confidence (Arslanalp et al. 2016; IMF 2016b, World Bank 2016e).

Finally, the baseline forecast is sensitive to a faster-than-expected monetary policy shift in the United States and to changes in global risk aversion. The latter could trigger financial volatility, perhaps similar to the episodes in August 2015 and January-February 2016 when capital inflows to the EAP region fell. Abrupt deterioration of financing conditions would lead to higher debt-service burdens and increased debt-rollover risks. The large, financially integrated economies in the region with sizable external, foreign-currency-denominated, and/or short-term debt—such as Malaysia and, to a lesser degree, Thailand—would be most exposed. There is a risk of financial stress among corporates and households, which could spill over to the banking sector.

Policy challenges

Robust growth has lifted regional GDP well above its pre-crisis level, and China has made progress in rebalancing. However, heightened policy uncertainty, including trade openness in major advanced economies amid rising protectionist sentiments, would limit the ability of global demand to continue supporting medium- and long-term regional growth. Other growth limiting factors are regional in nature and include a continued slowdown in China, worsening demographics in major EMDEs in the region (China, Malaysia, Thailand), and sizable vulnerabilities in some countries.

Against this backdrop, the region faces three main challenges: completing China's transition to a slower but more sustainable and balanced growth path; addressing fiscal and financial imbalances across the region to further boost its resilience in the face of heightened global uncertainty; and implementing structural reform that help in overcoming concerns about aging populations, weak external demand, and rising protectionist sentiments.

China's transition

To complete rebalancing, China would need to advance reforms in the corporate sector, bring credit growth to more sustainable levels, and strengthen its intergovernmental fiscal system. The process of eliminating excess industrial capacity could be accelerated and deepened (IMF 2016c). To facilitate a reallocation of factors of production toward more productive sectors, and away from stagnating sectors with excess capacity, authorities should reduce administrative controls in the financial sector, in favor of a more market-based allocation of capital. Reducing high leverage requires enhanced macro-prudential regulations. Short-term counter-cyclical fiscal measures may be appropriate, but they need to be undertaken within a medium-term fiscal consolidation framework. As the economy rebalances, lower public investment at the subnational level could make it easier for local governments to manage debt, including contingent liabilities from off-budget activities (Jin and Rial 2016). Institutional reforms—such as better corporate governance, enhanced auditing and accounting standards, and stronger regulatory frameworks—are also needed. The reforms of state-owned enterprises (SOEs) could be accelerated over time: sectors dominated by SOEs would benefit from opening up (Leutert 2016); their traditional privileges could be eliminated to ensure a level playing field; and inefficient SOEs could be closed in an orderly way.

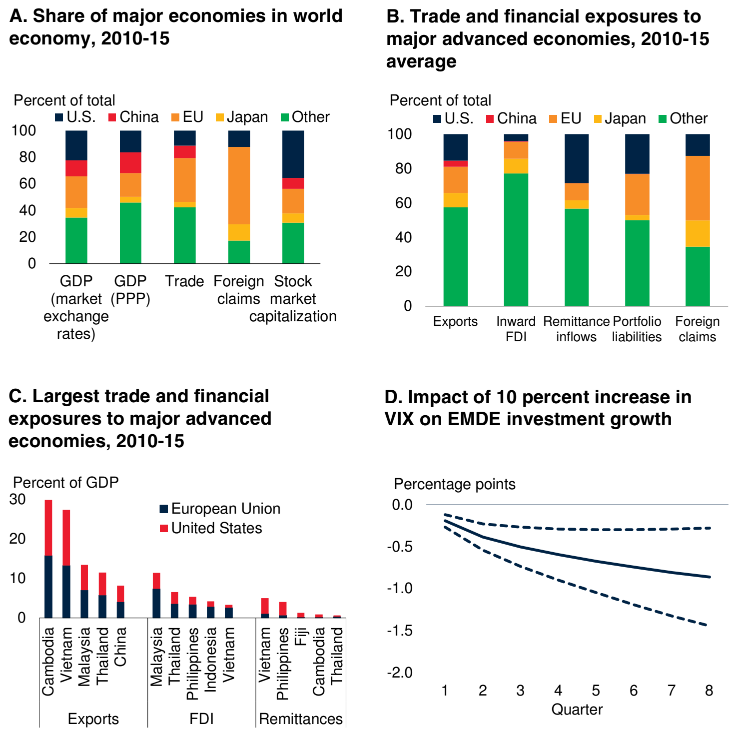
Addressing imbalances

EAP countries face a variety of fiscal challenges. Medium-term fiscal consolidation is needed to rebuild the policy buffers in a majority of countries (Indonesia, Lao PDR, Malaysia, Mongolia, Papua New Guinea, Vietnam). This can be achieved through improved revenue mobilization (Cambodia, Indonesia, Lao PDR, the Philippines), reduced dependence on revenue from energy sectors (Malaysia, Mongolia, Papua New Guinea), and improved public expenditure efficiency (Indonesia, Lao PDR, Vietnam).

A rebalancing of public expenditures and greater public-private cooperation will help address infrastructure deficits (Box 2.1.1). For infrastructure investment to be productive, reforms are needed to make the public sector more effective. These include developing and implementing rigorous, transparent, and accountable processes for project selection, appraisal, procurement, and evaluation, as well as improved processes for operating and maintaining assets. Better fiscal institutions would provide a firm basis for such reforms (IMF 2016b).

FIGURE 2.1.6 Risk of uncertainty in major advanced economies

Risks to the baseline forecast have tilted further to the downside since June reflecting heightened policy uncertainty in the United States and Europe. A confidence shock in major advanced economies, still the main trading partners for many EAP countries, could further dent regional investment growth, which is already below the long-term average.



Sources: Bank for International Settlements, Haver Analytics, International Monetary Fund, World Bank.

A. Trade (A) includes both exports and imports. Exports (B) includes goods exports only. Foreign claims refer to total claims of BIS-reporting banks on foreign banks and nonbanks. Stock market capitalization is the market value of all publicly-traded shares. "U.S." stands for United States; "EU" stands for European Union. FDI data only available to 2014.

C. Goods exports to the United States/European Union, remittances from the United States/European Union, and FDI from the United States/European Union (all in percent of GDP). Chart shows only the countries with the largest exposures to the United States and European Union. For exposures to remittances, some countries such as Samoa and Tonga also have the highest remittance to GDP ratios worldwide. FDI data are FDI stock.

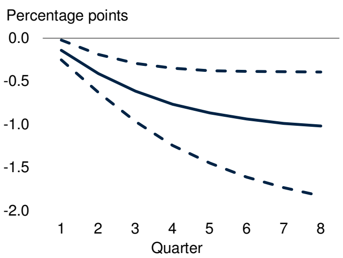
D. Cumulative responses of EMDE investment to a 10 percent increase in the VIX. Solid lines indicate the median responses and the dotted lines indicate 16-84 percent confidence intervals. Vector autoregressions are estimated for the sample for 1998Q1-2016Q2. The model includes, in this order, the VIX, MSCI Emerging Markets Index (MXEM), J.P.Morgan Emerging Markets Bond Index (EMBIG), aggregate real output and investment growth in 18 EMDEs with G7 real GDP growth, U.S. 10-year bond yields, and MSCI World Index as exogenous regressors and estimated with two lags.

For commodity producers (Indonesia, Malaysia, Mongolia, Papua New Guinea), the new era of lower commodity prices underscores the need to enhance fiscal frameworks and improve the operations of institutions that manage commodity price volatility, such as sovereign wealth funds. Reforms to state-owned enterprises—for example, measures that enhance transparency and governance—could reduce pressure on fiscal resources (Thailand, Vietnam). In the Philippines

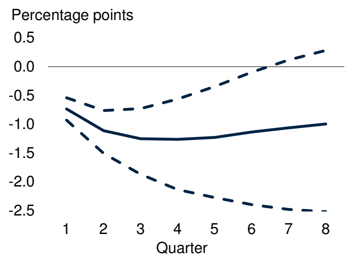
FIGURE 2.1.7 Spillovers from the United States and the Euro Area

A slowdown in U.S. or Euro Area output growth would reduce output growth in EMDEs considerably. EMDE investment would respond more strongly, possibly reflecting investor concerns about long-term growth prospects.

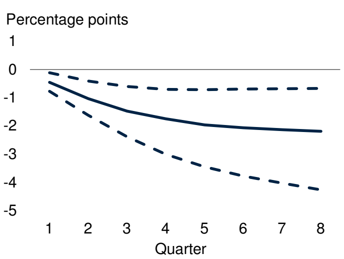
A. Output growth: Impact of 1 percentage point slowdown in U.S. output growth on EMDEs



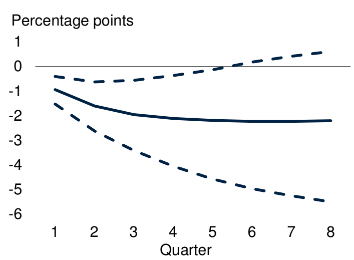
B. Output growth: Impact of 1 percentage point slowdown in Euro Area output growth on EMDEs



C. Investment growth: Impact of 1 percentage point slowdown in U.S. output growth on EMDEs



D. Investment growth: Impact of 1 percentage point slowdown in Euro Area output growth on EMDEs



Sources: Haver Analytics, International Monetary Fund, World Bank.
Notes: Cumulative impulse response of weighted average EMDEs' output growth (A.B.) or investment growth (C.D.) at 1-8 quarter horizons to a 1 percentage point decline in growth in real GDP in the United States (A.C.) and Euro Area (B.D.). Growth spillovers based on a Bayesian vector autoregression of world GDP (excluding the source country of spillovers), output growth in the source country of the shock, the U.S. 10-year sovereign bond yield pulse JP Morgan's EMBI index, investment (C.D.) or output (A.B.) in EMDEs excluding China and oil price as an exogenous variable. Solid lines indicate the median responses and the dotted lines indicate 16-84 percent confidence intervals.

and Thailand, where an expansionary fiscal stance could be appropriate in the short-term, policies should also be framed in the overall context of a sustainable medium-term fiscal framework.

Addressing financial imbalances and reducing financial vulnerabilities, including those of households and corporates, requires strengthened macro-prudential frameworks (IMF 2015c; World Bank 2016a). This will help mitigate the risks in the event of market turmoil (IMF 2016d; World Bank 2016a-c). Improved regulatory oversight and supervision is needed for the nonbank financial sector (Cambodia, the Philippines, Malaysia, Thailand). Banking sector reforms rank high for improving efficiency and the allocation of capital in Cambodia, Lao PDR, Mongolia, and Vietnam. In several countries, including the Philippines, Cambodia, Thailand, and Vietnam, there is significant scope to strengthen regulatory oversight and micro-prudential risk management (Abino et al. 2014, IMF 2016 d-g, Ly 2016, World Bank 2016a,b).

Structural reforms

Rising international trade has been an important driver of growth in EAP region. The region took full advantage of globalization, opening up its economies to trade and foreign direct investment, and exploiting competitive advantages in the manufacturing sector. However, protracted weakness in advanced economies, stalling trade liberalization, and an increased risk of protectionism are dimming prospects for the long-run expansion of trade. In China and several other major economies, additional limitation to long-term growth stem from aging populations, slower labor force growth, and slower productivity growth. These factors highlight the importance of policies that boost domestic sources of long-term growth.

The region has plenty of potential for decades of rapid urban development (World Bank 2015a). Although more than 400 million people moved to cities between 2000 and 2015, the share of people living in urban centers in the EAP region remains at 54 percent in 2015 (49 percent excluding China), and remains well below the advance economy average (80.3 percent) in the majority of the regional economies (Figure 2.1.8).[1] China's current urbanization rate is 55.6 percent, with only 23.7 percent of China's population in urban agglomerations compared to 45.3 percent in the United States. An increased urban share of the population can lift GDP per capita and support convergence of the region with advanced economies.[2] Mutually supporting measures that encourage private sector investment and public investment in infrastructure and social services can

[1]The fastest annual rates of urban expansion were in Cambodia, followed by China and Vietnam.

[2]There is a direct link between urbanization and income growth (World Bank 2015a).

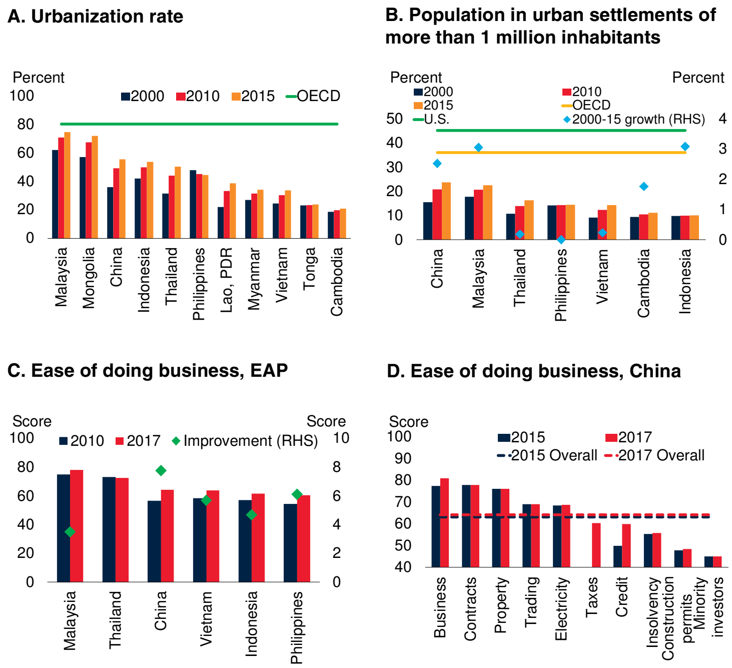
facilitate inclusive and sustainable urban growth. National urbanization strategies could lead to more livable environments in high-density urban areas, making land more accessible and on a fair and transparent basis. Governments can encourage facilities that deal with the needs of recent migrants. Well-coordinated urban services across municipal boundaries would reduce metropolitan fragmentation (ADB 2016; Creehan 2015; Bryson and Nelson 2016; World Bank and Development Research Center of the State Council, China 2014). With the large share of the workforce in the region still engaged in agriculture, future gains from structural transformation could be substantial. At the same time, continued reforms in the sector are needed to create opportunities for the rural population both within and outside farming.

Complementary reform priorities include improvements in the business climate and reductions in the cost of Doing Business (Cambodia, Lao PDR, Myanmar, Papua New Guinea, Timor-Leste, and the small Pacific Islands; ADB 2016). Cambodia, Lao PDR, Myanmar, Papua New Guinea, and the Solomon Islands rank particularly low on the 2015 Corruption Perception Index reported by Transparency International and other governance indicators. Enhanced transparency, strengthened accountability, and more responsiveness of state institutions to the needs of the private sector would bolster investor confidence. High-quality education would raise labor-force skills, and promote productivity growth. Reforms that reduce barriers to females in the workplace are an effective way to increase participation rates and productivity.

Lower non-tariff barriers would further expand global and regional trade and improve the international allocation of investment, thereby boosting productivity and competitiveness. In particular, barriers to services trade remain elevated for many countries of the region (Indonesia, Malaysia, the Philippines, Thailand). Restrictions on foreign control and ownership, discretionary licensing, and limits on the operations of foreign companies have significant negative impacts on the delivery of services across

FIGURE 2.1.8 Policy challenges

The region retains significant potential for convergence-driven growth. The share of people living in urban centers in the EAP region is well below the advanced economy average. China's current urbanization rate is 55.6 percent, with only 23.7 percent of China's population in urban agglomerations compared to 36.1 percent in OECD country average. Across the region, there is room to improve business environments and institutions.



Sources: World Development Indicators, World Bank; Doing Business 2017, World Bank.

C.D. The distance to frontier score helps assess the absolute level of regulatory performance over time. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

C. For Thailand, the score in 2017 declined so the improvement data is not showed.

D. Business means Starting a business, Contracts means Enforcing contracts, Property means Registering property, Trading means Trading across borders, Electricity means Getting electricity, Taxes means Paying taxes, Credit means Getting credit, Insolvency means Resolving insolvency, Construction permits means Dealing with construction permits and Minority investors means Protecting minority investors.

borders. In addition, foreign entry restrictions in some EAP countries are prohibitive for many professional services such as legal, accounting, or engineering.

Regional partnerships and trade agreements, including the ASEAN economic community and the proposed Regional Comprehensive Economic Partnerships, will help stimulate structural reforms and promote stable income growth. These partnerships can also help the region to mitigate the impact of rising protectionism, resist pressures for protectionist measures, and boost the region's resilience, as it did during both the Asian financial crisis in 1997 and global financial crisis in 2008-09.

TABLE 2.1.1 East Asia and Pacific forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018
			Estimates	Projections			(percentage point difference from June 2016 projections)			
EMDE EAP, GDP[a]	**6.7**	**6.5**	**6.3**	**6.2**	**6.1**	**6.1**	**0.0**	**0.0**	**0.0**	**0.0**
(Average including countries with full national accounts and balance of payments data only)[b]										
EMDE EAP, GDP[b]	6.7	6.5	6.3	6.2	6.1	6.1	0.0	0.0	0.1	0.0
GDP per capita (U.S. dollars)	6.0	5.7	5.7	5.5	5.5	5.5	0.0	0.1	0.0	0.0
PPP GDP	6.6	6.4	6.3	6.1	6.1	6.1	0.0	0.0	0.0	0.0
Private consumption	7.9	7.1	6.9	7.0	7.0	7.0	0.1	0.0	0.0	0.0
Public consumption	3.0	6.3	6.1	5.9	5.8	5.8	-0.1	0.0	0.0	0.0
Fixed investment	6.7	6.6	6.4	6.2	5.7	5.7	0.0	0.0	-0.1	0.0
Exports, GNFS[c]	5.2	2.6	3.3	4.3	4.8	4.8	0.1	-0.1	0.0	0.0
Imports, GNFS[c]	4.5	2.3	3.9	4.7	5.4	5.4	0.2	-0.1	-0.1	0.0
Net exports, contribution to growth	0.3	0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Memo items: GDP										
East Asia excluding China	4.7	4.8	4.8	5.0	5.2	5.2	0.0	0.0	0.1	0.0
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Indonesia	5.0	4.8	5.1	5.3	5.5	5.5	0.0	0.0	0.0	0.0
Thailand	0.8	2.8	3.1	3.2	3.3	3.4	0.0	0.6	0.5	0.3

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.
a. EMDE refers to emerging market and developing economy. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes American Samoa and Democratic People's Republic of Korea.
b. Sub-region aggregate excludes American Samoa, Democratic People's Republic of Korea, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Myanmar, Palau, Papua New Guinea, Samoa, Timor-Leste, Tonga, and Tuvalu, for which data limitations prevent the forecasting of GDP components.
c. Exports and imports of goods and non-factor services (GNFS).
For additional information, please see www.worldbank.org/gep.

TABLE 2.1.2 East Asia and Pacific country forecasts[a]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018
			Estimates	Projections			(percentage point difference from June 2016 projections)			
Cambodia	7.1	7.0	7.0	6.9	6.9	6.8	0.0	0.1	0.1	0.1
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Fiji	5.3	4.1	2.4	3.9	3.7	3.5	0.1	0.0	0.1	0.2
Indonesia	5.0	4.8	5.1	5.3	5.5	5.5	0.0	0.0	0.0	0.0
Lao PDR	7.5	7.4	7.0	7.0	6.8	7.2	0.4	0.0	0.0	0.0
Malaysia	6.0	5.0	4.2	4.3	4.5	4.5	0.0	-0.2	-0.2	-0.2
Mongolia	8.0	2.3	0.1	2.0	3.5	3.7	0.0	-0.6	-0.7	-2.7
Myanmar	8.0	7.3	6.5	6.9	7.2	7.3	0.3	-1.3	-1.5	-1.1
Papua New Guinea	7.4	6.8	2.4	3.0	3.2	3.0	-1.8	-0.6	-1.1	0.3
Philippines	6.2	5.9	6.8	6.9	7.0	6.7	0.1	0.4	0.7	0.8
Solomon Islands	2.0	3.3	3.0	3.3	3.0	3.0	0.0	0.0	0.0	0.0
Thailand	0.8	2.8	3.1	3.2	3.3	3.4	0.0	0.6	0.5	0.3
Timor-Leste[b]	5.9	4.3	5.0	5.5	6.0	5.5	0.0	0.0	0.0	0.5
Vietnam	6.0	6.7	6.0	6.3	6.3	6.2	0.0	-0.2	0.0	0.0

Source: World Bank.
World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes American Samoa and Democratic People's Republic of Korea.
b. Non-oil GDP. Timor-Leste's total GDP, including the oil economy, is roughly four times the non-oil economy, and highly volatile, sensitive to changes in global oil prices and local production levels.
For additional information, please see www.worldbank.org/gep.

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific

Investment growth in the East Asia and Pacific (EAP) region has been stronger than in the average EMDE but has declined steadily over the past decade. Following a decline in 2010-14, investment growth in the East Asia and Pacific (EAP) region has since stabilized. To a large extent, the deceleration represents an necessary adjustment from previously elevated growth rates, which were temporarily boosted by the post-crisis government stimulus. In China, this process has involved economic rebalancing towards domestic consumption and the services sectors. In other economies, adjustment to lower commodity prices has been a factor. Investment needs remain sizable across the region, reflecting significant demographic and income shifts, and rapid urbanization.

During 2010-15, East Asia and Pacific accounted for almost one-half of the growth in global investment, and one-quarter of the global level. Investment growth has steadily declined from 12.1 percent in 2010 to 6.5 percent on average in 2015-16—well below the double-digit rates of 2003-2008. The slowdown has been broad based and reflected decelerating public as well as private investment. This box discusses the following questions.

- How has investment growth in the region evolved?
- What are the remaining investment needs?
- Which policies can help address investment needs?

The slowdown in investment growth in the EAP region was concentrated in China and commodity exporters. To some extent, the deceleration represents a necessary adjustment from high pre-crisis growth rates and the post-crisis policy stimulus. The process has involved economic rebalancing, from manufacturing industry to services, and from investment (in excess of 40 percent of GDP) and exports to domestic consumption. In other economies, the cycle in commodity markets, from a decade of high prices to recent weakness, has been a factor. Despite several decades of rapid investment growth, requirements in the areas of transport, health and education, and environmental protection, remain sizable across the region.

How has investment growth in the region evolved?

Investment growth in East Asia and Pacific has steadily declined—from 12.1 percent in 2010 to 6.5 percent on average in 2015-16. This is well below the region's double-digit growth rates of 2001-2008, but higher than in other EMDE regions. The slowdown was particularly pronounced in China (Figure 2.1.1.1). It reflected a deceleration in the public as well as the private sector, as the coordinated fiscal stimulus following the global financial crisis was unwound (especially in China).

In *China*, investment growth slowed sharply from a 22.8 percent peak in 2009 to 6.5 percent on average in 2015-16. The deceleration reflected a rebalancing towards more sustainable growth. The rebalancing of the economy has involved a shift from capital accumulation (in excess of 40 percent of GDP) and exports to domestic consumption, and from manufacturing industry to services. By 2015-16, the drivers of investment growth have changed (Box 3.3). Large debt stocks resulting from record-high credit growth in 2010-13 continue to weigh on investment growth. Nevertheless, China's investment rate remains elevated at 43 percent of GDP in 2016.

Until 2015, *commodity importers other than China* faced investment headwinds from tight monetary, fiscal, and prudential policies that were designed to contain rapid credit growth. Also, the uncertainty due to political problems in Thailand and delays in investment project approvals in the Philippines held back investment in these countries.

In *commodity exporters* in the region, investment growth slowed sharply during 2012-14. In large commodity-exporting economies (Indonesia and Malaysia), this slowdown mainly reflected policy tightening in response to financial market stress during the 2013 Taper Tantrum, and to weaker terms-of-trade as a result of declines in commodity prices (especially raw materials, fertilizers, metals and minerals) from their early-2011 peaks. In smaller, more heavily commodity-dependent economies, investment contracted as foreign direct investment for mining sector projects declined, and as domestic policies tightened sharply in response to balance of payments stress (World Bank 2015b).

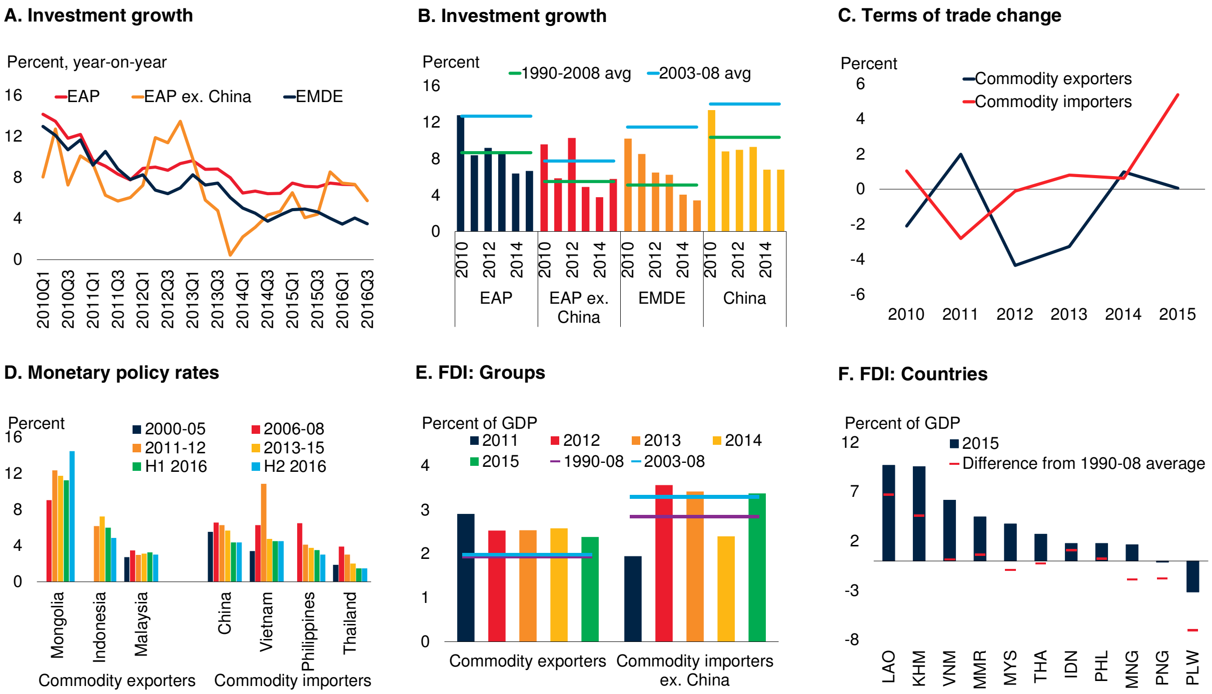
Since 2015, investment growth has begun to recover in the EAP region, with the exception of China, where it stabilized at around 6.5 percent. This has reflected a number of developments: stabilizing commodity prices; more accommodative policies amid low inflation and benign global financial conditions; and buoyant foreign direct investment inflows (FDI). Various factors contributed to the increased FDI: a reduction of political turbulence in Thailand; improved prospects for electronics manufacturing under WTO membership for Vietnam; and the opening up in Myanmar that began in 2011. In China, the composition of FDI has shifted from manufacturing—

Note: This box was prepared by Ekaterine Vashakmadze. Research assistance was provided by Liwei Liu.

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific *(continued)*

FIGURE 2.1.1.1 Investment growth

Investment growth in the EAP region has stabilized at moderate levels in 2015-16 following a gradual decline in 2010-13. This decline reflected a steady slowdown in China and a sharp deceleration of investment growth in commodity exporters through end-2013. Since early-2014, investment growth has begun to recover in major commodity exporters as their terms-of-trade bottomed out and major central banks embarked on easing cycles. Foreign direct investment (FDI) to the EAP region remained buoyant and supported investment growth.



Sources: Haver Analytics; International Monetary Fund; United Nations Conference on Trade and Development; World Bank; World Development Indicators, World Bank.
A. GDP-weighted averages.
C. Investment-weighted averages. Commodity exporters include Indonesia, Malaysia, Myanmar, and Papua New Guinea. Commodity importers include Cambodia, the Philippines, Thailand, and Vietnam. An increase denotes an improvement in terms-of-trade.
D. Policy rates are the average of end-of-period data.
E. FDI inflows. Weighted averages.
F. For difference from 1990-14 average, positive values indicate improvement of FDI inflows. LAO = Lao, PDR, KHM = Cambodia, VNM = Vietnam, MMR = Myanmar, MYS = Malaysia, THA = Thailand, IDN = Indonesia, PHL = Philippines, MNG = Mongolia, PNG = Papua New Guinea, PLW = Palau.

held back by rising wages and production costs, especially in coastal regions—towards services, and from lower value-added products towards higher value-added products such as cars (UNCTAD 2016).

What are the remaining investment needs?

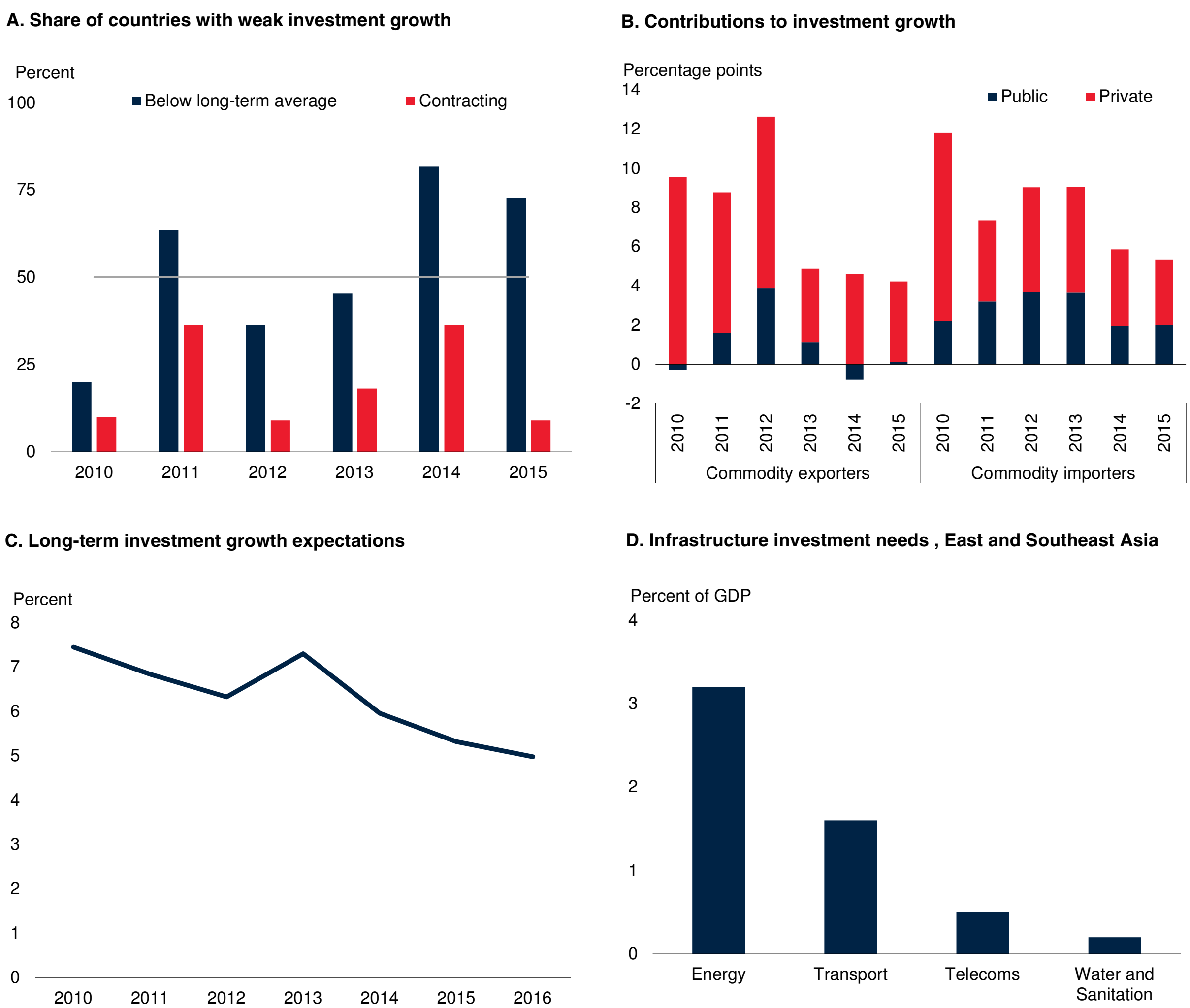
Infrastructure needs and priorities. Income and demographic shifts, and rapid urbanization are the three main forces driving investment needs in the region (World Bank 2015c, 2016f). Rapid urbanization, large-scale migration, and population aging place heavy strains on urban infrastructure for housing, transportation, healthcare, and education. Meeting the growing demands requires choosing a balance between economic growth and environmental protection (ESCAP 2015).[1] Estimates of costs vary widely (Inderst 2016; Bhattacharyay 2012; McKinsey 2014; HSBC 2013). The largest costs involve road construction and upgrading, energy infrastructure, and real estate development (HSBC 2013; McKinsey 2014; Deutsche Bank 2016). The region shows a significant disparity in density and quality of transport networks, electricity provision and housing, with greater gaps in China, Indonesia, and lower-income ASEAN economies (primarily because of large landmass and population size). There is substantial demand for

[1]For example, in addition to 170 cities in China with populations exceeding 1 million, China is expected to gain 292 million city-dwellers by 2050 (World Economic Forum 2015).

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific *(continued)*

FIGURE 2.1.1.2 Investment growth slowdown and investment needs

In 2014, virtually all EAP economies recorded investment growth below their long-term average, mainly reflecting weak private investment. A rebound of investment in 2015 helped, but investment growth remains below its long-term average in more than half of EAP economies. Long-term forecasts suggest continued weakness in investment growth, while sizable investment needs remain in infrastructure.



Sources: Battacharya (2012), China Economic and Industry Data Database (CEIC), Consensus Economics, General Statistics Office of Vietnam, Haver Analytics, Inderst (2016), Investment and Capital Stock database, International Monetary Fund, World Bank.

A. Share of countries in EAP region with investment growth below the long-term (1990-2008) average or negative investment growth ("Contracting").

B. Weighted averages of gross fixed capital formation growth rates in the public and private sectors, respectively, in constant 2005 U.S. dollars. The sample includes nine EAP economies.

C. Five-year ahead consensus forecasts made in the year denoted. Weighted average.

upgrading and maintenance of infrastructure in other regional economies, including Malaysia, the Philippines, and Thailand.

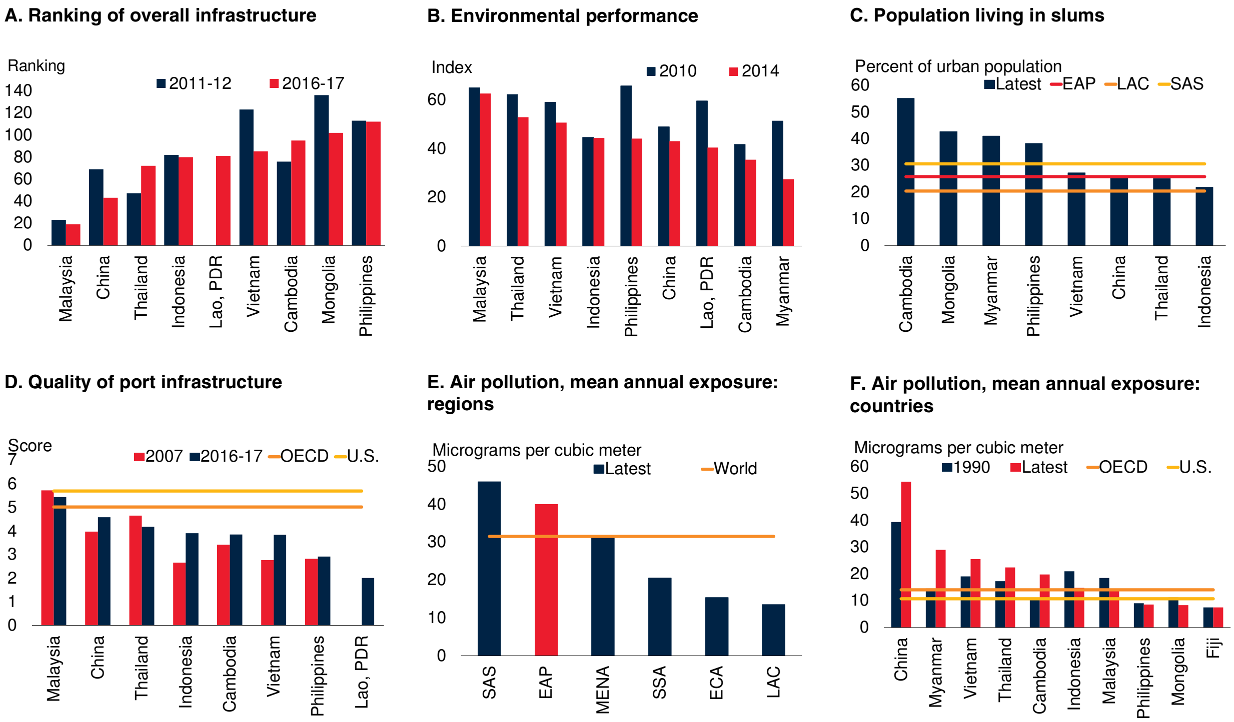
Infrastructure upgrades and challenges. Despite some remarkable successes, providing adequate transport networks, power, water, and other facilities remains a challenge across much of the region (Figure 2.1.1.2).

Infrastructure projects underway. Extensive construction activities are underway in the region (BMI 2016). Transport, especially rail, accounts for the largest share.

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific *(continued)*

FIGURE 2.1.1.3 Infrastructure indicators

Despite significant progress, in general, providing adequate transport networks, power, water and other facilities remains a challenge across much of the region. EAP regional economies are confronted by environmental problems that threaten to undermine future growth and regional stability.



Sources: Environmental Performance Index; World Economic Forum; World Development Indicators, World Bank.
A. Ranking of 140 countries according to the quality of their infrastructure. 1= the best, 140 = the worst.
B. The Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data, including child mortality, wastewater treatment, access to drinking water, access to sanitation, and air pollution average exposure to PM2.5. These indicators use a "proximity-to-target" methodology, which assesses how close a particular country is to an identified policy target. Scores are then converted to a scale of 0 to 100, with 0 being the farthest from the target (worst observed value) and 100 being closest to the target (best observed value).
C. Latest data are as of 2014.
D. 1= extremely underdeveloped to 7= well developed and efficient by international standards.
E.F. This measures the average level of exposure of a nation's population to concentrations of suspended particles measuring less than 2.5 microns in aerodynamic diameter, which are capable of penetrating deep into the respiratory tract and causing severe health damage. Exposure is calculated by weighting mean annual concentrations of PM2.5 by population in both urban and rural areas. Latest data are as of 2013.
E. SAS is South Asia region; EAP is East Asia & Pacific region; MENA is Middle East & North Africa region; SSA is Sub-Saharan Africa region, ECA is Europe & Central Asia region, LAC is Latin America & Caribbean region.

The aim is to integrate the region's transport networks, and to accommodate rapid urbanization.[2] These projects are supported by government initiatives such as the China's One Belt One Road.

- *China's* highway network more than doubled in size between 2004 and 2014, and the share of high-speed railways was boosted from 33 percent to 50 percent of total railway kilometers. Yet, transport density still falls far short of that in advanced economies. Infrastructure needs vary considerably across Chinese regions, and range from high-profile projects (such as high-speed railways) to installing basic municipal infrastructure and pollution-reducing or -reversing technologies (World Bank 2013a, World Bank and DRC 2014).

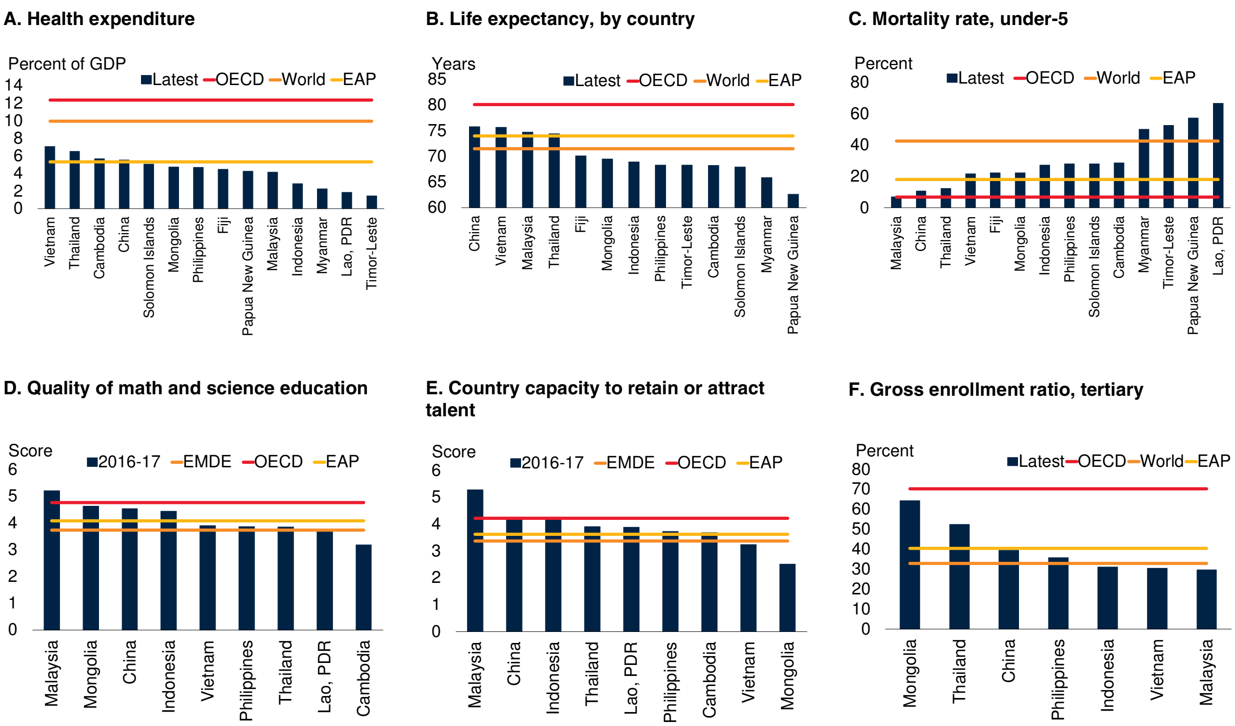
- Lack of adequate infrastructure are the main cause of *Indonesia's* high logistics costs (around 17 percent of companies' total expenditure). Transport costs are high. About one-quarter of the population of Indonesia remains without electricity.

[2]Planning is underway for high-speed rail across the region, including a major network expansion in China, projects in Thailand, Indonesia, Singapore/Malaysia, Lao PDR, and Vietnam.

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific *(continued)*

FIGURE 2.1.1.4 Health and education

East Asia and the Pacific made great progress towards education and human development outcomes, including child survival, nutrition and education outcomes. Despite the evident progress in the region, some countries still face significant challenges and serious education and human-resource shortfalls.



Sources: Haver Analytics; World Development Indicators, World Bank; World Economic Forum.
A.B.F. Latest data are as of 2014.
C. Probability of dying between birth and exactly five years of age expressed per 1000 live birth. Latest data are as of 2015.
D.E. The score is from 1 to 7. Higher value means the country is in a good performance. The OECD and EMDE average is the simple average of all the countries in the subgroupings.

- In *Lao PDR*, *Cambodia*, and *Vietnam*, investment in basic road infrastructure is a priority (World Bank and Vietnam Ministry of Planning 2016).

- In *Malaysia*, high-profile projects like the expansion of the public transport system in Kuala Lumpur, and airport and port upgrades, are anticipated to proceed through 2020. Middle-income ASEAN countries in general, such as *Malaysia and Thailand*, are still investing heavily in the rail and public transport systems.

- The *Philippines* is particularly weak with regard to transport and trade-related infrastructure. It continues to rank above 100 globally in the overall state of its infrastructure (World Economic Forum 2015), with particularly low rankings for the quality of its seaports and airports. About one-quarter of the population remains without electricity.

- In many East Asian countries, about a third of the population lives in substandard housing (Figure 2.1.1.3).

Education and health care. The region has made great progress in human development outcomes, including child survival, nutrition, and education. Despite this progress, the region still faces serious education and human-resource shortfalls (Figure 2.1.1.4).

- *Health care. EMDEs* in the EAP region have reduced child mortality rates by an average of two-thirds between 1990 and 2015. However, child mortality rates in Lao PDR, Myanmar, and Papua New Guinea, and Timor-Leste are still well above global averages.

BOX 2.1.1 Investment developments and outlook: East Asia and Pacific *(continued)*

In addition, the region has historically faced a high burden of disease from infectious diseases, some of which have potential global reach (e.g., SARS and pandemic influenza). Within a generation, rates of non-communicable diseases (NCDs) are expected to rise, and infectious diseases are expected to remain a risk associated with high population mobility and environmental degradation (Anbumozhi and Ponciano 2015). Adjusting to these long-run trends will require public investment in basic infrastructure, education, health and environmental protection.

- *Education.* Although enrollment in primary education in the region is almost universal, there are deficiencies in student retention (Cambodia, Lao PDR, Myanmar), quality of education (Thailand, Malaysia, Vietnam, Cambodia, Lao PDR), and knowledge gained as measured by literacy rates (Papua New Guinea, Timor-Leste, Lao PDR, Cambodia).

Environmental challenges. Many countries in the region are confronted by environmental problems that threaten to undermine future growth and stability. The main challenges include water management, deforestation and land degradation, air pollution, and climate change (Lee and Pang 2015). In several major cities in China, air and water pollution presents a growing health risk. Pollution levels have also risen in Myanmar, Vietnam, Thailand, and Cambodia since 2010.

Which policies can help address investment needs?

Greater spending efficiency will help increase the benefits of public investment. Private sector participation can help improve efficiency, and at the same time provide funding. Several reforms can help realize the potential benefits of public-private-partnerships. Governments can centralize agencies that coordinate national infrastructure, in cooperation with the private sector and multilateral agencies. Multilateral Development Banks can work with the private sector to provide quality and governance assurances. Standardization and a global "code of conduct" can enhance confidence in the private sector as a good partner. This could include a regulatory framework, transparency principles, and a system for dispute resolution (McKinsey 2013).

Confidence in the business environment is central to encouraging private investment. Measures to improve the environment include cutting red tape, clarifying laws and regulations, allowing greater market access to foreign companies, opening more investment areas to private enterprise (especially in services sectors), and cutting financing costs. Reforms to deepen capital markets and to strengthen banking systems (e.g., through faster and more effective insolvency procedures) can encourage private financing.

In education, policy priorities include a focus on developing skills that are a high priority in labor markets, keeping in mind that requirements differ across country and sector. Primary and secondary education must focus on quality and on learning outcomes, and on building effective educational systems based on autonomy and accountability. The relevance of higher education, vocational education, and training can be improved by giving institutions the capacity and incentives to meet labor market demand, and by providing information to improve the matching between job openings and the skills of prospective workers (World Bank 2014a). In health, ensuring access to good quality services, without imposing financial hardship, will entail reforms to the insurance regime, and a shift of focus from hospitals toward high-quality primary care.

For environmental sustainability, the complexity of challenges underlines that there are no easy or universal solutions to environmental problems across the region. However, a number of initiatives would be appropriate. These include a focus on common benefits; an emphasis on stakeholder participation; a commitment to scientific and technological research; an emphasis on long-term planning; reforms to align resource and utilities pricing with cost, including externalities; improvements in governance and general institutional capacity; and a strengthening of regionally coordinated approaches and international support (Anbumozhi and Ponciano 2015).

Investment growth in EAP is unlikely to revert to the high rates of the previous decade. Demands for capital formation in the region will nevertheless remain relatively high, and governments and multilateral agencies will remain important providers of funding. The establishment of the Asia Infrastructure Investment Bank provides a new source of funding. In March 2016, the Japan International Cooperation Agency signed an agreement with the Asian Development Bank to establish a new $1.5 billion fund to support private infrastructure investments across the Asia-Pacific region. In order to have the desired impact, it is important that investments go to economically viable projects. Close coordination of regional and global initiatives will help reduce duplication and inconsistencies in public investment projects (BMI 2016).

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