

**IPS Corporate Associates Breakfast
“Robust Recovery, Rising Risks – A World Bank Update for the East Asia and
Pacific Region”**

**Speaker: Mr Vikram Nehru, World Bank Chief Economist for the East Asia &
Pacific Region**

**21 October 2010
Orchard Hotel, Singapore**

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Mr Vikram Nehru, World Bank Chief Economist for the East Asia and Pacific region presented the latest *East Asia and Pacific Economic Update* to thirty participants at an IPS Corporate Associates Breakfast. He brought a positive message for the region. The last six months since the economic crisis has seen developing East Asia enjoying broad-

based growth and a robust recovery. The World Bank has predicted that real Gross Domestic Product (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, as output has recovered to exceed pre-crisis levels.

Addressing previous concerns that East Asian growth had been largely driven by fiscal and monetary stimulus packages which would gradually unwind, Mr Nehru said that there had been an impressive handoff in virtually every country from public to private sector-led growth. After six months of public-funded stimulus measures, private sector investment and consumption had picked up after the crisis, and was driving a more sustainable growth less dependent on fiscal space.

On indices of poverty, development and unemployment in the region, previously expected to worsen as a result of the crisis, Mr Nehru noted instead a positive decline in poverty rates, albeit at a slower pace than before. During the crisis, many firms had held



off on mass retrenchments, choosing to implement shorter working hours in order to cut labour costs. Now that demand has bounced back, longer hours have been re-implemented with real wages rising for most workers. However, Mr Nehru cautioned that worries remain over East Asia's "jobless recovery" mirroring that of the West, which has seen no uptake in employment and manufacturing. He attributed this to firms having taken the crisis as an opportunity to improve their technological efficiency. As a result, policy makers across Asia now need to meet the challenge of creating new opportunities for labour and employment.



Mr Nehru highlighted other challenges which he felt policy makers needed to address urgently. Given that "rising risks" have accompanied East Asia's robust economic recovery, a cause for concern is the large increase of capital inflows to the region. Driven by an abundance of global liquidity and rising confidence among foreign investors in East Asia's growth prospects, Mr

Nehru warned that this surge in inflows has a worrying resemblance to the pattern of dynamics that led to the 1997 Asian Financial Crisis. He noted that the substantial real appreciation of East Asian currencies, as well as rising asset prices and stock market indices, are classic indicators of a gradually overheating economy. Policy makers in the region thus face the challenge of performing a delicate balancing act: managing potentially volatile short-term growth spawned by large capital inflows, while ensuring that long-term investment continues by maintaining economic competitiveness, stable currencies and low inflation, he said.

Mr Nehru also provided several recommendations for contractionary government interventions, which included heightened oversight of banks and targeted sterilisation policies. He also advocated for easier avenues for capital outflows so as to "take some pressure out of the balloon" among the region's economies.

Moving on to medium-term growth challenges in East Asia, Mr Nehru stressed the need for middle-income countries in the region (Malaysia, Thailand and the Philippines) to address their eroding competitiveness in traditional labour-intensive manufacturing industries. The key to



breaking into new markets and high value-added industries lay in raising investment in physical and human capital in order to encourage innovation. Countries such as Malaysia must aim for higher investment to GDP ratios, which is critical for long-term growth.

While 2010 has so far been a year of economic rebound and incredible growth rates after the crisis, Mr Nehru predicted that the second half of the year would see countries moving back to more sustainable and normalised levels of growth. Going forward, a central challenge for East Asian policy makers is now the prudent management of growth in the region amidst a global economy that is growing and recovering at a much slower pace.

For the full report, please visit:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTAPHALFYEARLYUPDATE/0,,menuPK:550232~pagePK:64168427~piPK:64168435~theSitePK:550226,00.html>



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