Recent developments: Economic activity in the East Asia and Pacific (EAP) region remained resilient in early 2026, despite signs of spillovers from the conflict in the Middle East through higher inflation. In China, growth continued at a solid pace, with policy stimulus supporting consumption and infrastructure investment. Export performance remained robust, boosted by technology-related exports, while exports of consumer goods remained muted. Import growth was elevated, also underpinned by high-tech intermediate inputs, although shipping disruptions from the conflict weighed heavily on energy imports. Rising input costs were a primary driver of substantially higher producer price inflation, with limited increases in headline consumer price inflation. The property sector adjustment continued, with modest improvements in large cities.

Elsewhere in EAP, growth proved robust in early 2026, even with higher energy prices and input costs. Indicators of consumption growth, such as retail sales and consumer confidence, held steady. Moreover, demand for AI-related products supported strong industrial production and export growth, particularly in Malaysia, the Philippines, Thailand, and Viet Nam. Tourist arrivals recovered to pre-pandemic levels in some countries, but slower outbound tourism from China hampered the rebound in others, with the conflict further dampening tourist activity.

Financial conditions across the region tightened at the onset of the conflict. Currencies depreciated, equity markets declined, and local-currency bond yields rose, especially in Indonesia, the Philippines, and Thailand, with only a partial recovery after the ceasefire. Higher energy prices and conflict-related supply disruptions led to higher inflation, posing a challenge for some energy-importing economies where inflation was already elevated, such as Myanmar and Viet Nam. Many governments have taken action to cushion the impact on households either by absorbing higher costs through subsidies or managing energy demand through rationing where fiscal space is constrained.

Outlook: Growth in EAP is projected to moderate to 4.2 percent in 2026 from 5 percent in 2025, reflecting the impact of the conflict as well as China's outlook. China's deceleration this year stems from subdued domestic demand amid low consumer confidence, the continued property sector adjustment, and a soft labor market. In parallel, export growth is expected to ease relative to 2025 because of weaker external demand this year, with some offset from lower U.S. import tariffs and continued strength in technology-related exports. In the near term, the growth impact of the conflict is expected to be cushioned by China's substantial oil reserves, its high share of renewable energy, and low inflation. In addition, the government has capped fuel prices, limiting the pass-through of higher global prices to households. Growth is expected to edge up to 4.3 percent in 2027–28, as energy prices ease while diminishing marginal returns to capital, high debt, and population aging continue to lower China's potential growth.[1] In the medium term, as export growth slows, policies are expected to provide an incremental boost to consumption and lead to productivity gains from digital and industrial innovation.

In EAP excluding China, growth is expected to slow to 4.4 percent in 2026 from 4.8 percent in 2025, as the conflict disrupts supply and weighs on demand through higher energy prices, elevated uncertainty, and, in some cases, tighter financial conditions. Export growth will be dampened by weaker external demand, the fading of front-loading ahead of U.S. tariff hikes that have now been lowered, and reduced U.S. tariff advantages relative to China. Continued strong demand for electronics and semiconductors is expected to provide a partial offset, although uncertainty remains about tariff exemptions and the availability of inputs, such as helium and sulfur, for these sectors.

The effects of the conflict will vary among the economies in the region, depending on the size and direction of their energy trade, their strategic petroleum reserves, and the policy buffers available. In general, low inflation in major EAP economies and well-anchored inflation expectations provide central banks with the flexibility to look through the short-term increase in inflation. However, central banks, especially those that

[1] Debt refers to aggregate non-financial sector debt as measured by total social financing (excluding equity).

target headline inflation, could face a greater challenge if food price inflation rises markedly. High energy and transportation prices are likely to dampen consumption and industrial production. Tourism would also suffer if shortages of jet fuel arise or households delay travel. Fiscal positions will come under pressure, especially for energy importers like the Philippines and Thailand, and Pacific Island nations such as Fiji, Tonga, and Vanuatu. In addition, the burden of declining remittances and higher food costs will be acutely felt by lower-income households. Net energy exporters like Malaysia and Papua New Guinea are likely to benefit from the improved terms of trade, although they will face higher inflation and slower global growth.

Growth in EAP excluding China is forecast to improve to 4.9 percent in 2027–28 as geopolitical uncertainty dissipates, energy prices settle, and demand improves. Public investment is expected to recuperate in the Philippines, and Indonesia's growth will be supported by state-led investment initiatives. Activity in Cambodia, Thailand, and Viet Nam is projected to rebound strongly as the global environment stabilizes. While AI-related investment and trade have picked up in the region, the diffusion of AI remains limited and uneven, creating challenges for productivity growth and job creation.

In the Pacific Island economies, growth is expected to slow to 3.5 percent in 2026 and to 3.3 percent in 2027–28, on average, as tourism-led growth slows in Fiji and activity in the resource sector normalizes in Papua New Guinea. In the rest of the subregion, higher energy prices and shipping disruptions are leading to higher food, electricity, and transport costs, which will weigh on consumption, investment, and fiscal balances as financial buffers remain limited.

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East Asia and Pacific Economy Forecasts
(Annual percent change unless indicated otherwise)

	2023	**2024**	**2025e**	**2026f**	**2027f**	**2028f**
GDP at market prices (average 2010–19 US$)						
Cambodia	5.0	6.0	5.3	3.9	4.9	5.1
China	5.4	5.0	5.0	4.2	4.3	4.2
Fiji	9.4	3.5	3.2	2.7	3.2	3.3
Indonesia	5.0	5.0	5.1	5.0	5.2	5.2
Kiribati	3.3	4.6	4.3	3.1	2.4	2.2
Lao PDR	3.7	4.1	4.8	3.8	3.7	3.7
Malaysia	3.5	5.1	5.2	4.4	4.4	4.1
Marshall Islands [a]	-4.0	3.0	2.5	2.0	2.4	1.9
Micronesia, Fed. Sts. [a]	1.1	2.3	1.1	0.8	1.3	1.4
Mongolia	7.2	5.1	6.9	5.0	5.5	5.5
Myanmar [a b]	1.0	-1.0	-2.0	2.0	..	..
Nauru [a]	0.6	1.6	2.1	1.9	1.9	1.8
Palau [a]	1.2	12.0	6.7	3.0	2.7	2.6
Papua New Guinea	3.8	3.9	5.6	3.8	3.8	3.1
Philippines	5.5	5.7	4.4	3.7	5.6	5.6
Samoa [a]	15.2	4.8	4.2	4.0	3.3	2.4
Solomon Islands	2.8	3.0	3.6	2.9	3.2	3.2
Thailand	2.2	2.9	2.4	1.7	2.1	2.4
Timor-Leste	2.4	4.3	4.5	4.1	4.0	4.0
Tonga [a]	2.1	2.1	2.7	2.0	1.8	1.5
Tuvalu	4.0	3.1	3.0	2.5	2.7	2.3
Vanuatu	2.1	0.9	1.7	2.3	2.7	2.3
Viet Nam	5.0	7.0	8.0	6.8	7.1	7.4

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. Fiscal-year-based numbers. Please see regional annex for details on fiscal year reporting.
b. Data for Myanmar beyond 2026 (which corresponds to the year ending March 2027) are excluded because of a high degree of uncertainty.