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By [NATASHA BRERETON-FUKUI](#)

SINGAPORE—Emerging East Asia will most likely grow at only a slightly slower pace in 2012, despite the darkening global backdrop, but the region faces "major" downside risks, the Asian Development Bank said Tuesday.

In its quarterly Asia Economic Monitor, the ADB predicted that emerging East Asia would expand 7.2% next year, compared with the 7.5% tipped in its last report, and an expected 7.5% in 2011.

But a deep recession in the euro zone and U.S., protectionism or restricted trade finance, destabilizing capital flows and persistent or resurgent inflation could result in growth being significantly weaker than that, it noted.

"We're still very confident about the region," ADB Senior Economist Lei Lei Song said in an interview. "If some of those downside risks materialize, the impact on the region, it's going to be serious definitely, but it's still manageable."

The ADB defines emerging East Asia as Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

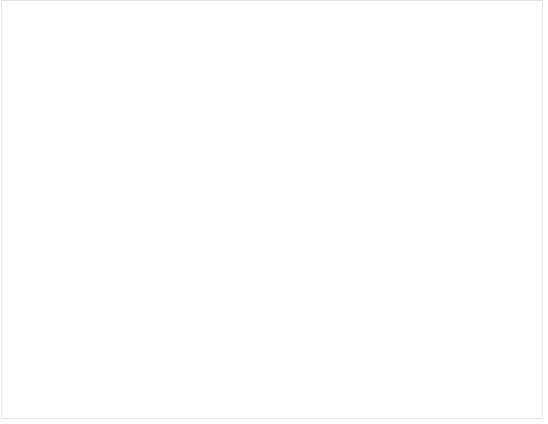
The bank examined three core risk scenarios for 2012: that the euro zone falls into recession; that both the euro zone and the U.S. economies contract; and that a new global crisis occurs, with euro-zone and U.S. output dropping to 2009 levels.

In the first scenario, the region's economies would each lose by 0.5 to 2 percentage points of gross domestic product growth, or 1.1 percentage point in aggregate. In the second, the countries would lose 0.5 to 2.5 percentage points of output growth, or 1.3 percentage points in aggregate.

In the third, the economies would each lose 0.6 to 3.7 percentage points of GDP growth, or 1.8 percentage points in aggregate. The bank said the simulations might underestimate the impact of contraction in the euro zone and the U.S.

The ADB said the simulations might underestimate the impact of contraction in the euro zone and the U.S. It didn't examine the impact of any euro-zone breakup as the probability is "extremely small," Mr. Song said.

With the euro zone and U.S. set to stay weak for some time, Asia should work on boosting intraregional trade and financial integration, strengthening ties with other



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emerging nations, and rebalancing growth toward domestic demand, the ADB said.

It should also draw up contingency plans in case conditions worsen.

"Monetary authorities could coordinate policies to boost domestic and regional demand, and ensure intraregional exchange rate stability, while maintaining interregional exchange rate flexibility," the ADB said.

Central banks would need to strike "a careful balance" to keep inflation under control while stimulating the economy. The scope for fiscal maneuvering isn't as great as during the crisis that began in 2008, but such moves could still be used in many economies to support output, it noted.

The region's positive growth prospects suggest it should attract capital flows ahead, but any abrupt changes in risk appetite could bring damaging reversals, the ADB said.

That could spur increased currency intervention by Southeast Asian central banks, said Iwan Azis, head of the ADB's office of regional economic integration.

While there is merit in currency intervention in the case of financial panic, authorities should bear in mind that excessive action will encourage one-way bets, the ADB said.

The Chinese yuan is likely to continue to strengthen, but at a more moderate pace amid the global slowdown, Mr. Azis also said.

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