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The PECC provides a forum through which its members and broader stakeholders can influence the development of policies affecting the Asia Pacific region.

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Impact of the Global Financial Crisis on the Asia Pacific Region and Economic Outlook



Impact of the Global Financial Crisis on the Asia Pacific Region and Economic Outlook

The US sub-prime mortgage crisis has turned into an international financial crisis but it is not yet certain that the ensuing global downturn will result in a severe recession in Asia. Asian economies have been hit as hard as industrialized economies by a sharp decline in financial asset prices and by the credit crunch. However, economic growth in greater China and parts of Southeast Asia remains positive, and many Asian governments have fiscal and monetary tools at their disposal to mitigate any further deterioration in their economies. This is not to say that there has been a “decoupling” of Asia from western industrialized economies. Indeed, the export outlook has dimmed considerably for major Asian economies, and the effects of falling export demand have already led to sharp employment losses. But Asian economies have relatively strong banking systems and large foreign reserves, which puts them in a much better position than in the 1997-98 financial crisis. Even so, downside risks weigh heavily in the current forecast, which is predicated on the positive impact of the US and other liquidity injections taking effect in the first half of 2009, resulting in a modest recovery.

The fall in energy and other commodity prices will sharply reduce the import bill of Asian economies, while the depreciation of their currencies relative to the US dollar will improve the competitiveness of manufacturing exports. If anything, the recession in the United States will accelerate the pace of demand switching in Asia and of deeper regional integration and cooperation. Looking out five years, one of the likely consequences of the current

financial crisis is that Asia will sell relatively more of its goods and services within the region, and less to the US and EU.

In the near term, the focus for Asian governments will be to defend against further contagion effects of the US financial market and credit crisis. In addition to monetary measures aimed at providing liquidity to credit markets and guarantees for domestic financial institutions, there will also be a series of confidence measures to boost demand through government spending. The recent \$600b fiscal stimulus package by China is an example of how worried Beijing has become, but it is also an example of the Chinese government’s ability to provide fiscal stimulus at a time when the economy is in dire need of it.

Looking beyond the immediate crisis, the spotlight will turn to surplus countries in Asia, where an estimate \$4 trillion in foreign reserves is held, about half of which is in the People’s Republic of China. The global recycling of surpluses held by Asian and Gulf states will take on greater urgency as funds are needed to recapitalize the US banking sector and to finance the massive deficits of the US government. While the US dollar has risen sharply since the crisis (because of a flight to quality), the medium term outlook for the greenback is more gloomy. With the US dollar at current highs, the temptation for Asian central banks to diversify away from the US dollar in the year ahead will be greater than ever. As the credit crunch eases, interest rates in the US will have to rise in order to attract investment capital from the rest of the world.

Asian economies of course are not monolithic, and different parts of the region are responding differently to the financial crisis. Japan does not have a financial sector crisis (indeed Japanese banks have done well to pick up the assets of failed or troubled US and European investment houses). Even so, the Japanese economy has only recently come out of a prolonged deflation, and is again facing the prospect of falling prices as a result of the slowdown in global growth. Unlike other Asian economies, Japan has little flexibility in its monetary or fiscal policy, and is very likely to show negative growth for part of 2009. Real GDP growth for the year as a whole is expected to be 0.8 percent, rising to 1.8 percent in 2010.

In contrast, China will continue to show growth of 8-9 percent in 2008 and 2009 because of stronger domestic demand, led by government spending. However, a fall of just one or two percentage points in GDP growth is sufficient to result in massive job losses, particularly in export industries that are concentrated in the southern coastal areas. Rising unemployment in urban areas comes at a time when the authorities are already struggling to improve the livelihoods of rural residents. These internal pressures will do more to increase the importance of domestic consumption and investment in total output than any amount of hectoring from the west. There is a strong risk that the fall in exports will be more severe than expected and that the fiscal package will not be enough to compensate for falling external demand, especially in the areas where export processing is concentrated.

The Pacific Economic Cooperation Council expects real GDP growth for the Asia Pacific region as a whole to be in the order of just 1.2 percent in 2009, compared to around 3.5 percent in 2007 and 2008. This sharp decline in output growth will be led by the United States, which is expected to experience an economic contraction in 2009 of around 0.5 percent.

The U.S. economy has been on the cusp of recession for a year or more, as it absorbed the bursting of the housing bubble and the surge in oil prices. Until the late summer, it wasn't clear that the economy would actually slip into a classic recession in which the economic doldrums spread broadly through all the major macroeconomic indicators of employment, income, and production. The financial crisis—stemming from the housing bubble and the extraordinarily unwise overinvestment in mortgage backed securities and related derivatives—which hit the world's major financial institutions in September has altered the balance of events in the U.S. economy.

With the freezing of credit markets, the US has now tipped into what will undoubtedly prove to be a significant economic recession. Our forecast has U.S. real GDP declining for three straight quarters, 2008q3 through 2009q1, followed by a modest economic recovery beginning in the spring quarter of 2009. A period of three straight quarters of declining real GDP has not occurred in the U.S. since 1974-75, and not even in the 1981-82 recession that is generally regarded as the most severe in the post-WWII era. However, the severity

of the current recession doesn't compare with the recessions of 1981-82 and 1973-75. The forecast posts a total loss in real GDP of just 1.4 percent over the three quarters of decline, which is close to the magnitude of contraction that was seen in 1990-91.

The biggest uncertainty in this forecast is whether the worldwide array of policies aimed at thawing the credit freeze will have their intended effects and how long it will take for these measures to have effect. We have assumed that the size of

T1: Real economic growth and increase in consumer prices for PECC economies, 2007-2010 (%)

	Real GDP				CPI			
	2007	2008	2009	2010	2007	2008	2009	2010
Australia	3.9	4.2	2.8	2.5	2.3	3.1	2.4	2.9
Brunei	0.2	0.4	n.a.	n.a.	0.2	n.a.	n.a.	n.a.
Canada	2.7	0.9	1.4	n.a.	2.1	2.5	1.6	n.a.
Chile*	5.1	5.1	3.5	4.3	4.4	8.5	5.2	3.2
China	11.9	9.3	9.0	n.a.	4.8	6.5	3.0	n.a.
Colombia	7.7	5.0	2.5	n.a.	5.5	6.9	5.7	3.0
Hong Kong, China	6.4	4.3	3.4	3.8	2.0	4.9	4.0	3.7
Japan	2.1	0.7	0.8	1.8	0.1	1.5	1.2	1.4
Korea, Republic of	5.0	4.3	3.2	n.a.	2.5	4.7	3.1	n.a.
Malaysia	6.3	5.0	3.7	4.1	2.0	6.0	4.0	4.0
New Zealand	3.0	0.3	2.1	3.2	2.4	4.2	3.7	2.8
Peru	8.9	9.2	6.5	8.4	3.9	6.1	3.0	2.4
Philippines	7.2	4.5	4.2	4.6	2.8	10.1	10.0	9.3
Singapore	7.7	2.8	-1.0	3.5	2.1	7.0	5.0	4.0
Chinese Taipei	5.7	4.1	4.9	5.0	1.8	3.7	1.8	2.1
United States	2.0	1.3	-0.5	2.4	2.8	4.5	3.4	2.7
Weighted Average	3.51	3.59	1.16	2.37	2.45	4.03	2.84	2.48
WA: excl. US & Japan	7.25	5.51	4.52	3.40	3.30	5.04	2.95	3.08
WA: East Asia	5.61	3.88	3.35	2.39	1.85	3.68	2.28	1.82
WA: SEA	6.87	2.17	2.29	4.04	2.21	7.49	6.02	5.51
WA: Latin America	6.39	5.45	3.79	5.95	4.31	7.27	4.90	2.94
WA: excl. East Asia	2.22	1.48	-0.05	2.42	2.80	4.36	3.22	2.74

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Note: National currency based. The weighted average is based on the respective economies' 2004-2007 Nominal GDP (see T9).

Source: SOTR forecasters

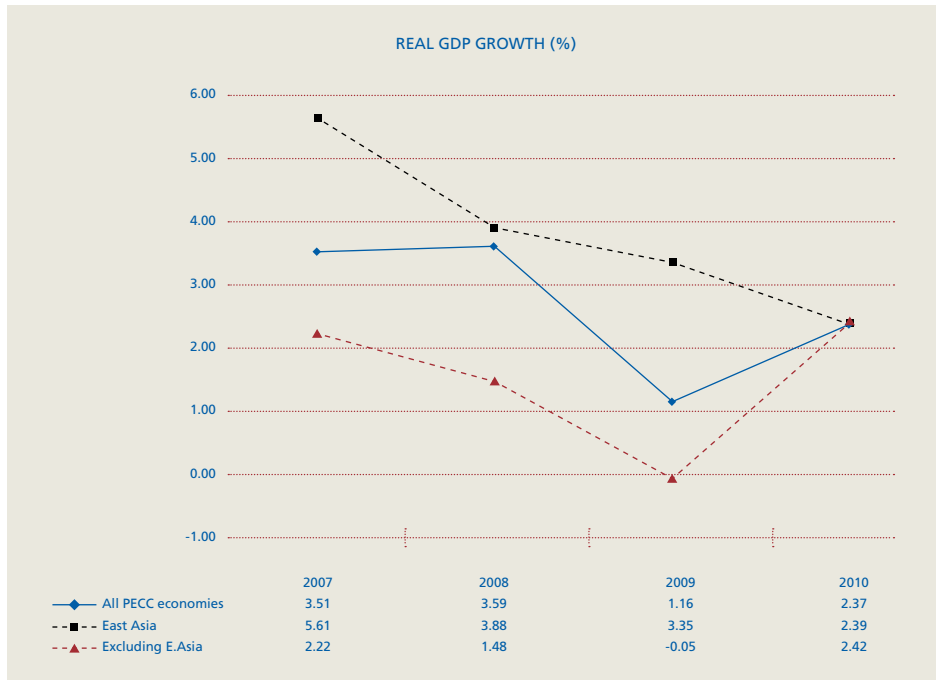
US unemployment is forecast to peak at about 7.5 percent in late 2009. The payroll job count is expected to improve by 1.2 million during 2010 (4th-Qtr-to-4th-Qtr), following losses of 1.1 million jobs in 2008 and 1.4 million in 2009.

the liquidity programs envisioned and the coordination of efforts now under way among the major economies and their central banks will result in sufficient improvement in the next few months to promote modest economic recovery

in the U.S. beginning in the spring of next year.

East Asia is forecast to show real GDP growth of 3.4 percent in 2009, about half a percentage point lower than in 2008. Inflationary concerns which dominated the headlines in the first half of 2008 have largely abated, with consumer prices

expected to increase by 2.3 percent in 2009 after an increase of 3.7 percent the previous year. With the exception of Chinese Taipei, all East Asian economies are expected to have slower growth in 2009 compared to 2008. Singapore is forecast to show negative growth in 2009, followed by a modest recovery in 2010.



Survey Results



State of the Region 2008

Survey undertaken in cooperation with the Asian Development Bank Office of Regional Economic Integration

Section 1: Profile of Respondents

Number of Respondents: 483

Regional Breakdown

Australia & New Zealand	48
North America	80
Northeast Asia	147
South America	51
Southeast Asia	154
Other	3

Sectoral Breakdown

Government	85
Business	127
Academic/Research	235
Media	15
Civil Society	21

Section 2: Regional Economic Outlook

Question 2: What are your expectations for economic growth over the next 12 months compared with the past year?

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger	Don't know	Total
US economy	78%	18%	1%	3%	0%	0%	100%
Chinese economy	12%	68%	13%	6%	1%	0%	100%
Japanese economy	30%	53%	15%	2%	0%	0%	100%
ASEAN economies	16%	65%	13%	4%	0%	0%	100%
East Asia	16%	65%	14%	4%	1%	1%	100%
The Asia Pacific	18%	66%	11%	4%	0%	0%	100%
The global economy	46%	47%	4%	2%	0%	1%	100%

Responses were overwhelmingly negative indicating that the economic outlook of the Asia Pacific region has changed in the past year, contrasting sharply with the 2007 State of the Region Survey.

Ninety-three percent of respondents expect the global economy to be much weaker or somewhat weaker over the next 12 months. Over 95 percent expect the US economy to be much or somewhat weaker, of which 78 percent answered much weaker. In 2007 only one percent of survey respondents answered that the North American economic outlook to be much weaker and 38 percent answered somewhat weaker. Less than one percent of respondents expect economic growth in any of the regions to be much stronger.

Question 3: How do you rate the following risks to growth for the Asia Pacific over the next 12 months?

	1 - Very Low Risk	2	3	4	5 -Very High Risk	Don't know	Total
A health pandemic	20%	31%	31%	10%	2%	6%	100%
Natural disasters	9%	23%	37%	17%	5%	9%	100%
Water pollution and shortages	10%	23%	33%	23%	7%	4%	100%
Global warming	13%	20%	29%	28%	8%	1%	100%
High energy prices	5%	23%	37%	25%	9%	0%	100%
High food prices	2%	20%	37%	32%	8%	0%	100%
Shortage of available talent / skills	15%	31%	34%	16%	2%	1%	100%
Protectionism	3%	18%	36%	31%	11%	1%	100%
Sharp fall in asset prices	1%	9%	20%	41%	28%	1%	100%
Banking / financial sector crisis	1%	6%	15%	33%	45%	1%	100%
Current account imbalances	2%	14%	34%	35%	12%	3%	100%
Deterioration in US-China relations	18%	39%	30%	10%	2%	1%	100%
Deterioration in Cross-Strait relations	20%	41%	27%	5%	1%	5%	100%
Terrorist acts	13%	31%	36%	13%	5%	3%	100%
US recession	1%	4%	11%	26%	56%	2%	100%
Sharp slowdown in the Chinese economy	5%	25%	40%	21%	7%	1%	100%
Recession in Japan	3%	22%	34%	30%	10%	1%	100%

Consistent with the negative regional economic outlook, the risks associated with the global financial crisis are viewed as the most serious. The US recession (83 percent), banking or financial sector crisis (78 percent), and sharp fall in asset prices (69 percent) are considered the top three very serious and serious risks, with mean scores of 4.28, 4.14 and 3.81 respectively.

SOTR 2008	SOTR 2007	SOTR 2006
<p>Very Serious Risk</p> <p>1. US recession (56%)</p> <p>2. Banking / Financial sector crisis (45%)</p> <p>3. Sharp fall in asset prices (28%)</p>	<p>Very Serious Risk</p> <p>1. High Energy Prices (18%)</p> <p>2. Failure of Doha Development Round (12%)</p> <p>3. Global Warming (10%)</p>	<p>Very Serious Risk</p> <p>1. High Energy Prices (27%)</p> <p>2. Failure of Doha Development Round (13%) and Terrorist Acts (13%)</p> <p>3. Avian Flu and Other Health Pandemics (12%)</p>
<p>Very Serious and Serious Risk</p> <p>1. US recession (83%)</p> <p>2. Banking / Financial sector crisis (78%)</p> <p>3. Sharp fall in asset prices (69%)</p>	<p>Very Serious and Serious Risk</p> <p>1. High Energy Prices (60%)</p> <p>2. Water Pollution and Shortages (36%), Global Warming (36%) and Failure of Doha Development Round (36%)</p> <p>3. Protectionism (35%)</p>	<p>Very Serious and Serious Risk</p> <p>1. High Energy Prices (69%)</p> <p>2. Protectionism (39%) and Financial Market Volatility (39%)</p> <p>3. Terrorist Acts and Policy Responses to Them (37%)</p>
<p>Very Low and Low Risk</p> <p>1. Deterioration in Cross-Strait relations (62%)</p> <p>2. Deterioration in US-China relations (57%)</p> <p>3. A health pandemic (51%)</p>	<p>Very Low and Low Risk</p> <p>1. Sharp Deterioration in US-China Relations (50%)</p> <p>2. Avian Flu and Other Health Pandemics (43%)</p> <p>3. Proliferation of Preferential Trade Agreements (40%)</p>	<p>Very Low and Low Risk</p> <p>1. Proliferation of Preferential Trade Agreements (40%)</p> <p>2. Cross-Strait Relations (32%) and Major Power Rivalries in the Region (40%)</p> <p>3. Conflict in the Korean Peninsula (29%)</p>

The results above are considered the top three risks across the five regions, although respondents of Australia and New Zealand viewed a banking sector crisis as the number one risk (85%). In North America, 89% of respondents viewed the US Recession as the top very serious and serious risk, slightly higher than the rest of the regions and the overall.

Deterioration in Cross-Strait relations and US-China relations as well as a health pandemic are considered the lowest risk to the Asia Pacific regional outlook.

Section 3: Regional Economic Integration

Question 4: What do you think is the impact of deeper regional economic integration on the following issues?

	1 - very negative	2	3	4	5 - very positive	Don't know	Total
Local culture and identity	3%	18%	46%	22%	9%	3%	100%
Economic growth	2%	6%	14%	47%	30%	0%	100%
Access to markets outside the region	2%	9%	27%	40%	21%	1%	100%
Independence and flexibility for domestic economic policy	3%	25%	43%	23%	6%	0%	100%
Access to markets within the region	0%	3%	11%	43%	42%	0%	100%
A voice for the region in international forums	0%	4%	19%	37%	38%	1%	100%
Providing an alternative to global multilateral institutions	1%	8%	29%	37%	23%	2%	100%
Income inequality	5%	29%	40%	18%	6%	3%	100%

Respondents generally held a positive view of the impact of deeper regional economic integration citing its positive impact on accesses to markets within the region as one of its most important consequences (85%) followed by the positive impact on economic growth (77%).

Of greatest concern was the impact on income inequality with 34% viewing the impact as negative followed by the independence and flexibility for domestic economic policy (28%).

Between the sub-regions there was generally little variance in opinion on the impact of deeper regional economic integration. Respondents from Northeast Asia, however, were much more concerned than the rest of the region on the negative impact on local culture and identity. Thirty-four (34%) of respondents from Northeast Asia rated the impact of deeper regional economic integration as negative on local culture and identity compared to the region as a whole - 21%. Northeast Asia was also the least positive on the impact on economic growth (69%) while respondents from Australia and New Zealand were by far the most positive at 92%.

Question 5: Please rate the relative importance of the following liberalization measures for the Asia Pacific region:

	1 - not a priority	2	3	4	5 - very high priority	Don't know	Total
Elimination of barriers to merchandise trade	3%	7%	20%	35%	33%	1%	100%
Elimination of barriers to financial services trade	3%	9%	28%	37%	23%	1%	100%
Liberalization of cross border foreign direct investment	1%	6%	20%	42%	30%	2%	100%
Liberalization of cross border capital movements	2%	13%	32%	35%	16%	2%	100%
Harmonizing rules of origin under overlapping bilateral and regional FTAs	1%	4%	18%	42%	31%	3%	100%
Enhancement of labor mobility across borders	2%	13%	28%	37%	20%	1%	100%
Elimination of barriers to trade in other services	1%	6%	26%	43%	22%	2%	100%

The highest priority for the liberalization of trade in the region was given to harmonizing rules of origin under overlapping bilateral and regional FTAs (73%) followed by the liberalization of cross-border FDI. Respondents from South America were the most concerned about rule of origin while North Americans were the least concerned.

There was considerable divergence between sub-regions in their priorities for liberalization, especially views on the importance of the elimination of barriers to trade in services. Respondents from North America and Australia and New Zealand tended to prioritize liberalization of trade in other services while respondents from East Asia placed a much lower priority on this item.

Question 6: How would you rate the suitability of the following groups of economies for the creation of a free trade and investment area?

	1 - Not suitable	2	3	4	5 - Very suitable	Don't know	Total
All ASEAN members	3%	11%	20%	30%	33%	4%	100%
China, Japan, Korea	6%	15%	32%	26%	16%	5%	100%
ASEAN+3	3%	8%	27%	35%	23%	4%	100%
All APEC members	9%	19%	27%	22%	20%	3%	100%
All East Asian Summit members	5%	14%	34%	28%	13%	6%	100%

Respondents favored ASEAN and ASEAN Plus Three when asked what economies would be most suitable for the creation of a free trade and investment area (63% and 58% of respondents thought they were suitable to very suitable for the creation of a free trade area respectively).

How would you rate the suitability of the following groups of economies for the creation of a free trade and investment area? (% respondents by sub-region who thought the following groupings were suitable to very suitable for the creation of a free trade and investment area)

	All ASEAN members	China, Japan, Korea	ASEAN+3	All APEC members	All East Asia Summit
All	63%	42%	58%	42%	41%
Australia-New Zealand	56%	38%	54%	46%	40%
North America	59%	40%	50%	31%	31%
Northeast Asia	54%	42%	51%	40%	36%
South America	65%	43%	51%	53%	51%
Southeast Asia	75%	45%	73%	44%	49%

The five regions represented in the survey have similar perspectives of regional economic integration, rating ASEAN as the best suited grouping for a free trade and investment area. However, there was variation as to the next best suited grouping, with most sub-regions ranking ASEAN+3 second with the exception of South Americans who ranked APEC second. Interestingly North American respondents did not share this view with a significant proportion who thought that the ASEAN+3 grouping was better suited to a creation of a free trade area and still ranked the East Asia Summit membership better suited than APEC's membership.

Question 7: Please rate the importance of strengthening regional cooperation in the Asia Pacific region on the following issues:

	1 - not at all important	2	3	4	5 – very important	Don't know	Total
Provision of liquidity support in the event of financial crises	1%	5%	14%	34%	43%	2%	100%
Reducing the cost of doing business	2%	4%	17%	33%	43%	1%	100%
Protecting the environment	0%	5%	18%	34%	42%	1%	100%
Improving food security	1%	6%	18%	35%	40%	1%	100%
Improving energy security	0%	5%	18%	38%	37%	1%	100%
Reducing tariff barriers	2%	4%	17%	41%	36%	1%	100%
Reducing the risk of military conflict	2%	9%	23%	28%	36%	1%	100%
Establishment of a dispute settlement mechanism on intl trade and investment	3%	6%	20%	36%	35%	1%	100%
Protecting intellectual property rights	2%	8%	21%	35%	34%	1%	100%
Macroeconomic surveillance and economic policy dialogue	2%	7%	20%	37%	34%	1%	100%
Enhancing the safety and security of trade	2%	4%	24%	39%	31%	1%	100%
Investment in physical infrastructure	2%	8%	20%	39%	30%	1%	100%
Preparing for disease pandemics	1%	11%	29%	31%	27%	1%	100%
Development of regional financial markets	2%	5%	20%	46%	25%	2%	100%
Exchange rate and monetary policy coordination	2%	10%	21%	40%	25%	1%	100%
Providing support to those disadvantaged by trade and investment liberalization	3%	8%	28%	36%	24%	1%	100%
Counter-terrorism initiatives	3%	16%	33%	26%	22%	1%	100%
Reducing barriers to the movement of labor	2%	10%	31%	35%	21%	1%	100%
Fiscal policy coordination	4%	13%	35%	30%	16%	3%	100%

Given the financial market turmoil it should come as no surprise that the top area for strengthening regional cooperation was provision of liquidity support in the event of financial crises. Tariff barriers ranked second highest followed by the environment, then reducing the cost of doing business, with the top five issues rounded off by energy security and food security equally. Generally, this matches the results in question 12 on priorities for APEC Leaders with the exception of strengthening the APEC institution which does not appear in this list.

Section 4: Regional Institutions

Question 8: How would you rate the importance of the following measures for enhancing regional cooperation?

	1 - not important	2	3	4	5 – very important	Don't know	Total
Strengthen existing institutions such as ASEAN and APEC by giving them additional staff resources	4%	8%	24%	35%	27%	2%	100%
Expand the scope of intergovernmental cooperation on a case by case basis	2%	8%	25%	36%	26%	2%	100%
Enlarge the scope of existing institutions such as APEC and ASEAN	6%	10%	24%	38%	21%	2%	100%
Create new regional institutions with qualified staff	24%	27%	20%	15%	10%	3%	100%

Respondents strongly favored strengthening existing institutions rather than creating new ones to enhance regional cooperation. The most favored route for enhancing regional cooperation was to give existing additional staff resources to existing institutions such as APEC and ASEAN (62%). Opinion-leaders were largely skeptical about creating new institutions with less than 25% of respondents rating this as an important measure.

Question 9: Please indicate your agreement or disagreement with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Don't know	Total
The East Asia Summit Process will eventually overshadow APEC	7%	31%	28%	19%	5%	10%	100%
APEC is as important today as it was in 1989	7%	29%	19%	32%	10%	4%	100%
India should be a member of APEC	4%	12%	22%	44%	13%	5%	100%
Asian economies should create a region-wide institution to promote financial stability	1%	9%	15%	47%	26%	2%	100%
Asian economies should create a region-wide institution for economic policy coordination and cooperation	1%	10%	20%	40%	27%	1%	100%
A free trade area for Asian economies should be negotiated as soon as possible	2%	12%	22%	41%	20%	2%	100%
A free trade area for the Asia-Pacific region should be negotiated as soon as possible	3%	11%	24%	37%	24%	1%	100%

	Total Agree		
	SOTR 2008	SOTR 2007	SOTR 2006
The East Asian Summit process will eventually overshadow APEC	24%	34%	27%
APEC is as important today as it was in 1989	42%	48%	42%
India should be a member of APEC	57%	60%	61%

Overall 72 percent of responses agreed or strongly agreed that Asian economies should create a region-wide institution to promote financial stability, 67 percent for economic policy coordination and cooperation, and 62 percent that a free trade area for Asian economies should be negotiated as soon as possible. Furthermore, 57 percent agree that India should be a member of APEC.

The three questions that are comparable across the three years of the survey show little difference in the responses, with slightly fewer respondents see the East Asian Summit as a threat to APEC.

Slight differences present themselves when viewing the role for regional institutions across regions. There was high support from South American respondents with 86 percent agreement that a free trade area for the Asia Pacific region should be negotiated, but only 63 percent of South American respondents agree that an FTA should be created for Asian economies. Of North American respondents, 55 percent strongly disagree or disagree with the statement that APEC is as important today as it was at its start in 1989, while 70 percent agree that Asian economies should create a region-wide institution to promote financial stability. In contrast, 52 percent of Australian and New Zealand respondents agree or strongly agree that APEC is as important today as it was at its start in 1989, while 44 percent think Asian economies should create a region wide institution to promote financial stability. Of Northeast Asia respondents, 51 percent disagree that the East Asian Summit will eventually overshadow APEC.

APEC is as important today as it was in 1989

	Agree	Disagree
All	42%	36%
Australia-New Zealand	52%	29%
North America	26%	55%
Northeast Asia	46%	33%
South America	43%	35%
Southeast Asia	42%	31%

A free trade area for the Asia-Pacific region should be negotiated as soon as possible

	Agree	Disagree
All	61%	14% ^a
Australia-New Zealand	69%	17%
North America	56%	15%
Northeast Asia	55%	12%
South America	86%	2%
Southeast Asia	56%	19%

Question 10: When do you think the following regional institutions will be created?

	by 2010	by 2015	by 2020	by 2030	Never	Don't know	Total
An Asian institution to promote financial stability	27%	33%	15%	6%	5%	13%	100%
A secretariat for economic policy cooperation	24%	34%	18%	6%	5%	14%	100%
A pan-Asian free trade and investment area	6%	26%	36%	14%	4%	13%	100%
An Asian currency unit	1%	5%	20%	22%	31%	21%	100%
A common Asian currency	1%	2%	10%	26%	40%	21%	100%

There does not appear to be strong agreement on a timeframe for any of the institutions. A majority of respondents thought that an Asian institution to promote financial stability, a secretariat for economic policy cooperation and a pan-Asian free trade and investment area would be created by 2020 (75%, 76% and 68% respectively). However, respondents were much less sure about the creation of an Asian currency unit or an Asian common currency with 40 percent of total respondents indicated that a common Asian currency will never be created and 31 percent that an Asian currency unit will never be created.

Section 5: APEC

Question 11: What are the most important challenges facing APEC?

	1 - Not at all important	2	3	4	5 - Very important	Don't know	Total
Lack of focus on relevant issues	2%	9%	23%	31%	31%	5%	100%
Competition from Asia-only groupings such as ASEAN+3 and the East Asia Summit	4%	14%	24%	34%	20%	4%	100%
Weak international secretariat	3%	12%	26%	31%	21%	7%	100%
Lack of commitment from key member economies	1%	3%	16%	36%	39%	4%	100%
Lack of relevance to issues facing ordinary citizens	2%	12%	25%	34%	23%	4%	100%
Excessive number of meetings	6%	20%	31%	19%	11%	12%	100%
Limited central budget for APEC activities	3%	12%	29%	27%	18%	11%	100%

When asked what the most important challenges facing APEC, 76 percent of survey respondents viewed a lack of commitment from key member economies as a very important or important challenge. Lack of focus on relevant issues and lack of relevance to issues facing ordinary citizens are also viewed as the top challenges.

Survey respondents do not consider excessive number of meetings, competition from Asia-only groupings or a weak international secretariat and limited central budget as important or very important challenges. Regional responses to the question were also similar, with each region considering a lack of commitment from key member economies as the most important challenges facing APEC. Over the past three years of survey data, the percentage of respondents citing “lack of commitment from key member economies” as an important or very important challenge for APEC has increased from 63 percent in 2006 to 67 percent in 2007 and 76 percent this year.

SOTR 2008	SOTR 2007	SOTR 2006
<p>Very important</p> <p>1. Lack of commitment from economies (39%)</p> <p>2. Lack of focus on relevant issues (31%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (23%)</p>	<p>Very important</p> <p>1. Lack of commitment from key member economies (26%)</p> <p>2. Lack of relevance to issues facing ordinary citizens (21%)</p> <p>3. Weak international secretariat (16%) ordinary citizens (25%)</p>	<p>Very important</p> <p>1. Lack of commitment key member from key member economies (28%)</p> <p>2. Lack of focus on relevant issues (25%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (25%)</p>
<p>Very important and important</p> <p>1. Lack of commitment from key member economies (76%)</p> <p>2. Lack of focus on relevant issues (62%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (57%)</p>	<p>Very important and important</p> <p>1. Lack of commitment from key member economies (67%)</p> <p>2. Lack of relevance to issues facing ordinary citizens (48%)</p> <p>3. Weak international secretariat (47%)</p>	<p>Very important and important</p> <p>1. Lack of commitment from key member economies (63%)</p> <p>2. Lack of focus on relevant issues (55%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (43%)</p>
<p>Not important and not very important</p> <p>1. Excessive number of meetings (27%)</p> <p>2. Competition from Asia-only groupings such as ASEAN+3 and the East Asia Summit (18%)</p> <p>3. Weak international secretariat (15%) and Limited central budget for APEC activities (15%)</p>	<p>Not important and not very important</p> <p>1. Excessive number of meetings (31%) Summit (25%)</p> <p>2. Competition from East Asian Summit (27%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (19%)</p>	<p>Not important and not very important</p> <p>1. Competition from East Asian Summit (25%)</p> <p>2. Excessive number of meetings (24%)</p> <p>3. Lack of relevance to issues facing ordinary citizens (18%)</p>

Question 12: What do you think should be the top five priorities for APEC Leaders to discuss at their upcoming meeting in Lima?

	% total
1. The US financial crisis and its global impact	24%
2. A Free Trade Area of the Asia Pacific	9%
3. The WTO Doha Development Round	8%
4. Energy security	8%
5. APEC reform / institutional strengthening	7%
6. Food security	6%
7. Climate change	6%
8. Managing the proliferation of preferential trade agreements	4%
9. Reducing costs of business by cutting red tape	4%
10. Reducing corruption	4%
11. Investment in physical infrastructure to facilitate trade	3%
12. Trans-Pacific imbalances and exchange rate adjustments	3%
13. Labor mobility	3%
14. Inflation	2%
15. Protecting intellectual property rights	2%
16. Emergency preparedness	2%
17. Corporate social responsibility	1%
18. Terrorism	1%
19. Expansion of APEC membership	1%

By far the top priority for the APEC Leaders' meeting was the US Financial Crisis and its global impact, followed by the Free Trade Area of the Asia Pacific, the WTO DDA, energy security, and APEC reform. That the ongoing financial crisis should be top should come of no surprise, however, that the proposed FTAAP has now overtaken the WTO as priority area of discussion demonstrates increasing skepticism over the likelihood of a breakthrough in the global trade talks being reached. Moreover, only respondents from the non-government sector still ranked the WTO DDA negotiations as a higher priority than the FTAAP. Amongst the sub-regions only one, Australia-New Zealand ranked the WTO above the FTAAP.

<p>SOTR 2008 (weighted) Respondents were asked to rank the top 5 of 19 priorities for APEC Leaders to discuss in Lima</p>	<p>SOTR 2007 (weighted) Respondents were asked to rank the top 5 of 16 priorities for APEC Leaders to discuss in Sydney</p>	<p>SOTR 2006 (weighted) Respondents were asked to rate the importance of 12 policy priorities on a scale of 1-5</p>
<p>Top 5 Policy Priorities</p> <ol style="list-style-type: none"> 1. The US financial crisis and its global impact 2. A Free Trade Area of the Asia Pacific 3. The WTO Doha Development Round 4. Energy security 5. APEC reform / institutional strengthening 	<p>Top 5 Policy Priorities</p> <ol style="list-style-type: none"> 1. WTO Doha Round 2. FTAAP 3. Energy security 4. Strengthening the APEC organization 5. Climate change 	<p>Top 5 Policy Priorities</p> <ol style="list-style-type: none"> 1. Reducing tariff barriers 2. Counter-terrorism 3. Investment in physical infrastructure to facilitate trade 4. Preparing for disease pandemics 5. Reducing corruption and increasing transparency

Climate change, such a big issue for the Sydney Summit last year still ranked highly but is down in the list of priorities. While it is still a top 5 issue for most of the sub-regions including Northeast Asia, North America and Australia-New Zealand, only Southeast Asia and South America did not have climate change as a top 5 priority issue.



A Composite Index of Economic Integration in the Asia Pacific



A Composite Index of Economic Integration in the Asia Pacific

As the Asia Pacific Economic Cooperation (APEC) forum approaches its 20th anniversary in 2009, there will be renewed discussion on the accomplishments of the organization over the last two decades. From inception, APEC has focused on economic issues, with particular emphasis on the Trade and Investment Liberalization and Facilitation (TILF) agenda. The celebrated 1994 Bogor target of “free and open trade” by 2010 for developed member economies (2020 for developing members) has long served as a *raison d’être* for APEC. Eschewing formal negotiations and binding agreements, APEC’s approach to trade and investment liberalization has been based on “concerted unilateral liberalization” – the belief that member economies acting on self interest would reduce border barriers unilaterally, and that APEC peer pressure would result in even more ambitious acts of “concerted” liberalization. APEC’s vision of trade liberalization has also been premised on “open regionalism” – the idea that while members would liberalize trade and investment within the region, these market-opening measures would not be at the expense of non-members.

“Concerted unilateral liberalization” and “open regionalism” have turned out largely to be empty slogans. There has been limited progress on Asia Pacific-wide liberalization measures that go beyond the Uruguay Round commitments. Likewise, the proliferation of preferential trade agreements in the region suggests that while APEC members are interested in greater market access, they are selective

in their choice of trade and investment partners, and quite ready to exercise discrimination against fellow APEC members as well as non-APEC members. As a result, the evolution of trade and investment integration in the region has been complicated, with trade and investment flows influenced both by “natural” comparative advantage as well as by “distortions” of domestic policy and by bilateral/regional economic agreements.

One of the tensions in APEC is the trans-Pacific nature of the organization. The creation of APEC was in large part motivated by a desire to not “draw a line down the Pacific”. Since 1998, however, there has been growing interest in Asia-only free trade agreements as well as East Asia and Asia-wide institutions that explicitly leave out the other side of the Pacific. The North and South American members of APEC have also pursued ideas of hemispheric integration, particularly the idea of a FreeTrade Area of the Americas, albeit with little success. It is not clear that Asia-only agreements are in fact diverting trade and investment away from North and South American members of APEC or indeed that future trade agreements will place less emphasis on trans-Pacific access to North America as they currently place on intra-Asia trade. In any case, the APEC “project” is predicated on the idea of increasing economic integration across the region – covering both sides of the Pacific. Any measure of the organization’s success, therefore, would require an assessment of whether the region has in fact become more integrated.

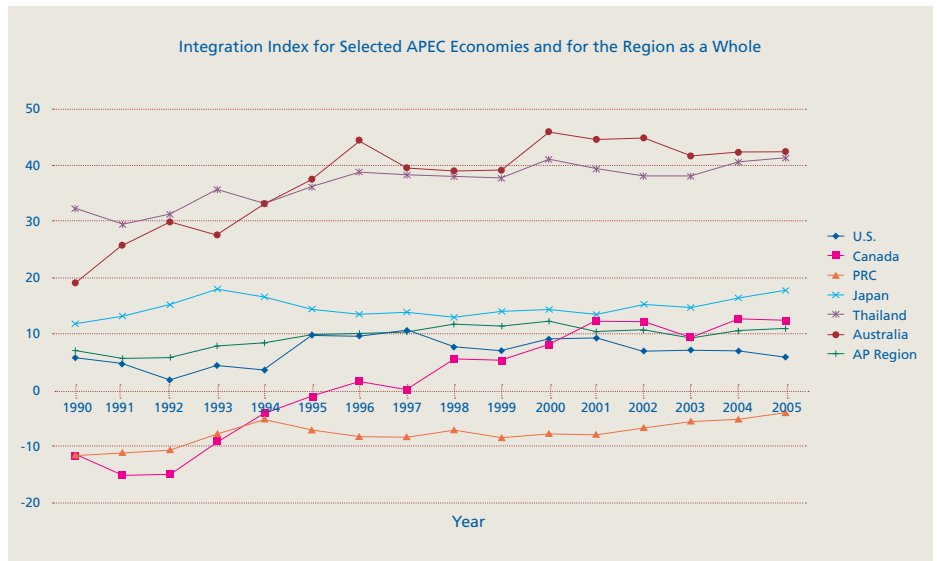
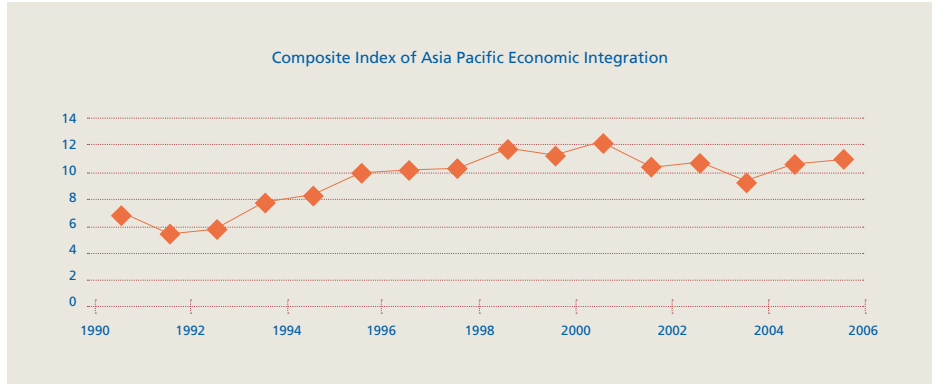
In this context, the Pacific Economic Cooperation Council (PECC) has developed a set of indicators to measure the extent of economic integration in the Asia Pacific region. Using data from 17 member economies of APEC, the composite index provides a measure of economic integration

for the region as a whole, as well as for individual economies, from 1990 to 2005. This index will be launched as part of PECC's 2008 State of the Region Report to be released at the APEC Leaders' Meeting in Lima in November 2008.

Major findings of the Composite Index of Asia Pacific Economic Integration 2008 include:

- *The Asia Pacific region as a whole is more integrated at the end of 2005 than it was in 1990. There was a steady upward trend in the economic integration of the region from 1991 through 2000. Following the bursting of the IT bubble in 2001, regional integration declined or was flat for the next three years but picked up again in 2004 and 2005.*
- *Hong Kong is the economy most highly integrated with the Asia Pacific region, followed by Singapore and Chinese Taipei. These three economies have held the top positions for most of the period covered by the index.*
- *The least integrated economy in 2005 was Indonesia, followed by China and the United States. The US index was volatile over the period, with the 2005 figure only slightly higher than in 1990. The US ranking has fallen by three places since 1997.*
- *The economies which increased their integration with the Asia Pacific by the greatest amount between 1990 and 2005 were Hong Kong, New Zealand, Vietnam, Canada, and Australia.*
- *Five economies were less integrated with the Asia Pacific region in 2005 than in 1990: Chile, Chinese Taipei, Indonesia, Mexico, and Singapore.*

A Composite Index of Economic Integration in the Asia Pacific



The composite index of economic integration is based on a combination of measures that on the one hand looks at the extent to which the reference economies are becoming more alike in their economic characteristics (so-called “convergence” measures) and on the other hand at the relative importance of trade, investment and human flows within the region compared to economic relations with the rest of the world. The convergence measures are premised on the notion that integration will lead to greater uniformity among the economies. Accordingly, more trade and investment among regional partners may not translate into a higher score on the integration index if at the same time the partners are diverging in terms of income, education, life expectancy, urbanization, and economic structure. Furthermore, since the trade, investment, and tourism measures are calculated relative to global transactions, the index will rise for a given economy only if that economy’s share of trade/investment is growing relative to total trade and investment.

An important feature of the index is that it excludes trade and investment flows among geographically contiguous sub-regional trade agreements, namely NAFTA, the ASEAN free trade agreement, and Australia-New Zealand Closer Economic Relations. It also excludes flows within “Greater China” – the People’s Republic, Hong Kong, and Chinese Taipei. This is to control for the effect that sub-regional flows may have on the index, whereby a very high degree of integration among say NAFTA economies could result in a falsely

high measure of integration with the Asia Pacific region as a whole. In the case of Greater China, the exclusion of intra-regional flows did not affect the positions of Hong Kong and Chinese Taipei at the top rankings of the index. On the other hand, the People’s Republic of China’s much lower ranking suggests that a large share of its trade and investment flows with Asia Pacific partners is with Hong Kong and Chinese Taipei, and that its share of trade and investment with countries outside of the Asia Pacific is larger than that of other economies in the region.

Caution should be exercised in the interpretation of these findings. The measures chosen for inclusion in the composite index are imperfect indicators of “convergence” and trade/investment integration. The rankings in turn should not be read normatively as “league tables” in the sense that a higher ranking is superior to a lower ranking. Indeed, a low ranking may simply indicate that an economy is more oriented globally than regionally, as is likely the case for China and the United States. Nevertheless, the change in index value for a given economy over time can be read as a measure of its changing economic orientation. The index value for the region as a whole can also be seen as a measure of closer economic ties among Asia Pacific economies and as one indicator of APEC’s success. Given that the index shows growing economic integration in the region, the very least that one can say is that the APEC project – in its broadest ambition – has not been in vain.

Value of Composite Economic Integration Index and Ranking of Asia Pacific Economies, 1990 and 2005

Economy/Year	1990		2005	
	CEII	Ranking	CEII	Ranking
Hong Kong, China	226.02	2	625.69	1
Singapore	323.04	1	277.75	2
Chinese Taipei	79.93	3	79.29	3
Republic of Korea	46.45	5	69.61	4
New Zealand	30.35	7	63.58	5
Malaysia	50.13	4	51.44	6
Australia	19.09	10	42.44	7
Thailand	32.30	6	41.26	8
Chile	28.79	8	28.42	9
Japan	11.74	11	17.73	10
Mexico	20.53	9	12.83	11
Canada	-11.57	14	12.40	12
Philippines	8.24	12	11.20	13
Viet Nam	-23.64	17	6.75	14
United States	5.80	13	5.89	15
Peoples Republic of China	-11.61	15	4.03	16
Indonesia	-19.51	16	-25.79	17

TECHNICAL NOTE ON THE COMPOSITE INDEX OF ASIA PACIFIC ECONOMIC INTEGRATION

The index is constructed in two stages, with weights assigned by “Principal Components Analysis” – which calculates the relative importance of each sub-component based on its statistical qualities – rather than by subjective assessment.

In the first stage, a convergence index is constructed to measure the dispersion of selected economic indicators among the Asia Pacific sample economies. The convergence index is a measure of whether the economies are becoming more alike as a result of closer interaction and economic development. The indicators included in the convergence index are as follows

- > Real GDP per capita
- > Share of non-agricultural sector in GDP
- > Ratio of urban residents to total population
- > Life expectancy
- > Share of education expenditure in GDP

In the second stage, indicators of trade, investment, and people flows are added to the convergence index and weights are assigned, again using Principal Components Analysis, resulting in the composite index. The final (normalized) weights used in the composite index are as follows:

- > Convergence index = 0.359
- > Share of exports and imports to / from other Asia Pacific economies = 0.243
- > Share of foreign direct investment flows to / from other Asia Pacific economies = 0.102
- > Share of Asia Pacific tourist flows from other Asia Pacific economies = 0.294

The economies included in the index are all APEC members, namely Australia, Japan, Republic of Korea, People’s Republic of China, Hong Kong, Chinese Taipei, Vietnam, Thailand, Philippines, Indonesia, Singapore, Malaysia, United States of America, Canada, Mexico, Chile, and New Zealand. The stage two components exclude flows among geographically contiguous sub-regional trade agreements, namely the Association of Southeast Asian Nations Free Trade Area (AFTA), North America Free Trade Agreement (NAFTA), and Australia-New Zealand Closer Economic Relations. It also excludes flows within “Greater China”, namely the People’s Republic, Hong Kong, and Chinese Taipei.

A full description of the composite index is found in Chen, Bo and Woo, Yuen Pau (2008), A Composite Index of Economic Integration in the Asia Pacific Region, available at <http://www.asiapacific.ca> www.asiapacific.ca



Economic Outlook Data Tables



T1: Real economic growth and increase in consumer prices for PECC economies, 2007-2010 (%)

	Real GDP				CPI			
	2007	2008	2009	2010	2007	2008	2009	2010
Australia	3.9	4.2	2.8	2.5	2.3	3.1	2.4	2.9
Brunei	0.2	0.4	n.a.	n.a.	0.2	n.a.	n.a.	n.a.
Canada	2.7	0.9	1.4	n.a.	2.1	2.5	1.6	n.a.
Chile*	5.1	5.1	3.5	4.3	4.4	8.5	5.2	3.2
China	11.9	9.3	9.0	n.a.	4.8	6.5	3.0	n.a.
Colombia	7.7	5.0	2.5	n.a.	5.5	6.9	5.7	3.0
Hong Kong, China	6.4	4.3	3.4	3.8	2.0	4.9	4.0	3.7
Japan	2.1	0.7	0.8	1.8	0.1	1.5	1.2	1.4
Korea, Republic of	5.0	4.3	3.2	n.a.	2.5	4.7	3.1	n.a.
Malaysia	6.3	5.0	3.7	4.1	2.0	6.0	4.0	4.0
New Zealand	3.0	0.3	2.1	3.2	2.4	4.2	3.7	2.8
Peru	8.9	9.2	6.5	8.4	3.9	6.1	3.0	2.4
Philippines	7.2	4.5	4.2	4.6	2.8	10.1	10.0	9.3
Singapore	7.7	2.8	-1.0	3.5	2.1	7.0	5.0	4.0
Chinese Taipei	5.7	4.1	4.9	5.0	1.8	3.7	1.8	2.1
United States	2.0	1.3	-0.5	2.4	2.8	4.5	3.4	2.7
Weighted Average	3.51	3.59	1.16	2.37	2.45	4.03	2.84	2.48
WA: excl. US & Japan	7.25	5.51	4.52	3.40	3.30	5.04	2.95	3.08
WA: East Asia	5.61	3.88	3.35	2.39	1.85	3.68	2.28	1.82
WA: SEA	6.87	2.17	2.29	4.04	2.21	7.49	6.02	5.51
WA: Latin America	6.39	5.45	3.79	5.95	4.31	7.27	4.90	2.94
WA: excl. East Asia	2.22	1.48	-0.05	2.42	2.80	4.36	3.22	2.74

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Note: National currency based. The weighted average is based on the respective economies' 2004-2007 Nominal GDP (see T9).

Source: SOTR forecasters

	GDP GROWTH				CPI				
	2007	2008	2009	2010	2007	2008	2009	2010	
All PECC economies	3.51	3.59	1.16	2.37	All PECC economies	2.45	4.03	2.84	2.48
Ex US & Japan	7.25	5.51	4.52	3.40	Ex US & Japan	3.30	5.04	2.95	3.08
East Asia	5.61	3.88	0.78	2.39	East Asia	1.85	3.68	2.28	1.82
Southeast Asia	6.87	2.17	2.29	4.04	Southeast Asia	2.21	7.49	6.02	5.51
Latin America	6.39	5.45	3.79	5.95	Latin America	4.31	7.27	4.90	2.94
Excluding E.Asia	2.22	1.48	-0.05	2.42	Excluding E.Asia	2.80	4.36	3.22	2.74

T2: Real export and import growth for PECC economies, 2007-2010 (%)

	Exports				Imports			
	2007	2008	2009	2010	2007	2008	2009	2010
Australia	3.5	3.9	5.9	5.0	10.9	12.1	5.2	4.5
Brunei	-9.6	n.a.	n.a.	n.a.	13.2	n.a.	n.a.	n.a.
Canada	1.0	-5.0	-1.0	n.a.	5.5	1.9	1.2	n.a.
Chile*	7.8	2.5	3.4	4.5	14.3	13.5	5.0	5.0
China	11.3	0.2	5.2	n.a.	6.8	2.8	8.0	n.a.
Colombia	11.9	6.7	5.0	n.a.	19.0	8.3	2.4	n.a.
Hong Kong, China	8.0	3.1	-0.9	3.0	8.8	2.2	-2.3	1.0
Japan	8.6	5.5	-0.5	4.3	1.7	-0.3	-0.5	0.8
Korea, Republic of	12.1	9.6	6.0	n.a.	11.9	7.2	6.8	n.a.
Malaysia	4.2	4.1	3.9	4.3	5.4	6.0	5.8	5.8
New Zealand	3.3	1.6	3.7	2.8	8.7	1.3	1.0	5.1
Peru	6.2	9.9	5.0	12.4	21.3	20.8	9.7	14.1
Philippines	5.6	7.9	8.0	9.0	-4.5	2.1	3.1	1.3
Singapore	6.6	3.9	-3.5	7.3	6.8	3.9	-4.0	7.3
Chinese Taipei	8.8	5.6	4.4	5.4	3.7	1.6	3.0	3.6
United States	8.4	8.0	1.8	5.4	2.2	-1.6	-3.3	2.6
Weighted Average	8.17	4.46	1.70	5.09	5.11	1.78	1.08	2.83
WA: excl. US & Japan	7.92	2.35	2.84	5.10	7.41	4.03	3.75	4.14
WA: East Asia	9.28	3.89	2.42	4.77	5.95	2.70	3.05	2.67
WA: SEA	5.54	4.41	0.24	6.49	5.08	4.37	0.02	6.13
WA: Latin America	7.63	5.22	4.18	6.79	15.06	13.55	5.24	7.62
WA: excl. East Asia	2.06	5.25	1.68	0.68	4.23	0.56	-1.54	0.71

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Note: Export/Imports of goods and services. National currency based. The weighted average is based on the respective economies' 2004-2007 total trade merchandise (see T8).

Source: SOTR forecasters.

	EXPORTS				IMPORTS				
	2007	2008	2009	2010	2007	2008	2009	2010	
All PECC economies	8.17	4.46	1.70	5.09	All PECC economies	5.11	1.78	1.08	2.83
Ex US & Japan	7.92	2.35	2.84	5.10	Ex US & Japan	7.41	4.03	3.75	4.14
East Asia	9.28	3.89	2.42	4.77	East Asia	5.95	2.70	3.05	2.67
Southeast Asia	5.54	4.41	0.24	6.49	Southeast Asia	5.08	4.37	0.02	6.13
Latin America	7.63	5.22	4.18	6.79	Latin America	15.06	13.55	5.24	7.62
Excluding E.Asia	2.06	5.25	1.68	0.68	Excluding E.Asia	4.23	0.56	-1.54	0.71

T3: Current account of the balance of payments for the PECC economies, 2007-2010 (US\$B and % of GDP)

	2007	% of GDP	2008	% of GDP	2009	% of GDP	2010	% of GDP
Australia	-52.2	-5.7	-41.7	-5.0	-41.3	-4.6	-40.0	-4.1
Brunei	4.8	39.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canada	14.6	0.9	21.1	1.2	11.8	0.6	n.a.	n.a.
Chile*	7.2	4.4	-2.0	-1.1	-3.5	-2.1	-5.0	-2.8
China	30.7	9.4	34.2	7.9	35.0	6.9	n.a.	n.a.
Colombia	-5.9	-2.8	-6.4	-2.7	-5.9	-2.6	n.a.	n.a.
Hong Kong, China	28.0	13.5	25.6	11.5	15.1	6.3	13.1	5.1
Japan	197.3	4.5	143.3	2.9	132.4	2.6	199.3	3.8
Korea, Republic of	6.0	0.6	-7.6	2.9	9.3	2.6	n.a.	3.8
Malaysia	30.0	15.5	30.3	30.3	30.6	30.6	32.9	32.9
New Zealand	-10.6	-8.2	-12.1	-9.1	-9.7	-9.1	-11.5	-9.3
Peru	1.5	1.4	-3.4	-2.6	-6.5	-4.8	-6.5	-4.3
Philippines	6.4	4.4	4.3	2.6	4.9	2.8	5.2	2.7
Singapore	39.2	24.3	43.4	22.9	45.8	24.0	50.7	24.3
Chinese Taipei	32.9	8.6	24.3	5.9	31.9	7.2	38.5	7.9
United States	-718.6	-5.2	-677.0	-4.7	-539.1	-3.7	-546.5	-3.6
Total	-388.7		-423.9		-289.3		-269.7	
Total: excl. US & Japan	132.6		109.7		117.4		77.5	
Total: East Asia	375.3		269.5		266.5		269.5	
Total: SEA	80.4		78.0		81.3		88.9	
Total: Latin America	2.8		-11.9		-16.0		0.2	
Total: excl. East Asia	-764.0		-713.1		-584.9		-598.0	

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Source: SOTR forecasters.

CURRENT ACCOUNT BALANCE		
	2009	2010
All PECC economies	-289.3	-269.7
US	-539.1	-546.5
East Asia	266.5	269.5
Rest of PECC	-16.7	7.3

T4: Forecast of contributions to real GDP/GNP growth rate for PECC economies, 2009-2010 (% per year)

		GDP growth rate	Personal consumption expenditure	Gross private domestic investment	Government purchasing	Net exports
Australia	2009	2.8	2.0	0.5	1.2	-0.1
	2010	2.5	1.4	1.0	0.7	-0.1
Canada	2009	1.4	1.6	0.9	0.6	-0.9
	2010	n.a.	1.6	n.a.	n.a.	n.a.
Chile*	2009	3.5	1.2	1.2	0.7	-1.2
	2010	4.3	n.a.	1.2	0.6	-0.8
China	2009	9.0	4.9	3.0	0.0	-35.6
	2010	n.a.	n.a.	n.a.	n.a.	n.a.
Colombia	2009	2.5	1.2	-0.6	1.8	0.2
	2010	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong, China	2009	3.4	0.5	-1.4	1.7	2.6
	2010	3.8	1.1	-0.6	-0.8	4.0
Japan	2009	0.8	0.5	0.3	0.1	0.0
	2010	1.8	0.6	0.5	0.1	0.6
Korea, Republic of	2009	3.2	1.3	0.7	0.7	0.3
	2010	n.a.	n.a.	n.a.	n.a.	n.a.
Malaysia	2009	3.7	3.0	0.6	1.8	-1.6
	2010	4.1	3.1	0.3	1.9	-1.2
New Zealand	2009	2.1	1.0	0.2	0.6	0.8
	2010	3.2	1.7	0.9	0.6	-1.0
Peru	2009	6.5	4.3	2.1	1.3	-1.3
	2010	8.4	4.1	3.8	1.4	-1.0
Philippines	2009	4.2	1.3	0.4	-0.2	2.7
	2010	4.6	1.7	0.7	0.1	4.2
Singapore	2009	-1.0	-0.3	-1.5	0.9	0.1
	2010	3.5	1.9	-1.1	0.3	2.0
Chinese Taipei	2009	4.9	1.4	1.6	0.3	1.5
	2010	5.0	1.5	1.3	0.3	1.9
United States	2009	-0.5	-0.2	-1.2	-0.1	0.8
	2010	2.4	1.0	1.2	-0.1	0.3

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Note: National currency based. Components of GDP/GNP do not add up to overall growth rates for some economies, due to statistical discrepancies.

Source: SOTR forecasters.

T5: Actual and forecast levels of short-term, long-term interest rates for PECC economies, 2007-2010 (%)

	Short-term interest rates					Long-term interest rates				
	Type	2007	2008	2009	2010	Type	2007	2008	2009	2010
Australia	90-day Dealer Bill rate (period average)	6.43	6.40	5.50	6.00	10-year Government bond yield (period average)	5.91	6.50	5.80	6.00
Brunei		n.a.	n.a.	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.
Canada	3-month TB	4.12	2.73	3.75	n.a.	10ytb	4.28	3.76	4.51	n.a.
Chile*	30-day deposit rates	5.30	7.10	n.a.	n.a.	Bonds 5 yrs real (BCU5)	5.80	6.90	7.30	6.80
China	6-month Loans	3.15	2.88	n.a.	n.a.	Loans over 5-year	7.47	7.20	n.a.	n.a.
Colombia	DTF-90 days 1/	8.98	9.96139	n.a.	n.a.	TES-Largo plazo 2/	10.25	11.41	n.a.	n.a.
Hong Kong, China	Three-month Interbank Interest Rate (year-average)	4.25	2.25-3.25	4.00	4.00	Three-month Interbank Interest Rate (year-average)	7.59	5.25-5.50	7.50	7.00
Japan	3MCD: %	0.57	0.63	0.82	1.27	10Y Govt. Bonds: %	1.65	1.47	1.52	2.09
Korea, Republic of	CD rate (3month)	5.81	5.60	5.00	na	T-bond (3year)	5.70	5.50	5.00	na
Malaysia	1 mth Fixed Deposit	3.08	3.08	3.08	3.08	1 year FD Commercial Banks	3.70	3.70	3.70	3.70
New Zealand	90-day bank bill, calendar year	8.33	8.36	7.29	6.96	10-year government bond, calendar year	6.26	6.13	5.55	5.56
Peru	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	91-day Tbill	3.38	4.68	5.22	5.68	364-day Tbill	5.21	6.40	7.09	7.22
Singapore	Prime Lending Rate	5.33	5.33	5.33	5.33	Govern Securities - Yield 10yrs	3.00	3.00	3.00	3.00
Chinese Taipei	overnight	2.00	2.08	2.37	2.63	10 yrs. bond yield	2.32	2.67	2.95	3.12
United States	3-Mo T-Bill	4.40	1.50	0.85	1.50	10-Yr T-Note	4.60	3.71	2.94	2.99

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Source: SOTR forecasters.

T6: Exchange Rates, 2007-2010 (Local Currency Per US\$)

	2007	2008	2009	2010
Australia	1.19	1.39	1.35	1.30
Brunei	1.51	n.a.	n.a.	n.a.
Canada	0.93	0.96	0.87	n.a.
Chile*	522.47	505.24	589.70	596.73
China	760.40	691.30	658.40	n.a.
Colombia	2076.20	1950.00	2228.80	n.a.
Hong Kong, China	7.80	7.80	7.80	7.80
Japan	117.76	104.90	102.50	101.00
Korea, Republic of	929.15	1060.25	1150.00	n.a.
Malaysia	3.31	3.50	3.50	3.50
New Zealand	1.36	1.39	1.85	1.66
Peru	3.13	3.03	3.13	3.20
Philippines	46.15	44.27	47.96	47.80
Singapore	1.51	1.40	1.44	1.42
Chinese Taipei	32.84	31.22	30.95	30.29
United States	1.00	1.00	1.00	1.00

*Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Source: SOTR forecasters.

T7: GDP Deflator Growth, 2007-2010 (%)

	2007	2008	2009	2010
Australia*	3.72	2.84	2.60	0.49
Brunei	0.92	6.57	n.a.	n.a.
Canada	3.07	4.67	2.79	n.a.
Chile**	4.94	3.38	2.93	3.95
China	8.44	10.50	3.00	n.a.
Colombia	3.85	6.07	6.76	n.a.
Hong Kong, China	3.00	2.42	4.68	3.85
Japan	-0.78	-1.20	0.50	0.70
Korea, Republic of	1.22	3.07	1.87	n.a.
Malaysia	5.20	5.97	4.89	3.98
New Zealand	4.27	6.08	3.05	0.93
Peru	2.04	5.60	4.00	4.00
Philippines	2.81	7.84	6.78	6.73
Singapore	4.04	5.98	4.95	4.13
Chinese Taipei	0.15	-1.30	0.41	3.63
United States	2.69	2.65	3.02	2.00
Weighted Average	2.65	2.83	2.52	1.76
WA: excl. US & Japan	4.84	6.10	2.92	2.60
WA: East Asia	2.37	2.96	0.79	1.30
WA: SEA	4.06	6.50	5.30	4.80
WA: Latin America	3.44	4.53	4.77	3.97
WA: excl. East Asia	2.80	2.89	3.03	1.88

Note: Base year = 100 unless otherwise noted.

* Australian financial year, covering Q3-Q4 of 2003 and Q1-Q2 of 2004.

**Statistics from provided by Universidad de Chile complements the update from the Central Bank of Chile.

Source: SOTR forecasters.

	2007	2008	2009	2010
All PECC economies	2.65	2.83	2.52	1.76
Ex US & Japan	4.84	6.10	2.92	2.60
East Asia	2.37	2.96	0.79	1.30
Southeast Asia	4.06	6.50	5.30	4.80
Latin America	3.44	4.53	4.77	3.97
Excluding E.Asia	2.80	2.89	3.03	1.88

T8: Trade Weights, 2004-2007 average (%)

	All countries	Excluding United States and Japan	East Asia (incl. SEA)	Southeast Asia	Latin America	Excluding East Asia
Australia	2.69%	4.72%				6.27%
Brunei Darussalam	0.09%	0.16%	0.16%	0.98%		
Canada	7.70%	13.53%				17.94%
Chile	0.91%	1.60%			51.02%	2.13%
China	17.39%	30.46%	30.45%			
Colombia	0.50%	0.88%			28.24%	1.18%
Hong Kong, China	6.82%	11.98%	11.97%			
Japan	12.78%		22.41%			
Korea, Republic of	6.45%	11.31%	11.30%			
Malaysia	2.99%	5.25%	5.24%	32.51%		
New Zealand	0.54%	0.95%				1.26%
Peru	0.37%	0.65%			20.74%	0.87%
Philippines	1.05%	1.85%	1.85%	11.45%		
Singapore	5.06%	8.89%	8.88%	55.05%		
Taipei, Chinese	4.42%	7.76%	7.75%			
United States	30.22%					70.36%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Compiled from WTO Statistics. Trade Weights is the total merchandise (imports and exports) of each country over the total trade merchandise of PEO economies.

T9: GDP Weights, 2004-2007 average (%)

	All countries	Excluding United States and Japan	East Asia (incl. SEA)	Southeast Asia	Latin America	Excluding East Asia
Australia	3.13%	11.22%				4.94%
Brunei Darussalam	0.04%	0.15%	0.12%	2.54%		
Canada	5.02%	17.97%				7.92%
Chile	0.54%	1.93%			35.02%	0.85%
China	10.42%	37.13%	28.48%			
Colombia	0.64%	2.28%			41.47%	1.01%
Hong Kong SAR	0.77%	2.77%	2.10%			
Japan	18.79%		51.31%			
Korea	3.45%	12.37%	9.44%			
Malaysia	0.63%	2.24%	1.71%	37.45%		
New Zealand	0.46%	1.65%				0.73%
Peru	0.36%	1.29%			23.51%	0.57%
Philippines	0.46%	1.65%	1.26%	27.46%		
Singapore	0.55%	1.95%	1.49%	32.56%		
Taiwan Province of China	1.50%	5.40%	4.09%			
United States	53.23%					83.99%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Compiled from IMF Statistics. GDP Weights are the nominal GDP of each country over the total nominal GDP of PEO economies.

