



Pacific Economic
Cooperation Council

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STATE OF THE REGION

2007-2008

The Pacific Economic Cooperation Council (PECC) is an independent, multi-sectoral organization committed to the promotion of cooperation and dialogue in the Asia Pacific. Founded in 1980, PECC is a network of member committees composed of individuals and institutions dedicated to this mission. The Council is one of the three official observers of the APEC process.

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

The State of the Region Report is a product of a task force established by the governing body of the PECC. While efforts are made to ensure that the views of the PECC's membership are taken into account, the opinions and facts contained in this report are the sole responsibility of the authors and editorial committee and do not necessarily reflect those of the member committees of the PECC nor their individual members.

We would like to acknowledge the support of the Japan Pacific Economic Outlook team at the Kansai Institute for Social and Economic Research (KISER) especially Mr Hiroshi Isono for his support of the economic outlook section. Our deep appreciation goes to the Asia Pacific Foundation of Canada team especially Mr Keisuke Sato and Ms Alexandra Ho for their efforts on the survey on the State of the Region and the economic outlook.

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Message from the Chairman of PECC

On behalf of the 26 member committees of the Pacific Economic Cooperation Council, it is my pleasure to present our second annual report on the State of the Region. This report provides an assessment of the key challenges affecting the Asia Pacific region.

Our report is based on three main elements: the views of our panel of forecasters, the results of an annual survey of opinion leaders, and discussion between the members of the editorial team on key regional issues and institutions. None of these elements would be possible without the generous contributions of all of our member committees who support the work of the forecast group as well as tap their extensive networks to access the views of senior policy-makers, scholars, business people and the media throughout the region.

This year's report presented the PECC editorial team with special challenges because of the great uncertainties regarding the future outlook. There is uncertainty about how the ongoing sub-prime mortgage crisis will affect the United States economy and the rest of the region and world. There is uncertainty over whether the broader Asia Pacific region is sufficiently resilient to withstand a potentially sharp slowdown in the region's biggest consumer market. And there is uncertainty over whether the societies or the region have the political will and the appropriate institutions to face up to the many challenges associated with rapid growth and globalization. The failure to reach a conclusion of the WTO's Doha Development Round, and the inability so far of domestic and global financial systems to adequately contain the volatility in financial markets are just two examples of complex issues that the regional and global communities are facing.

Aside from the theme of uncertainty, three substantive areas stand out throughout this report: the growing concern over environmental challenges (including climate change) and energy security; the future of the region's trade system in the wake of the stalled Doha talks and the proliferating bilateral trade arrangements; and the continued risk of persistent transpacific imbalances. PECC work will be continuing on these and other important challenging facing the region.

I would like to express appreciation to everyone who has contributed to this report, especially Yuen Pau Woo, Gary Hawke and Jusuf Wanandi who launched our discussions on the trends affecting the region in March 2007. I would also like to thank the Japan PECC committee who have played host to our forecasting panel for many years. Finally, we are grateful to the almost 400 citizens of the region who have responded to our questionnaires in each of the past two years.

I look forward to your views on the report and on how PECC can continue to provide useful and timely information on the Asia Pacific region.



Charles E. Morrison
International Chair
Pacific Economic Cooperation Council

Explanation of Terms used in the Report

ABAC	APEC Business Advisory Council
AFTA	ASEAN Free Trade Agreement
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
APT	ASEAN Plus Three (ASEAN plus China, Japan and Korea)
CO ₂	Carbon Dioxide
CPI	Consumer Price Index
DDA	Doha Development Agenda
EAS	East Asia Summit
EU	European Union
FDI	Foreign Direct Investment
FED	United States Federal Reserve
FTAs	Free Trade Agreements
FTAAP	Free Trade Area of the Asia Pacific
GDP	Gross Domestic Product
KISER	Kansai Institute for Social and Economic Research
IMF	International Monetary Fund
IPOs	Initial public offerings
Latin America	Chile, Colombia, Ecuador and Peru (Latin American PECC member economies)
Non-government/NGO	Includes academics, civil society and the media (for the survey results)
North America	Canada, United States of America and Mexico
Northeast Asia	China, Hong Kong (China), Japan, Korea, Chinese Taipei
PECC	Pacific Economic Cooperation Council
PEO	Pacific Economic Outlook
PPI	Producers' Price Index
PTAs	Preferential Trade Agreements
RMB	Renminbi
SOTR	State of the Region
Southeast Asia	Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam (in this publication)
TPA	Trade Promotion Authority
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change
USAPC	United States Asia Pacific Council
WTO	World Trade Organization

Executive Summary

At the start of 2008, the economic outlook for the Asia Pacific region is more uncertain than it has been since the 1997-98 Asian Financial Crisis. With the full consequences of the sub-prime loan problem in the United States still playing out, the potential for turbulence in the financial markets to spill over into the real economy remains a serious concern. Notwithstanding these and other risks, the economic outlook for the Asia Pacific region is cautiously optimistic.

We expect real GDP growth of 4.9 percent in 2008 for the region as a whole, picking up in 2009 to 5.2 percent. The current slowdown in the United States is not expected to turn into a full-blown recession. Barring further shocks, a rebound in the US housing sector could begin as early as the second half of 2008. The Chinese economy will continue to expand at double-digit rates through 2009, led by private consumption and investment, while Japanese growth is expected to dip below 2 percent in the next two years.

Inflation is on an upward trend for the region as a whole, with prices in China showing the sharpest increase over the last year. Consumer prices for the region will climb a projected 2.5 percent in 2007, accelerating to 2.7 percent in 2008, in spite of falling US inflation and persistent deflationary pressures in the Japanese economy.

The external sector continues to be characterized by huge current account imbalances across the Pacific. The fall in the US dollar over the last two years is having an impact on the US external balance, with American imports in 2007 expected to have grown by only 2.2 percent. As a share of GDP, the US current account deficit is on a clear downward trajectory.

The counterpart surpluses of East Asian economies continue to very large, especially in the case of China. Despite Chinese efforts to increase imports and reduce exports, the current account balance is forecast to balloon to about US\$507 bn in 2009, which is roughly 10 percent of GDP. China has nevertheless become an important source of demand for intermediate goods from the rest of East Asia and is increasingly seen as an alternate engine of growth for the region.

According to the 2007 PECC survey of opinion leaders, nearly half of respondents believe the Chinese economy will be larger than the US economy by 2020. Whether or not this is an accurate projection, the fact that opinion leaders have this sentiment indicates an important shift in the mindset of the region. A majority of respondents already believe that a slowdown in the Chinese economy would have a greater impact on East Asia than a slowdown in the US economy.

This report points to three sets of challenges facing the Asia Pacific region, and the potential for transpacific cooperation to address these challenges.

In the area of energy and the environment, including climate change, transpacific cooperation can play a special role in reconciling developed and developing country perspectives, and in balancing short-term assurances about the cost of prevention against the need for long-term assurances that greenhouse gas emissions will be capped. APEC is well placed to make advances on these fronts precisely because it has a diverse membership that spans developed and developing countries, and encompasses a wide range of energy interests.

Despite repeated “last ditch” efforts on the part of the US, EU, India, and Brazil, the Doha Development Round appears to be no closer to completion at the end of 2007, more than a year after its scheduled completion date. Respondents to the PECC opinion poll chose the Doha Round as the most important item for APEC Leaders to tackle at their recent Sydney meeting. The second most important issue was the establishment of a Free Trade Agreement of the Asia Pacific (FTAAP), suggesting that opinion leaders are pushing for more trade liberalization in the region, and that they do not necessarily

see a contradiction between multilateral and regional efforts.

The US current account deficit and the corresponding surpluses held by Asian economies, especially China, continue to be top-of-mind in many policy discussions. The recent sharp depreciation of the US dollar may signal a new phase in the long-awaited unwinding of global imbalances – and the growing risk of a hard landing in the United States. Part of any solution to the transpacific imbalance is a shift towards greater consumption (and hence lower savings) in Asia. According to our survey, 80 percent of respondents believe that private consumption will become the engine of growth for Asia in the next decade.

The institutional landscape of the Asia Pacific has become more complex in recent years. The East Asia Summit and ASEAN Plus Three processes have added to the already numerous meetings of officials working on economic and non-economic issues affecting the region. Our survey of opinion-leaders suggests that there is considerable dissatisfaction with the current state of regional organizations at both the transpacific and sub-regional levels. In general, APEC and ASEAN come out better than their younger siblings the EAS and the ASEAN plus Three. Only 30 percent of opinion leaders agreed that competition from the EAS was an important or very important threat for APEC. They were split, however, on whether APEC is as important today as it was in 1989, and they see nagging problems in both the institutional structure and focus of APEC.

Our survey suggests strong support for greater institutional development of APEC. Nearly half of opinion leaders identified a “weak international secretariat” as a very important or important challenge for APEC. Further, when asked if the APEC Secretariat should be strengthened by appointing a multi-year fixed-term Executive Director and the recruitment of professional staff, respondents answered overwhelmingly in the affirmative. Indeed, respondents identified “Strengthening the APEC Organization” as one of the top five priorities for the grouping.

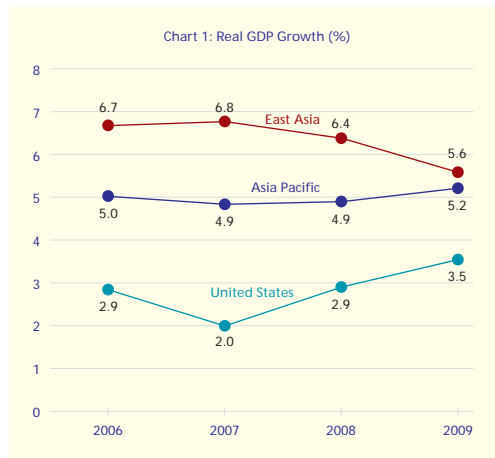
APEC recently completed a mid-term review of its progress towards the Bogor targets of “free trade and investment in the Asia Pacific by 2010 for developed economies and 2020 for developing economies”. While the review outlined credible achievements in particular areas of liberalization and facilitation, it also made clear that the Bogor goals will not be achieved. The Individual Action Plan and Collective Action Plan processes provide collegial discussion on how individual economies are making progress towards collective goals in economic integration, but they provide no mechanisms for enforcement.

The failure to meet the Bogor goals does not in itself invalidate the importance of APEC, but it does raise questions about the comparative advantage of the regional forum in advancing trade and investment liberalization and facilitation. As APEC comes to terms with its inability to meet the 2010 Bogor deadline, the challenge is to find a new way of articulating the organization’s *raison d’être* and new approaches for promoting more open trade and investment in the region. Our survey results confirm the commonly-held perception that APEC members lack commitment to the organization. In this sense, the most serious threat to APEC ultimately will not come from a competing organization or from the failure to meet the Bogor targets, but rather will be due to a lack of will from within to revive itself.

One area in which there is strong agreement among opinion leaders is the need for Asian economies to play a larger role in the governance of key international bodies such as the World Bank and the International Monetary Fund. Until recently, Asian countries placed little emphasis on international governance issues, preferring to focus on domestic economic development and political stability. As Asia’s economic weight increases, in part through deeper regional integration, the case for stronger representation in international organizations - and greater responsibility for the international economic system - will be irresistible.

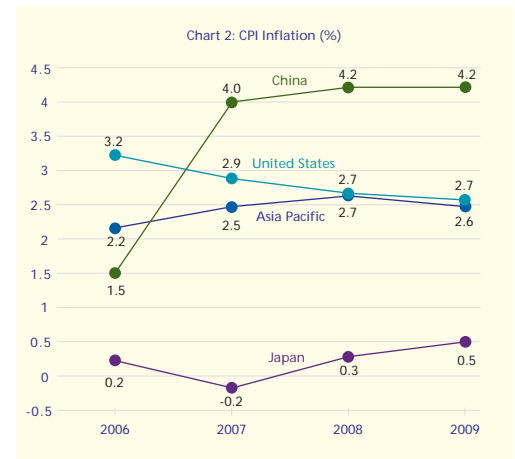
Economic Outlook, 2008-09

At the start of 2008, the economic outlook for the Asia Pacific region is more uncertain than it has been since the 1997-98 Asian Financial Crisis. With the full consequences of the sub-prime loan problem in the United States still playing out, the potential for turbulence in the financial markets to spill over into the real economy remains a serious concern. There are also worries about inflationary pressures in the world economy, speculative bubbles in Asia, and the rapid unwinding of the US current account imbalance. Notwithstanding these risks, the economic outlook for the Asia Pacific region is cautiously optimistic.



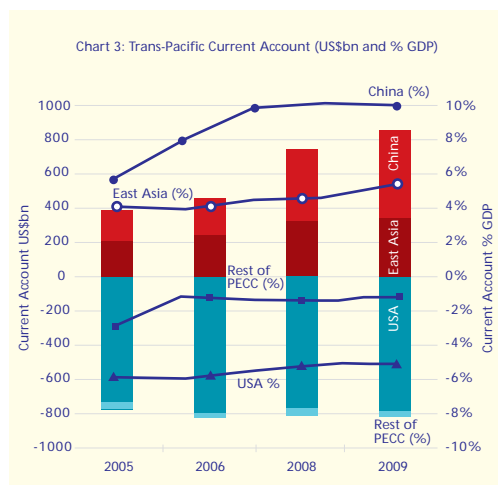
Real GDP growth in 2007 for the region as a whole will come in around 4.9 percent, down slightly from 2006, with East Asia picking up the slack from a slowdown in the United States. Growth in 2008 will remain at roughly the same level, but with the US economy in recovery and many East Asian economies experiencing a modest slowdown due to lower net export growth. The

US economy will gain strength in 2009, contributing (along with double digit expansion in China) to stronger regional growth of 5.2 percent.



Inflation is on an upward trend for the region as a whole, with prices in China showing the sharpest increase over the last year. Consumer prices for the region will climb a projected 2.5 percent in 2007, accelerating to 2.7 percent in 2008. The increase in regional price levels is expected to take place despite of projected falling US inflation and persistent deflationary pressures in the Japanese economy.

The external sector continues to be characterized by huge current account imbalances across the Pacific. The fall in the US dollar over the last two years is having an impact on the US external balance, with American imports in 2007 expected to have grown by only 2.2 percent. As a share of GDP, the US current account deficit is on a clear downward trajectory.



The deficit was over 6 percent of GDP in 2006 but will settle around 5.1 percent by the end of 2009. However, the dollar value of the deficit will remain very large. After falling from \$794bn in 2006 to \$760bn in 2008, the deficit is expected to balloon again in 2009, to around \$786bn. Over the last year, there has been a growing shift in the interpretation of transpacific imbalances not simply as a US deficit issue, but also as a question of the burgeoning Chinese current account surplus.

The counterpart surpluses of East Asian economies continue to very large, especially in the case of China, which has seen a dramatic rise in its current account balance from US\$125bn in 2005 to a projected US\$323bn in 2007. Despite Chinese efforts to contain the surplus, including measures such as the gradual appreciation of the Renminbi and the elimination of some export incentives, the current account balance is forecast to balloon to about US\$507bn in 2009, which is roughly 10 percent of GDP.

Strong Fundamentals Threatened by Financial Market Jitters

More so than in previous years, there are significant downside risks to the outlook. Some are familiar, including a spike in inflation due to capacity constraints or rising energy prices, as well as a disorderly unwinding of global imbalances accompanied by heightened protectionism.

A major new source of risk is the spillover of recent financial market volatility into the real economy, especially in the United States. The full extent of the damage from the sub-prime mortgage crisis is still being worked out, but it could be as much as \$300bn. Together with a falling dollar, the result will be downward pressure on investment, employment, asset prices, and consumer confidence. There is a very small possibility of a severe market crash leading to systemic financial sector crisis and a deep US recession, but it cannot be discounted entirely.

The capacity of East Asian economies to insulate themselves against such a sharp downturn will be severely tested in such a scenario. Ten years after the crisis, Asia is much better equipped to withstand speculative attacks on their currencies, but the Asia Pacific region is arguably more integrated today than it was a decade ago, and “contagion” effects running westward from North America are likely to be as painful as the contagion in East Asia that started in Thailand in 1997.

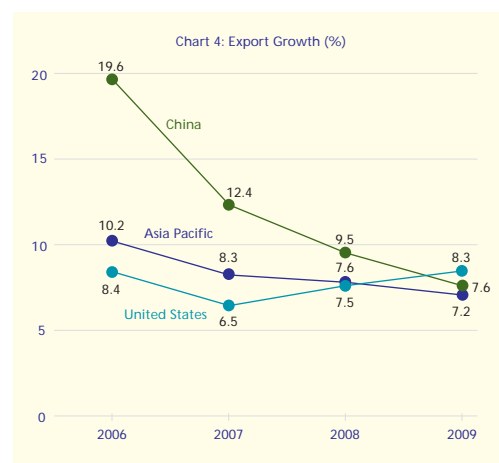
On the upside, developing countries in Asia, led by China and to a lesser extent India, have been growing very rapidly and have served as a source

of demand for the world economy during a period of sluggish US growth. The increase in consumer spending in the two emerging giants through the first half of 2007 added more to global growth than incremental consumer expenditures in the US.

Chinese growth led by domestic demand

Chinese economic growth has continued at a scorching pace, confounding our expectation last year that there would be a slight deceleration in GDP growth for 2007. China is on track to grow at 11.5 percent in 2007 and is expected to continue expanding at around 11 percent in 2008 and 2009.

Growth will be led by gross private domestic investment and consumption, with net exports playing a secondary role. The contribution of net exports to GDP growth will fall to under one percentage point in 2009, as import growth catches up with export growth.



The role of personal consumption in the Chinese economy is becoming more important as household incomes grow and pent-up demand

for consumer goods is met through the expansion of the market economy. Consumer spending is expected to contribute to half of real GDP growth in 2008 and 2009. This domestic spending power will translate into more imports, but not yet to the point of reducing China's trade surplus.

The injection of liquidity from persistent current account surpluses, abetted by controls on capital outflows, have propelled local stock and property markets to repeated new highs that defy conventional measures of value. This is a major source of downside risk for the Chinese economy and potentially for the rest of the world. While stock and property markets in China are largely reserved for domestic companies and investors, and therefore insulated, in principle, from global markets, a financial market crash in China could further soak up liquidity from the global economy, sending shockwaves through already skittish markets in the industrialized world.

CPI inflation has taken a sharp upward spike from 1.5 percent in 2006 to a projected 4 percent in 2007, with a further rise of 4.2 percent expected in 2008. A sharp increase in pork prices (due to a shortage caused by an outbreak of blue ear disease) and lower crop yields have pushed up food costs. Increases in housing, education, and utilities prices are also contributing to rising inflation. In August and October 2007, inflation reached an 11-year high of 6.5 percent. To curb price increases, the Chinese government is likely to raise interest rates through 2008 as well as to use a variety of administrative price control measures.

China's current account surplus has ballooned in recent years and is expected to reach 10 percent of GDP in 2009. Foreign exchange reserves held

by the People's Bank of China are in excess of \$1.5 trillion and growing larger by the day. The management of this massive pool of liquidity will be an increasingly difficult challenge for Beijing, not only because of domestic inflationary pressures but also because of the effects that any sharp reversal in the Chinese government's investment strategy could have on the US dollar and global markets.

The Renminbi is steadily rising against the US dollar, from an average rate of RMB8.0 in 2006 to a projected RMB7.4 in 2007. If current exchange rate policies prevail, the Chinese currency is expected to rise further in 2008 to RMB6.9 and to RMB 6.4 in 2009. Political pressure from trading partners as well as domestic considerations may lead to further and faster widening of the currency trading band, but it is unlikely that the Chinese authorities will allow the Renminbi to float freely in the next year.

Growing Downside Risks for the Japanese Economy

The Japanese economy slowed in the second half of 2007 and is expected to end the year with average growth of 2.1 percent. The slowdown will bottom out in 2008 with real GDP growth around 1.8 percent. A strong rebound is not expected, and the outlook for 2009 is for another year of 1.8 percent growth. The main source of weakness is in the residential construction sector. New housing starts in August 2007 plunged 43.3 percent from a year earlier, following a 23.4 percent year-on-year slide in July. This large drop reflects a tightening of construction standards in June, following revelations that many homes were built using falsified data. Residential investment will continue to be a drag on the economy through the first half of 2008.

Private consumption continues to lead Japanese growth, and is projected to add one percentage point in 2007, 0.8 points in 2008 and 0.7 points in 2009. On the other hand, weakness in the housing sector will mean that gross private domestic investment will contribute only 0.1 points to growth in 2007 and 2008, before rising to 0.5 points in 2009.

Labor market conditions in Japan are increasingly tight, with unemployment falling to its lowest level since 1998. The number of worker payrolls has been growing steadily for more than thirty months. Despite the tighter labor market, average monthly wages have not risen.

To cope with labor shortages, companies have been increasing their share of young workers and re-employing retired baby boomers in a part-time capacity. These new hires are paid relatively poorly, hence depressing average wages. However, a rise in the overall number of workers will boost total household income, which will in turn lead to a gradual increase in consumer spending in the second half of 2007 and through 2008 and 2009. The gradual rise in interest rates on deposits and expected growth in dividends will also contribute to households' non-labor income.

Price levels as measured by CPI will fall 0.2 percent in 2007 but are expected to rise 0.3 percent in 2008 and 0.5 percent in 2009. Although gasoline prices rose again in the middle of 2007, its effect on CPI is likely to be weak. Prices of other important consumer items such as personal computers and cell phone charges are continuing to fall. The GDP deflator, as an indicator of overall price trends, will fall by 0.7 percent in 2007, reflecting the persistence of deflation in Japan. It is expected to be above zero in 2008 and 2009, but only just so. Despite an expansionary monetary policy since 2004, the effect on deflation has

been minimal. The Bank of Japan governor has repeatedly called for the normalization of interest rates at a gradual pace, which will likely mean at least two rate hikes in 2008, but this will depend very much on conditions in the world economy and the actions of other central banks.

Downside risks dominate the Japanese outlook. In addition to global factors such as financial market volatility and the health of the US economy, and domestic economic risks such as the weak housing market, there are new doubts about the political will to sustain structural reform initiatives.

SUB-PRIME MORTGAGE CRISIS AND ITS IMPACT ON ASIA

The sub-prime mortgage crisis in the United States highlights the dangers of unregulated, high-risk financial transactions; the interdependence of Asia Pacific capital flows, and the need for international cooperation to resolve structural imbalances.

The Asian financial crisis of 1997-98 called attention, among other aspects, to the problem of unregulated lending by banks and finance companies, supported by collateral that was inflated by a vicious cycle of borrowing and speculation and credit ratings that were unreliable.

The sub-prime mortgage fiasco in the United States was not generated by a currency crisis but it does appear to be rooted in the excesses of poorly regulated aspects of the mortgage market, compounded by the complex securitization of those and other loans, extending the risk to a much wider set of investors.

Because of the difficulties in unbundling and re-pricing the affected asset-backed securities, the full extent of the damage is yet to be known, but some estimates

put it as high as US\$300bn. While there should be ample scope for financial innovation, the sub-prime crisis is likely to result in greater regulation and transparency in the United States, and getting the right balance of regulation is always a challenge.

The sub-prime crisis affects Asia in several ways. A large share of the sub-prime mortgage market may be held (directly and indirectly) by private sector and public sector investors from Asian countries. These investors have seen an impairment in the quality and value of their holdings. At the same time, they have taken the additional hit of a falling US dollar. Asian central banks are obviously unhappy to see the value of their dollar denominated reserves fall, but they are also concerned that massive withdrawals from US dollar assets could lead to domestic currency appreciation and a loss of export competitiveness.

With the Federal Reserve expected to cut interest rates at its forthcoming meetings, Asian central banks will face conflicting pressures to either follow suit - and thus hold back the upward

pressure on their currencies and the costs of sterilization activities - or to keep domestic interest rates high in order to restrain inflation and to cool overheated property markets even at the expense of export competitiveness.

The sharp decline of the US dollar in recent months will add momentum to the shrinking of the US current account deficit, as a percentage of GDP if not in absolute terms. The unwinding of the "global imbalance" problem may in fact have begun, but no one on either side of the imbalance wants to see a swift correction and "hard landing" in the United States. Nevertheless, if confidence in the US dollar as a reserve currency continues to be undermined, the markets will dictate the pace of dollar depreciation, and it could be a very rough ride indeed. Hence the need for international cooperation in managing an orderly adjustment of exchange rates, especially in the Asia Pacific region, and in addressing the structural changes that are needed on both sides of the Pacific - a greater role for domestic demand in Asian economies and higher savings (public and private) in the United States.

Recovery and Risk in the US Economy

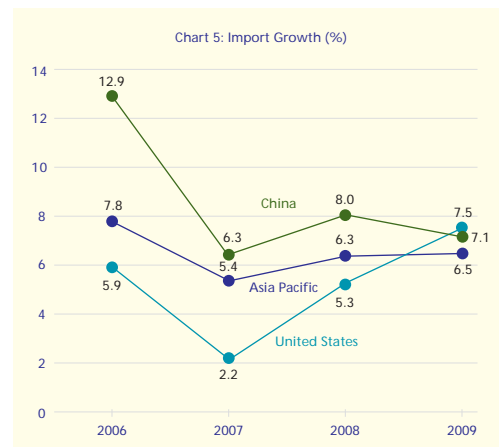
The sub-prime mortgage crisis and its aftershocks have clouded the US outlook. Our forecast assumes that major central banks are successful in supporting credit market recovery and that there is steady improvement in the flow of credit to the conventional mortgage market and to other collateralized investment and consumption activities. Under these conditions, the economy should eke out real GDP growth for 2007 around 2 percent, down from 2.9 percent in 2006. A recovery is expected to kick in by the middle of 2008, and to pick up steam through 2009.

The contribution of personal consumption to GDP growth in 2007 will remain steady at 2.1 percentage points, virtually the same as in 2006. The contribution of private fixed investment, on the other hand, is expected to fall by nearly a full percentage point: a swing from a 0.4 percentage point contribution in 2006 to a 0.5 percentage point deduction in 2007. Most of the decline in the contribution to growth coming from private fixed investment is due to the sharp 15.8 percent fall in residential construction in 2007. Indeed, residential construction alone will

knock 0.8 percentage points from GDP growth in 2007.

Net exports will contribute 0.4 percentage points. Net exports are expected to contribute 0.4 percentage points to GDP growth in 2007, compared with a 0.1 percentage point deduction in 2006. This positive contribution from the external sector is due to a very weak rise in imports rather than from expanding exports. In the first half of 2007, imports of non-petroleum goods increased at an annual rate of just 0.7 percent, well below the 8 percent rate experienced during the same period in 2006.

The slump in the residential sector will hit bottom by the middle of 2008, and homebuilding activity is expected to pick up during the second half of next year. The contribution of residential construction to GDP growth improves significantly from -0.8 percentage points in 2007 to -0.3 percentage points in 2008. With improved business confidence, inventory accumulation in 2008 is expected to be positive, resulting in a 0.2 percentage point contribution to GDP growth. The contribution of real net exports falls from 0.4 percentage points in 2007 to nil in 2008, reflecting a sharp rebound in import growth from the unusually low pace in 2007. Overall, GDP growth is forecast to recover to 2.9 percent in 2008.



Inflation, as measured by the all-items or “headline” CPI, is projected to dip to 2.9 percent in 2007, from 3.2 percent in 2006. Core CPI (all items less food and energy) will decline by 0.2 percentage points to 2.3 percent in 2007. Most of the decline in headline inflation, therefore, reflects a smaller contribution of energy prices in 2007. The price of West Texas Intermediate Crude Oil is expected to average about \$70/barrel in 2007, up about 6

percent from the \$66.22 average of 2006, which was an increase of 17 percent over 2005. Core inflation is forecast to remain steady at about 2.4 percent in 2008.

The recovery in residential housing will kick into high gear in 2009, pushing growth to 3.5 percent. Oil prices are expected to stabilize in 2009, albeit at a high level of around \$76/barrel. Robust growth will push core inflation back up to 2.6 percent in 2009, with headline inflation around the same level.

If the current liquidity problems in credit markets persist, the expected recovery in residential construction could be delayed beyond the middle of 2008. There is also concern that if housing prices continue to fall, consumer spending will be sharply curtailed. With private consumption expected to account for more than two-thirds of the contribution to growth in 2008 and 2009, any reduction in spending power will significantly darken the US outlook.

A related concern has to do with the US dollar. In trade weighted terms (as measured by the Federal Reserve's broad index), the US dollar is expected to have depreciated by around 5.8 percent for 2007 as a whole. Further depreciation is expected in 2008 and 2009, albeit at more subdued rates of between 2.5 and 3 percent. If, however, foreign holders of dollar balances (including many East Asian economies) expect a sharper decline, they may try to minimize their losses by heading for the exit before others, resulting in a self-fulfilling prophecy.

Other PECC Economies

Despite the slowdown in the United States, real

GDP growth in 2007 for Southeast Asian economies, Korea, Chinese Taipei, and Hong Kong will be robust, in part due to the strong performance of the Chinese economy. Growth will remain strong in 2008 and 2009, but a decline in real export growth is expected for most economies, due to anticipated weaker external demand. Inflation remains under control but there are concerns about financial and real estate asset bubbles in some economies.

Latin American members of PECC will grow by about 6.2 percent in 2007, much stronger than expected, and nearly a full percentage point higher than in 2006. Growth will moderate in 2008, but remains healthy at 5.8 percent. Peru will be the growth leader with real GDP expansion in excess of 7 percent through 2007-2009. Inflation has been on the uptick since 2006. The Consumer Price Index for Latin American PECC members is expected to rise by 3.9 percent in 2007, and by 4 percent in 2008.

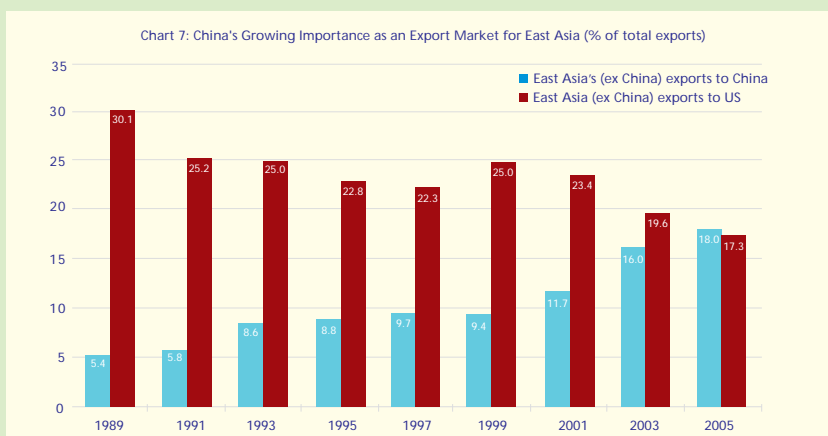
The Canadian economy experienced a slowdown in 2007, albeit by not as much as in the United States. On the other hand, while the US is expected to rebound in 2008, the Canadian outlook is for a further slowdown due to weaker net exports and sluggish domestic consumption due to higher borrowing costs. Australia will grow by a stronger-than-expected 4.1 percent in 2007, slowing to 3.7 percent in 2008 and 3.2 percent in 2009 as the effect of higher interest rates cut into consumer spending and new residential investment. Real GDP growth in New Zealand has been weak in 2007, with full year output growth expected to be around 2 percent. The outlook for 2008 is for only 1 percent growth, due to sluggish private consumption and falling housing investment. The economy should pick up in 2009 with a forecast of 2.6 percent growth.

CHINA'S ROLE IN ASIA'S ECONOMIC RESURGENCE

Rapid economic growth in China continues to set the context for regional economic developments, including the trajectory and pace of integration in Asia and across the Pacific. While China faces many internal challenges, including unbalanced growth, environmental degradation and social unrest, economic fundamentals suggest that growth rates in excess of 8 percent a year could easily extend into the next decade. By some estimates, China is already the third largest economy, after the United States and Japan.

According to the PECC survey, nearly half of respondents believe the Chinese economy will be larger than the US economy by 2020. Whether or not this is an accurate projection, the fact that opinion leaders have this sentiment indicates an important shift in the mindset of the region. A majority of respondents already believe that a slowdown in the Chinese economy would have a greater impact on East Asia than a slowdown in the US economy. They may not be far off the mark – in 2007, China's contribution to global growth in current US dollars was larger than that of the United States.

China is already a major source of demand for intermediate goods from neighboring countries, providing much-needed economic stimulus in the region. If the economic slowdown in the United States persists and deepens, the role of China as an alternative engine of growth for the region will be tested.



The Shanghai stock market correction in the first half of 2007 was a measure of global awakening to the impact of China on financial markets around the world. It provided an interesting parallel with the early 20th century response of Europeans who had not realized how important the US had become until events in the New York money market in 1907 reverberated around the world. As it turned out, the impact of the Shanghai correction on global markets

was only transitory, and investors eventually recognized the relatively autonomous (and distorted) nature of Chinese equity markets. But there should be no mistaking the growing importance of Chinese, and Asian equities more generally, and their potential impact on global markets — 45 percent of our survey respondents believe that Asian stock exchanges will account for the majority of global IPOs by 2010.

Regional Challenges

Beyond the economic and financial risks that cloud the near-term outlook, there are many medium and longer-term challenges facing the Asia Pacific region. It is beyond the scope of this report to list those challenges, which include economic, environmental, social, political, and demographic factors.

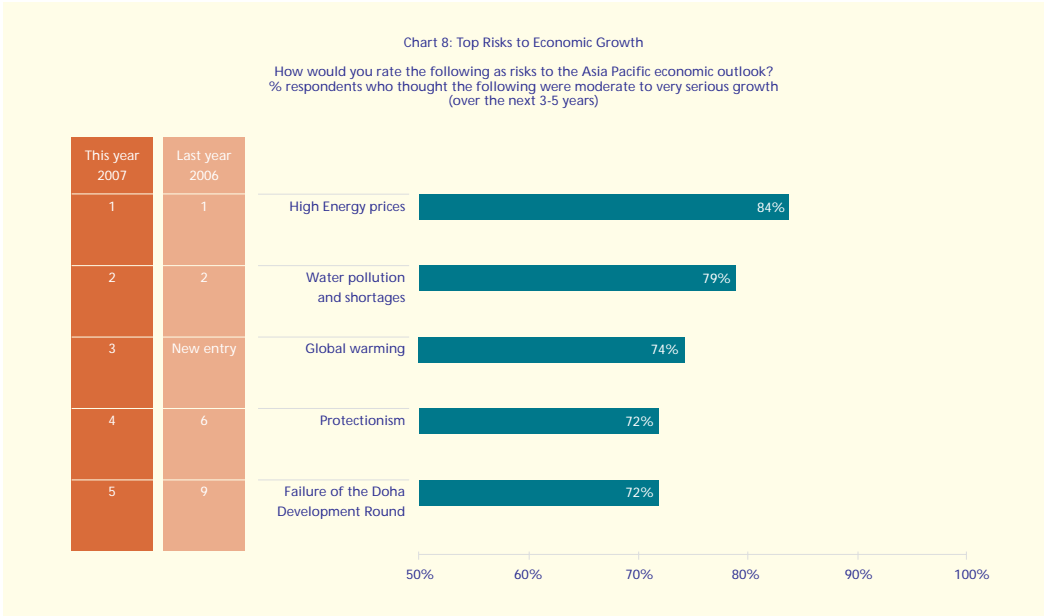
dimension, including the possibility of cooperative actions to address these issues in an Asia Pacific context. Three themes stand out: the growing concern over environmental challenges and energy security; the stalled Doha trade round and its consequences; and the continuing risk of persistent transpacific imbalances.

Medium and Longer Term Challenges

The focus of this section is on medium and longer-term challenges that were identified in the survey of opinion-leaders and which have a transpacific

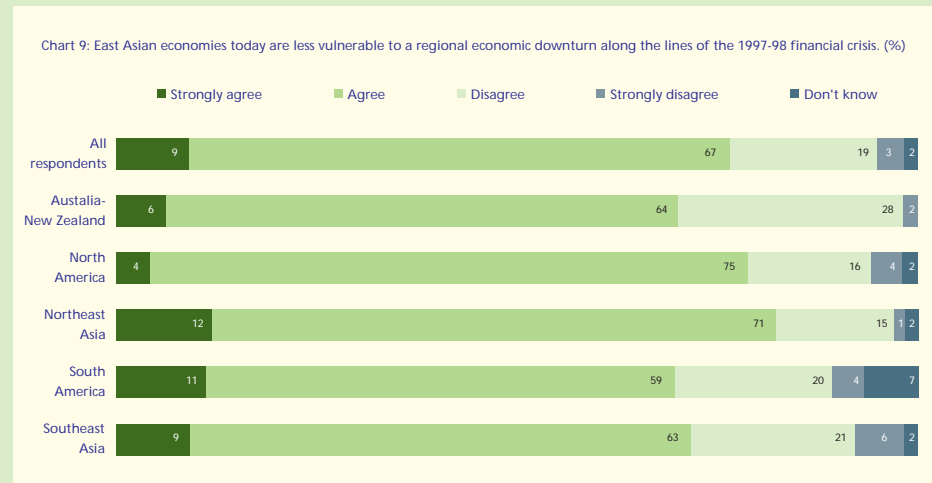
Environment and energy security

Environment and energy security have become top concerns in the Asia Pacific region, particularly as leaders increasingly make the link between sustainability and long-term growth.

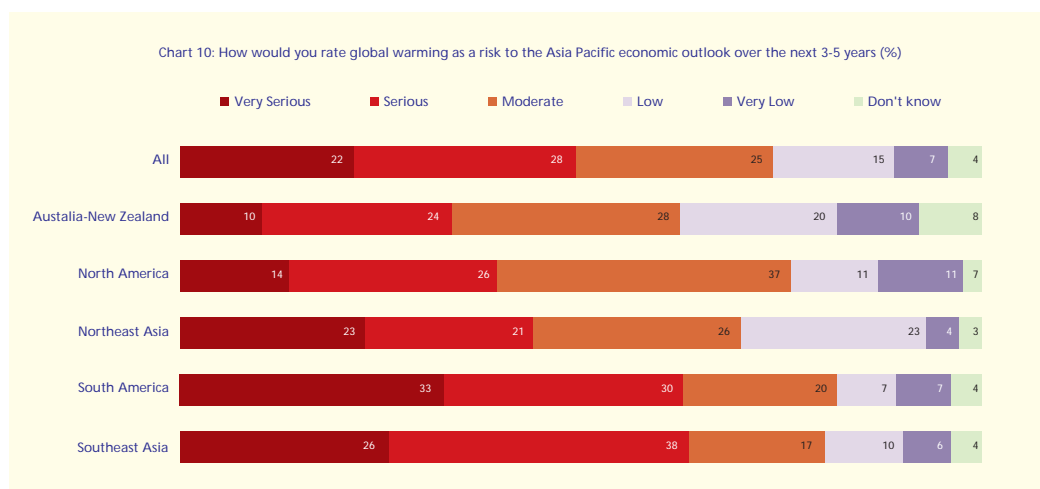


Ten Years after the Asian Crisis

The sharpest and most sudden downturn in East Asian economic growth occurred in 1997-98 when short-term capital flooded away from the region, causing significant hardship in Thailand, Indonesia, Malaysia, the Philippines, and South Korea. A decade later, the region is widely perceived to be much better equipped to fend off a similar financial crisis. Among opinion leaders in the region surveyed by PECC, 76 percent agree that East Asian economies today are “less vulnerable to a regional economic downturn along the lines of the 1997-98 financial crisis” than they were a decade ago.

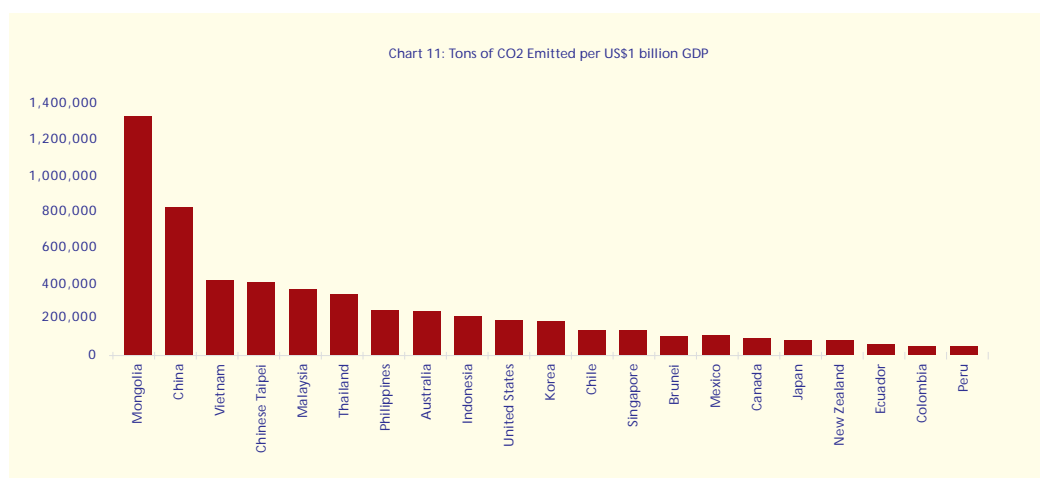


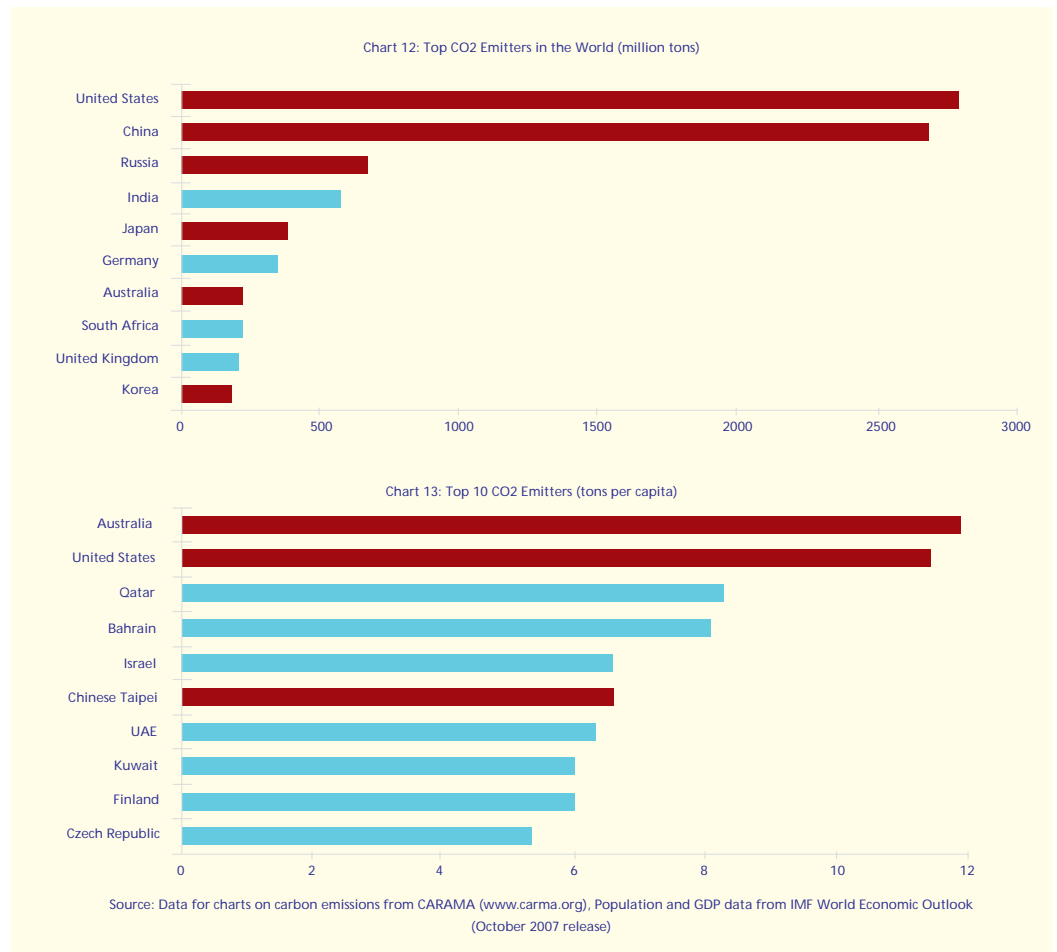
Since 1997, Asian economies have largely avoided the unholy combination of fixed exchange rates, high levels of short-term external debt, low interest rates, and poor corporate governance that made them vulnerable to bubbles and speculative attacks. On the other hand, investment in many Asian economies has not returned to the levels achieved in the 1990s, and increasing reliance on export-oriented growth is creating imbalances in global trade that have contributed to tensions in the system.



Responding to these growing concerns, APEC Leaders in Sydney issued a Declaration on Climate Change, Energy Security and Clean Development. This statement includes a non-binding commitment on the part of APEC members to reduce energy intensity by 25 percent by 2030, increase forest cover in APEC economies by at least 20 million hectares by 2020, and to establish Asia Pacific networks on sustainable forest management and rehabilitation, and energy technology.

The Declaration is a response to the UN Framework Convention on Climate Change (the United Nations body which oversees the Kyoto Protocol), which has created standing demand for regional positions on the environment issue, and adds momentum to the UNFCCC's Bali meeting at the end of 2007. The EU promotes the Kyoto Protocol as the core element of an international approach to climate change, but some industrialized Asia Pacific economies — especially the United States and more recently





Canada — are not convinced that Kyoto is the best vehicle. The Howard administration in Australia was staunchly opposed to Kyoto, but under the newly-elected Labor government, Canberra is expected to ratify the agreement.

APEC’s “aspirational goals” on energy efficiency and increasing forest cover are a novel approach to climate change. They fail to address the core principle of Kyoto, however, which is to reduce the global level of carbon emissions rather than just the intensity of energy use. The success of this approach will very much depend on whether APEC is able to keep climate change high on the

agenda, and to mobilize concrete collective action. The Asia Pacific economies bear a heavy responsibility since they account for approximately 64 percent of global carbon emissions. Australia has the highest per capita level of emissions, while the United States has the highest emissions overall, followed closely by China.

Energy security has gained salience in the international scene for a number of reasons, chief among them worries over the connection between the use of fossil fuels and climate change, commercial rivalry and conflict in areas where oil deposits are located, and indications that some

suppliers are prepared to use their control of energy flows as a political instrument. Popular discussion about the physical limits to supply of conventional energy sources has also shaped political reactions to questions of energy security.

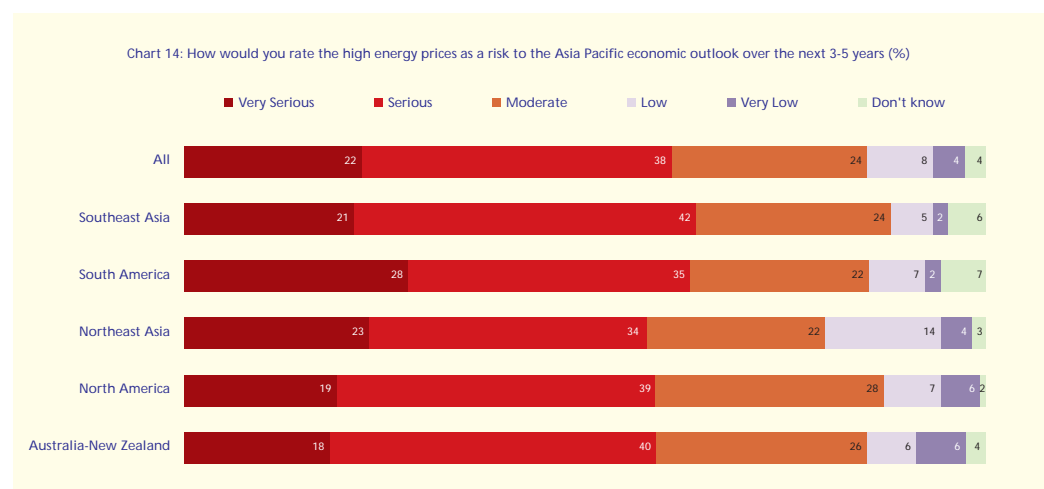
Environmental challenges are more diffuse. They include issues such as illegal and unregulated exploitation of natural resources, the availability and management of fresh water supplies, health consequences of economic development, and others. Like energy security, many of these issues can only be effectively addressed at the global or broad regional levels, but there is clearly a role for parallel and coordinated efforts by Asia Pacific economies, as well as for the exchange of information and best practices among members of a regional grouping such as APEC.

Looking to the future, the evolving Asia Pacific

agenda on these issues will likely include both Kyoto and non-Kyoto based approaches, including the use of targets, tradable permits, investments in low-carbon energy infrastructure, and technology transfer.

To achieve the needed alignment between national and international objectives, developing countries will have to be active participants in the negotiations, and better mechanisms for technology transfer from developed countries to developing countries will have to be explored. Technology will also play a crucial role in areas such as renewable energy development and carbon sequestration and capture, which permits the more sustainable use of the abundant coal resources in many Asia Pacific economies.

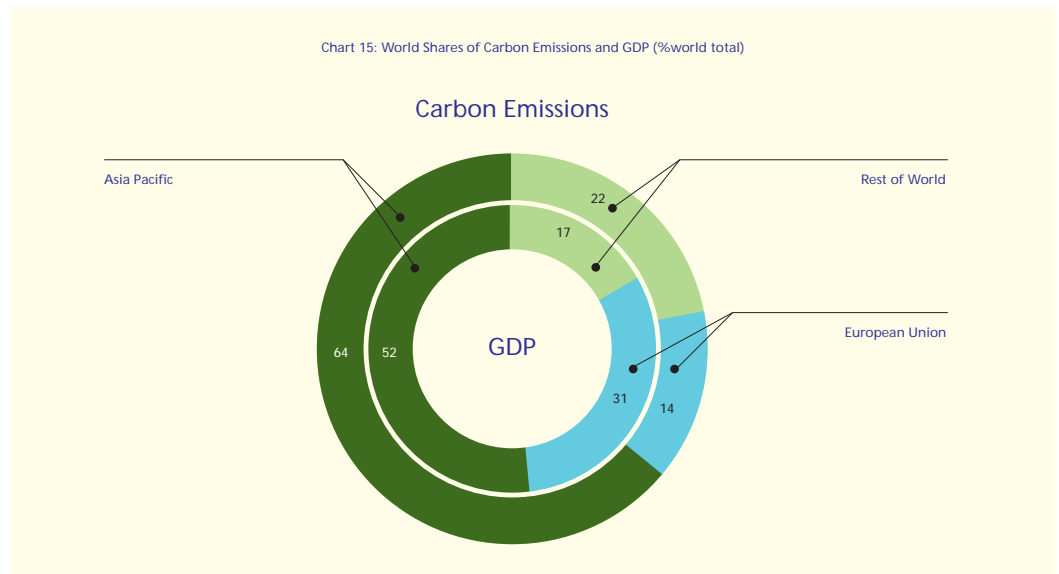
It is far from clear whether these issues will eventually be addressed in a mostly transpacific



context, in sub-regions, or at the global level. At present, APEC has tried to confine itself to trade-related areas — the comparative advantage of APEC officials and networks being in the economic sphere. The East Asian Summit (EAS) and the ASEAN Plus Three have adopted a wider approach to regional issues modeled on information sharing, mutual understanding and the common pursuit of agreed objectives. The recent EAS meeting in Singapore has called on its 16 country membership to actively take part in forging a new environmental blueprint to replace the Kyoto Protocol, which expires in 2012.

Transpacific cooperation should have a special role to play on the environment issue. An adequate

international response to greenhouse gas emissions requires agreement among both developed countries and developing countries. The ratification of Kyoto was unacceptable to policymakers in Washington not only because of the perception of economic hardship for the United States, but also because the agreement exempted major developing economies, especially China and India. At the same time, the international community generally agrees that there has to be recognition in any future agreement of the damage already done to the environment by countries that went through the dirtiest phases of industrialization before the global effects on the climate were understood.



It is becoming clear that international policy must balance short-term assurances about the cost of prevention against the need for long-term assurances that greenhouse gas emissions will be capped. It is likely that future environmental cooperation will take the form of a set of co-ordinated pacts rather than a single binding agreement such as Kyoto.

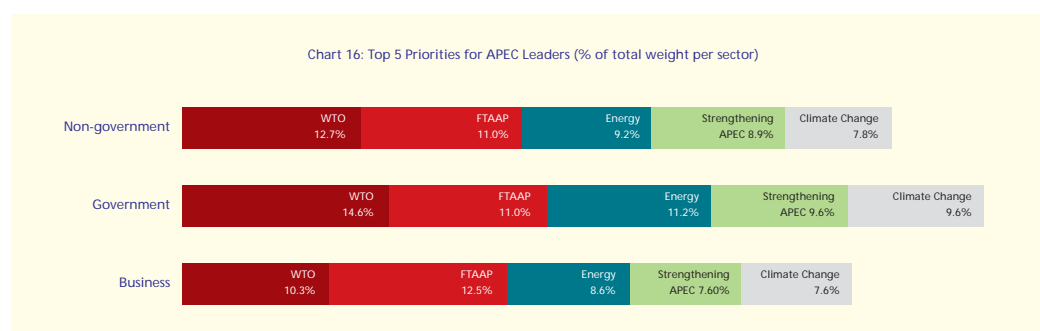
APEC is well placed to make advances on all these fronts, precisely because it has a diverse membership that spans developed and developing countries, and encompasses a wide range of energy interests.

Some of the most important players in any future global regime for combating climate change happen to be APEC members. APEC also has the institutional experience of regional cooperation through voluntary measures and peer review mechanisms that are likely to form some aspect of a realistic post-Kyoto regime. However, APEC will need to demonstrate continuing political will to address these issues if it is to have a significant impact on the global effort to reduce greenhouse gases.

The WTO and its Alternatives

Despite repeated “last ditch” efforts on the part of the US, EU, India, and Brazil, the Doha Development Round appears to be no closer to completion at the end of 2007, more than a year after its scheduled completion date. Moreover, the US President’s Trade Promotion Authority (TPA) expired at the end of June of this year, and there appears to be almost no possibility of US congressional support for any negotiated trade deal in an election year. Agreements negotiated prior to expiration of TPA, namely with South Korea and Peru, will be considered under this authority and have significant prospects of passage.

When PECC asked about top priorities for APEC leaders to address prior to the Sydney meeting, the Doha Round was the top choice for survey respondents, followed closely by the establishment of a Free Trade Agreement of the Asia Pacific (FTAAP). Business respondents, as opposed to those from government or non-government, put the FTAAP as the highest priority.

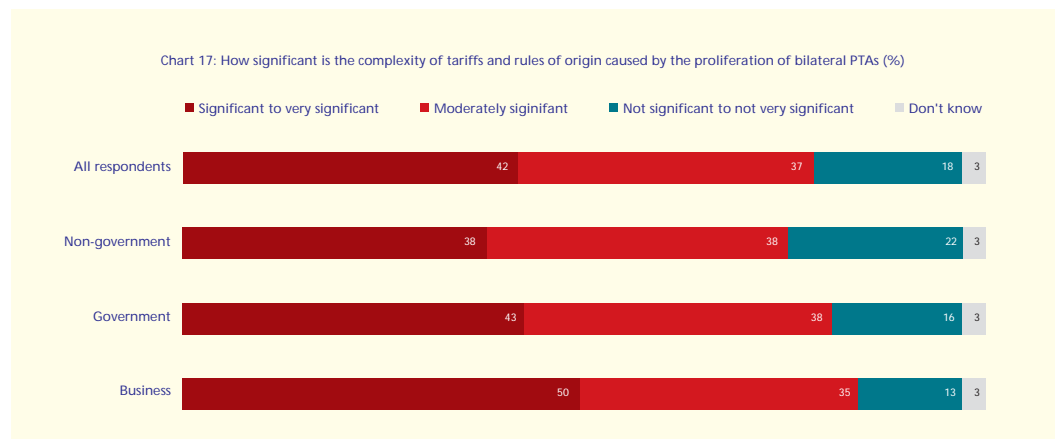


There continues to be intense debate among trade policy specialists about the costs and benefits of preferential trade agreements such as the FTAAP, and their compatibility with multilateral trade liberalization. The survey suggests, however, that opinion leaders view preferential agreements as contributing to broader Asia Pacific economic integration. More than 70 percent of respondents agreed with the statement that “On balance, bilateral free trade agreements promote, rather than hinder, the integration of Asia Pacific economies.” For a strong majority of opinion leaders, there appears to be no contradiction between support for the WTO and support for preferential trade agreements. Whatever the outcome of Doha, bilateral trade agreements will likely remain a persistent feature of Asia Pacific trade relations.

APEC leaders at the 2007 Sydney meeting

instructed officials to take forward the FTAAP idea, but did not provide details on how and when such an agreement might be forged. A 2006 study by PECC and the APEC Business Advisory Council (ABAC) points to a number of practical difficulties, not least of which are the multiple bilateral and regional trade agreements currently under consideration by APEC members, including a number of configurations that include only “Asian” economies.

Governments are aware of the dangers of multiple, overlapping trade agreements undercutting support for a global trade round and resulting in complex, overlapping rules of origin. Ongoing work within APEC to develop model measures for trade agreements, chapter-by-chapter, may serve to encourage higher quality preferential agreements and to minimize the negative effects of such agreements.



APEC has so far developed model measures for only 9 of 16 “typical” chapters and needs to step up the pace of this work. In the absence of a successful multilateral trade round, and with a broad FTAAP in the distant horizon, the proliferation of preferential agreements will continue to complicate trade relationships, marginalize poor countries, and inhibit closer regional economic integration.

Global Imbalances

The United States current account deficit and the corresponding surpluses held by Asian (and other) economies, especially China, continue to be top-of-mind in many policy discussions. The recent sharp depreciation of the US dollar may signal a new phase in the long-awaited unwinding of global imbalances - and the growing risk of a hard landing in the United States.

Polled before the United States sub-prime mortgage crisis, our survey respondents did not identify the transpacific imbalance as one of the most significant sources of risk to the economic short-term and long-term outlook. Twenty six percent said it was a “serious” or “very serious” risk in the short term, with 29 percent taking a similar view in the long term. Almost 30 percent of respondents do not consider the imbalance to be a risk at all in the short-term.

These relaxed views may be a function of having heard economists “cry wolf” too often. But they

also reflect divided views on the extent to which the imbalance is a problem, and on the path to its resolution.

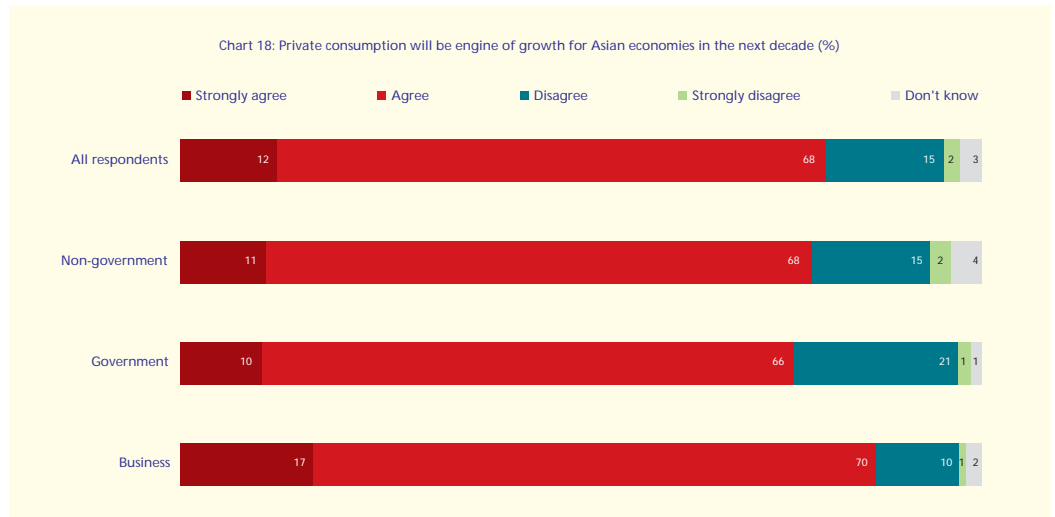
Much of the focus in resolving the transpacific imbalance has centered on the value of the Renminbi. To the extent that the transpacific imbalance is increasingly interpreted not just as a United States current account deficit problem, but also as a Chinese or more broadly Asian current account surplus problem, the focus on the Chinese currency will intensify. The resulting debates are less about technical issues such as greater flexibility in the management of the Renminbi, and more about the fuelling of protectionist sentiments by the belief that China is manipulating its exchange rate.

Anxiety about possible future changes in the value of the US dollar creates incentives for both official and private owners of US financial assets to diversify their holdings. Acting on these fears may then lead to a self-fulfilling prophecy. The sharp fall of the US dollar against some currencies in the last quarter of 2007 (not including the Renminbi) has reignited these anxieties, and has led to renewed focus on the perceived inflexibility of the Chinese currency.

Part of any solution to the transpacific imbalance is a shift towards greater consumption (and hence lower savings) in Asia. There is every reason to believe that this shift will take place over time, as incomes rise and consumption patterns change. According to our survey, 80 percent of respondents

believe that private consumption will become the engine of growth for Asia in the next decade. However, these structural changes may not occur

fast enough for American politicians facing the prospect of a sharp economic downturn and the discontent of voters in upcoming elections.



Regional Organizations

A major objective of the APEC process is to improve the well-being of the peoples of the Asia Pacific through closer economic integration and regional cooperation. There is no single measure of regional integration. It can refer to the participation of the region in global integration, the growth of a regional identity expressed in tangible institutions and processes, or the integration among some of the economies of the region.

Regionalism and Regionalization

A common distinction is made between “regionalism”, understood as government-promoted regional cooperation expressed in institutional forms, such as ASEAN or APEC, and “regionalization,” defined as growing economic interdependence that is a result of private sector trade and investment decisions. Asia Pacific regional integration is often contrasted with the European integration process in that it has been led and dominated by regionalization rather than regionalism.

While regionalization continues to move ahead very rapidly, regionalism is more fragmented and uncertain, partly because the region is so vast and differentiated and partly because of the priority many governments attach to sovereignty and national development objectives.

Twenty years ago, the institutional landscape of the Asia Pacific region consisted of sub-regional bodies in the Americas, Southeast Asia, and the Pacific, but not a single body promoting economic

integration and cooperation for the Asia Pacific as a whole. Created in 1989, APEC is now the principal vehicle for governmental promotion of transpacific economic integration and cooperation. In the past decade, it has been joined by the ASEAN Plus Three forum, which held its first leaders meeting in 1997, and the East Asia Summit process, dating from 2005. There is substantial overlap between APEC on the one hand, and the APT and the EAS on the other, with the principal difference being the exclusion of Eastern Pacific economies from the newer fora.

While APEC has the broadest membership and the most developed work program, it is also largely confined to voluntary economic cooperation and is not a negotiating or rule-making body. The development of APEC as an institution has been painstaking. Nearly two decades after the creation of APEC, efforts to strengthen the Secretariat are routinely met with resistance.

The ASEAN Plus Three and the East Asia Summit have broader mandates, including political cooperation. The ASEAN Plus Three has gone the furthest in forging free trade agreements among sub-groups of the membership and has also launched a range of long term “community building” initiatives. The EAS met twice in 2007 -- Cebu in January (originally intended as the 2006 meeting) and Singapore in November. It is beginning to be seen both as a venue for interactions among political leaders and as a mechanism for promoting cooperation on longer-term issues such as energy security and environmental challenges. Indeed, the theme of

the Singapore meeting was “Energy, Environment, Climate Change and Sustainable Development” – a set of long-term issues that do not conform to the stereotype about Asian countries’ preoccupation with economic growth.

The agendas of new and old regional institutions alike have become increasingly long and complex. APEC, ASEAN plus Three, and the East Asian Summit all seek to address, in some measure, both economic and non-economic issues, from trade liberalization to domestic regulatory reform, contagious diseases to climate change, counter terrorism to human trafficking.

To date, however, all three organizations have not ventured much beyond leaders’ statements and the setting of lofty goals. Some capacity building has taken place, especially in the APEC context, but there is no systematic institutional commitment to technical assistance across the range of issues on Leaders’ agendas. Government officials, as well as the business community and general public, are increasingly bewildered by the proliferation of initiatives in various groupings. There does not seem to be a mechanism to coordinate overlapping activities and to eliminate the wasteful duplication of resources.

Effectiveness of institutions

Our survey of opinion-leaders demonstrates considerable dissatisfaction with the current state of regional organizations at both the transpacific

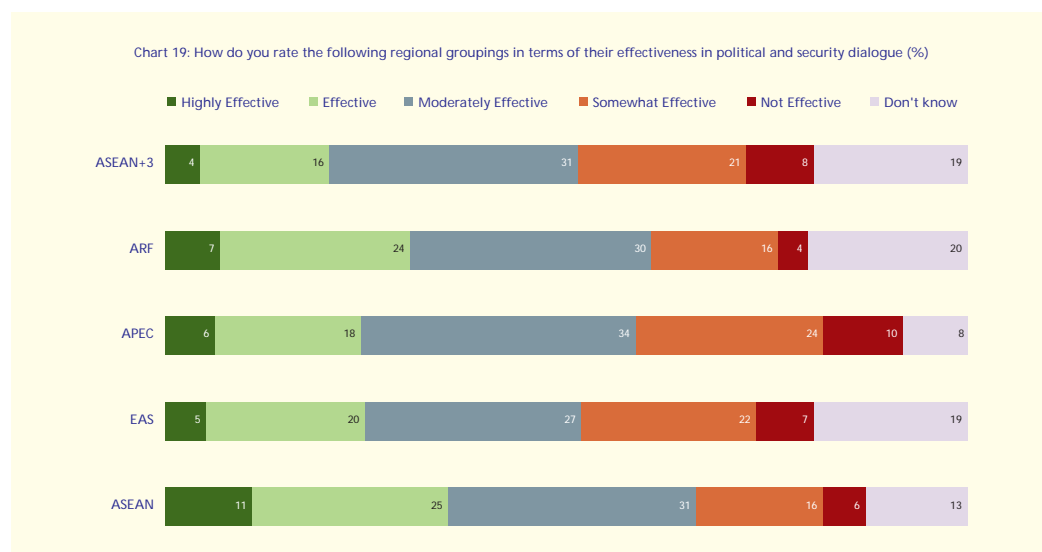
and sub-regional levels. In general, APEC and ASEAN come out better than their younger siblings the EAS and the ASEAN plus Three. Only 30 percent of opinion leaders agreed that competition from the EAS was an important or very important threat for APEC. They were split, however, on whether APEC is as important today as it was in 1989, and they see nagging problems in both the institutional structure and focus of APEC, and in its lack of commitment from member economies.

A majority of respondents gave an effective or highly effective rating to only two organizations, but this was for only one of six suggested activities for APEC (leaders meetings) and two for ASEAN (leaders meeting and community building). Only a quarter gave an effective or highly effective rating to APEC for trade facilitation and trade liberalization. All of the regional organizations were not highly regarded in the area of political and security dialogue. Even in the case of the ASEAN Regional Forum -- which comes closest to a venue for security dialogue in the region – only seven percent of respondents considered the grouping to be highly effective.

These results suggest that the region continues to face a major challenge in building and demonstrating the utility of its regional organizations. Some dimensions of this challenge include: (1) how to develop effective political and security cooperation as complementary to economic cooperation at the broader Asia Pacific level, given the limits of the current APEC process, (2) how to mature the East Asia region building

process, given the overlap of the two major organizations and different views about the geographical and functional scope of these organizations, (3) how to mesh cooperation at different sub-regional, regional, inter-regional, and global levels, and (4) how to be inclusive

opinion leaders identified a “weak international secretariat” as a very important or important challenge for APEC. Further, when asked if the APEC Secretariat should be strengthened by appointing a multi-year fixed term Executive Director and the recruitment of professional staff, respondents



(in organizations such as ASEAN which covers all of Southeast Asia) and yet develop an effective work program, given marked differences in economic development, commitment to regional cooperation, and in political values and systems.

APEC Issues

Because of its relevance to transpacific regional integration, PECC gave special attention to the development of the APEC process. Three issues stand out: institutionalization, membership, and the trade liberalization agenda.

Our survey suggests strong support for greater institutional development of APEC. Nearly half of

answered overwhelmingly in the affirmative. Indeed, respondents identified “Strengthening the APEC Organization” as one of the top five priorities for the grouping. In this context, the announcement coming out of the Sydney Leaders’ meeting to recruit professional staff to the Secretariat and to increase its budget are signs of members’ commitment to institutional strengthening.

Another unresolved issue is membership. In Sydney, APEC Leaders in effect decided to keep the moratorium until 2010. In the meantime, APEC members will once again attempt to formulate a set of principles that are sufficiently elastic to justify the existing membership, yet not so open-ended as to create false expectations among

potential applicants. The application of any criteria, however, will in practice be subject to the narrower calculations of existing members — some with louder voices than others — as was seen in the last round of new admissions. As of 2007, those interested in membership include India, Pakistan, Macao, Mongolia, Panama, Colombia, Sri Lanka, Ecuador, Costa Rica, Guatemala, and Cambodia, in no particular order.

Leaders are reluctant to increase the number of members for fear of making the organization even more unwieldy. As it is, consensus on even mundane issues has sometimes been difficult to achieve. Our survey respondents share this reluctance, listing “expansion of membership” as 16th in a list of 17 possible priorities.

However, the case of India is distinct. Because of its size and geopolitical importance, India’s membership would significantly change APEC. India has committed itself to economic liberalization of the kind envisaged in APEC’s traditional criterion for membership. Skeptics still question the durability of India’s commitment to openness, but the reform process in India is probably now as secure as China’s “open door” policy was at the time Beijing was admitted into APEC in 1991.

When asked if India should be a member of APEC, 60 percent of survey respondents agreed. An even stronger majority agreed with the proposition that India “will become an important

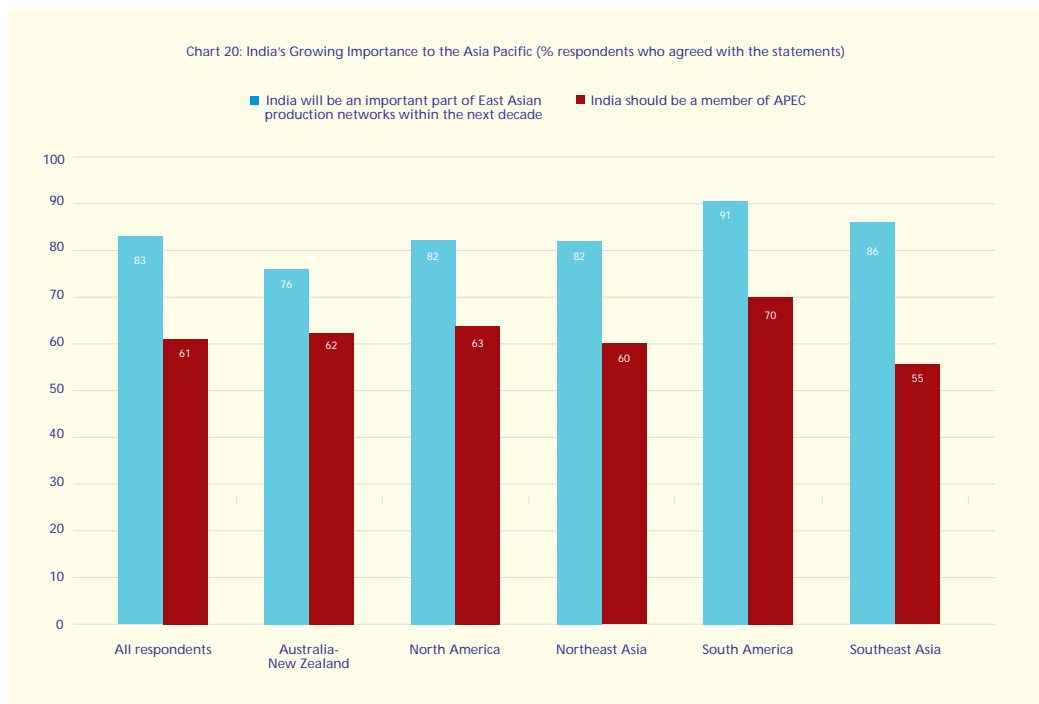
part of East Asian production networks in the next decade” even though this is as much an argument for membership in Asia-only institutions as it is for membership in a transpacific forum

APEC recently completed a mid-term review of its progress towards the Bogor targets of “free trade and investment in the Asia Pacific by 2010 for developed economies and 2020 for developing economies”. While the review outlined credible achievements in particular areas of liberalization and facilitation, it also made clear that the Bogor goals will not be achieved. The Individual Action Plan and Collective Action Plan processes provide collegial discussion on how individual economies are making progress towards collective goals in economic integration, but they provide no mechanisms for enforcement.

The failure to meet the Bogor goals does not in itself invalidate the importance of APEC, but it does raise questions about the comparative advantage of the regional forum in advancing trade and investment liberalization and facilitation. Is APEC’s role principally that of a cheerleader for the successful conclusion of multilateral trade negotiations? Can APEC make a useful contribution in its model measures for FTAs? What additional trade facilitation projects can APEC initiate, without turning to binding agreements? Should APEC strive for a formal regional trade agreement such as the FTAAP? As APEC comes to terms with its inability to meet the 2010 Bogor deadline, the challenge is to find a new way of articulating

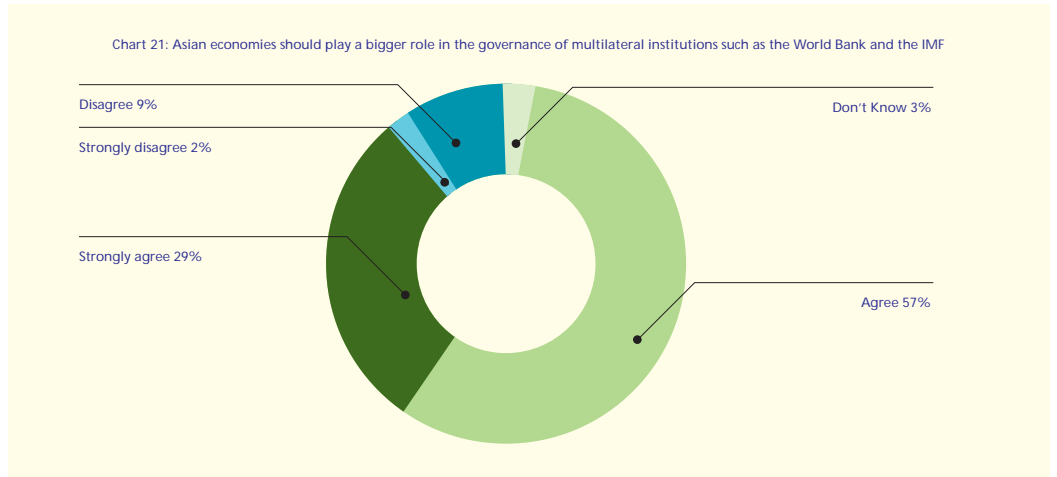
the organization's *raison d'être* and new approaches for promoting more open trade and investment in the region. Our survey results confirm the commonly-held perception that APEC members lack commitment to the organization. In this sense, the most serious threat to APEC ultimately will not come from a competing organization or from the failure to meet the Bogor targets, but rather will be due to a lack of will from within to revive itself.

One area in which there is strong agreement among opinion leaders is the need for Asian countries to play a larger role in the governance of key international bodies. On the one hand, the current architecture of global economic governance is based on power sharing between the United States and Europe, and is resistant to a larger voice from emerging countries, including Asian powers. On the other hand, Asian governments have until recently placed little emphasis on international governance issues,



preferring to focus on domestic economic development and political stability. Both of these factors are changing, and the result is a challenge

to the status quo powers not unlike the emergence of the United States in the interwar period.





Annex 1: Economic Outlook Data Tables

T1: Real economic growth and increase in consumer prices for PECC economies, 2006-2009 (%)

	Real GDP				CPI			
	2006	2007	2008	2009	2006	2007	2008	2009
Australia	2.66	4.08	3.66	3.20	3.54	2.18	2.67	2.50
Canada	2.76	2.62	2.38	2.56	2.00	2.38	2.44	2.00
Chile	3.97	6.00	5.50	n.a.	3.39	3.94	4.45	2.91
China	11.10	11.50	11.20	10.80	1.50	4.00	4.20	4.20
Colombia	6.79	6.80	6.00	n.a.	4.30	5.85	4.34	n.a.
Ecuador	3.90	3.44	4.16	n.a.	3.30	2.49	3.24	n.a.
Hong Kong, China	6.92	6.12	6.00	5.68	2.09	1.75	2.87	3.04
Indonesia	5.48	6.20	6.50	6.80	6.60	6.79	6.50	6.00
Japan	2.19	2.13	1.80	1.75	0.24	-0.16	0.29	0.50
Korea, Republic of	4.99	4.93	4.97	n.a.	2.20	2.40	2.80	n.a.
New Zealand	1.89	1.97	0.89	2.55	3.37	2.44	3.43	2.83
Peru	7.56	7.70	7.40	7.00	2.08	1.70	2.60	2.00
Philippines	5.45	6.72	7.07	n.a.	6.26	2.51	3.64	n.a.
Singapore	7.88	8.50	6.50	6.00	1.00	1.57	1.80	1.90
Chinese Taipei	4.68	4.40	4.22	4.31	0.60	1.46	2.08	1.54
United States	2.87	2.01	2.93	3.53	3.22	2.90	2.68	2.59
Weighted Average	5.02	4.85	4.89	5.19	2.17	2.46	2.66	2.68
WA: excl. US & Japan	6.88	7.06	6.70	6.77	2.05	2.83	3.20	3.09
WA: East Asia	6.67	6.75	6.39	5.59	1.50	2.19	2.63	2.30
WA: Latin America	5.31	6.20	5.81	n.a.	3.37	3.85	3.95	n.a.
WA: excl. East Asia	2.93	2.43	2.98	3.34	3.03	2.80	2.70	2.47

Note: National currency based. The weighted average is based on the respective economies' 2004-2006 total trade merchandise (see Appendix Table 8).

Source: PEO Forecasters.

	GDP GROWTH				CPI				
	2006	2007	2008	2009	2006	2007	2008	2009	
All PECC economies	5.02	4.85	4.89	5.19	All PECC economies	2.17	2.46	2.66	2.68
Ex US & Japan	6.88	7.06	6.70	6.77	Ex US & Japan	2.05	2.83	3.20	3.09
East Asia	6.67	6.75	6.39	5.59	East Asia	1.50	2.19	2.63	2.30
Latin America	5.31	6.20	5.81	n.a.	Latin America	3.37	3.85	3.95	n.a.
Excluding E.Asia	2.93	2.43	2.98	3.34	Excluding E.Asia	3.03	2.80	2.70	2.47

T2: Real export and import growth for PEO economies, 2006-2009 (%)

	Exports				Imports			
	2006	2007	2008	2009	2006	2007	2008	2009
Australia	3.49	4.61	7.32	5.00	7.64	11.06	7.01	4.50
Canada	0.72	1.69	1.36	3.79	4.97	3.39	3.82	4.10
Chile	4.19	9.86	6.55	n.a.	9.44	14.26	9.73	n.a.
China	19.59	12.39	9.52	7.61	12.90	6.27	8.00	7.12
Colombia	7.80	5.10	7.90	n.a.	20.81	18.20	13.70	n.a.
Ecuador	8.60	-2.07	3.30	n.a.	9.20	6.88	6.12	n.a.
Hong Kong, China	9.95	8.10	7.79	6.30	9.67	8.61	7.27	5.99
Indonesia	9.16	10.10	10.00	11.00	7.57	8.30	9.00	9.50
Japan	9.60	9.39	8.11	6.10	4.54	3.05	4.22	4.60
Korea, Republic of	12.39	11.27	9.69	n.a.	11.35	11.21	10.52	n.a.
New Zealand	1.98	-0.06	2.14	1.24	-2.46	3.57	-0.29	2.11
Peru	0.48	4.32	4.22	n.a.	12.32	12.78	11.78	n.a.
Philippines	11.20	2.10	2.00	n.a.	1.86	-8.96	-5.83	n.a.
Singapore	10.38	15.24	10.96	9.78	10.38	16.13	11.52	10.16
Chinese Taipei	10.34	5.94	5.83	5.63	5.42	3.44	4.08	3.77
United States	8.37	6.48	7.54	8.32	5.88	2.18	5.26	7.50
Weighted Average	10.18	8.25	7.64	7.15	7.76	5.35	6.29	6.45
WA: excl. US & Japan	11.33	8.96	7.58	6.66	9.56	7.65	7.34	6.28
WA: East Asia	13.11	10.49	8.70	6.34	9.13	6.82	7.09	5.62
WA: Latin America	4.96	6.25	6.09	n.a.	12.78	14.10	10.66	n.a.
WA: excl. East Asia	6.47	5.42	6.29	7.11	6.03	3.48	5.28	6.55

Note: Export/Imports of goods and services. National currency based. The weighted average is based on the respective economies' 2004-2006 total trade merchandise (see Appendix Table 8).

Source: PEO Forecasters.

	EXPORTS				IMPORTS				
	2006	2007	2008	2009	2006	2007	2008	2009	
All PECC economies	10.18	8.25	7.64	7.15	All PECC economies	7.76	5.35	6.29	6.45
Ex US & Japan	11.33	8.96	7.58	6.66	Ex US & Japan	9.56	7.65	7.34	6.28
East Asia	13.11	10.49	8.70	6.34	East Asia	9.13	6.82	7.09	5.62
Latin America	4.96	6.25	6.09	n.a.	Latin America	12.78	14.10	10.66	n.a.
Excluding E.Asia	6.47	5.42	6.29	7.11	Excluding E.Asia	6.03	3.48	5.28	6.55

T3: Current account of the balance of payments for the PECC economies, 2005-2009 (US\$B and % of GDP)

	2005	% of GDP	2006	% of GDP	2007	% of GDP	2008	% of GDP	2009	% of GDP
Australia	-41.32	-5.59	-40.67	-5.24	-50.63	-5.44	-48.00	-5.02	-46.40	-4.64
Canada	8.46	5.08	6.69	0.41	5.32	0.32	6.18	0.33	14.55	0.70
Chile	1.31	1.11	5.26	3.60	8.85	5.41	0.00	0.00	0.00	0.00
China	124.80	5.56	208.91	7.90	322.67	9.73	413.88	10.01	507.13	9.85
Colombia	-1.01	-0.82	-3.34	-2.46	-4.85	-2.87	0.00	-3.95	0.00	0.00
Ecuador	0.32	0.87	1.54	3.72	0.32	0.72	0.42	0.87	0.00	0.00
Hong Kong, China	20.17	11.38	20.50	10.85	26.27	12.99	32.47	14.91	34.94	14.95
Indonesia	0.30	0.10	9.90	2.89	6.60	1.61	6.10	1.32	7.00	1.32
Japan	166.47	3.66	157.14	3.60	191.74	4.35	248.59	5.29	223.00	4.55
Korea, Republic of	14.98	1.89	6.09	0.69	4.24	0.48	-2.89	-0.30	0.00	0.00
New Zealand	-9.81	-9.00	-9.39	-8.92	-9.83	-8.08	-7.64	-6.36	-6.65	-5.64
Peru	1.11	1.39	2.45	2.63	2.28	2.11	1.45	1.15	0.00	0.00
Philippines	2.35	2.38	5.02	4.27	4.94	3.46	4.85	2.99	0.00	0.00
Singapore	33.26	28.49	25.89	20.34	32.55	21.66	3.95	2.33	43.72	23.15
Chinese Taipei	18.48	5.20	18.48	5.07	20.94	5.51	23.51	5.82	24.49	5.71
United States	-735.10	-5.91	-794.10	-6.02	-763.58	-5.53	-759.86	-5.23	-786.12	-5.09
Total	-395.22		-379.63		-202.18		-76.98		15.66	
Total: excl. US & Japan	173.41		257.32		369.67		434.29		578.78	
Total: East Asia	380.82		451.94		609.94		730.47		840.28	
Total: Latin America	1.74		5.90		6.60		1.86		0.00	
Total: excl. East Asia	-776.04		-831.58		-812.11		-807.45		-824.62	

Source: PEO forecasters.

Current Account Balance

	2005	2006	2007	2008	2009
All PECC economies	-395.22	-379.63	-202.18	-76.98	15.66
US	-735.10	-794.10	-763.58	-759.86	-786.12
East Asia	380.82	451.94	609.94	730.47	840.28
Rest of PECC	-40.94	-37.48	-48.53	-47.59	-38.50

T4: Forecast of contributions to real GDP/GNP growth rate for PECC economies, 2008-2009 (% per year)

		GDP growth rate	Personal consumption expenditure	Gross private domestic investment	Government purchasing	Net exports
Australia	2008	3.66	1.90	1.84	1.01	-0.32
	2009	3.20	1.74	1.20	0.80	-0.15
Canada	2008	2.38	1.93	0.51	0.51	-1.10
	2009	2.56	1.71	0.28	0.72	-0.32
Chile	2008	5.50	5.06	0.61	1.59	-1.82
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
China	2008	11.20	5.61	10.24	n.a.	1.40
	2009	11.20	5.78	9.05	n.a.	0.91
Colombia	2008	6.00	3.82	2.71	1.77	-2.48
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
Ecuador	2008	4.16	3.90	1.34	0.45	-1.53
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong, China	2008	6.00	2.46	1.02	0.31	2.21
	2009	5.68	2.18	1.53	0.29	1.68
Indonesia	2008	6.50	2.70	2.27	0.51	1.45
	2009	6.80	2.65	2.88	0.55	1.84
Japan	2008	1.80	0.77	0.10	0.14	0.81
	2009	1.75	0.66	0.49	0.10	0.50
Korea, Republic of	2008	4.97	2.20	1.39	0.68	0.64
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
New Zealand	2008	0.89	0.39	0.37	0.64	0.76
	2009	2.55	1.67	0.54	0.62	-0.37
Peru	2008	7.40	4.17	3.04	1.72	-1.53
	2009	7.00	n.a.	n.a.	n.a.	n.a.
Philippines	2008	7.07	5.55	0.64	0.48	3.50
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	2008	6.50	1.57	2.71	0.28	2.02
	2009	6.00	1.45	2.50	0.26	2.06
Chinese Taipei	2008	4.22	1.52	0.73	0.08	1.76
	2009	4.31	1.49	0.57	0.37	1.85
United States	2008	2.93	2.16	0.51	0.30	0.01
	2009	3.53	2.45	1.42	0.04	-0.26

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

Source: PEO Forecasters.

T5: Actual and forecast levels of short-term, long-term interest rates for PECC economies, 2006-2009 (%)

Short-term interest rates		Long-term interest rates								
	Type	2006	2007	2008	2009	Type	2004	2005	2006	2007
Australia	90-day Dealer Bill rate (period average)	5.85	6.43	6.60	6.40	10-yr Government bond yield (period average)	5.47	5.91	6.30	6.30
Canada	3-month TB	n.a.	n.a.	n.a.	n.a.	Canada 10-Yr	n.a.	n.a.	n.a.	n.a.
Chile	30-day deposit rate	5.00	5.40	n.a.	n.a.	10-yr Central Bank bond	2.80	2.80	n.a.	n.a.
China	1 yr. Deposit	5.58	6.48	7.00	7.30	5-yr + Deposit	6.84	7.83	8.10	8.50
Colombia	DTF-90 days (Corresponds to 90 days certificate deposit nominal interest rate)	6.27	7.77	n.a.	n.a.	TES-Largo plazo (Corresponds to long term (9 yrs to 16 yrs) nominal interest rate for Colombian treasury bills)	9.00	9.80	n.a.	n.a.
Ecuador	Wtd avg rates on private banking loans up to 360 days	9.27	n.a.	n.a.	n.a.	Wtd avg rates on private banking loans over 360 days	11.35	n.a.	n.a.	n.a.
Hong Kong, China	3-mth HIBOR (yr end)	3.84	4.25-5.75	4.00	4.00	HSBC Prime yr end	7.75	7.00-7.50	7.50	7.00
Indonesia	SBI 3 month	9.75	8.00	7.50	7.00	10-yr government bond	10.35	8.50	8.00	8.00
Japan	3-mth CD rate	0.19	0.51	0.98	1.69	10-yr govt bond	1.74	1.68	2.07	2.78
Korea, Republic of	Uncollateralized call rates (all transactions)	4.19	4.80	5.25	n.a.	Yields of Corporate Bonds : O.T.C (3-year, AA-)	5.17	5.20	5.50	n.a.
New Zealand	90 day bank bill, calendar yr	7.55	8.30	8.18	6.36	10-yr govt bond, calendar yr	5.78	6.25	6.52	6.56
Peru	Interbank average interest rate	4.32	5.00	4.75	4.75	Loans and discounts more than 360 days	n.a.	n.a.	n.a.	n.a.
Philippines	91-day T-bill	5.25	3.39	3.88	n.a.	364-day T-bill	n.a.	n.a.	n.a.	n.a.
Singapore	3-Mth Interbank Rate (End of Period)	3.44	3.50	3.50	3.50	15-Yr Bond Yield (End of Period)	3.40	3.80	3.80	3.80
Chinese Taipei	Interbank overnight rate	1.55	1.98	2.41	2.87	10-yr Gov't Bond	1.98	2.49	2.93	3.28
United States	3-Mth T-bill	4.73	4.55	4.43	4.93	10-Yr T-bond	4.79	4.78	5.18	5.71

T6: Exchange Rates, 2006-2009 (Local Currency Per US\$)

	2006	2007	2008	2009
Australia	1.33	1.19	1.25	1.25
Canada	0.88	1.13	1.18	1.21
Chile	530.28	530.70	n.a.	n.a.
China	7.97	7.41	6.89	6.41
Colombia	2358.96	2091.98	n.a.	n.a.
Ecuador	1.00	1.00	1.00	1.00
Hong Kong, China	7.80	7.80	7.80	7.80
Indonesia	9750.58	9200.00	9200.00	9100.00
Japan	116.31	116.68	112.00	110.00
Korea, Republic of	955.51	920.00	900.00	n.a.
New Zealand	1.54	1.40	1.48	1.60
Peru	3.28	3.12	2.92	2.95
Philippines	51.31	46.47	44.62	n.a.
Singapore	1.65	1.55	1.49	1.45
Chinese Taipei	32.53	32.88	32.38	31.78
United States	1.00	1.00	1.00	1.00

Source: PEO Forecasters.

T7: GDP Deflator Index

GDP Deflator Index					
	Base Year	2006	2007	2008	2009
Australia	2003-04*	110.78	114.54	118.55	119.74
Canada	1997	1.13	1.17	1.20	1.23
Chile	2003	1.30	1.37	n.a.	n.a.
China	2001	114.95	118.66	124.00	129.33
Colombia	1994	3.43	3.54	3.74	n.a.
Ecuador	2000	192.07	199.14	206.04	n.a.
Hong Kong, China	2000	84.93	85.63	87.09	89.02
Indonesia	2000	180.77	192.34	204.08	215.55
Japan	2000	92.60	91.91	92.39	92.95
Korea, Republic of	2000	111.70	113.60	115.87	n.a.
New Zealand	1995/6	1235.07	1272.28	1320.38	1359.60
Peru	1994	191.21	195.64	198.91	202.89
Philippines	1997	472.61	486.68	496.95	n.a.
Singapore	2000	100.15	102.37	104.32	106.61
Chinese Taipei	2001	96.02	96.87	97.33	97.16
United States	2000	116.57	119.59	122.34	125.52

Note: Base year = 100 unless otherwise noted.

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

Source: PEO Forecasters.

T8: Trade Weights, 2004-2006 average (%)

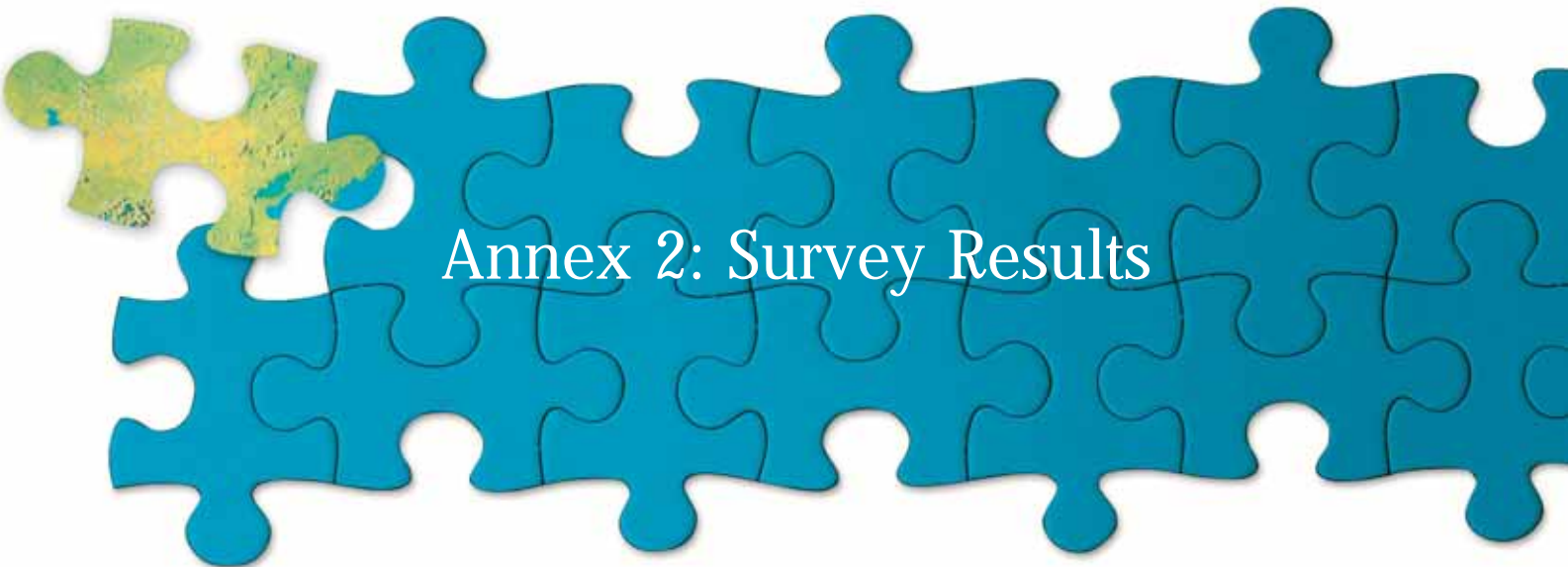
	All countries	Excluding United States and Japan	East Asia	Latin America	Excluding East Asia
Australia	2.69%	4.81%	n.a.	n.a.	6.10%
Canada	7.90%	14.15%	n.a.	n.a.	17.91%
Chile	0.88%	1.57%	n.a.	45.02%	1.99%
China	16.79%	30.04%	30.02%	n.a.	n.a.
Colombia	0.49%	0.87%	n.a.	25.10%	1.11%
Ecuador	0.23%	0.42%	n.a.	11.99%	0.53%
Hong Kong, China	7.00%	12.53%	12.52%	n.a.	n.a.
Indonesia	1.83%	3.27%	3.27%	n.a.	n.a.
Japan	13.13%	n.a.	23.49%	n.a.	n.a.
Korea, Republic of	6.46%	11.57%	11.56%	n.a.	n.a.
New Zealand	0.55%	0.99%	n.a.	n.a.	1.25%
Peru	0.35%	0.62%	n.a.	17.90%	0.79%
Philippines	1.06%	1.90%	1.90%	n.a.	n.a.
Singapore	5.10%	9.14%	9.13%	n.a.	n.a.
Chinese Taipei	4.53%	8.12%	8.11%	n.a.	n.a.
United States	31.01%	n.a.	n.a.	n.a.	70.32%
Total	100.00%	100.00%	100.00%	100.01%	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: Asia Pacific Carbon Dioxide Emissions

	CO2 Emissions (US tons)	GDP US\$bn	Population (millions)	CO2 Emissions per US\$1 million GDP	CO2 Emissions per capita
Australia	226,000,000	890	20.91	253.93	10.81
Brunei	1,467,565	13	0.39	112.89	3.76
Canada	144,000,000	1,406	32.91	102.42	4.38
Chile	23,100,000	161	16.58	143.48	1.39
China	2,680,000,000	3,249	1,320.67	824.87	2.03
Colombia	8,681,825	172	47.52	50.48	0.18
Ecuador	3,050,623	45	13.73	67.79	0.22
India	583,000,000	1,090	1,129.98	534.86	0.52
Indonesia	92,900,000	410	224.94	226.59	0.41
Japan	400,000,000	4,346	127.74	92.04	3.13
Korea	185,000,000	950	48.39	194.74	3.82
Malaysia	61,100,000	165	26.84	370.30	2.28
Mexico	101,000,000	886	105.2	114.00	0.96
Mongolia	5,109,884	4	2.62	1,277.47	1.95
New Zealand	10,600,000	124	4.19	85.48	2.53
Peru	4,623,114	102	28.07	45.32	0.16
Philippines	35,900,000	141	88.71	254.61	0.40
Singapore	20,600,000	153	4.49	134.64	4.59
Chinese Taipei	153,000,000	376	23.08	406.91	6.63
Thailand	76,400,000	226	66.42	338.05	1.15
United States	2,790,000,128	13,794	302.55	202.26	9.22
Vietnam	28,500,000	69	85.59	413.04	0.33

Source: CO2 Emissions Data from CARMA (www.carma.org), Population and GDP data from IMF World Economic Outlook (October 2007 release)



Annex 2: Survey Results

STATE OF THE REGION SURVEY 2007

Section 1: Respondents' Profile

No. of Respondents: 382

Business: 107

Government: 68

Academic/Research: 166

Media: 14

Civil Society: 5

Other: 22

Regional Breakdown

Northeast Asia: 124

Southeast Asia: 104

North America: 57

South America: 46

Australia & New Zealand: 50

No response: 1

Section 2: Regional Outlook

1) Please indicate your view on the economic outlook for the following regions:

	Much stronger	Somewhat stronger	No change	Somewhat weaker	Much weaker	Don't know	Total
Southeast Asia	16%	59%	18%	5%	0%	2%	100%
Northeast Asia	22%	52%	20%	4%	0%	2%	100%
North America	1%	20%	38%	38%	1%	2%	100%
Australia & New Zealand	1%	25%	50%	14%	1%	9%	100%
South America	3%	32%	35%	17%	1%	13%	100%
The Asia Pacific	12%	61%	20%	6%	0%	1%	100%

Risks to Economic Growth

2) How would you rate the following as risks to the Asia-Pacific economic outlook?

Over the next 1-2 years

	Very Low Risk	Low Risk	Moderate Risk	Serious Risk	Very Serious Risk	Don't know	Total
Avian flu and other health pandemics	16%	27%	32%	17%	6%	3%	100%
Natural disasters	9%	25%	34%	24%	5%	2%	100%
Water pollution and shortages	7%	21%	35%	30%	6%	1%	100%
Global warming	11%	24%	29%	26%	10%	1%	100%
High energy prices	2%	10%	28%	42%	18%	2%	100%
Proliferation of preferential trade agreements	14%	26%	36%	18%	4%	1%	100%
Failure of the Doha Development Round	9%	19%	33%	24%	12%	3%	100%
Protectionism	7%	19%	38%	29%	6%	2%	100%
A sharp decline in asset markets (including stock and property prices)	6%	25%	37%	23%	6%	4%	100%
Trans-Pacific current account imbalances	5%	25%	38%	21%	6%	6%	100%
Sharp deterioration in US-China relations	12%	38%	28%	16%	6%	1%	100%
Cross-Strait relations	10%	32%	34%	15%	4%	4%	100%
Terrorist acts	8%	23%	33%	26%	8%	2%	100%

SOTR 2007

Very Serious Risk

1. High Energy Prices (18%)
2. Failure of Doha Development Round (12%)
3. Global Warming (10%)

Very Serious and Serious Risk

1. High Energy Prices (60%)
2. Water Pollution and Shortages (36%), Global Warming (36%) and Failure of Doha Development Round (36%)
3. Protectionism (35%)

Very Low and Low Risk

1. Sharp Deterioration in US-China Relations (50%)
2. Avian Flu and other Health Pandemics (43%)
3. Proliferation of Preferential Trade Agreements (40%)

SOTR 2006

Very Serious Risk

1. High Energy Prices (27%)
2. Failure of Doha Round (13%) and Terrorist Acts (13%)
3. Avian Flu and other Pandemics (12%)

Very Serious and Serious Risk

1. High Energy Prices (69%)
2. Protectionism (39%) and Financial Market Volatility (39%)
3. Terrorist Acts and Policy Responses to Them (37%)

Very Low and Low Risk

1. Proliferation of Preferential Trade Agreements (40%)
2. Cross-Strait Relations (32%) and Major Power Rivalries in the Region (40%)
3. Conflict in the Korean Peninsula (29%)

Over the next 3-5 years

	Very Low Risk	Low Risk	Moderate Risk	Serious Risk	Very Serious Risk	Don't know	Total
Avian flu and other health pandemics	13%	27%	27%	20%	7%	5%	100%
Natural disasters	8%	22%	32%	24%	9%	5%	100%
Water pollution and shortages	4%	13%	26%	37%	15%	4%	100%
Global warming	7%	15%	25%	28%	22%	4%	100%
High energy prices	4%	8%	24%	38%	22%	4%	100%
Proliferation of preferential trade agreements	13%	19%	39%	20%	5%	4%	100%
Failure of the Doha Development Round	7%	15%	35%	25%	13%	6%	100%
Protectionism	6%	18%	31%	34%	8%	4%	100%
A sharp decline in asset markets (including stock and property prices)	4%	18%	39%	24%	8%	8%	100%
Trans-Pacific current account imbalances	3%	19%	40%	22%	7%	9%	100%
Sharp deterioration in US-China relations	9%	27%	30%	24%	6%	4%	100%
Cross-Strait relations	8%	31%	32%	18%	5%	6%	100%
Terrorist acts	6%	21%	31%	26%	11%	5%	100%

SOTR 2007

Very Serious Risk
 1. High Energy Prices (22%) and Global Warming (22%)
 2. Water and Pollution Shortages (15%)
 3. Failure of Doha Development Round (13%)

Very Serious and Serious Risk
 1. High Energy Prices (42%)
 2. Water Pollution and Shortages (41%)
 3. Proliferation of Preferential Trade Agreements (38%)

Very Low and Low Risk
 1. Avian Flu and other Health Pandemics (40%)
 2. Cross-Strait Relations (39%)
 3. Sharp Deterioration in US-China Relations (36%)

SOTR 2006

Very Serious Risk
 1. High Energy Prices (23%)
 2. Water Pollution and Shortages (16%)
 3. Terrorist Acts (13%)

Very Serious and Serious Risk
 1. High Energy Prices (59%)
 2. Water Pollution and Shortages (50%)
 3. Protectionism (41%)

Very Low and Low Risk
 1. Cross-Strait Relations (32%)
 2. Avian Flu and other Health Pandemics (29%) and Major Power Rivalries in the Region (29%)
 3. Conflict in the Korean Peninsula (28%)

Section 3: Asia's Growing Economic Importance and its Global Impact

3) Please indicate your view on the following statements regarding Asia's growing economic importance:

	Strongly agree	Agree	Disagree	Strongly disagree	Don't know	Total
The Chinese economy will be larger than the US economy by 2020.	13%	35%	42%	7%	2%	100%
The Indian economy will be larger than the US economy by 2020.	2%	11%	56%	29%	2%	100%
Chinese outward direct investment will exceed inward direct investment by 2010.	4%	35%	45%	9%	8%	100%
A slowdown in the Chinese economy has greater impact on East Asia than a slowdown in the US economy.	11%	54%	28%	3%	4%	100%
Asian economies should play a bigger role in the governance of multilateral institutions such as the World Bank and the International Monetary Fund.	29%	57%	9%	2%	3%	100%
East Asian economies today are less vulnerable to a regional economic downturn along the lines of the 1997-98 financial crisis.	9%	67%	19%	3%	2%	100%
Asian stock exchanges will account for the majority of global initial public offerings by 2010.	4%	41%	38%	3%	14%	100%
Private consumption will be the engine of growth for Asian economies in the next decade.	12%	68%	15%	2%	3%	100%

Section 4: Regional Economic Integration

4) Please indicate your view on the following statements regarding the degree of regional economic integration in the Asia Pacific.

	Strongly agree	Agree	Disagree	Strongly disagree	Don't know	Total
Asia Pacific economic integration in the last decade has been led by government rather than the private sector.	14%	41%	36%	7%	2%	100%
A Free Trade Area of the Asia Pacific (FTAAP) should be negotiated as soon as possible.	16%	50%	23%	6%	5%	100%
On balance, bilateral free trade agreements promote, rather than hinder, the economic integration of Asia Pacific economies.	13%	64%	15%	3%	4%	100%
India will be an important part of East Asian production networks within the next decade	20%	63%	13%	1%	3%	100%

5) How significant are each of the following impediments to doing business in the Asia Pacific region as a whole?
Please use a scale of 1-5, with 5 representing very significant and 1 being not significant.

	1- not significant	2	3	4	5 - very significant	Don't know	Total
High Tariffs	6%	24%	33%	22%	12%	3%	100%
Lack of physical infrastructure	1%	11%	32%	37%	18%	1%	100%
Uncertain legal environment	1%	10%	27%	36%	25%	1%	100%
Poor intellectual property right protection	2%	10%	26%	41%	20%	1%	100%
Barriers to investment	2%	14%	35%	34%	13%	2%	100%
Complexity of Tariffs and ROOs caused by the proliferation of bilateral PTAs	3%	16%	37%	33%	9%	3%	100%
Security and political concerns	3%	20%	31%	29%	17%	1%	100%
Shortage of qualified labor	4%	20%	38%	27%	10%	1%	100%
Restrictions on the movement of labor	5%	21%	35%	27%	10%	2%	100%
Lack of mutual recognition of standards	2%	14%	36%	34%	12%	2%	100%
Restrictions on the movement of capital	3%	21%	31%	32%	9%	4%	100%
Poor corporate governance	1%	11%	27%	39%	20%	2%	100%

Most Significant Impediments (Choice 4 + Choice 5)

1. Uncertain Legal Environment (61%) and Poor Intellectual Property Rights Protection (61%)
2. Poor Corporate Governance (59%)
3. Lack of Physical Infrastructure (29%)
4. Barriers to Investment (47%)
5. Security and Political Concerns (46%)

Least Significant Impediments (Choice 1 + Choice 2)

1. High Tariffs (30%)
2. Restrictions on the Movement of Labour (26%)
3. Shortage of Qualified Labour (24%)
4. Security and Political Concerns (23%)
5. Complexity of Tariffs and Rules of Origin Caused by the Proliferation of Bilateral Preferential Trade Agreements (19%)

Section 5: Regional Institutions

6) Please rate the following regional groupings in terms of their effectiveness in the following areas, using a scale of 1-5 (5 – highly effective; 1 – not effective; DK – don't know).

ASEAN

	Trade and Investment Liberalization	Trade and Investment Facilitation	Political and Security Dialogue	Economic Cooperation / Technical Assistance	An opportunity for leaders to discuss immediate issues facing their economies	Community Building	Addressing the needs of the business community
Not Effective	7%	4%	5%	5%	3%	4%	8%
Somewhat Effective	20%	16%	16%	19%	8%	16%	20%
Moderately Effective	32%	37%	31%	32%	22%	20%	32%
Effective	23%	21%	25%	23%	34%	32%	20%
Highly Effective	6%	7%	11%	8%	21%	17%	6%
Don't Know	12%	12%	13%	13%	11%	11%	15%

The East Asia Summit

	Trade and Investment Liberalization	Trade and Investment Facilitation	Political and Security Dialogue	Economic Cooperation / Technical Assistance	An opportunity for leaders to discuss immediate issues facing their economies	Community Building	Addressing the needs of the business community
Not Effective	19%	18%	7%	14%	4%	8%	14%
Somewhat Effective	22%	21%	22%	18%	12%	23%	25%
Moderately Effective	25%	30%	27%	32%	26%	29%	27%
Effective	9%	8%	20%	12%	27%	16%	10%
Highly Effective	2%	1%	5%	3%	13%	4%	2%
Don't Know	22%	24%	19%	21%	18%	21%	22%

APEC

	Trade and Investment Liberalization	Trade and Investment Facilitation	Political and Security Dialogue	Economic Cooperation / Technical Assistance	An opportunity for leaders to discuss immediate issues facing their economies	Community Building	Addressing the needs of the business community
Not Effective	10%	5%	10%	6%	3%	12%	9%
Somewhat Effective	26%	21%	24%	20%	14%	23%	21%
Moderately Effective	39%	40%	34%	36%	22%	33%	35%
Effective	14%	22%	18%	23%	35%	16%	26%
Highly Effective	4%	4%	6%	10%	20%	7%	9%
Don't Know	6%	7%	8%	6%	6%	8%	

The ASEAN Regional Forum

	Trade and Investment Liberalization	Trade and Investment Facilitation	Political and Security Dialogue	Economic Cooperation / Technical Assistance	An opportunity for leaders to discuss immediate issues facing their economies	Community Building	Addressing the needs of the business community
Not Effective	28%	26%	4%	19%	10%	11%	24%
Somewhat Effective	19%	16%	16%	18%	14%	20%	14%
Moderately Effective	19%	24%	30%	28%	26%	30%	25%
Effective	8%	8%	24%	9%	21%	12%	9%
Highly Effective	2%	1%	7%	2%	7%	4%	4%
Don't Know	24%	25%	20%	25%	22%	23%	24%

ASEAN+3

	Trade and Investment Liberalization	Trade and Investment Facilitation	Political and Security Dialogue	Economic Cooperation / Technical Assistance	An opportunity for leaders to discuss immediate issues facing their economies	Community Building	Addressing the needs of the business community
Not Effective	9%	10%	8%	7%	3%	9%	10%
Somewhat Effective	21%	19%	21%	18%	14%	20%	21%
Moderately Effective	27%	30%	31%	30%	26%	29%	27%
Effective	19%	17%	16%	21%	27%	17%	16%
Highly Effective	4%	3%	4%	5%	12%	7%	6%
Don't Know	19%	20%	19%	20%	18%	19%	21%

7) Please indicate your opinion regarding the following statements:

	Strongly agree	Agree	Disagree	Strongly disagree	Don't know	Total
The East Asia summit process will eventually overshadow APEC	6%	26%	44%	7%	16%	100%
APEC is as important today as it was in 1989	7%	41%	40%	7%	5%	100%
India should be a member of APEC	9%	51%	24%	7%	9%	100%
The APEC Secretariat should be strengthened by appointing a multi-year fixed-term Executive Director and the recruitment of professional staff	22%	54%	10%	2%	13%	100%

	Total Agree	
	SOTR 2007	SOTR 2006
EAS summit process will eventually overshadow APEC	34%	27%
APEC is as important today as it was in 1989	48%	42%
India should be a member of APEC	60%	61%

8) What are the most important challenges facing APEC as an institution? Please use a scale of 1-5, with 5 representing very important and 1 not important. Please select DK if you are not sure.

	Not Important	Somewhat Important	Mod. Important	Important	Very Important	Don't Know	No Response
Lack of focus on relevant issues	3%	12%	33%	30%	15%	5%	2%
Competition from East Asia Summit	9%	18%	30%	23%	8%	10%	2%
Weak international secretariat	3%	11%	29%	31%	16%	8%	2%
Lack of commitment from key member economies	2%	4%	19%	41%	26%	5%	2%
Lack of relevance to issues facing ordinary citizens	4%	15%	26%	27%	21%	5%	2%
Excessive number of meetings	7%	24%	32%	14%	9%	13%	2%
Limited central budget for APEC activities	4%	12%	30%	25%	15%	13%	2%

SOTR 2007

Very Important

1. Lack of Commitment from Key Member Economies (26%)
2. Lack of Relevance to Issues Facing Ordinary Citizens (21%)
3. Weak International Secretariat (16%)

Very Important and Important

1. Lack of Commitment from Key Member Economies (67%)
2. Lack of Relevance to Issues Facing Ordinary Citizens (48%)
3. Weak International Secretariat (47%)

Not Important and Not Very Important

1. Excessive Number of Meetings (31%)
2. Competition from East Asian Summit (27%)
3. Lack of Relevance to Issues Facing Ordinary Citizens (19%)

SOTR 2006

Very Important

1. Lack of Commitment from Key Member Economies (28%)
2. Lack of Focus on Relevant Issues (25%)
3. Lack of Relevance to Issues Facing Ordinary Citizens (14%)

Very Important and Important

1. Lack of Commitment from Key Member Economies (63%)
2. Lack of Focus on Relevant Issues (55%)
3. Lack of Relevance to Issues Facing Ordinary Citizens (43%)

Not Important and Not Very Important

1. Competition from East Asian Summit (25%)
2. Excessive Number of Meetings (24%)
3. Lack of Relevance to Issues Facing Ordinary Citizens (18%)

9) What do you think should be the top five policy priorities for APEC Leaders to discuss at their upcoming meeting in Sydney?
(Ranking by weighted results)

	Percent of total weight
The WTO Doha Development Round	12%
A Free Trade Area of the Asia Pacific	11%
Managing the proliferation of preferential trade agreements	6%
Strengthening the APEC organization	9%
Trans-Pacific imbalances and exchange rate adjustments	3%
Expansion of APEC membership	2%
Financial system stability	8%
Labor mobility	3%
Protecting intellectual property rights	4%
Energy security	9%
Reducing corruption	5%
Health issues	2%
Investment in physical infrastructure to facilitate trade	5%
Climate change	8%
Terrorism	4%
Reducing costs of business by cutting red tape	6%
Human trafficking	2%

SOTR 2007 (weighted) Respondents were asked to rank the top 5 of 16 policy priorities for APEC Leaders to discuss in Sydney.	SOTR 2006 (weighted) Respondents were asked to rate the importance of 12 policy priorities on a scale of 1-5.
Top 5 Policy Priorities 1. WTO Doha Round 2. FTAAP 3. Energy Security 4. Strengthening the APEC Organization 5. Climate Change	Top 5 Policy Priorities 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



Annex 3: Pacific Economic
Outlook Forecasters

Pacific Economic Outlook Forecasting Panel, 2007-2008

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