

2008 Economic Outlook for East Asia

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ABSTRACT

This economic outlook aims to faithfully reflect both theory and reality, by using a “macro-econometric model” – a method of analysis that maintains consistency with both economic and statistical theory – as well as links with IDE country specialists, who observe the current affairs of the economies they focus on, and also overseas local research institutes in the economies surveyed.

External Conditions

- (1) The sub-prime mortgage financial crisis is likely to head toward resolution in the latter half of 2008, and its effect on the real economy of the U.S. is expected to be limited. In 2008, the economies of the U.S., Japan and Europe will slow.
- (2) Due to the uncertainty in the financial market, investment funds are flowing into the commodities markets. In the latter half of 2008, these funds are forecast to return to the financial market, and the price of crude oil for 2008 as a whole to hover at approximately 80 dollars per barrel.
- (3) Asian currencies are appreciating following the movement away from the dollar. It is assumed that this trend will continue in 2008.
- (4) There will be little room for a continued fall in the price of IT-related products, which decreased in 2007.

The East Asian Economies in 2007

- (1) The Chinese economy is predicted to grow by 11.5%, accelerating from 2006, led by continued solid investment and exports. The inflation rate of general prices is predicted to be 3.4%.
- (2) The Asian NIEs have shown a general tendency for slow-growing external demand to give way to domestic demand as the support for the economy. The combined growth rate of the four NIEs as a whole in 2007 is predicted to be 5.4%, a rate 0.1 percentage point lower than in 2006. The combined inflation rate of general prices is predicted to be 1.4%.

- (3) Among the ASEAN 5, the Indonesian economy has been buoyed by a recovery of investment, and the economy of Thailand has been influenced by the stagnation of domestic private demand caused by the chaotic political situation. The economies of Malaysia and the Philippines have been underpinned by domestic demand, while the Vietnamese economy has been fueled by the expansion of the industrial and service sectors. The combined growth rate of the ASEAN 5 as a whole in 2007 is predicted to be 6.0%, a rate 0.4 percentage point higher than in 2006. The combined inflation rate of general prices for the ASEAN 5 is predicted to be 5.0%.
- (4) Boosted by the accelerating growth in the Chinese economy and ASEAN 5, the East Asian economy as a whole in 2007 is predicted to accelerate to 8.7%. The combined inflation rate of general prices for the East Asian economy as a whole is predicted to be 3.1%.

Economic Forecasts for East Asia in 2008

- (1) The Chinese economy, led by domestic demand, is forecast to grow by 10.6% in 2008, posting a double-digit rate for the sixth consecutive year. The inflation rate of general prices for the year is forecast to be stable at 3.2%.
- (2) Among the Asian NIEs in 2008, Singapore's exports will pick up. The other three economies will see slowing expansions of external demand, caused by the slowing growth of the advanced economies and the Chinese economy, and will be underpinned by domestic demand. The combined growth rate of the Asian NIEs as a whole in 2008 is forecast to be 5.0%, a rate 0.4 percentage point lower than in 2007.
- (3) Among the ASEAN 5, the economies of Thailand and Malaysia are forecast to develop steady domestic demand. The Indonesian economy is forecast to enjoy thriving expansions of both domestic and external demand. The Philippine economy will see slowing growth of domestic and external demand. The Vietnamese economy is forecast to accelerate further in 2008. The combined growth rate of the ASEAN 5 as a whole in 2008 is forecast to be a stable 6.1%. Their combined inflation rate of general prices in 2008 is forecast to be 5.0%, unchanged from the 2007 rate.

(4) The East Asian economy as a whole in 2008 is forecast to continue posting a brisk growth rate of 8.2%, though at a slower rate than the 8.7% registered in 2007. The combined inflation rate of the East Asian economy as a whole in 2008 is forecast to remain stable at 3.2%.

Table 1. Forecasts for GDP Growth Rates and Inflation Rates in East Asia, 2007 and 2008

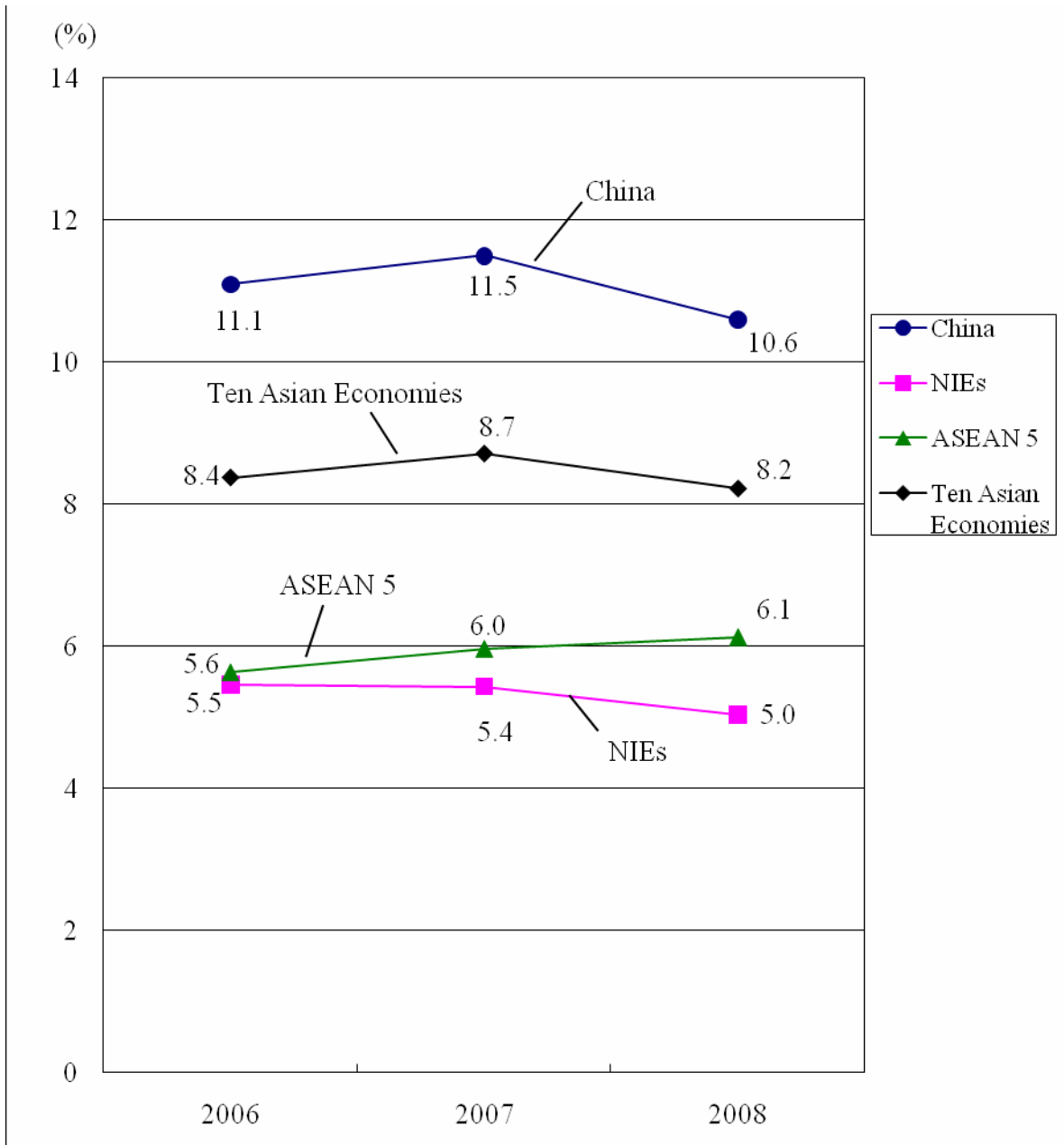
(%)

	GDP Growth (in real terms)			Inflation Rates (measured by GDP deflator)		
	2006	2007	2008	2006	2007	2008
China	11.1	11.5	10.6	3.2	3.4	3.2
South Korea	5.0	4.9	5.0	-0.4	1.6	2.5
Taiwan	4.9	5.4	4.4	-1.0	0.2	0.8
Hong Kong	6.8	6.0	5.3	-0.1	2.1	2.4
Singapore	7.9	7.9	6.6	0.2	2.5	2.2
Asian NIEs	5.5	5.4	5.0	-0.5	1.4	2.1
Indonesia	5.5	6.2	6.4	13.7	6.7	6.6
Thailand	5.0	4.6	5.0	5.0	4.2	4.0
Malaysia	5.9	5.7	5.8	4.6	2.2	2.4
Philippines	5.5	6.7	6.3	5.2	2.9	3.3
Vietnam	8.2	8.4	8.7	7.3	8.6	8.1
Five ASEAN Countries	5.6	6.0	6.1	8.5	5.0	5.0
Ten Asian Economies	8.4	8.7	8.2	3.0	3.1	3.2

Notes:

- 1. The figures for 2006 are actual and those for 2007 and 2008 are forecasts.*
- 2. The Asian NIEs are comprised of South Korea, Taiwan, Hong Kong and Singapore; the Five ASEAN countries consist of Indonesia, Thailand, Malaysia, the Philippines, and Vietnam; and the Ten Asian Economies are composed of China and these two groups.*
- 3. The GDP growth and inflation rates of each group are based on a weighted average of those corresponding economies based on the 2006 GDP (U.S. dollar denominated). The composition ratio of the various countries and regions is as follows: China 52.4%, South Korea 15.9%, Taiwan 7.3%, Hong Kong 3.8%, Singapore 2.6% (a total of 29.6% for the NIEs), Indonesia 7.3%, Thailand 4.1%, Malaysia 3.1%, the Philippines 2.3%, Vietnam 1.2% (a total of 18.1% for the ASEAN 5).*

Figure 1. Forecasts for GDP Growth Rates in East Asia



OVERVIEW

The Institute of Developing Economies (IDE-JETRO) has developed and maintains macro-econometric models for a total of ten economies – China, four East Asian NIEs (South Korea, Taiwan, Hong Kong Special Administrative Region [abbreviated hereafter as Hong Kong], and Singapore), and five ASEAN countries (Indonesia, Thailand, Malaysia, the Philippines, and Vietnam, hereafter abbreviated as the ASEAN 5).¹ The Institute is also undertaking joint studies with research institutions in all these countries and regions, with the purpose of improving these macro-econometric models and forecasting based on these models. The present economic outlook outlines the estimated performance of the ten East Asian economies in 2007 and the forecasts for their performance in 2008, which were obtained using these macro-econometric models.

I. External Conditions (2007 and 2008)

The Advanced Economies

The U.S. economy posted a growth rate of 2.9% in 2006, but since the middle of 2007 when the sub-prime mortgage financial crisis erupted, it has been troubled by a loss of public trust in the financial market. Contrary to the widely-circulated prediction that the increasing volatility of the financial market would have only a limited effect on the real economy, it is already adversely affecting domestic economic activities, mainly investment in housing construction and private consumption. The Federal Reserve Board (FRB) cut the fed funds target rate, a policy rate, several times beginning in September. It also repeatedly intervened in the short-term fund market and carried out buying operations there, out of concern that the shaky financial market would lead to an economic downturn. In 2007, the U.S. economy is expected to post a growth rate of about 2%. Although the FRB is predicting that the economy will begin to pick up beginning in the middle of 2008, this has not yet fully eliminated the lack of confidence in the financial market. In 2008, the U.S. economy is predicted to grow at a rate between 1.5% and 2%, decelerating from 2007.

¹ The macro-econometric models of the ten countries and regions can be broken down into three different types: a) demand oriented models (China, South Korea, Taiwan, Hong Kong, Indonesia, Thailand, Malaysia, and the Philippines); b) a supply oriented model (Vietnam); and a monetarist model (Singapore). For the estimated and forecast values of the countries and areas described by econometric models of the demand oriented type, rates of changes for different demand components are summarized in the Appendix tables.

The Japanese economy, which grew by 2.2% in 2006, is expected to grow by a slightly lower rate of approximately 2% in 2007, given the prospect that private consumption, which stagnated in 2006, is rallying, while investment, especially in private housing construction, is slowing. Given the expectation that Japan's exports to Asia will continue to be relatively strong in 2008, but that the U.S. economy may stagnate under the effect of the sub-prime mortgage problems, the Japanese economy in 2008 is predicted to grow at a rate between 1.5% and 2%, decelerating from the 2007 rate.

The European economy (encompassing the euro area) is expected to post a growth rate between 2.5% and 3% in 2007, led by thriving exports to Eastern Europe and China, in addition to brisk intra-bloc trade. In 2008, given the uncertainty regarding the U.S. economy, coupled with risk factors such as the euro's appreciation and hikes in energy prices, the European economy is predicted to maintain a growth rate of around 2.5%, slowing slightly from the 2007 rate.

Given the fact that the surge of the prices of crude oil that continued for several years has not directly led to sharp upswings in inflation rates in the advanced economies, the United States, Japan, and Europe are not predicted to see sharp increases in general prices take place either in 2007 or 2008.

Performance of IT-related Industries

After rebounding from a serious IT recession in 2001, the world market for semiconductors has been slowly expanding, though there have been ups and downs. The demand for semiconductors in 2007 has increased slightly, underpinned by solid demand for electronic products such as personal computers, mobile phones, and digital TVs. Global IT-related industries are expected to post mild growth rates in 2007 and 2008.

On the other hand, prices of DRAMs and other component parts have plummeted due to excess supply. Consequently, the price of IT-related products in 2007 is likely to drop by a larger margin than in 2006, but little room is predicted to be left in 2008 for a further price decline.

Price of Crude Oil

The price of crude oil measured in terms of the average of the prices of three varieties of crude oil (West Texas Intermediate [WTI], U.K. Brent, and Dubai), after rising by 41% in 2005, picked up by an additional 20% in 2006, averaging 64 dollars per barrel for the year as a whole. Crude oil prices fell for a short time in the first quarter of 2007, but continued

to shoot up as the year progressed. The average crude oil price for the first eleven months of 2007 stood at 69 dollars per barrel, but is expected to continue to fluctuate irregularly at a high level, in response to large inflows of speculative funds into the crude oil market and other factors. The average crude oil price for 2007 as a whole is expected to be between 70 and 75 dollars per barrel, a figure 11% higher than the 2006 price. The chaotic fluctuations that characterized the price at one point have calmed, but given the fact that a decision to boost crude oil production was put off at the OPEC meeting in December 2007, it is assumed that the upsurge of crude oil prices will continue into the early part of 2008, when the northern hemisphere enters the winter season. The average crude oil price for 2008 as a whole is expected to hover around 80 dollars per barrel.

The Exchange Rate between the Yen and the Dollar

At the beginning of 2007, the yen's exchange rate against the U.S. dollar stood at a monthly average of 120.6 during January. Subsequently, the yen has appreciated, gaining momentum especially since September, primarily reflecting a series of cutbacks in the U.S. policy rate that were carried out to allay fears of an economic recession. The yen's exchange rate against the U.S. dollar for 2007 as a whole is expected to be around 118, depreciating by approximately 1% from the 2006 rate of 116.3. In 2008, the yen's exchange rate is expected to remain on an appreciating trend, reflecting the prospect of further cuts in the U.S. interest rate. Given, however, the prospect that the U.S. economy will rally back in the latter half of the year, the yen's exchange rate against the U.S. dollar for 2008 as a whole is expected to be around 112, appreciating by 5 to 6% from the 2007 rate.

II. The East Asian Economies in 2007

The United States' Imports from East Asia

Table 2 and Figure 2 summarize U.S. imports from East Asia in the January-September period of 2007, when total U.S. imports from the area increased by 3.9% over the same period one year earlier, a significantly lower rate than the annual growth rate of 10.8% posted in 2006. One factor underlying the sluggish U.S. imports is that many Asian currencies are appreciating against the U.S. dollar.

Imports from China in the nine-month period expanded by 13.5% over the same period one year earlier, a rate 4.7 percentage points lower than the rate of increase in 2006 as a whole.

U.S. imports from the four East Asian NIEs increased by 1.3% in the January-September period of 2007 over the same period one year earlier, decelerating from the 7.0% growth registered for 2006 as a whole. U.S. imports from Hong Kong, which already posted a negative growth rate in 2006, decreased by a large margin of 22.2% in the first quarter of 2007 over the same period one year earlier, and imports in the January-September also contracted by 16.2%. This decline seems to suggest that the tendency for Mainland China's direct exports to the United States to expand, bypassing Hong Kong, is gaining further momentum.

Among U.S. imports from the ASEAN 5 in the January-September period of 2007, it is notable that those from Vietnam, where industrialization is proceeding apace, increased by a significant margin of 20.4%. By contrast, imports from Thailand, Malaysia, and the Philippines, whose currencies are on an appreciating trend, either slowed sharply or decreased in the same nine-month period.

Consequently, total U.S. imports from the ASEAN 5 in the same nine-month period decreased by 1.6% over the same period one year earlier, falling sharply from the 11.3% growth rate for 2006 as a whole. This decline seems to suggest that many foreign-invested firms, which have shifted their manufacturing operations from the East Asian NIEs to China, are now doing the same with their manufacturing bases in the ASEAN 5, and this tendency is bound to gain further momentum.

Japan's Imports from East Asia

Table 3 and Figure 3 show changes in Japan's U.S. dollar-denominated imports from East Asia.

Japan's imports from China increased by 8.0% in the January-October period of 2007, decelerating slightly from the 9.2% annual growth rate for 2006.

Japan's imports from the East Asian NIEs decreased by 2.7% in the same ten-month period, shrinking by a large margin from the 11.6% increase rate for 2006 as a whole. Imports from Hong Kong, in particular, have fallen significantly, revealing that, as in the case of U.S. imports from Hong Kong, direct imports from Mainland China are increasingly coming to replace indirect imports from China that used to come through Hong Kong. The value of Japan's imports from Singapore (i.e., the unit price multiplied by the quantity) fell below the 2006 level, reflecting the declining prices of electronic products. The South Korean won has appreciated against both the U.S. dollar and Japanese yen, with the result that South Korea is losing its competitive edge in liquid crystal devices (LCDs) that are in direct competition with Japan. These products seem to have led the decrease in Japan's imports from South Korea.

As for Japan's imports from the ASEAN 5 in the same ten-month period, those from Malaysia expanded by double-digit rates, while those from the remaining four countries also rose. Those from Indonesia and Vietnam increased by double-digit figures in the previous year, but slowed in the first ten months of 2007. Japan's total imports from ASEAN 5 as a whole in the same ten-month period grew by 9.1%, a slightly deceleration from the 9.9% annual growth rate for 2006 as a whole.

In contrast to U.S. imports from Malaysia and the Philippines, which are declining, Japan's imports from the two countries are expanding by large margins.

Japan's total imports from East Asia as a whole grew by 5.8% in the same ten-month period, a rate 4.1 percentage points lower than the annual growth rate registered in 2006.

Changes in the Inflows of Foreign Direct Investment into China and ASEAN

Table 4 and Figure 4 summarize changes in the values of FDI approvals by China and the ASEAN 5. The value of FDI approvals granted by the ASEAN 5 in 1997 was slightly higher than that granted by China. Beginning in 1998, when the value of FDI approvals granted by China overtook those by the ASEAN 5, the latter figure has nearly leveled off. FDI inflows into China have continuously increased, growing especially sharply since 2002, and expanding by 2006 to more than four times the value of total FDI inflows into the ASEAN 5.

Developments in East Asia's U.S. Dollar-Denominated Exports

Table 5 shows the growth rates of the U.S. dollar-denominated exports of goods of East Asian countries and regions in the January-October period of 2007 (the figures for Hong Kong and the Philippines are for January-September, and for South Korea are for January-November).

Among the East Asian countries and regions, only Hong Kong saw its exports (both total exports and re-exports) in the same period grow by rates higher than the annual export growth rates for 2006 as a whole, while the remaining economies saw their exports grow by rates smaller than the annual rates registered in 2006. The Malaysian and Philippine currencies appreciated by more than 6% and more than 9%, respectively, in the above period over the same period one year earlier, putting a brake on the expansion of their respective exports. By contrast, Thailand, despite an approximate 10% appreciation of the baht in the same period, managed to maintain export growth at a rate comparable to that for 2006, under the effect of falling export prices.

In the same period, China's exports continued to increase at a brisk rate of 26.5%,

though slowing by 0.7 percentage point from the annual growth rate for 2006 as a whole.

Exports of the Asian NIEs in the above-mentioned period, except for those of Hong Kong, increased by rates lower than their respective rates in 2006 as a whole. The slowing growths of the three remaining NIEs' exports seem to have been caused at least partly by falling prices of electronic products, which hold large shares in their exports.

The figures for the ASEAN 5 in the same period of 2007 all increased at slowed rates. In particular, the growth rate of Malaysia's and the Philippines' exports in the above period fell short of their respective annual growth rates for 2006 as a whole, by 5 and 10 percentage points, respectively.

Real-term Exports of East Asia (2007)

Taking into account the trends in U.S. dollar-denominated exports of the East Asian countries and regions (Table 5), currencies' exchange rates against the U.S. dollar (Table 6), exports of services, and other factors, the expected growth rates of real-term exports of these countries and regions in 2007 (namely, exports of goods and services, denominated in the respective local currencies, with Singapore's exports representing only domestic exports of goods) are shown in Table 7.

In 2007, the real-term exports of all the countries and regions of East Asia are expected to grow by rates smaller than in 2006, with the exception of those of China, which are expected to grow by the same rate as in 2006, and those of Indonesia, which are expected to grow at a rate slightly higher than the 2006 rate. The exports of China, South Korea, and Vietnam are expected to register double-digit growth rates in 2007.

Led by Thriving Investment, China's Economy Is Predicted to Grow by 11.5%, Registering an Above-11% Growth Rate for the Second Consecutive Year

Despite the fact that the Chinese government is taking steps to raise export taxes and to curb investment activities in response to growing concern over the excessive growth rates of exports and investment, both exports and investment are growing by large margins. China's exports in 2007 are predicted to remain brisk, growing by 18.5%, the same rate as in 2006. Investment is predicted to grow by 15.3%, accelerating from the 2006 rate.

However, given the fact that imports are also predicted to grow by a rate approximately 3 percentage points higher than in 2006, net external demand (exports minus imports) has expanded by a slower rate than in 2006. Consequently, in 2007 the Chinese economy has been supported primarily by domestic investment, which had made up for a slowing expansion of net external demand, and is predicted to register a

growth rate of 11.5%, further accelerating from the 2006 rate of 11.1%, and posting an above-11% growth rate for the second consecutive year. Reflecting the accelerating economic growth, the rising prices of raw materials and crude oil, and other factors, the inflation rate of general prices in 2007 is predicted to be 3.4%, a rate slightly higher than in 2006.

Under the Effect of Increasingly Solid Domestic Demand, the South Korean Economy Is Predicted to Grow by 4.9% Despite Slowing Growth of External Demand

In 2007, South Korea's exports are predicted to grow at a slower rate than in 2006, under the effect of slowing growth in the advanced economies and the appreciation of the won, but private consumption is predicted to grow smoothly, reflecting the steady improvement of the employment environment and rising wages brought about by favorable performance among private firms. Despite the upcoming presidential election, private firms in sectors such as metal, electric appliances, and shipbuilding, have remained bullish about investments in machinery and equipment. While investment in housing construction has stagnated under the government policy to calm the overheated real estate market, investment in non-residential buildings remains solid, with the result that total investment in 2007 is predicted to grow by a higher rate than in 2006.

South Korea's exports are expected to continue increasing by a double-digit growth rate of 10.0% in 2007, while slowing 2.4 percentage points from the 2006 rate. Under the effect of the slowing export growth, imports are predicted to grow at a somewhat sluggish rate, 1.6 percentage points lower than in 2006. Consequently, the South Korean economy in 2007 is predicted to grow by 4.9%, a rate 0.1 percentage point lower than in 2006. Reflecting the rising import prices of crude oil and raw materials, and rising wages, the inflation rate of general prices is predicted to rise to 1.6%.

Taiwan's Economy Is Predicted to Grow at a Stable Rate of 5.4%, Sustained by Solid Domestic Demand

Taiwan's domestic demand in 2007 has remained solid. Considering that the credit crunch problem that surfaced in 2006 as a result of increasing credit card delinquencies is being shaken off, private consumption is predicted to grow by 2.8%, rallying back at a faster pace than in 2006. Private investment is also faring well, centered on investment in IT-related industries. Taiwan's exports to China and Hong Kong remain solid, though growing by a lower rate than in 2006, but exports to the United States have begun to decline. Given the fact that real exports in 2007 are

expected to grow by a slowing growth rate of 7.2%, a rate more than 3 percentage points lower than in 2006, Taiwan's economy is predicted to register a growth rate of 5.4%, a rate higher than the 2006 rate of 4.9%, underpinned by solid domestic demand. Reflecting the rising prices of raw materials and the weakening of the New Taiwan dollar, the inflation rate of general prices is predicted to be 0.2%, increasing from the -1.0% rate registered in 2006.

Hong Kong's Economy Is Predicted to Slow in 2007, Though to Be Underpinned by Solid Domestic Demand

Reflecting the favorable economic performance in Mainland China, Hong Kong's exports of goods and services are faring well in 2007, but the growth rate of total exports is predicted to slow slightly from the 2006 rate. On the other hand, rising real wages brought about by the improved employment environment and other factors have boosted private consumption. Investment is predicted to grow by more or less the same rate as in 2006, led mainly by construction investment.

In 2007, the Hong Kong economy, though underpinned by solid domestic demand, has suffered from the effects of slowing growth of external demand and is predicted to grow by 6.0%, a rate 0.8 percentage point lower than in 2006. Under the inflationary pressures from both domestic factors, such as rising wages and expanding consumption, and external factors including the rising prices of crude oil, the inflation rate of general prices is predicted to turn into a positive rate of 2.1% from the negative rate of -0.1% posted in 2006.

In 2007, Singapore's Economy Is Predicted to Grow by 7.9%, Led by Brisk Private Domestic Demand

Singapore's economy, buoyed by the favorable performance of the private sector, is predicted to post a high growth rate of 7.9% in 2007, in succession to 2006. Boosted by rising wages, private consumption is predicted to grow by a rate almost twice as high as in 2006. Given the fact that construction investment is thriving with several large-scale construction projects under way, private investment is predicted to post an above-20% growth rate, further outstripping the impressive rate registered in 2006.

By contrast, exports, which have acted as the driving engine for Singapore's economic growth, are expanding at a slowing rate. The Singapore economy in 2007 is predicted to grow by 7.9%, maintaining the same high rate as in 2006. The inflation rate of general prices is predicted to rise from the 2006 rate of 0.2% to 2.5%, under the effect of factors such as the continuing economic expansion and the hike in the goods

and services tax implemented in mid-2007.

The Asian NIEs as a Whole Are Predicted to Grow by 5.4% in 2007, Slowing by 0.1 Percentage Point from 2006

With exports of all the Asian NIEs growing at slowing rates in 2007, their respective growth rates for the year are predicted to be lower than in 2006. In each of the Asian NIEs, domestic demand remains solid, underpinning the economy. The combined growth rate of the Asian NIEs in 2007 is predicted to be a stable 5.4%, a rate 0.1 percentage point lower than in 2006. Unlike in 2006, when all the Asian NIEs with the exception of Singapore posted negative inflation rates of general prices, the four NIEs are predicted to see positive rates, mainly reflecting the rising prices of crude oil and raw materials. The combined inflation rate of general prices in the Asian NIEs as a whole in 2007 is predicted to be 1.4%, rising from the -0.5% registered in 2006.

Indonesia's Economy in 2007 Is Predicted to Grow at a Stable Pace, with Inflation Falling into the Single Digits

After registering a high above-13% inflation rate in 2006, Indonesia has seen the inflationary spiral quiet down in 2007, stimulating private consumption to rally. With domestic investment also picking up rapidly, domestic demand is thriving. The economy is predicted to post a stable growth rate of 6.2% in 2007. Given the fact that the impact of the rise in fuel prices in October 2005 had already run its course, the inflation rate of general prices in 2007 is predicted to be 6.7%, a rate half as high as in 2006.

In 2007, the Thai Economy Is Predicted to Grow by a Rate Lower Than in 2006, Under the Effect of Flagging Domestic Demand Caused by a Chaotic Political State

The growth rate of Thailand's domestic demand is predicted to slow in 2007, under the effect of the political chaos brought about by the coup d'état, which has led to delays in FDI implementation and dampened Thai and foreign firms' investment sentiment. Though the coup also had the effect of carrying forward a portion of the government budget earmarked for the latter half of 2006 into 2007, raising the growth rate of government consumption in 2007, total domestic demand in the year is predicted to grow at a slowed rate. The growth rate of exports is also predicted to fall short of the 2006 rate. Consequently, the Thai economy in 2007 is predicted to post a 4.6% growth rate, a figure 0.4 percentage point lower than in 2006. The inflation rate of general prices, under the effect of rising prices of raw materials in the latter half of the year and other factors, is predicted to be 4.2%.

The Malaysian Economy Is Predicted to Grow by 5.7% in 2007, Underpinned by Domestic Demand

Private investment, which began to rally in 2006, is expected to further accelerate its pace of recovery in 2007, while private consumption will also remain brisk, posting above-7% growth. Government expenditures are also expanding with the launching of the Ninth Malaysia Plan (the 9th five-year plan, abbreviated as 9MP), boosting domestic demand further and compensating for the slowing growth of exports, which is predicted to grow by a rate half as high as in 2006. Consequently, the Malaysian economy in 2007 is predicted to grow by 5.7%, a rate 0.2 percentage point lower than in 2006, as expanding domestic demand makes up for the slowing growth of external demand. Given the fact that both import and export prices have remained stable, under the effect of both the strong ringgit and sizeable decreases in the prices of IT-related products, which offset the surges in the prices of raw materials, the inflation rate of general prices is predicted to be a stable 2.2%, declining from the 2006 rate of 4.6%.

The Philippine Economy Is Predicted to Grow at an Accelerating Rate in 2007, Led by Expanding Domestic Demand under the Stimulus of Fiscal Rehabilitation

Private consumption, which accounts for nearly 80% of the Philippines' GDP, is expanding steadily in 2007, sustained by a solid increase in remittances from migrant workers overseas. On the other hand, consequent upon tax system reform and other factors that have helped rehabilitate the government's public finances, bringing about an appreciation of the peso, stabilizing the import price, and thereby pushing down the inflation rate and the interest rate, private investment has been expanding. In 2007, the Philippine economy is predicted to grow by 6.7%, a rate 1.2 percentage points higher than in 2006, led mainly by expanding domestic demand, which has compensated for the slowing export growth. The inflation rate of general prices is predicted to be 2.9%, a lower rate than in 2006 under the effect of the peso's appreciation, which has helped to stabilize the import price.

In 2007, the Vietnamese Economy Is Predicted to Continue Posting a High Growth Rate, Led by Expansions in the Industrial and Service Sectors

Investment by foreign-invested firms and privately owned domestic firms is thriving. Given the expectation that Vietnam's accession to the World Trade Organization at the beginning of 2007 will induce it to improve its investment environment and to open up its market, inflows of foreign capital are expected to continue expanding. In addition to the industrial sector which is predicted to continue

expanding in 2007 by an above-10% growth rate in succession to 2006, the service sector is also predicted to perform well, continuing to grow by an above-8% growth rate in succession to 2006. Consequently, in 2007 the Vietnamese economy is predicted to continue posting a high growth rate of 8.4%, a figure 0.2 percentage point higher than in 2006. Reflecting the rising prices of foodstuffs, construction materials, and others, the inflation rate of general prices is predicted to be 8.6%, a rate higher than in 2006.

In 2007, the ASEAN 5 Are Predicted to Grow by a Combined Growth Rate of 6.0%, Accelerating from the 2006 Rate

The economies of the ASEAN 5, with the exception of those of Thailand and Malaysia, are predicted to grow at accelerating rates in 2007. The combined growth rate of the ASEAN 5 as a whole in 2007 is predicted to be 6.0%, accelerating by 0.4 percentage point from the 2006 rate. On the other hand, given the fact that the inflation rates in the four countries other than Vietnam are predicted to decrease, and considering in particular the fact that Indonesia with its large-sized economy is predicted to become free from double-digit inflation rates, the combined inflation rate of general prices in ASEAN 5 is predicted to slow to 5.0%, a rate 3.5 percentage points lower than in 2006.

Boosted by the Accelerating Growth of the Chinese and ASEAN Economies, the East Asian Economy as a Whole Is Predicted to Grow by 8.7%, a Rate Higher than in 2006

Growth in the NIEs will decelerate by 0.1 percentage point from the rate posted in 2006, but given the fact that the growth rate of the Chinese economy, whose GDP accounts for more than half the combined GDP of the East Asian economies, is predicted to be 0.4 percentage point higher than the 2006 rate, and that the combined growth rate of ASEAN 5, which together account for approximately 20% of the East Asian economies as a whole, is predicted to be 0.4 percentage point higher than the 2006 rate, the combined growth rate of the East Asian economy as a whole is predicted to be 8.7%, a rate 0.3 percentage point higher than in 2006. The combined inflation rate of general prices is predicted to be 3.1%, rising by 0.1 percentage point from the 2006 rate.

III. Economic Forecasts for East Asia in 2008

Expected Real-Term Exports of the East Asian Economies in 2008

The expected real-term exports of the East Asian economies for 2008 are shown in the last column of Table 7. While those of China are expected to continue growing by a double-digit rate, though slowing from the 2007 rate, those of South Korea, Taiwan, Hong Kong and the Philippines are expected to grow by lower rates than in 2007. Those of Singapore, Indonesia, Thailand and Malaysia are expected to accelerate from their respective 2007 rates, but only by small margins. Those of Vietnam are expected to accelerate by 1 percentage point, and to continue to post a double-digit growth rate.

The Chinese Economy Will Grow by 10.6% in 2008, Posting a Double-Digit Growth Rate for the Sixth Consecutive Year

The Chinese government, under its new leadership, is expected to continue implementing measures to restrain overheating investment in an effort to steer the economy into a growth path characterized by a better balance between consumption, investment, and external demand. However, corporate enthusiasm for investment will remain strong, and the measures will only have a limited effect. Given, moreover, the ongoing project for the Shanghai Expo 2010, total investment including public investment in 2008 is expected to grow by a high 15.3%, the same rate as in 2007. Under the effect of the slowing growth in the advanced economies, China's exports will also decelerate, but both exports and investment are forecast to continue to post double-digit growth rates. Given the prospect that the contribution of net external demand to economic growth will further decrease from the 2007 level, while domestic demand will remain brisk, the Chinese economy in 2008 is forecast to slow to a 10.6% growth rate, but to nonetheless attain a double-digit rate for the sixth consecutive year. The inflation rate of general prices is forecast to remain stable at 3.2%.

The Economy of South Korea Will Grow by 5.0% in 2008, Underpinned by Domestic Demand Despite Slowing Growth of External Demand

The expansion of South Korea's exports will fade in 2008 under the effect of the faltering growth in the advanced economies and the won's continuing appreciation. Reflecting the slowing growth of exports and rising import prices of raw materials, the growth rate of imports is also forecast to decrease. Nonetheless, given the prospect that the strong won will bring a lower import price, import growth will slow by a smaller

margin than that of exports. Among the components of domestic demand, private consumption will grow by an increasing pace, while construction investment will expand, led mainly by the public sector's construction products for the relocation of administrative functions and for building regional core cities. The South Korean economy in 2008 is forecast to grow by 5.0%, a rate slightly higher than in 2007. The inflation rate of general prices is forecast to rise slightly to 2.5%.

The Economy of Taiwan Will Post a Subdued Growth Rate of 4.4% in 2008, Under the Effect of Slowing Growth of External Demand Despite Solid Domestic Demand

In 2008, Taiwan's domestic demand will continue to be solid, with private consumption expanding at an accelerating rate, and investment also growing primarily in the private sector. Consequently, imports of consumer goods and intermediate products will increase. However, under the effect of the slowing growth of the world economy, mainly in the advanced economies, Taiwan's exports are forecast to grow by a rate slightly lower than in 2007. Consequent upon the decreasing growth rate of net external demand, Taiwan's economy in 2008 is forecast to grow by 4.4%, a rate lower than in 2007. The inflation rate of general prices is forecast to rise from the previous year's rate to 0.8%, reflecting the surging prices of raw materials and the weakening of the New Taiwan dollar.

In 2008, Hong Kong's Growth Will Decelerate in Succession to 2007

The growth rate of Hong Kong's exports is expected to decrease in 2008 in succession to the previous year, under the effect of the slowing growth in the Chinese economy and the advanced economies. Looking at the components of domestic demand, investment will remain solid as the interest rate is expected to decrease, while private consumption will grow by a decelerating rate, reflecting the slowing rate of increase in real wages caused by the emergence of a positive inflation rate. Hong Kong's economy in 2008 is forecast to grow by 5.3%, continuing its slowdown from the previous year, with a rate 0.7 percentage point lower. The inflation rate of general prices, after rebounding to a positive rate in 2007, is forecast to remain positive at 2.4%, picking up by 0.3 percentage point from the 2007 rate, under the effect of the surging price of crude oil and the rising prices of foodstuffs in Mainland China.

Singapore's Economy Will Grow by a Solid Growth Rate of 6.6% in 2008, Though Slowing from the 2007 Rate

Singapore's exports in 2008 will head toward recovery, centered on IT-related products, chemical products, and pharmaceuticals. Among the components of domestic

demand, on the other hand, private investment is forecast to decelerate from the double-digit growth rates attained for two consecutive years in 2006 and 2007. Consequently, Singapore's economy is forecast to post a solid growth rate of 6.6%, though to slow down by 1.3 percentage points from the 2007 rate.

In 2008, the Asian NIEs as a Whole Will Post a Steady Growth Rate, Though Lower than the 2007 Rate

With the exception of South Korea, which will grow at a rate 0.1 percentage point higher than in 2007, the Asian NIEs will grow at decelerating rates in 2008, slowing by 0.7 to 1.3 percentage points from the rates in the previous year. In the face of slowing expansions of external demand caused by lower growth in China and the advanced economies, the economy of Hong Kong will be supported by investment, while those of South Korea and Taiwan by private consumption and investment. The Asian NIEs as a whole are forecast to grow by a steady combined rate of 5.0%, even though this is 0.4 percentage point lower than the 2007 rate of 5.4%. On the other hand, the combined inflation rate of general prices in the Asian NIEs as a whole is forecast to remain low at 2.1%, though this represents an increase of 0.7 percentage point from the 2007 rate.

In Indonesia, Domestic Demand Will Grow at an Accelerating Rate in 2008 and Inflation Will Stabilize

Given the prospect that consumer confidence will improve in Indonesia in 2008 reflecting the stabilization of inflation and an increase in household income, private consumption is forecast to accelerate. In addition, the falling interest rate will further improve the investment environment, and investment will also grow at an accelerating rate. Indonesia's exports will remain steady, continuing to expand centered on those destined to Asia. In response to the growing domestic demand, imports will also increase. Under the effect of expansions of both domestic and external demand, the Indonesian economy is forecast to grow by a rate 0.2 percentage point higher than in 2007. The inflation rate of general prices is forecast to become more stable, decreasing by 0.1 percentage point from the previous year.

The Thai Economy Will Post a Stable Growth Rate in 2008, Stimulated by an Upturn in Domestic Demand

As the political situation is expected to be further stabilized, consequent upon a forthcoming transfer of power to a civil government, consumer confidence will improve and the growth rate of private consumption, which decreased in 2007, will rally. Given also

the prospects that corporate enthusiasm for investment will improve, private investment is forecast to enter a recovery in 2008. Exports are expected to grow by a rate more or less the same as in 2007. The Thai economy is forecast to grow by 5.0%, accelerating by 0.4 percentage point from the 2007 rate. The inflation rate of general prices is forecast to decrease by 0.2 percentage point from the previous year's rate, reflecting the stabilization of prices of raw materials and the expected appreciation of the baht.

Malaysia's Economy Will See Continued Stable Growth in 2008, Led by Private Domestic Demand

Malaysia's exports are expected to grow at a slightly accelerating rate in 2008. Given the prospect that consumer confidence will remain high against the backdrop of the stabilization of the labor market, private consumption is also expected to grow at a higher rate than in the previous year. Given the prospect that a reduction in corporate taxes slated for 2008 will help improve the investment environment, the investment climate in the year will be also favorable.

Consequent upon these factors, the Malaysian economy in 2008, led by domestic demand, is forecast to secure a stable growth rate of 5.8%, accelerating by 0.1 percentage point from the 2007 rate. The inflation rate of general prices is forecast to increase by 0.2 percentage points from the 2007 rate.

The Growth Rate of the Philippine Economy Will Decelerate in 2008, Affected by Stagnant Growth of Domestic and External Demand

In 2008, the Philippine economy will see its exports grow by a decelerating rate under the effect of slowing growth in the advanced economies, including the U.S. The growth rate of government consumption will decrease by 3 percentage points from 2007, reflecting the government's effort to balance its finances. Given the prospects that investment in infrastructure construction will be restrained slightly, total investment in the year will grow by a lower rate than in the previous year. Consequent upon these factors, the Philippine economy is forecast to attain a stable growth rate of 6.3%, though to decelerate by 0.4 percentage point from the 2007 rate, under the effect of the slowing growth of both domestic and external demand. The inflation rate of general prices is forecast to remain at a low rate of 3.3%.

The Vietnamese Economy Will Accelerate Further in 2008, Continuing to Register a High Growth Rate

In 2008, the Vietnamese economy will accelerate further, continuing to pace

along an above-8% high growth path. Given the prospect that inflows of foreign direct investment will continue to expand in 2008 while domestic investment will also be brisk, the industrial sector is forecast to continue posting a double-digit growth rate. The service sector is forecast to absorb an increasing amount of FDI and to grow by a higher rate than in 2007. Both total investment and exports in 2008 are forecast to grow by rates higher than in the previous year. Consequent upon these factors, the Vietnamese economy is forecast to continue growing by a high growth rate of 8.7%, a rate even higher than in 2007. The inflation rate of general prices is forecast to decrease from the previous year to 8.1%, reflecting the stabilization of the prices of agricultural products.

In 2008, the ASEAN 5 Will Grow by an Accelerating Rate, Enjoying a Stable Inflation Rate

Among the ASEAN 5, the economies of Thailand and Malaysia, whose growth slowed in 2007, are forecast to rally back and grow by accelerating rates in 2008, while the Philippine economy, which accelerated in 2007, is forecast to grow at a slowed rate. The economies of Indonesia and Vietnam are forecast to continue growing at an accelerating pace. Consequently, the combined growth rate of ASEAN 5 as a whole is forecast to be a stable 6.1%, a figure 0.1 percentage point higher than in 2007.

The inflation rate of general prices in Vietnam, after increasing in 2007, is forecast to decrease in 2008. The inflation rates in Indonesia and Thailand are forecast to decrease, while those in Malaysia and the Philippines are forecast to increase slightly. Consequently, the combined inflation rate of general prices for the ASEAN 5 as a whole in 2008 is forecast to be a stable 5.0%, the same rate as in 2007.

The East Asian Economy as a Whole Will Attain a High Growth Rate of 8.2% in 2008, Despite Lower Growths of the Chinese Economy and the Asian NIEs

Given the foregoing growth rate forecast for the members of the East Asian economy in 2008 – with the colossal Chinese economy forecast to slow from the previous year but to remain strong with an impressive 10.6%, the Asian NIEs forecast to secure an above-5% steady growth rate under a slightly accelerating inflation rate, and the ASEAN 5 forecast to remain on an above-6%, stable growth path under a stabilizing inflation rate – the East Asian economy as a whole is forecast to continue registering a robust above-8% growth rate of 8.2%, though to decelerate by 0.5 percentage point from the 2007 rate of 8.7%. The combined inflation rate of general prices for the East Asian economy as a whole is forecast to be 3.2%, just 0.1 percentage point higher than the 2007 rate.

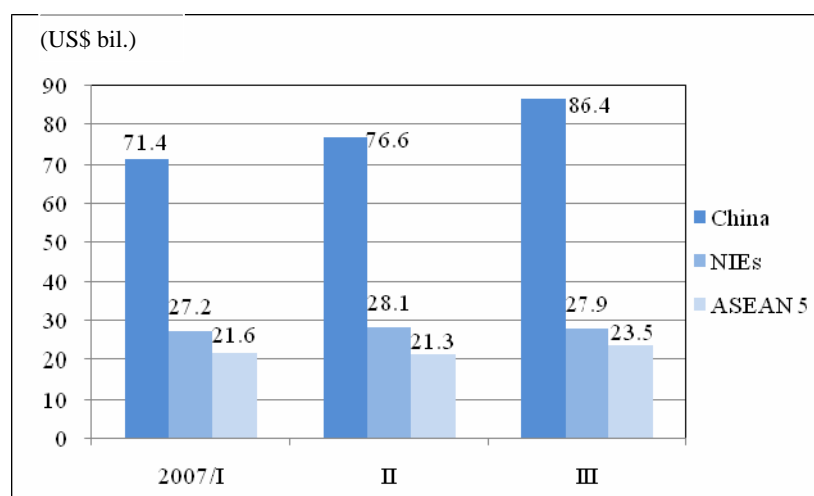
Table 2. Growth Rates of U.S. Dollar-Denominated Imports of the United States from East Asia
(% change over same period in previous year)

	Weight of U.S. in exports of countries and regions, in 2006	2006	2007			
			I	II	III	Jan.-Sep.
Total		10.8	4.2	4.0	3.5	3.9
China	(21.0)	18.2	19.3	13.2	9.4	13.5
South Korea	(13.0)	4.7	7.4	6.6	0.0	4.6
Taiwan	(14.7)	9.7	2.1	-0.8	-3.1	-0.7
Hong Kong	(15.1)	-10.7	-22.2	-11.2	-15.2	-16.2
Singapore	(10.2)	17.6	14.4	7.0	-4.8	5.0
NIEs	(13.2)	7.0	4.5	2.8	-3.1	1.3
Indonesia	(11.3)	11.5	10.9	7.7	4.4	7.5
Thailand	(15.0)	13.0	4.1	4.4	-4.5	1.0
Malaysia	(18.8)	8.4	1.1	-14.6	-17.2	-10.8
Philippines	(18.3)	4.8	-3.7	-7.2	-5.3	-5.4
Vietnam	(21.3)	29.2	22.0	14.7	24.2	20.4
ASEAN 5	(16.2)	11.3	4.6	-3.1	-5.6	-1.6
Ten Asian Economies	(16.7)	14.2	12.9	7.7	3.9	7.8
Japan (reference)	(22.8)	7.2	1.9	-2.9	-2.2	-1.1

Sources: 1. U.S. Census Bureau (<http://www.census.gov/foreign-trade/www/>)

2. Data compiled from various yearbooks and monthly reports of the countries and regions, and from Datastream (IMF, "Direction of Trade Statistics").

Figure 2. U.S. Dollar-Denominated Imports of the United States from East Asia



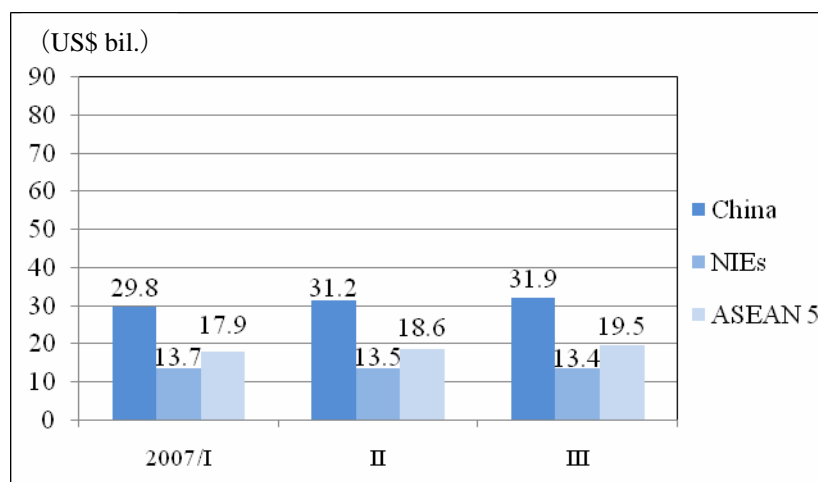
Source: Same as Table 2.

Table 3. Growth Rates of U.S. Dollar-Denominated Imports of Japan from East Asia
(% change over same period in previous year)

	Weight of Japan in exports of countries and regions, in 2006	2006	2007				
			I	II	III	Oct.	Jan.-Oct.
Total		12.1	5.0	4.6	4.9	11.3	5.5
China	(9.5)	9.2	7.8	8.3	7.2	9.9	8.0
South Korea	(7.5)	11.9	-3.2	0.2	-2.9	2.8	-1.5
Taiwan	(7.3)	12.5	3.8	-5.6	-3.9	-5.1	-2.3
Hong Kong	(4.9)	-3.3	-1.1	-13.9	-13.5	27.0	-5.8
Singapore	(5.5)	11.7	-6.0	-9.4	-12.0	5.3	-7.7
NIEs	(6.2)	11.6	-1.0	-3.5	-4.8	0.8	-2.7
Indonesia	(19.1)	15.6	7.7	11.0	9.3	5.3	8.9
Thailand	(12.7)	8.3	11.1	4.6	6.5	10.7	7.7
Malaysia	(8.9)	5.4	5.1	14.9	11.7	13.0	10.7
Philippines	(16.5)	2.5	13.0	13.1	5.4	6.5	9.9
Vietnam	(12.3)	16.6	8.8	-2.4	15.9	16.2	8.4
ASEAN 5	(13.3)	9.9	8.6	9.4	9.2	9.3	9.1
Ten Asian Economies	(8.8)	9.9	5.9	5.9	5.0	7.7	5.8
U.S. (reference)	(5.8)	6.1	4.3	4.8	-1.5	8.7	3.1

Sources: 1. Ministry of Finance, Trade Statistics (<http://www.mof.go.jp>)
2. Same as Table 2.

Figure 3. U.S. Dollar-Denominated Imports of Japan from East Asia



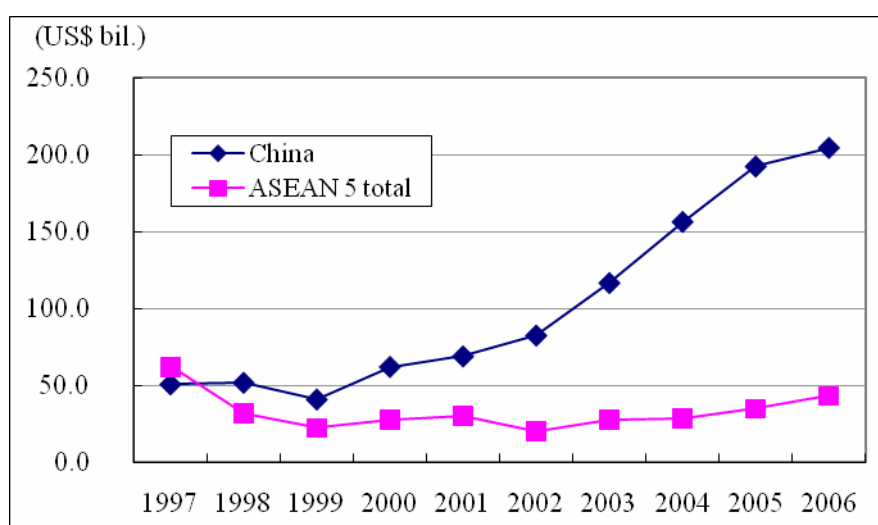
Source: Same as Table 3.

Table 4. Volume of Approved Foreign Direct Investment in China and the ASEAN 5 (US\$ bil.)

	China	ASEAN 5 total	Indonesia	Thailand	Malaysia	Philippines	Vietnam
1997	51.0	62.4	33.8	9.6	4.1	8.9	4.5
1998	52.1	32.2	13.6	6.2	3.3	4.2	3.9
1999	41.2	22.7	10.9	3.6	3.2	2.7	1.6
2000	62.4	28.2	15.4	3.1	5.2	1.8	2.0
2001	69.2	30.4	15.0	6.0	5.0	1.1	2.5
2002	82.8	20.4	9.7	3.8	3.0	0.9	1.6
2003	116.9	28.0	13.2	6.9	4.1	0.6	1.9
2004	156.6	28.9	10.3	7.9	3.5	3.1	4.2
2005	192.6	35.0	13.6	8.1	4.7	1.7	6.9
2006	204.7	43.4	15.6	7.0	5.5	3.2	12.0

Source: For China, from various yearbooks and monthly reports; for Indonesia, Central Statistics Agency; for Thailand, Investment Committee; for Malaysia, Industrial Development Agency; for the Philippines, State Statistics Survey Committee; for Vietnam, Ministry of Planning and Investment.

Figure 4. Changes in Volume of Approved Foreign Direct Investment in China and the ASEAN 5



Source: Same as Table 4.

**Table 5. Growth of U.S. Dollar-Denominated Exports of Goods from East Asia
(Actual figures)
(% change over same period in previous year)** (%)

	2006 (Jan. – Dec.)	2007 (Jan. – Oct.)*
China	27.2	26.5
South Korea	14.4	14.2
Taiwan	12.9	8.9
Hong Kong (total exports)	9.4	9.7
Hong Kong (re-exports)	10.0	11.8
Singapore (domestic exports)	15.0	7.7
Indonesia	17.7	13.4
Thailand	16.9	16.8
Malaysia	14.0	9.1
Philippines	14.9	4.9
Vietnam	22.7	18.6

Notes: 1. Jan.-Sep. for Hong Kong and the Philippines.

2. Jan.-Nov. for South Korea.

Source: Customs statistics of the respective countries and regions.

**Table 6. Actual and Assumed Exchange Rates of Japanese and East Asian
Currencies to the U.S. Dollar (Annual Average)**

	Actual Figures		Assumed Figures		Assumed Figures	
	2006		2007		2008	
		% change from previous year		% change from previous year		% change from previous year
China	7.97	2.7	7.63	4.5	7.20	6.0
South Korea	955	7.2	928	2.9	920	0.8
Taiwan	32.5	-1.0	32.9	-1.2	33.2	-0.8
Hong Kong	7.77	0.3	7.80	-0.4	7.78	0.3
Singapore	1.5889	4.8	1.5070	5.4	1.4400	4.7
Indonesia	9159.0	6.0	9100	0.6	9000	1.1
Thailand	37.9	6.1	32.5	16.6	31.0	4.8
Malaysia	3.668	3.2	3.450	6.3	3.300	4.5
Philippines	51.3	7.4	46.5	10.3	45.0	3.3
Vietnam	15994	-0.8	16100	-0.7	16200	-0.6
Japan (reference)	116.30	-5.2	118.0	-1.4	112.0	5.4

Note: % change from the previous year is by the IMF method.

Sources: For 2006, IMF, International Financial Statistics (with exception of Taiwan);
for Taiwan, The Central Bank of China, Financial Statistics.

**Table 7. Growth Rate of Real Term Exports of Goods and Services
(Actual and assumed figures)**

(%)

	Actual Figures	Assumed Figures	
	2006	2007	2008
China	18.5	18.5	14.5
South Korea	12.4	10.0	6.7
Taiwan	10.4	7.2	3.8
Hong Kong	9.2	8.4	8.2
Singapore*	6.4	5.0	7.0
Indonesia	9.2	9.3	10.1
Thailand	8.5	6.9	7.0
Malaysia	7.4	3.0	5.0
Philippines	11.2	4.0	3.5
Vietnam	13.3	11.0	12.0

Note: Figures for Singapore are domestic exports of goods on a customs-cleared basis.

Source: For figures for 2006, various yearbooks and monthly reports of the countries and regions; for China, estimated based on government statistics. For Vietnam, based on estimated figures by a cooperating researcher.

Countries and Regions

China

	2006	2007	2008
GDP Growth Rate (%)	11.1	11.5	10.6
Inflation Rate (%)	3.2	3.4	3.2

(Actual figures for 2006)

The Economy in 2007: Above-11% Growth, Fueled by Accelerated Investment

Under the stimulus of accelerated investment, the Chinese economy is predicted to post an 11.5% growth rate in 2007, growing by more than 11% for the second consecutive year. The Chinese government is trying to steer the economy away from its excessive dependence on investment and external demand, and into a better balance between consumption, investment, and external demand.

Private consumption has remained solid, with nominal retail sales of consumer goods increasing by 16.1% in the January-October period. Consequently, it is estimated that real-term private consumption for the year as a whole will increase by 10.7%. Government consumption is expected to increase by 10.0%.

The government has taken steps to control the overheated investment by implementing measures such as raising the interest rate and reserve requirements. However, these measures seem to have had limited significance.

Foreign direct investment into China, on an actually utilized base, in the January-September period of 2007 increased by 10.9% over the same period one year earlier. There is great enthusiasm, with investment in fixed assets in nominal terms registering an increase of 25.7% in the same nine-month period over the same period one year earlier (or 26.9% in urban areas in the January-October period). Investment in real-estate development alone has increased by 30.3% during the nine-month period. Total real-term investment for the year as a whole is predicted to grow by 15.3%, up 0.4 percentage points from 2006.

Customs-cleared U.S. dollar-denominated exports of goods remained brisk in the January-October period, increasing by 26.5% over the same period one year earlier, despite sluggishness in the growth rate of exports destined to the United States and other advanced economies in the latter half of the year. China implemented a de facto raise of the export tax on some products beginning in July, but the measures seem to have been of limited effect. Partly due to the fact that the U.S. dollar has remained weak against a range of major currencies, the exchange rate of the Chinese renminbi (people's yuan)

has been 4-5% higher during 2007 than the average for 2006. Consequent upon these factors, total real-term exports for 2007 as a whole are predicted to increase by 18.5%, the same rate as in the previous year.

Despite the slightly weakening growth of exports, imports in 2007 have increased under the effect of the continuing brisk growth in investment and the solid performance of private consumption. Customs-cleared U.S. dollar-denominated imports in the January-October period of 2007 increased by 19.8% over the same period one year earlier. Reflecting these factors, total real-term imports for the year as a whole are predicted to grow at an accelerated rate of 15.7% compared to the 2006 rate of 12.7%.

As a combined effect of the foregoing developments, the Chinese economy is predicted to grow by 11.5% in 2007, led by domestic demand, and in particular investment.

Reflecting the rising prices of imported crude oil and raw materials, and the rising prices of domestic foodstuffs, the inflation rate of general prices is predicted to be 3.4%, a rate 0.2 percentage point higher than in 2006.

Forecast for the Economy in 2008: Growth Will Slow to 10.6% under the Effect of Weakening Export Growth

The Chinese economy will slow down by 0.9 percentage point in 2008 compared with the 2007 rate under the effect of a slowing growth of exports caused by factors such as sluggishness in the advanced economies, and adjustments in the export incentive programs. Nonetheless, it is forecast to continue growing by 10.6%, registering a double-digit rate for the sixth consecutive year since 2003.

Private consumption is forecast to continue performing well with a growth rate of 10.6%, though this is 0.1 percentage point lower than the 2007 rate under the effect of a slowing expansion of income. Government consumption is expected to expand by 10.0%, a rate unchanged from the previous year.

Given the prospects that the government policy to curb investment activities will remain in place in 2008, but is not likely to be fully effective, total investment in fixed assets during the year is forecast to grow by 15.3%, the same rate as in 2007.

The growth rate of exports is expected to slow to 14.5%, a rate 4.0 percentage points lower than in 2007, under the effect of sluggishness in the U.S. and other advanced economies.

Reflecting the slowing growth of exports, imports are predicted to grow by 14.4%, a rate 1.3 percentage point lower than in 2007.

As a combined effect of the foregoing factors, the Chinese economy in 2008 is forecast to slow to 10.6%, a rate 0.1 percentage point lower than in 2007, primarily under the effect of slowing growth in the international economy, especially in the advanced economies.

The inflation rate of general prices is forecast to remain stable at 3.2%.

South Korea

	2006	2007	2008
GDP Growth Rate (%)	5.0	4.9	5.0
Inflation Rate (%)	-0.4	1.6	2.5

(Actual figures for 2006)

The Economy in 2007: Firmer Domestic Demand, Underpinning Solid Growth

In 2007, the South Korean economy has been characterized by a further recovery in domestic demand, brought about by the continuing expansions of private consumption and investment in machinery and equipment in succession to 2006. The economy is predicted to grow by 4.9%, a rate comparable to the 2006 rate.

The favorable performance of private firms has begun to produce spillover effects on wages and employment, spurring a brisk increase in sales of durable consumer goods. Consequently, private consumption is predicted to grow by 4.5% in 2007, compared to the 2006 growth rate of 4.2%.

Despite the fact that the presidential election is scheduled for December 2007, private firms, notably those in the fields of metal, electric appliances, and shipbuilding industries have continued to be bullish about investments in machinery and equipment. After registering double-digit growth in the first half of the year, investment in this area slowed to 2.0% growth in the third quarter, reflecting both a decrease in investment in semi-conductor manufacturing equipment and the extraordinary growth rate attained in the same period one year earlier. Nonetheless, machinery orders received during September – a leading indicator – increased by 9.3% over the same month one year earlier, revealing that corporate investors remain quite eager. Investment in machinery and equipment in 2007 is predicted to grow by 8.3%, accelerating from the 2006 rate of 7.6%.

Investment in housing construction has been restrained during 2007 under the effect of the comprehensive real estate measures restricting housing loans. Given, however, the fact that public investment increased in the first half of the year as the government front-loaded public works projects, and construction projects for factories and other non-residential buildings remained solid, construction investment, which registered a net decrease of 0.4% in 2006, is predicted to rebound to a positive growth rate of 2.7% in 2007. Total investment for the year is predicted to grow by 5.1%, accelerating from the 2006 rate of 3.2%.

In the face of an unfavorable export environment, characterized by the strong

won and slowing growth in the world economy, South Korea managed to increase its customs-cleared U.S. dollar-denominated exports in the January-October period of 2007 by 13.8% over the same period one year earlier, mainly by expanding exports to emerging markets. Exports did not perform as well in the Japanese and U.S. markets, where the loss of cost-competitiveness caused by the strong won made its impact felt more strongly, registering growth rates of -1.9% and 6.8%, respectively, in the same ten-month period. By contrast, exports to China and the Middle East increased by 17.6% and 38.8%, respectively, in the same ten-month period. Consequently, real-term exports in 2007 as a whole are predicted to grow by 10.0%, a rate 2.4 percentage points lower than in 2006.

Customs-cleared imports grew by 13.2% in the January-October period. Import prices of manufactured products remained relatively stable, partly because of the strong won; however, import prices of fuels and foods picked up in the latter half of the year, and, in conjunction with the slowing export growth, began to put a brake on the growth trend of imports. Consequently, real-term imports in 2007 are predicted to increase by 9.8%, a rate 1.6 percentage points lower than 2006.

Taken together, the foregoing factors suggest that in 2007, domestic demand in South Korea rebounded to a recovery track, most notably characterized by a rebound of construction investment that recorded a negative growth in 2006. Given, in addition, the fact that the growth rate of real-term exports has outpaced that of real-term imports, the economy is enjoying growth fueled by a balanced combination of domestic and external demand. The economy is predicted to grow by 4.9%, a rate comparable to the 2006 rate. Reflecting the rise in import prices and wages, the inflation rate of general prices is estimated to be 2.6%, 3.0 percentage points higher than the 2006 rate of -0.4%.

Forecast for the Economy in 2008: 5.0% Growth, Underpinned by an Increased Contribution of Domestic Demand

Given the prospect that the expansion of South Korea's exports will peter out under the effect of faltering growth in the advanced economies, but will be offset by a solid growth of domestic demand, the country's economy in 2008 is forecast to grow by 5.0%, a rate comparable to that in 2007.

Among the components of domestic demand, private consumption will remain solid, buoyed by factors including the improvement in employment continuing from 2007, and is forecast to increase by 4.8%, a rate 0.3 percentage point higher than in 2007. Investment in machinery and equipment will slow slightly in anticipation of the

slowing exports, but with the underpinning of the solid trend of private consumption and expectations for the new administration's expansionary economic policy, is forecast to increase by 7.6%. Construction investment is forecast to pick up slightly to a growth rate of 3.4%, reflecting the prospects that even though the atmosphere surrounding investment in residential construction will remain unfavorable, new investment outlays, such as those for the construction of a multifunctional administrative city, will be forthcoming in the public sector. Total investment is forecast to increase by 5.2%.

South Korea's main export products to developing countries, such as machinery, steel, and chemical products, will perform solidly in 2008. By contrast, the country's exports of automobiles and cell phones are expected to be shaky, under the effect of the slowing growth in the U.S. and other advanced economies. Consequently, real-term exports are forecast to increase by 6.7%, slowing by 3.3 percentage points from the 2007 rate. Reflecting the slowing export growth and rising import prices of raw materials, the growth rate of imports is also forecast to decrease by 2.1 percentage points from the 2007 rate to 7.7%.

As a combined effect of the foregoing factors, the South Korean economy in 2008 is forecast to grow by 5.0%, a rate comparable to that in 2007. Given the prospect that the price of crude oil will remain higher throughout the year than in 2007, the inflation rate of general prices is forecast to be 3.0%, accelerating slightly from the 2007 rate.

Taiwan

	2006	2007	2008
GDP Growth Rate (%)	4.9	5.4	4.4
Inflation Rate (%)	-1.0	0.2	0.8

(Actual figures for 2006)

The Economy in 2007: 5.4 % Growth, Sustained by Solid Domestic Demand

Taiwan's economy is predicted to grow by 5.4% in 2007, sustained by solid domestic demand.

Given the fact that the effects of the credit crunch stemming from credit-card delinquencies that emerged in 2006 have already been eradicated, private consumption in 2007 is predicted to increase by 2.8%, up 1.0 percentage points from the 2006 rate. Government consumption is predicted to increase by 1.3%.

After marking a steady 3.0% growth rate in 2006, private investment registered a growth rate of 8.6% in the second quarter of 2007 over the same quarter one year earlier, led primarily by investment in the IT and related industries, and posted a 6.5% growth rate year-on-year in the third quarter. Consequently, private investment for the year as a whole is predicted to grow by 5.0%. Given the government's determination to replace government investment with investment by public enterprises, it is predicted that government investment will decrease by 3.6% and investment by public enterprises increase by 5.0% in 2007. Reflecting these developments, total investment is predicted to grow by 3.7 %.

In the external accounts, exports increased by 8.9% (in nominal U.S. dollars) in the January-October period of 2007 over the same period in 2006. Among major export markets, exports to China and Hong Kong, which account for approximately 40% of total exports, increased by 11.8% year-on-year in the January-October period, slowing from the 2006 rate of 14.8%. Exports to the United States, which account for a little more than 10% of total exports, decelerated to -2.7% from 11.7% growth year-on-year in 2006. A decomposition by product category indicates that exports of electronic products, which account for slightly less than 30% of Taiwan's total exports, increased by 4.6% in the same ten-month period, decelerating sharply from the growth rate of 23.2% for 2006 as a whole. Consequent upon these factors, it is expected that exports in 2007 will increase by 6% in national account terms, slowing from the 2006 rate.

Imports increased by 6.9% (in nominal U.S. dollars) in the January-October

period of 2007 over the same period one year earlier. Broken down by product category, imports of machinery and electronic and electric appliances, which account for approximately one-third of Taiwan's total imports, registered a small decrease of 0.6%, while imports of raw materials such as ores and metals increased by more than 10%. Given the fact that real-term imports have been depressed by an increase of approximately 5% in U.S. dollar-denominated import prices, it is predicted that imports in 2007 will grow by 3.3% in national account terms.

Taking account of the developments discussed above, it is predicted that Taiwan's economy will grow by 5.4% in 2007, sustained by solid domestic demand, despite the adverse effects of a slowing expansion of external demand. The inflation rate of general prices is predicted to increase by about 0.2%, reflecting the rising prices of food and other products.

Forecast for the Economy in 2008: 4.4% Growth, as External Demand Grows at a Slower Rate, Despite Steady Domestic Demand

Economic growth is forecast to ease to 4.4% in 2008, given the prospect that domestic demand will remain steady, but that exports will slow further due to the decelerating global economy economic growth (triggered by defaults on sub-prime loans).

Private consumption growth in 2008 is forecast to accelerate modestly to 3.4%. Government consumption is expected to increase by 1.1%.

Private investment will continue to show a steady increase, centered on the IT and related industries, and is forecast to register 4.2% growth. Government investment is expected to decrease by 0.2%, and investment by public enterprises in the year to increase by 7.8%. Consequent upon these factors, total investment is forecast to grow by 3.9%.

Exports are expected to grow by 3.8%, a rate lower than in 2007, reflecting the slowing growth of external demand. Given the prospect that demand for domestic investment will remain steady, imports in the year are forecast to increase by 2.5%, even though exports will increase at a slowing rate.

As a combined effect of the foregoing factors, Taiwan's economy in 2008 is forecast to grow by 4.4%, a rate lower than in 2007. The inflation rate of general prices is forecast to be 0.8%, as the impacts of the rising prices of crude oil and other products begin to be felt.

Hong Kong

	2006	2007	2008
GDP Growth Rate (%)	6.8	6.0	5.3
Inflation Rate (%)	-0.1	2.1	2.4

(Actual figures for 2005)

The Economy in 2007: 6.0% Growth, Supported by a Steady Increase in Domestic Demand

In 2007, the Hong Kong economy is predicted to decelerate slightly to a 6.0% growth rate, underpinned by sound performance of domestic demand.

Among the components of domestic demand, private consumption has been strong. With the steady economic recovery since 2004, the unemployment rate hit a five-year low of 4.2% during January-September 2007. Rising real wages brought about by the improved employment environment have continued to boost private consumption. Consequently, private consumption in 2007 is predicted to increase by 6.2%, accelerating from 2006's growth rate of 5.9%. While private sector investment in machinery, equipment, and computer software has failed to increase as fast as in recent years, construction investment in the private sector has greatly expanded, resulting in a 7.7% growth rate during January-September 2007. Total gross fixed capital formation in 2007 as a whole is predicted to increase by 6.2%. Government consumption is expected to increase by 2.1%, due to the fact that fiscal rehabilitation has relieved the restraints on government spending that were in place until 2006.

Among the components of external demand, re-exports of goods have increased steadily under the favorable effect of vigorous economic performance in Mainland China. Re-exports of goods to China and from China to other destinations registered high growth rates of 14.6% and 9.9% in nominal terms, respectively, during January-September 2007. On the contrary, the growth rates of re-exports to the United States and Japan have slowed and domestic exports have posted negative growth. As a result, exports of goods for the year as a whole are predicted to increase by 7.9%. Also noteworthy is the fact that since the conclusion of the Closer Economic Partnership Arrangement (CEPA) in 2003, the number of tourists visiting Hong Kong from Mainland China has significantly increased. The total number of tourists to Hong Kong in 2006, including those from Mainland China, increased by a wide margin of 8.1%. This trend has continued into 2007. Combined with the solid growth of service exports

related to trade in goods, Hong Kong's service exports in the year as a whole are predicted to increase by 10.6%. Consequently, total exports of goods and services are predicted to grow by 8.4%. On the other hand, total imports of goods and services are predicted to grow by 8.7%, outpacing the growth of total exports, because of the steady increase in domestic demand and increasing imports of goods for re-exportation.

As a combined result of the foregoing developments, the Hong Kong economy is predicted to grow by 6.0% in 2007. The inflation rate of general prices, after declining for several years, bounced back to a positive rate during January-September 2007. Under the inflationary pressure coming both from domestic factors, such as rising wages and expanding consumption, and external factors including the rising prices of energy resources, the inflation rate of general prices in 2007 is predicted to be 2.1%.

Forecast for the Economy in 2008: 5.3% Growth, Reflecting Moderate Growth of Consumption Demand and Slowing Growth of External Demand

In 2008, the Hong Kong economy is forecast to slow to a 5.3% growth rate, reflecting the moderate growth of consumption demand, as well as slowing growth of external demand, which will hurt the economy's trade balance.

Among the components of domestic demand, private consumption is forecast to slow slightly, growing by 6.0%, mainly because of the prospect that real wages will increase at a slowed pace. On the other hand, total gross fixed capital formation is forecast to post a solid growth rate of 6.8%, outpacing the 2007 rate. The prediction of a higher growth rate of fixed capital investment is based on the prospect of a decline in interest rates in the United States, which will then bring down the cost of procuring capital funds locally in Hong Kong.

The economic growth rate of Mainland China will be the most important determinant of external demand for Hong Kong. The expected growth rate of Mainland China is set to slow slightly in 2008. Consequently, Hong Kong's total exports of goods and services in the year are forecast to increase by just 8.2%, a rate lower than in 2007. On the other hand, total imports for the year are forecast to grow by 8.6%, affected by a steady expansion of investment, with the result that the worsening trade balance will push down the growth rate of Hong Kong's gross domestic product.

As a combined effect of the foregoing developments, the growth rate of the Hong Kong economy is forecast to be 5.3% in 2008. The inflation rate of general prices is forecast to increase slightly to 2.4%, under the continued effect of inflationary pressure.

Singapore

	2006	2007	2008
GDP Growth Rate (%)	7.9	7.9	6.6
Inflation Rate (%)	0.2	2.5	2.2

(Actual figures for 2006)

The Economy in 2007: 7.9% Growth, Led by Brisk Private Demand

In 2007, Singapore's economy is predicted to post a high growth rate of 7.9%, the same rate as in 2006, buoyed by brisk domestic demand centered on private investment and private consumption.

Private investment, after posting a double-digit growth rate of 16.3% in 2006, has continued to expand strongly in 2007. In particular, construction investment, both in residential and non-residential projects, has increased, led by a series of large-scale construction projects. The amount of investment commitments in Singapore's manufacturing industry by foreign investors also increased by a large 38.7% in the January-September period over the same period one year earlier. Consequent upon these factors, private investment for 2007 as a whole is predicted to grow by 20.2%, a rate further outstripping the impressive rate registered in 2006.

Private consumption has expanded. After increasing by just 2.5% in 2006, private consumption has registered a 4.5% increase in the first three quarters of 2007, sustained by the significant improvement in the employment situation and rising wages. The unemployment rate decreased to a ten-year low of 1.7% in September 2007, while average wages increased by 6.9% in the January-June period of 2007 over the same period one year earlier. Consequent upon these developments, private consumption for 2007 as a whole is predicted to grow by 4.6%.

In contrast, exports, which have long been the driving engine for Singapore's economy, remain sluggish. Customs-cleared and Singapore dollar-denominated domestic exports in the January-October period of 2007 increased by only 2.4% over the same period one year earlier. Broken down by product, exports of pharmaceuticals and chemical products are faring well, but exports of major export items such as electronic products and petroleum products are stagnant. Domestic exports for the year as a whole are expected to grow by 4.0%, slowing from the 2006 growth rate of 9.6%.

Given the fact that the Monetary Authority of Singapore (MAS) is sticking fast to the policy of a modest and gradual appreciation of the Singapore dollar's nominal

effective exchange rate policy band, the currency remains strong. The exchange rate against the U.S. dollar appreciated by 5.1% in the January-October period of 2007 over the same period one year earlier, and it is assumed that it will rise by 5.4% for the year as a whole. It is assumed that the money supply (M1), which increased by 8.7% in 2006, will increase by 18% in 2007, under the effect of a sizeable increase in the amount of foreign direct investment received from abroad, in spite of the fact that the Singapore dollar remains strong. In the area of government expenditures, government investment is expected to decrease by 1% in nominal terms, while government consumption is expected to increase by 2%, also in nominal terms.

As a combined effect of the foregoing developments, the Singapore economy in 2007 is predicted to register a high growth rate of 7.9%, the same rate as in 2006, led by brisk private demand.

The inflation rate of general prices is predicted to rise to 2.5%, under the effect of factors such as the continuing economic expansion, and the hike in the goods and services tax that was implemented in July.

Forecast for the Economy in 2008: Solid Growth of 6.6%

In 2008, Singapore's economy is forecast to register a solid growth rate of 6.6%, though this is short of the rapid growth rate registered in 2007.

Worldwide demand for IT-related products is expected to slowly head toward recovery in 2008, while exports of pharmaceuticals and chemical products are expected to increase steadily. Consequently, domestic exports in 2008 are expected to increase by 8%, a rate higher than in 2007.

Private investment is forecast to grow by 9.9%, decelerating from the double-digit growth rates attained for the two consecutive years of 2006 and 2007. Private consumption is forecast to increase by 3.9%, reflecting the solid performance of the economy.

Looking at government expenditures, government consumption is expected to increase by 5%, while government investment is expected to be about the same as in 2007. It is assumed that the Singapore dollar will appreciate by 4.7% against the U.S. dollar in 2008 as a whole, and that the money supply will increase by 10%.

As a combined effect of the foregoing factors, Singapore's economy in 2008 is forecast to register a solid growth rate of 6.6%, though it will fall short of the 2007 rate by 1.3 percentage points. The inflation rate of general prices is forecast to be just 2.2%, a decrease of 0.3 percentage point from the 2007 rate.

Indonesia

	2006	2007	2008
GDP Growth Rate (%)	5.5	6.2	6.4
Inflation Rate (%)	13.7	6.7	6.6

(Actual figures for 2006)

The Economy in 2007: Higher Growth of 6.2% Based on a Recovery of Domestic Demand and Strong External Demand

Buoyed by a recovery of domestic demand and solid external demand, the Indonesian economy in 2007 is predicted to grow by 6.2%, a rate 0.7 percentage point higher than in 2006.

Private consumption, after being held down during 2006 under the effect of the rise in fuel prices caused by the cutback in government subsidies for fuel effected in October 2005, has shown signs of recovery in line with the easing of the surge in consumer prices. Sales of automobiles and motorcycles increased by as much as 37% and 10%, respectively, in the January-October period of 2007 over the same period one year earlier. Moreover, October 2007 saw the consumer confidence index rise above the 100 mark for the first time in a year, demonstrating that consumer confidence is improving. One factor underlying this rise in consumer confidence seems to be the boom in the stock market, where the composite stock price index soared by more than 60% in the January-November period, continuously setting new record highs. Consequent upon these factors, real-term private consumption in 2007 as a whole is predicted to grow by 4.7%, a rate 1.5 percentage points higher than in 2006. On the other hand, real-term government consumption increased by 4.7% in the first three quarters of the year over the same period one year earlier, and is predicted to increase by just 4.0% for the year as a whole.

After sputtering under the effects of inflation and of the government's high interest rate policy during 2006, domestic investment has shown a rapid upturn, and acted as an engine for economic growth. A series of government ordinances and policy packages announced since the beginning of 2007 have led to improvements in the investment environment, reducing the policy rate by a total of 1.50 percentage points by December, and consequently stimulating an increase in real-term fixed capital formation by 7.9% in the first three quarters of 2007 over the same period one year earlier. Looking at the number of approvals granted for proposed direct investment

undertakings by foreign firms, which is a bellwether for future foreign direct investment undertakings, the number and the amount of projects approved during the first half of the year increased by 15.3% and approximately 300%, respectively, over the same period one year earlier, and a further acceleration of foreign direct investment is expected in the latter half of the year. Consequent upon these factors, real-term fixed capital formation is predicted to grow by 9.1%, a rate much higher than the 2006 rate of 2.9%.

Customs-cleared U.S. dollar-denominated nominal-term exports increased by a solid 13.4% in the January-October period over the same period one year earlier. Broken down by product, exports of liquefied petroleum gas (LPG) registered a negative growth rate, but those of other products fared well, with exports of animal and vegetable fats products, which hold the largest share of non-LPG exports, increasing by large margins of, nearly 60% in the ten-month period. Consequently, real-term exports for 2007 as a whole are expected to grow by 9.3%, a rate slightly higher than in 2006. Given the fact that customs-cleared U.S. dollar-denominated nominal-term imports increased by 19.3% in the January-October period over the same period one year earlier, real-term imports for the year as a whole are predicted to increase by 7.6%

As a combined effect of the foregoing developments, the Indonesian economy is predicted to grow by 6.2% in 2007. Given the fact that the impact created by the raising of fuel prices in October 2005 has already run its course, the inflation rate of general prices for the year as a whole is predicted to be 6.7%, a decrease of 7.0 percentage points from the 2006 rate.

Forecast for the Economy in 2008: 6.4% Growth, Stimulated by Expanding Investment

Given the prospects of an acceleration of investment and steady export growth, the Indonesian economy is forecast to grow by a solid 6.4% in 2008.

The price of crude oil in the international market has become volatile. However, given the prospect that, with the presidential election scheduled for 2009, government fuel subsidies will not be cut back as drastically as in 2005, consumer prices are expected to remain stable in 2008. Additionally, because consumer confidence is expected to improve further, private consumption is forecast to grow by 5.0%. Government consumption is expected to increase by 10%, a rate 6.0 percentage points higher than in 2007, led mainly by expanding expenditures for the relief of the poor and the unemployed, and related to educational and welfare programs.

Given the prospects that improvements in the environment for investment will entice foreign direct investment, real-term fixed capital formation is forecast to increase by 9.8%, outpacing the rate registered in 2007.

While the economies of the advanced countries including the United States and Japan will decelerate slightly, the Asian economy as a whole will experience steady growth in 2008. Indonesia's exports are expected to increase, centering on those destined to Asian neighbors. Consequently, real-term exports are expected to grow by 10.1%, outpacing the 2007 growth rate. On the other hand, under the effect of expanding domestic demand, imports are forecast to grow by 9.7%.

As a combined effect of the foregoing factors, the Indonesian economy is forecast to grow by 6.4% in 2008. The inflation rate of general prices is forecast to be 6.6%, a rate virtually unchanged from 2007.

Thailand

	2006	2007	2008
GDP Growth Rate (%)	5.1	4.6	5.0
Inflation Rate (%)	5.0	4.2	4.0

(Actual figures for 2006)

The Economy in 2007: 4.6% Growth, Led by Vigorous Exports

The Thai economy is predicted to post a growth rate of 4.6% in 2007, led by strong exports.

In the January-November period of 2007, consumer prices rose by 2.1%, regaining stability following the highest post-currency crisis hike (of 4.6%) registered in 2006. Nonetheless, the consumer confidence index, after peaking in November 2006, continued to decrease until August 2007. Although the index picked up in the following month for the first time in 11 months, it decreased slightly in October again and consumer confidence is not yet sufficiently solid. Sales of automobiles in each of the first six months of 2007 continued to fall short of the level attained in the corresponding month one year earlier, while those in July and August showed small year-on-year increases of just 1.0% each. It should be pointed out, however, that sales in September and October rebounded, posting an 8.3% and 12.6% gain over the same month one year earlier, respectively. The growth rate of private consumption posted a low 1.3% in the first quarter of the year, 0.8% in the second quarter, and 1.9% in the third quarter. Given the fact that consumer confidence is still on the path toward recovery, despite the slowing growth rate of the consumer price index, private consumption for the year as a whole is predicted to increase by 1.5%.

Following the coup d'état carried out during the night of September 19, 2006, the execution of the government budget was delayed, and a portion of the budget earmarked for the latter half of 2006 that had been left unspent was carried forward into the first quarter of 2007, with the result that government consumption in the first three quarters of 2007 registered a large increase of 9.5%. In addition, given the fact that a raise in government employee salaries has been planned as part of measures to boost private consumption, government consumption is expected to increase by 9.3%.

The political chaos brought about by the coup d'état has led to delays in the implementation of foreign direct investment, and has dampened Thai and foreign firms' enthusiasm for investment. Private investment decreased by 0.7% in the first three

quarters of 2007 over the same period one year earlier, and is predicted to grow by 0.2% for the year as a whole, because while it is expected to rally in the latter half of the year, the recovery will not be sufficiently strong. Public investment has been dampened by delays in investment projects, including one for building the urban transportation network, and is expected to grow by just 4.9%. Total fixed capital formation is predicted to increase by 1.4%.

Customs-cleared U.S. dollar-denominated exports increased by 16.8% in the January-October period over the same period one year earlier, but their growth is expected to slow in the fourth quarter of the year, reflecting the sluggish growth of the world economy. Broken down by destination, exports destined to the ASEAN area – Thailand’s largest export market – which held a 20.8% share of the total in 2006, grew by 16.9% in the same January-October period, while exports destined to Japan, the United States, and Europe (EU15) grew by 10.8%, -2.6%, and 18.1%, respectively. Exports to China increased by 27.6%. The average export price index for the January-October period was 4.8% lower than in the same period one year earlier. Consequent upon these factors, real-term exports in 2007 as a whole are expected to rise by 6.9%.

Customs-cleared U.S. dollar-denominated imports registered a growth rate of 7.8% in the January-October period over the same period one year earlier. Imports from China increased by 20.9% during the January-October period. The average import price index for the same ten-month period was 5.6% lower than in the same period one year earlier. Given the prospects that the import price index for 2007 as a whole will remain stable, despite the fact that the price of crude oil shot up in the latter half of the year, real-term imports in 2007 are predicted to increase by 4.0%.

As a combined effect of the foregoing developments, Thailand’s economy is predicted to register a growth rate of 4.6% in 2007. The inflation rate of general prices, under the effect of rising prices of raw materials in the first half of the year and other factors, is predicted to be 4.2%.

Forecast for the Economy in 2008: 5.0% Growth, Led by Strong Exports and a Recovery of Domestic Demand

Thailand’s economy is forecast to grow by 5.0% in 2008, sustained not only by strong exports, but also by a recovery of domestic demand that will be brought about by the stabilization of the political situation.

Given the consumer price index’s trend toward stabilization that has been at

work since the latter half of 2006, along with the prospect that consumer confidence will improve as the political situation stabilizes following the forthcoming transfer of power to a civil government, consumption will remain sound and stable. Consequently, private consumption is forecast to increase by 2.5%.

Considering that FDI will begin to expand again as the political situation regains stability, private investment is forecast to grow by 6.0%, a rate 5.8 percentage points higher than in 2007. Given the prospects that public works programs such as the new urban transportation network will be launched or resumed, public investment is expected to increase by 2.2%. Consequently, total fixed capital formation in the year is forecast to increase by 5.0%, a rate 3.6 percentage points higher than in 2007.

Under the effect of strong growth in neighboring Asian economies, offsetting the adverse effects of the sluggish growth in the advanced economies, Thailand's exports are expected to grow by 7.0%, a rate 0.1 percentage point higher than in 2007. Imports are forecast to increase by 6.0%, led mainly by increased imports of capital goods triggered by the expanding investment.

As a combined effect of the foregoing factors, Thailand's economy in 2008 is forecast to register a growth rate of 5.0%, 0.4 percentage point higher than in 2007. The inflation rate of general prices is forecast to decrease by 0.2 percentage point from the 2007 rate to 4.0%, reflecting the stabilization of raw material prices.

Malaysia

	2006	2007	2008
GDP Growth Rate (%)	5.9	5.7	5.8
Inflation Rate (%)	4.6	2.2	2.4

(Actual figures for 2006)

The Economy in 2007: 5.7% Growth, Underpinned by Domestic Demand Despite Slowing Export Growth

Private investment, which slowed significantly in 2005, began to pick up in 2006, and is expected to further accelerate in 2007 as it heads toward recovery. Private consumption also remains brisk, while export growth is expected to be slower than in the previous year. Consequently, the growth rate of the Malaysian economy in 2007 is predicted to slow slightly to 5.7% from the 2006 rate of 5.9%.

Given the strong consumer confidence underpinned by the continuing favorable employment environment and low interest rates, private consumption is predicted to grow by 7.3%, a rate slightly higher than 2006's 7.1%. Under the effect of salary adjustments for civil servants to improve the quality of public services, and other factors, government consumption is expected to grow by 10.8%, a rate approximately twice the 5.0% posted in 2006.

From the beginning of the year, the Malaysian ringgit has remained strong relative to the U.S. dollar, with the currency's exchange rate in the January-November period of 2007 continuing to be more than 6% higher than the average for 2006 as a whole. This has created, through stable import prices, a stable investment climate for enterprises.

Private investment, which increased by 7.0% in 2006, has further accelerated and is predicted to increase by 7.5%. Consequent upon the launching of the Ninth Malaysia Plan (the 9th five-year plan, abbreviated as 9MP) in 2006, government expenditures for 2007 are increasing. Public investment, which increased by 8.9% in 2006, is expected to increase at an accelerated rate of 9.3%, led mainly by the continuing investment in development and other projects. It is calculated that total investment will grow by 8.4%, accelerating slightly from the 2006 rate of 7.9%.

Customs-cleared exports to China performed well in the January-September period of 2007, increasing by 20.7% over the same period one year earlier, but those destined to Japan increased by just 5.2%, and those to the United States decreased by

14.1%. U.S. dollar-denominated total exports in the January-October period increased by 9.1% over the same period one year earlier, falling short of the growth rate of 14.0% registered for 2006 as a whole. Export and import prices remain stable, as decreases in the prices of DRAM and other semiconductor products have canceled out the effect of rising raw material prices. Under the effect of the slowing growth in the U.S. and other advanced economies and the appreciation of the ringgit, real-term exports for the year as a whole are expected to grow by 3.0%, decelerating from the 2006 rate of 7.4%.

Reflecting the slowing growth of exports, customs-cleared imports increased by 11.3% in the January-October period over the same period one year earlier, a slower rate than the 14.4% registered in 2006 as a whole. It is estimated that real-term imports for the year as a whole will increase by 4.9%, decelerating by 3.7 percentage points from the 2006 rate of 8.6%.

As a combined effect of the foregoing developments, Malaysia's economy in 2007, though not favored by a sizeable export expansion, is predicted to grow by 5.7%, a rate 0.2 percentage point lower than the 2006 rate of 5.9%, with support from thriving domestic demand.

Given the fact that import prices have remained more or less stable, partly offsetting the surges in the prices of crude oil and primary commodities continuing from 2006, and given the appreciation of the ringgit, it is estimated that the inflation rate of general prices will be 2.2%, a rate more stable than the 2006 rate of 4.6%.

Forecast for the Economy in 2008: Continuing Stable Growth at 5.8%, Led Mainly by Private Domestic Demand

In 2008, Malaysia's economy is forecast to continue posting a stable growth rate of 5.8%, accelerating by 0.1 percentage point from the 2006 rate, led mainly by expansions of domestic demand in the private sector.

Consumer confidence will remain stable, reflecting the favorable employment environment. Private consumption is forecast to grow by 7.9%, up 0.6 percentage point from the 2007 rate of 7.3%, and will continue to outpace the GDP growth rate. Although the government will further improve public services, the growth rate of government consumption is expected to be 5.5%, a rate just half as high as the 2007 rate.

The upsurge of the prices of raw materials is expected to begin calming in 2008. The exchange rate of the ringgit is expected to remain stable, with an appreciation of about 3% for the year as a whole. Given the fact that the government is planning to reduce corporate taxes as part of its effort to improve the investment environment, it is

expected that investment sentiment among businesses will remain positive. Moreover, inflows of FDI are expected to remain solid. Consequent upon these factors, private investment is forecast to grow by 9.9%, accelerating by 2.4 percentage points from the 2007 rate of 7.5%. As expenditures for development projects experience a lull, public investment is expected to increase by a small 0.5%. It is calculated that total investment will increase by 5.2%, a rate 3.2 percentage points lower than in 2007.

As the advanced economies are expected to head toward recovery in the latter half of the year, it is assumed that Malaysia's real-term exports will increase by 5.0%, a rate 2.0 percentage points higher than in 2007.

Given the prospect that the growth rate of total investment will decline despite the accelerated expansion of exports, imports are forecast to increase only by 6.1%, a rate 1.2 percentage points higher than in 2007.

As a combined effect of the foregoing factors, Malaysia's economy in 2008 will see a small recovery of exports and brisk private domestic demand, and is forecast to continue registering a stable growth rate of 5.8%, accelerating by 0.1 percentage point from the 2007 rate of 5.7%.

The inflation rate of general prices is forecast to be 2.4%, a rate more or less unchanged from 2007, reflecting the stabilization of the prices of raw materials and the appreciation of the ringgit.

The Philippines

	2006	2007	2008
GDP Growth Rate (%)	5.5	6.7	6.3
Inflation Rate (%)	5.2	2.9	3.3

(Actual figures for 2006)

The Economy in 2007: 6.7% Growth, Accompanying Fiscal Rehabilitation

In 2007, the Philippine economy is predicted to post a growth rate of 6.7%, a figure 1.2 percentage points over that registered in 2006, reflecting the fact that the central government's public finances have grown healthier, contributing to an appreciation of the peso's value, curbed interest and inflation rates, and stronger domestic demand.

Remittances from migrant workers overseas, which are important in propping up private consumption, which accounts for more than 70% of GDP each year, grew by 15.0% in the January-September period of 2007 over the same period one year earlier. This growth, along with increasing household incomes and the stabilization of the consumer price index, allowed private consumption in 2007 to remain strong, as shown by the fact that the number of new automobiles sold in the same nine-month period increased by a sharp 16.6% over the same period one year earlier. Consequent upon these factors, private consumption for the year as a whole is predicted to increase by 5.6%, a rate comparable to that of 2006.

With the political confusion following the failed coup d'état of 2006 having played itself out, the political situation is regaining stability. Partly because the execution of the budget was delayed in the first half of 2006, and partly because government expenditures related to the election increased, real government consumption in the first three quarters of 2007 posted a significant increase of 10.3% over the same period one year earlier. Although government consumption is expected to slow slightly towards the end of the year, it is expected to grow by 10.0% in 2007 as a whole, an acceleration of 3.9 percentage points from the 2006 rate.

Government efforts to attain fiscal soundness through means such as tax reforms have been associated with rising demand for the peso in the currency market, leading the currency to appreciate more than 10% against the U.S. dollar in the January-November period of 2007. The curbing of the increase in the import price index and the narrowing of the differences between the Philippine and U.S. interest rates has led to lower inflation and interest rates, and stimulated private investment. Given the

fact that investment is accelerating in keeping with infrastructure building and the expansion of the business process outsourcing (BPO) industry, capital formation in 2007 as a whole is predicted to grow by 6.9%, a rate 5.5 percentage points higher than in 2006.

Customs-cleared, U.S. dollar-denominated nominal-term exports increased by just 4.9% in the January-September period of 2007 over the same period one year earlier, reflecting the fact that, although rising prices of primary commodities have pushed up the value of mineral ore exports by a significant margin, exports of electronic products, which account for more than half of total exports, did not fare well, increasing only by 4.2%. While real-term exports grew by 6.8% in the first half of 2007 over the same period one year earlier, the growth rate in the third quarter dropped to -4.9%, due mainly to the peso's appreciation against the U.S. dollar. Thus, real-term exports in 2007 as a whole are expected to grow by 4.0%. On the other hand, customs-cleared, U.S. dollar-denominated imports expanded by 4.4% in the January-September period over the same period one year earlier. Reflecting the appreciation of the peso, real-term imports recorded -7.0% growth for the first three quarters, and are predicted to record -4.3% growth for the year as a whole.

As a combined effect of the foregoing developments, the Philippine economy is predicted to grow by 6.7% in 2007. The inflation rate of general prices is predicted to decrease by 2.3 percentage points from the 2006 rate to 2.9%, under the effect of the peso's appreciation, which has put a brake on the increase in the import price index, thereby restraining a rise in general prices.

Forecast for the Economy in 2008: Slowdown to 6.3% Growth, Due to Stagnant Growth of Both Domestic and External Demand

In 2008, given the prospect of sluggish growth in the U.S., Japanese and other advanced economies, the Philippine economy is forecast to decelerate to a growth rate of 6.3%.

Private consumption, which will continue to be underpinned by remittances from migrant workers overseas, is predicted to increase by 5.4%, a slight deceleration from the 2007 rate of 5.6%. Government consumption is expected to increase by just 7.0%, a rate lower than in 2007, as the government restrains its consumption expenditures in an effort to balance the budget.

Considering that the public sector's investment in infrastructure construction will be slightly restrained, while investment related to the BPO industry will continue to be solid, capital formation for the year as a whole is forecast to increase by 4.7%, a rate

less significant than the growth seen in 2007.

Given the prospect that the U.S. and Japanese economies – the major export markets for the Philippines – will grow at slowed rates, exports are expected to grow by a lower rate than in the previous year, at a rate of 3.5%. Imports are forecast to continue to register negative growth for the second consecutive year, registering a contraction of 0.5%, as a reflection of the dwindling domestic demand and high peso.

As a combined effect of the foregoing factors, the Philippine economy in 2008 is forecast to grow by 6.3%, a rate lower than in 2007. Under the effect of the rising price of crude oil, the inflation rate of general prices is forecast to be 3.3%, a slight increase from the 2007 rate.

Vietnam

	2006	2007	2008
GDP Growth Rate (%)	8.2	8.4	8.7
Inflation Rate (%)	7.3	8.6	8.1

(Actual figures for 2006)

The Economy in 2007: Strong Growth of 8.4%, Reflecting Favorable Performance in Both the Industrial and the Service Sectors

The Vietnamese economy, which has registered above-8% growth rates consistently since 2005, is predicted to continue growing by a robust 8.4% in 2007.

Broken down by sector, industry, which accounts for 42% of the country's GDP (in nominal terms as of 2006), has continued to thrive, registering a double-digit growth rate of 10.2% in the first three quarters of 2007 over the same period one year earlier (same for figures below). Among major production items, production in machine tool manufacturing, air-conditioner manufacturing, and automobile and motorcycle assembly are expanding by large margins, with the value of industrial output in the January-October period of 2007 increasing by 17.0% over the same period one year earlier. Broken down by sector, industrial output of the foreign-invested sector and of the non-state sector increased by 18.2% and 20.8%, respectively, in the same ten-month period, with both outstripping the state-owned sector's 10.3%.

Given the fact that inflows of foreign direct investment are increasing smoothly, output by foreign-invested firms is expected to continue expanding in the months ahead. The amount of FDI in new projects and the amount of additional investment approved during the January-October period of 2007 added up to US\$11.26 billion, an increase of 36.4% over the same period one year earlier. Domestic investment is also expanding in keeping with the brisk production activities. Consequently, total investment is predicted to grow by 9.7% in 2007.

Exports also remained brisk, with customs-cleared U.S. dollar-denominated exports increasing by 18.6% in the January-October period of 2007 over the same period one year earlier. By product category, exports of textile goods, wooden products, and electronic and computer products continued to increase by large margins, while exports of crude oil declined. Dong-denominated real term exports, adjusted for fluctuations in export prices, are expected to post a growth rate of 11% for 2007 as a whole.

Sustained by the thriving exports and the buoyant investment activities, the industrial sector in 2007 is predicted to register a double-digit growth rate of 10.7%, in succession to the 2006 growth rate of 10.4%.

The service sector, which follows the industrial sector, accounting for 38% of the country's GDP, is also faring well, and posted an 8.5% growth rate in the first three quarters of 2007. Sales by hotels, restaurants, and tourist businesses are growing fast thanks to increasing inflows of tourists from abroad and other factors, with the result that total retail sales of goods and services posted an impressive 22.7% increase in the January-October period of 2007 over the same period one year earlier. Given also the fact that in addition to these businesses, commercial, transport and communications, and real estate businesses are also expanding briskly, the service sector is predicted to attain a high growth rate of 8.6%, a rate 0.3 percentage point higher than in 2006.

The agriculture, forestry and fishery sector, which accounts for 20% of the country's GDP, after posting a 3.4% growth rate in 2006, slowed slightly to a growth rate of 3.0% in the first three quarters of 2007. Despite the adverse effects of typhoons, which have affected the major crops, agricultural output in 2007 is expected to be comparable to that in 2006, based on increased productivity and other factors. In fishery, the output of fish- and shrimp-farming is expanding. Consequent upon these factors, the agriculture, forestry and fishery sector is predicted to register a growth rate of 3.1% in 2007.

As a combined effect of the foregoing developments, the Vietnamese economy is predicted to grow by 8.4% in 2007, a rate 0.2 percentage point higher than in 2006, based on brisk performance not only of the industrial sector, but also of the service sector.

Reflecting the accelerating economic growth, as well as the rising prices of foodstuffs, agricultural products, construction materials, and other items, the inflation rate of general prices is predicted to be 8.6%.

Forecast for the Economy in 2008: Continuing High Growth at 8.7%

In 2008, the Vietnamese economy is forecast to continue thriving, attaining a high growth rate of 8.7%.

Given the prospects that during the year, the second since Vietnam's accession to the World Trade Organization (WTO), inflows of FDI will continue to expand, and that domestic investment will also continue to thrive, total investment for the year is forecast to increase by 10.0%, a rate 0.3 percentage point higher than in 2007. In

response to expanding investment, exports are expected to increase by 12% in 2008. Consequently, the industrial sector is forecast to continue posting a double digit growth rate, growing by 10.8%.

The service sector is also forecast to continue thriving, led mainly by businesses in areas such as commerce, transport and communications, tourism, and real estate. Moreover, the service sector is expected to absorb an increasing portion of the value of FDI. Consequent upon these factors, the service sector is forecast to grow by 8.8% in 2008.

The agriculture, forestry and fishery sector is forecast to grow by 3.5%, given the prospects that government investment in infrastructure construction and the sector's production for export will continue to expand.

As a combined effect of these factors, the Vietnamese economy in 2008 is forecast to register a high growth rate of 8.7%, a rate 0.3 percentage point higher than in 2007.

Reflecting stability in the prices of agricultural products, despite the inflationary pressure generated by the continuing economic expansion, the inflation rate of general prices is forecast to decrease to 8.1%.

Appendix: Summary Tables of Share and Growth Rates of GDP Expenditures*

China

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	41.6	10.8	10.7	10.6
Government consumption	14.4	10.3	10.0	10.0
Total investment	45.9	14.9	15.3	15.3
Exports	116.5	18.5	18.5	14.5
Imports	87.0	12.7	15.7	14.4
GDP	100.0	11.1	11.5	10.6

South Korea

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	49.5	4.2	4.5	4.8
Government consumption	12.3	5.8	5.1	5.1
Total investment	28.3	3.2	5.1	5.2
Equipment	15.4	-0.4	2.7	3.4
Construction	11.1	7.6	8.3	7.6
Intangible fixed assets	1.7	9.0	5.2	5.2
Exports	57.8	12.4	10.0	6.7
Imports	47.5	11.4	9.8	7.7
GDP	100.0	5.0	4.9	5.0

Notes: 1. Exports and imports are those of goods and services.

2. Since no adjustments are made for changes in inventory or statistical errors, the figures do not necessarily add up to 100%.

Taiwan

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	56.4	1.8	2.8	3.4
Government consumption	11.7	-0.4	1.3	1.1
Total investment	19.3	0.6	3.7	3.9
Private investment	14.9	3.0	5.0	4.2
Government investment	2.8	-6.2	-3.6	-0.2
Public enterprise investment	1.6	-7.5	5.0	7.8
Exports	66.5	10.4	7.2	3.8
Imports	53.9	5.2	3.3	2.5
GDP	100.0	4.9	5.4	4.4

Hong Kong

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	57.7	5.9	6.2	6.0
Government consumption	8.2	0.3	2.1	2.0
Total investment	20.8	6.3	6.2	6.8
Exports	203.3	9.2	8.4	8.2
Imports	190.0	9.0	8.7	8.6
GDP	100.0	6.8	6.0	5.3

Indonesia

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	58.3	3.2	4.7	5.0
Government consumption	8.0	9.6	4.0	10.0
Total investment	21.9	2.9	9.1	9.8
Exports	46.8	9.2	9.3	10.1
Imports	37.0	7.6	7.6	9.7
GDP	100.0	5.5	6.2	6.4

Thailand

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	53.6	3.2	1.5	2.5
Government consumption	8.7	2.3	9.3	6.0
Total investment	23.1	3.8	1.4	5.0
Private investment	17.3	3.7	0.2	6.0
Public investment	5.8	3.9	4.9	2.2
Exports	68.2	8.5	6.9	7.0
Imports	54.5	2.6	4.0	6.0
GDP	100.0	5.0	4.6	5.0

Malaysia

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	48.6	7.1	7.3	7.9
Government consumption	12.9	5.0	10.8	5.5
Total investment	22.6	7.9	8.4	5.2
Private investment	11.5	7.0	7.5	9.9
Public investment	11.1	8.9	9.3	0.5
Exports	125.0	7.4	3.0	5.0
Imports	108.9	8.6	4.9	6.1
GDP	100.0	5.9	5.7	5.8

The Philippines

	2006	2006	2007	2008
	(Share in GDP, %)	(Growth rate, %)	(Growth rate, %)	(Growth rate, %)
Private consumption	78.3	5.5	5.6	5.4
Government consumption	6.4	6.1	10.0	7.0
Total investment	17.4	1.4	6.9	4.7
Exports	49.3	11.2	4.0	3.5
Imports	51.3	1.8	-4.3	-0.5
GDP	100.0	5.5	6.7	6.3