0 OVERVIEW

Yuen Pau Woo, *Asia Pacific Foundation of Canada*

REGIONAL IMBALANCES THREATEN ROBUST OUTLOOK

After a blistering economic expansion in 2004, the Asia Pacific region is poised for slower but still robust growth in 2005. Last year's growth in real GDP was the strongest in East Asia since the 1997 financial crisis, and represented a sharp rebound from 2003, which was marked by the Severe Acute Respiratory Syndrome (SARS) outbreak in parts of the region. For the global economy as a whole, real GDP growth in 2004 was the strongest in about 20 years.

Most analysts – including the Pacific Economic Outlook forecasting panel – were surprised by the region's very strong showing in 2004. The traditional growth engines in the region – the United States and Japan – turned in very robust growth of 4.4% and 2.6% respectively, pulling along the rest of the Asia Pacific. Last year also brought confirmation of a new growth engine for the region. Despite fears of overheating followed by a "hard landing," the Chinese economy ended the year with 9.5% real GDP growth, led by fixed asset investment and consumption. Total trade grew by 36%, with imports expanding by as much as exports and providing a much-needed source of demand for raw materials and intermediate goods exports from around the region. In the course of 2004, China overtook Japan as the second most important trading partner for many Asia Pacific economies. The People's Republic also overtook the United States as Japan's most important trading partner.

SLOWDOWN IN 2005 AND 2006

The PEO economies as a whole grew by a weighted average of 5.4% in 2004, with East Asian economies expanding by 6.4% and the other PEO economies growing by 4.1%. In 2005, growth for the region as a whole will moderate to 4.2%, with East Asia and other Asia economies also slowing to 4.8% and 3.4% respectively. We expect the growth outlook in 2006 to be roughly the same, at 4.25% for the region as a whole, 5% for East Asia, and 3.3% for other Asia.

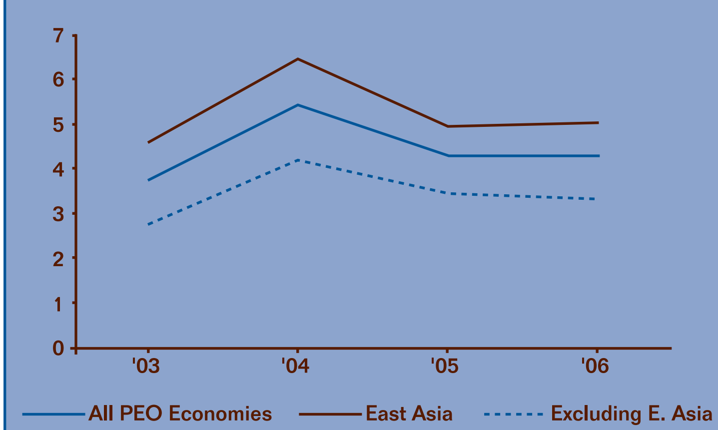
Inflation remains muted throughout the region, notwithstanding higher energy and non-oil commodity prices. We have assumed that West Texas Intermediate crude will average US$49.40 per barrel in 2005, up 19.3% from the 2004 average, before falling to an average of US$41 a barrel in 2006. Deflation in Hong Kong came to an end in 2004, and appears to have also ended in Japan.

US STILL HOT, BUT COOLING

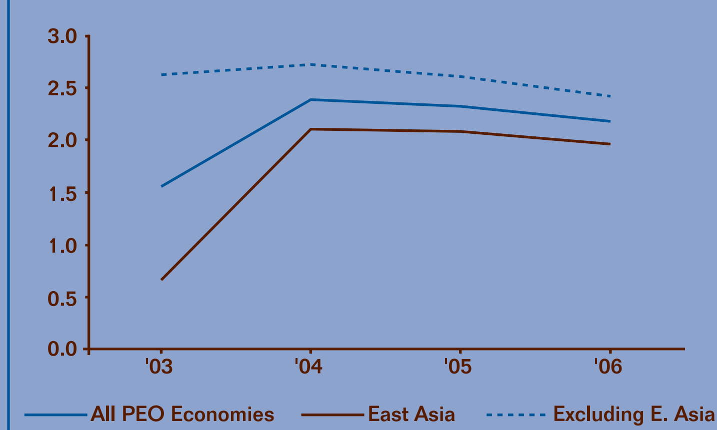
The United States economy expanded at a record-breaking clip in 2004. At 4.4% real GDP growth, last year's expansion was well above the historical average of 3% in the last 25 years. Last year's growth was led by very strong domestic demand, which saw a sharp increase in imports and further widening of the current-account deficit. We expect growth to taper off to around 3.5% in 2005 and 3.3% in 2006. After the sharp fiscal stimulus of the last two years, we expect fiscal policy to be neutral in 2005 and beyond. Monetary policy, on the other hand, remains expansionary despite a steady increase in interest rates since the middle of 2004. Tightening will continue through 2006 and 2007, but will not have a contractionary effect on the economy until the beginning of 2007.

Inflation will pick up in 2005 but not to the extent that it will pose a problem. Core inflation

REAL GDP GROWTH (%)



CPI INFLATION (%)



will rise to 2.2% in 2005 and 2.6% in 2006, with the all-items consumer price index at 2.6% in 2005, falling to 2.2% in 2006 (because of lower oil prices). The inflation outlook is a source of much uncertainty, however, because of the volatility in energy and non-oil commodity prices.

JAPAN IS COMING OUT OF A SOFT PATCH

The Japanese economy ended 2004 on an anti-climax, with fears that the nascent recovery had hit a speed bump and might even slip back into recession. More recent data suggest, however, that the second half of 2004 was a soft patch due to special circumstances (a warm winter and earthquakes that led to disruption in production) rather than the start of another slump. Despite this, real GDP growth in Japan was a very robust 2.6% in 2004, which is well above the 0-1% range of recent years. There was a rebound in the January-March quarter of 2005, but growth momentum has been easing because of inventory adjustment. For 2005 as a whole, real GDP growth is expected to be 1.3%, which still counts as a decent performance for Japan given the past decade or so of recession-like conditions. The economy will continue to expand in 2006, with real GDP growth around 1.6%. The economy will be supported almost entirely by private investment and personal consumption, a reflection of improving business and consumer confidence in the country. Higher oil prices should translate into flat overall price levels in 2005, possibly marking an end to a prolonged period of deflation. The Consumer Price Index is expected to edge up 0.2% in 2006.

CHINESE GROWTH STILL AT A BREAKNECK PACE

Fears of a hard landing in China did not materialize in 2004. Rather, the economy has continued on its breakneck pace of expansion into the first half of 2005. Real GDP growth in 2004 was 9.5%, led by fixed asset investment. By the fourth quarter, however, the pace of investment growth had fallen to 23% year-on-year (down from 43% in the first quarter) with other components of demand picking up some of the slack. Retail sales rose by 13.3% in 2004 on the back of higher disposable incomes in urban and rural areas. The outlook for 2005 is for continued robust growth of 8.5%, tapering to 8.2% in 2006. Personal consumption will continue to gain importance in supporting Chinese growth, contributing 2.7 percentage points in 2005 and 3.2 percentage points in 2006. The primary driver of growth, however, will continue to be fixed asset investment, which is expected to slow to 16% in 2005.

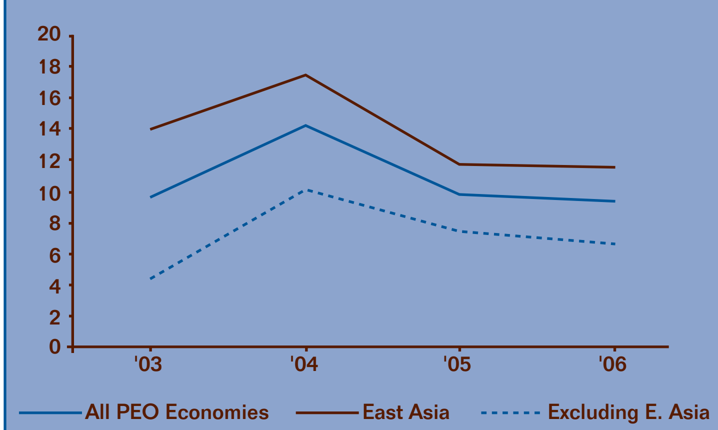
China has been experiencing "inflationless overheating" — a condition of sharp price increases in certain food products, raw materials, intermediate inputs and property markets even as the rest of the economy is characterized by excess capacity and falling prices. The all-items consumer price index is expected to rise by a modest 2.7% in 2005, down from 3.9% in 2004.

The integration of Hong Kong's economy with the mainland was deepened in 2004 with the implementation of the Closer Economic Partnership Agreement (CEPA). A sharp rise in tourist arrivals from China contributed to Hong Kong's 8.1% real GDP growth in 2004. Weaker external conditions, however, will result in more modest growth of 4.7% in 2005 and 4.1% in 2006.

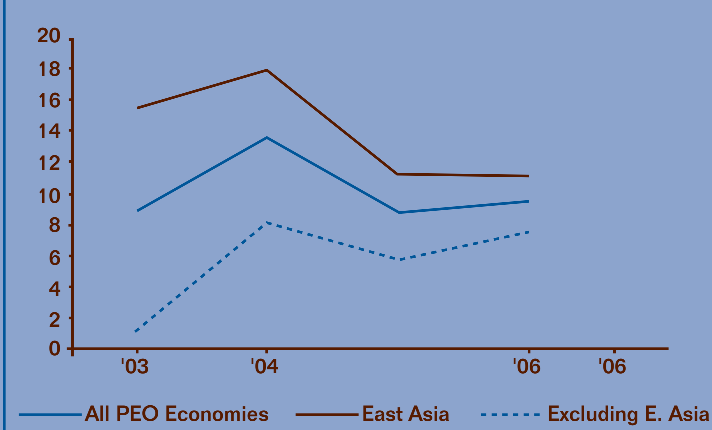
SLOWDOWN IN SOUTHEAST ASIA, AUSTRALIA AND NEW ZEALAND

Elsewhere in the region, Southeast Asia in 2004 produced its strongest growth performance since the 1997-98 financial crisis. The outlook for 2005 is for slower growth throughout the region, in part due to excessive expansion in such areas as construction and consumer spending, and also due to the less buoyant external demand. Despite the catastrophic human toll of the Indian Ocean Tsunami in the last days of 2004, the impact on overall economic output in affected Southeast Asian economies was relatively small. There are many risks in the Southeast Asia outlook, however, including widespread human transmission of Avian Flu or other diseases, and a possible

IMPORT GROWTH (%)



EXPORT GROWTH (%)



debt crisis in the Philippines that could have contagion effects on the region.

Growth in Australia and New Zealand will fall to under 3% in 2005, reflecting the less rosy outlook for the global economy. Both economies are running large current-account deficits relative to GDP, which will temper the upward pressure on their currencies arising from a weak US dollar.

SOUTH KOREA AND CHINESE TAIPEI FACE STRUCTURAL CHANGES

The South Korean economy has been struggling with high levels of consumer indebtedness and the ongoing restructuring of the corporate sector. Growth will remain low by historical standards, at around 4% in 2005, but rising to nearly 5% in 2006. Chinese Taipei will also see a slowdown in 2005 and 2006, due to weaker external conditions. Both economies are undergoing structural changes brought about by the relocation of production to China and, especially in the case of Korea, the growing importance of foreign ownership in domestic industry.

WHEN AMERICA SLOWS, THE AMERICAS SLOW

There is a similar story in the PEO economies of the Americas, with slower but still respectable growth across the board for Canada, Mexico, Peru and Chile. Canada and Mexico in particular are heavily dependent on the US as a source of export demand, and will slow to growth rates of 2.7% and 4% respectively in 2005. Chile had a banner year in 2004 on the back of strong global demand for copper (with prices rising by 60%) and is expected to grow by about 6% again in 2005, with domestic demand playing a greater role. Peru will grow by about 4.3% in 2005, in part due to public spending in the run-up to the 2006 presidential elections.

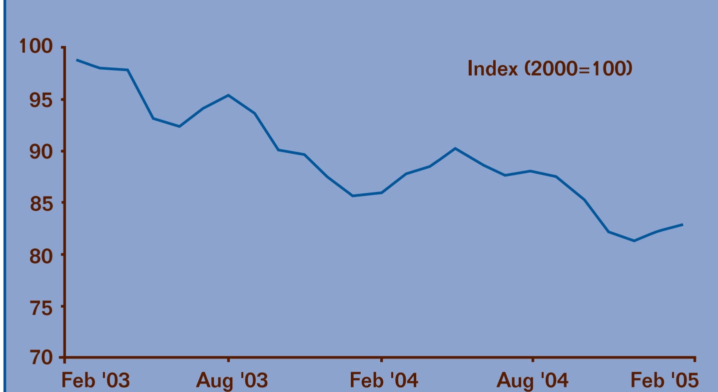
REGIONAL IMBALANCES WILL GET WORSE BEFORE THEY GET BETTER

On the external front, the region continues to be characterized by an acute imbalance in trade and financial flows, with the US current-account deficit on the one side, and current-account surpluses in many East Asian economies on the other. The forecast for 2005 is for a further widening of this imbalance, with the US current-account deficit expected to reach a record US$755 billion or 6.1% of GDP by the end of the year. The dollar value of the deficit will remain stubbornly high for some years to come, but should start to fall as a share of GDP in 2006, to around 5.8%. By 2006, the lagged effects of dollar depreciation should start to show up in higher levels of exports and lower growth of imports, but the longevity of these effects would depend on future exchange rate movements. The PEO is forecasting a fall in the trade-weighted US dollar of 6.1% in 2005 and 5.6% in 2006.

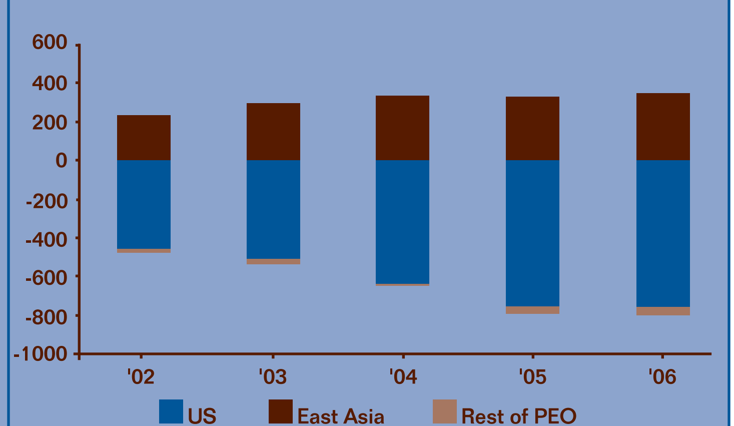
RISK OF DISORDERLY ADJUSTMENT IN CURRENCIES

Herein lies one of the major risks for the 2005-06 outlook. While the US current account may be characterized as "stubborn but improving," foreign exchange markets may choose to focus on the "stubborn" rather than on the "improving." Whether currency traders consider a 0.3 percentage point fall in the deficit/GDP ratio to be a sufficient "improvement" is not clear, but there is no question that the ratio will remain stubbornly high well into 2007. A sudden loss of confidence in the US dollar could lead to a disorderly decline in the value of the US currency, which could spill over into financial markets and the real economy. Asian central banks play a key role because of the substantial foreign reserves that they hold in US dollar-denominated assets, estimated at US$2 trillion in 2004. Comments by central bankers, finance officials and heads of government about the need to diversify foreign reserves away from US dollars have led to volatility in foreign exchange markets. While such comments have died down in recent months, many Asian governments still face a dilemma: On the one hand, benign neglect over a gradually falling US dollar will lead to an erosion in the value of their overseas assets; on the other hand, a sharp withdrawal from US currency assets could precipitate an even sharper fall in the US dollar and hurt the competitiveness of export-dependent Asian economies.

US REAL EFFECTIVE EXCHANGE RATE



CURRENT ACCOUNT BALANCES (US$)



THREAT OF PROTECTIONISM

Even if the decline in the US dollar is orderly, as our forecasts assume, there is a growing risk of conflict between Washington and Asian trading partners, especially China and other economies perceived to be "manipulating" their currencies. The expiry of the World Trade Organization's Agreement on Textiles and Clothing at the beginning of 2005 has led to a sharp increase in Chinese apparel exports to industrialized countries, including the United States, which is adding to protectionist sentiment. In fact, China is not the main source of the US trade deficit. In 2004, the US-China bilateral deficit accounted for only 25% of the overall US deficit, little changed from the level the year before. Beijing will, however, be the focus for US attention in 2005 and 2006 because of the perceived unfairness of the current level of the yuan peg to the US dollar.

Even though Chinese export growth is expected to slow in the years ahead, import growth is also slowing, which will result in an increase in the current-account surplus. Expectations that the Chinese current account would be in balance or even in deficit by 2004 did not materialize. On the contrary, the current-account surplus as a share of GDP will rise from 2.4% in 2004 to 3.1% in 2005 and 3.3% in 2006. This will fuel the calls for early revaluation of the yuan and fan protectionist sentiment in industrialized countries. Beijing's response to these threats will be a barometer of financial stability in the region, and remains a major risk factor in our forecast.

ASIAN ECONOMIC INTEGRATION AND THE ASIA PACIFIC COMMUNITY

India is not part of the PEO group of economies and still a long way from joining the ranks of growth engines for the region, but it is emerging as an increasingly important trading partner for Southeast Asia, China, Japan and South Korea. East Asia's share in Indian trade rose by a quarter from 2000 to 15.6% in 2004. India-China trade has expanded by almost 300% in the past three years, and leaders have pledged to increase trade another 50% by 2008. More fundamentally, India is beginning to participate in the kind of regional production networks that have been key to the economic integration of East and Southeast Asia. The recent establishment of electronics manufacturing and design facilities in India, as well as Indian investment in the South Korean automotive industry, are indicators of the sea change that is starting to take place.

Even as India integrates more deeply with Asia, East Asian economies are pushing ahead with new institutional mechanisms for regional cooperation and dialogue. The Chiang Mai initiative of 1997, which is a self-help mechanism for Asian economies to fend off speculative attacks on their currencies, was given a modest boost at a recent ASEAN + 3 meeting, with commitments of increased lines of credit, the introduction of a multilateral mechanism, and relaxed conditions for accessing these monies. As a result, there is renewed talk about the establishment of an Asian Monetary Fund, even though the idea remains embryonic and unlikely to materialize in the near future. In December 2005, the ASEAN + 3 countries will be meeting for the first time as the "East Asia Summit," perhaps with India, Australia and New Zealand, marking another step forward in Asia-only regionalism.

In the context of a trade and financial imbalance across the Pacific, the evolution of Asia-only regionalism could have adverse consequences for trans-Pacific economic and political relations. It is by no means inevitable that deeper integration on either side of the Pacific should lead to increased tension between the two sides, but there are a number of flash points around currency management, trade disputes and financial architecture — not to mention differences on political/security issues — that could lead to a more pronounced divide across the Pacific. The Asia Pacific Economic Cooperation (APEC) forum is the best (and only) body to forge stronger Pacific-wide ties, but there is a real danger of APEC members being increasingly distracted by regional and sub-regional priorities, eroding the commitment to the idea of an Asia Pacific community that has long been espoused by members of the Pacific Economic Cooperation Council.

KEY VARIABLES UNDERLYING PEO FORECASTS

	2003	2004	2005	2006
US Real Effective Exchange Rate 2000=100	94.3	86.6	81.3	76.8
3-month US T-Bills (%)	1.01	1.38	2.98	3.78
West Texas Intermediate Crude Oil (US$/barrel)	31.1	41.4	49.4	41.0

Note: 2005 and 2006 figures are PEO forecasts.

Source: United States, Board of Governors of the Federal Reserve System. 8 June 2005.
http://research.stlouisfed.org/fred2/series/TB3MS/116 and Wall Street Journal. 8 June 2005.
http://research.stlouisfed.org/fred2/data/OILPRICE.txt as found at
Federal Reserve Bank of St. Louis, Economic Research. 8 June 2005.
http://research.stlouisfed.org/. International Monetary Fund, International Financial Statistics Online. 29 April 2005.
http://ifs.apdi.net/imf/

T1 REAL ECONOMIC GROWTH AND INCREASE IN CONSUMER PRICES FOR PEO ECONOMIES, 2003-2006 (%)

	REAL GDP				CPI			
	2003	2004	2005	2006	2003	2004	2005	2006
Australia	3.3	3.6	2.9	3.0	2.8	2.3	2.0	1.7
Canada	2.0	2.8	2.7	3.2	2.7	1.9	2.0	2.1
Chile	3.7	6.1	6.0	5.5	2.8	1.1	2.6	3.0
China	9.3	9.5	8.5	8.2	1.2	3.9	2.7	2.0
Hong Kong, China	3.2	8.1	4.7	4.1	-2.6	-0.4	1.5	2.0
Indonesia	4.9	5.1	5.5	6.1	5.2	6.4	8.1	6.0
Japan	1.4	2.6	1.3	1.6	-0.3	0.0	0.0	0.2
Korea, Republic of	3.1	4.6	4.0	4.9	3.6	3.6	2.9	3.0
Malaysia	5.4	7.1	5.0	6.3	1.2	1.4	1.5	1.5
Mexico	1.4	4.4	4.0	3.5	4.5	4.7	4.1	4.2
New Zealand	3.4	4.8	2.9	2.4	1.8	2.3	2.7	2.1
Peru	3.8	5.1	4.3	4.0	2.3	3.7	1.7	2.5
Philippines	4.7	6.1	5.7	5.6	2.9	5.5	8.4	7.3
Singapore	1.4	8.4	4.7	5.2	0.5	1.7	1.5	1.7
Chinese Taipei	3.3	5.7	4.0	4.1	-0.3	1.6	1.9	1.9
Thailand	6.9	6.1	5.0	6.0	1.8	2.8	3.2	3.0
United States	3.0	4.4	3.5	3.3	2.3	2.7	2.6	2.2
Vietnam	7.2	7.7	8.5	8.3	3.0	9.5	8.0	8.0
Weighted Average	3.71	5.39	4.20	4.25	1.55	2.38	2.32	2.17
WA: excl. US & Japan	4.55	6.47	5.17	5.29	1.58	2.74	2.69	2.55
WA: East Asia	4.53	6.43	4.84	5.02	0.66	2.10	2.08	1.96
WA: Latin America	1.76	4.62	4.24	3.74	4.21	4.25	3.82	3.99
WA: excl. East Asia	2.73	4.14	3.44	3.33	2.62	2.71	2.60	2.42

Note: National currency based. The weighted average is based on the respective economies' 2002-2004 total merchandise trade (see Appendix Table 4).

Source: PEO forecasters.

T2 REAL EXPORT AND IMPORT GROWTH FOR PEO ECONOMIES, 2003-2006 (%)

	EXPORTS				IMPORTS			
	2003	2004	2005	2006	2003	2004	2005	2006
Australia	-2.2	4.6	10.3	13.4	10.5	13.9	9.3	4.4
Canada	-2.4	4.9	4.8	7.2	3.8	8.2	9.3	7.9
Chile	5.9	12.8	8.8	6.7	9.5	18.6	12.8	9.5
China	30.1	25.2	22.9	21.8	34.2	27.1	22.2	22.4
Hong Kong, China	12.7	15.2	10.0	9.1	11.3	13.8	9.8	8.9
Indonesia	8.2	8.5	11.5	9.0	2.7	24.9	20.0	18.0
Japan	9.1	14.3	4.7	5.1	3.8	9.2	5.1	4.3
Korea, Republic of	15.7	20.2	9.0	9.2	9.7	12.4	10.8	10.3
Malaysia	6.3	20.8	9.7	7.1	5.0	19.8	8.9	7.3
Mexico	1.1	11.9	8.3	7.4	-1.0	10.3	8.9	7.5
New Zealand	1.9	5.2	3.8	5.5	8.1	15.7	6.8	5.9
Peru	5.9	15.2	7.5	7.5	3.3	9.5	3.8	4.0
Philippines	4.4	14.0	6.1	6.1	10.2	6.3	4.0	3.3
Singapore	11.0	19.5	9.0	9.7	7.1	22.7	9.8	10.2
Chinese Taipei	10.9	15.3	4.3	7.9	6.7	18.6	5.0	6.6
Thailand	7.0	7.8	3.8	6.3	7.7	12.1	6.4	8.7
United States	1.9	8.5	5.1	7.1	4.4	9.9	6.4	6.3
Vietnam	19.0	28.9	25.0	25.0	26.7	25.0	25.0	25.0
Weighted Average	8.88	13.52	8.77	9.49	9.45	14.08	9.72	9.27
WA: excl. US & Japan	12.30	15.85	11.46	11.61	13.16	17.20	12.35	11.80
WA: East Asia	15.41	17.97	11.28	11.16	13.82	17.40	11.64	11.45
WA: Latin America	1.85	12.15	8.32	7.33	0.36	11.19	9.10	7.56
WA: excl. East Asia	0.99	8.15	5.73	7.46	4.17	10.07	7.39	6.64

Note: Export/Imports of goods and services. National currency based. The weighted average is based on the respective economies' 2002-2004 total merchandise trade (see Appendix Table 4).

Source: PEO forecasters.

T3 CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS FOR THE PEO ECONOMIES, 2002-2006 (US$B AND % OF GDP)

	2002	% of GDP	2003	% of GDP	2004	% of GDP	2005	% of GDP	2006	% of GDP
Australia	-16	-4.1	-29	-5.9	-37	-6.0	-41	-6.0	-41	-6.3
Canada	13.5	1.8	13	1.5	22	2.2	27	2.4	30	2.7
Chile	-0.6	-0.9	-1.1	-1.5	1.4	2.1	-0.6	-0.6	-0.9	-0.8
China	35	2.7	46	3.1	42	2.4	59	3.1	70	3.3
Hong Kong, China	12	7.8	16	10.3	16	9.7	17	9.9	17	10.0
Indonesia	8	3.9	8	3.4	3	1.1	3	0.9	3	0.9
Japan	113	2.8	136	3.2	172	3.7	164	3.4	179	3.4
Korea, Republic of	4	0.8	12.3	2.0	27.6	4.1	19	2.3	11	1.2
Malaysia	8	8.4	13	12.9	16	13.4	17	13.4	17	12.6
Mexico	-13	-2.1	-9	-1.3	-9.4	-1.4	-12	-1.6	-17	-2.4
New Zealand	-2	-3.6	-3	-4.2	-6	-6.4	-7	-6.5	-6	-5.7
Peru	-1	-2.0	-1	-1.8	0	-0.1	0	-0.1	0	-0.1
Philippines	4	5.7	3	4.2	3	4.0	4	3.7	4	3.5
Singapore	16	17.7	28	29.2	29	26.1	23	19.3	23	18.0
Chinese Taipei	26	9.2	29	10.1	22	7.2	19	6.0	21	6.3
Thailand	7	5.5	8.0	5.6	7	4.5	4	2.0	1	0.5
United States	-458	-4.4	-511	-4.6	-639	-5.4	-755	-6.1	-759	-5.8
Vietnam	-1	-3.1	-2	-4.8	-2	-3.2	-2	-5.0	-2	-5.0
Total	-245.1		-243.8		-332.4		-461.6		-449.9	
Total: excl. US & Japan	99.9		131.2		134.6		129.4		130.1	
Total: East Asia	232.0		297.3		335.6		327.0		344.0	
Total: Latin America	-14.6		-11.1		-8.0		-12.6		-17.9	
Total: excl. East Asia	-477.1		-541.1		-668.0		-788.6		-793.9	

Source: PEO forecasters.

T4 FORECAST OF CONTRIBUTIONS TO REAL GDP/GNP GROWTH RATE FOR PEO ECONOMIES, 2005-2006 (% PER YEAR)

		GDP Growth Rate	Personal Consumption Expenditure	Gross Private Domestic Investment	Government Purchasing	Net Exports
Australia	2005	2.9	2.3	1.4	1.0	-0.3
	2006	3.0	1.6	0.6	0.5	1.6
Canada	2005	2.7	2.1	1.3	0.8	-1.7
	2006	3.2	1.8	0.8	0.8	-0.3
Chile	2005	6.0	3.7	2.9	0.6	-1.5
	2006	5.5	3.4	2.2	0.6	-1.2
China	2005	8.5	2.7	5.0	0.0	0.8
	2006	8.2	3.2	4.6	0.0	0.4
Hong Kong, China	2005	4.7	2.5	0.5	0.1	1.5
	2006	4.1	1.9	0.7	0.1	1.4
Indonesia	2005	5.5	3.0	2.2	0.1	-3.1
	2006	6.1	2.7	2.7	0.1	-3.0
Japan	2005	1.3	0.4	0.8	0.0	0.1
	2006	1.6	0.7	0.7	0.0	0.2
Korea, Republic of	2005	4.0	1.2	2.1	0.4	-0.1
	2006	4.9	2.2	1.4	0.3	0.3
Malaysia	2005	6.0	3.8	1.1	-0.6	1.7
	2006	6.3	4.0	0.1	1.8	0.4
Mexico	2005	4.0	3.0	1.4	0.2	-0.4
	2006	3.5	2.5	1.1	0.1	-0.2
New Zealand	2005	2.9	3.0	0.1	1.1	-1.3
	2006	2.4	2.1	0.1	0.8	-0.5
Peru	2005	4.3	2.2	0.8	0.4	0.9
	2006	4.0	2.1	0.9	0.2	0.9
Philippines	2005	5.7	3.4	1.3	0.1	0.6
	2006	5.6	3.2	0.9	0.1	1.0
Singapore	2005	4.7	1.3	2.2	0.2	1.0
	2006	5.2	1.3	1.9	0.2	1.7
Chinese Taipei	2005	4.5	1.5	1.2	0.1	1.5
	2006	4.1	1.4	0.7	0.2	1.6
Thailand	2005	5.0	2.5	0.0	1.6	-0.9
	2006	6.0	3.0	0.0	0.8	-0.6
United States	2005	3.5	2.5	1.2	0.3	-0.5
	2006	3.3	2.6	0.7	0.3	-0.3
Vietnam	2005	8.5	4.9	4.3	2.0	-2.0
	2006	8.3	4.9	4.3	2.0	-2.0

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

Source: PEO forecasters.

T5 ACTUAL AND FORECAST LEVELS OF SHORT-TERM, LONG-TERM INTEREST RATES FOR PEO ECONOMIES, 2003-2006 (%)

	SHORT-TERM INTEREST RATES					LONG-TERM INTEREST RATES				
	Type	2003	2004	2005	2006	Type	2003	2004	2005	2006
Australia	90-day bank bill	4.80	5.50	5.80	5.30	10-yr treasury	5.20	5.60	5.80	5.80
Canada	90-day t-bill	2.86	2.22	2.63	3.56	10-yr GOC bond	4.71	4.59	4.65	5.14
Chile	real monetary policy rate	0.00	-0.47	1.30	2.00	PRC 8 rate	2.9	2.4	3.0	3.4
China	1-yr deposit	1.98	2.25	3.00	2.25	/	/	/	/	/
Hong Kong, China	HIBOR 3 mth	0.97	0.39	2.80	3.20	10-yr exchange fund note	4.23	3.95	5.20	5.60
Indonesia	/	/	/	/	/		/	/	/	/
Japan	Overnight call rate	0.001	0.001	0.001	0.001	10-yr govt bond	0.991	1.498	1.493	1.865
Korea, Republic of	Call rate	4.00	3.70	/	/	3-yr treasury bond yield	4.60	4.10	/	/
Malaysia	3-mth, commercial bank	3.00	3.00	3.00	3.00	12-mths, commercial bank	4.00	3.70	3.70	3.70
Mexico	Cetes 28 days end	6.10	8.50	9.40	8.00	10-yr govt bond	8.30	9.70	/	/
New Zealand	90-day bank bills, end yr qtrly avg	5.85	6.71	6.50	5.99	10-yr govt bonds, end yr qtrly avg	6.20	6.66	6.66	6.76
Peru	Interbank avg.	3.40	2.70	3.00	3.50	Loans & discounts > 360 days	27.00	26.50	24.50	25.00
Philippines	91-day t-bill	5.85	7.32	8.02	8.46	364-day t-bill	7.50	9.24	10.49	11.75
Singapore	3-mth IBR	0.75	1.44	1.70	2.00	10-yr LCY	3.20	3.20	3.70	4.00
Chinese Taipei	Overnight call rate	1.10	1.10	1.80	2.60	Call loan (2-6 mths)	4.50	1.50	2.50	3.00
Thailand	MLR	5.63	5.63	5.63	6.00	5-yr govt bond	2.99	3.75	4.25	5.50
United States	3-Mth T-bill	1.01	1.38	2.98	3.78	10-Yr T-bond	4.02	4.27	4.63	5.40
Vietnam		0.20	0.28	0.25	0.25	1-yr deposit, %/month	0.60	0.65	0.60	0.60

Source: PEO forecasters.

T6 EXCHANGE RATES, 2003-2006 (LOCAL CURRENCY PER US$)

	EXCHANGE RATES			
	2003	2004	2005	2006
Australia	1.59	1.37	1.32	1.46
Canada	1.40	1.30	1.22	1.28
Chile	691.40	609.53	590.00	605.00
China	8.27	8.27	8.27	8.27
Hong Kong, China	7.78	7.78	7.78	7.78
Indonesia	8571	8985	9200	8900
Japan	115.93	108.16	104.40	98.50
Korea, Republic of	1191.65	1146.11	1050.00	1000
Malaysia	3.80	3.80	3.80	3.80
Mexico	10.80	11.30	11.50	12.00
New Zealand	1.72	1.51	1.41	1.46
Peru	3.48	3.41	3.31	3.37
Philippines	54.20	56.04	55.88	56.56
Singapore	1.70	1.63	1.62	1.62
Chinese Taipei	34.40	33.40	30.70	30.20
Thailand	41.5	40.3	38.5	38.5
United States	1.00	1.00	1.00	1.00
Vietnam	15,700.00	15,750.00	16,100.00	16,200.00

Source: PEO forecasters.

T7 GDP DEFLATOR INDEX

		GDP DEFLATOR INDEX			
	Base Year	2003	2004	2005	2006
Australia	1995	101.48	105.01	108.80	110.56
Canada	1997	111.20	114.80	117.30	119.50
Chile	1996	128.07	129.64	132.83	136.62
China	1995	105.97	112.68	117.19	119.53
Hong Kong, China	2000	89.63	87.10	85.40	84.00
Indonesia	2002	109.83	116.86	126.33	133.91
Japan	2000	96.04	94.92	94.36	93.98
Korea, Republic of	2000	108.90	112.40	116.20	118.99
Malaysia	1997	170.20	180.40	184.01	187.32
Mexico	1993	420.90	446.50	465.00	484.50
New Zealand	1996	113.72	118.18	121.32	123.54
Peru	1994	159.95	168.63	170.31	174.57
Philippines	1995	167.4	177.7	186.2	194.6
Singapore	1995	96.70	100.00	101.60	103.40
Chinese Taipei*	2001	-2.1	-1.9	1.2	1.1
Thailand	1988	171.4	179.2	185.7	192.2
United States	2000	106.00	108.20	110.70	113.60
Vietnam	1994	182.40	196.90	211.90	227.90

* *Annual percentage change. Base year = 100*

Source: PEO forecasters.