

Overview

Global growth expanding at a fairly robust pace...

The global economy continues to grow despite high crude oil prices and monetary policy tightening in major economies. Economic activities in developed countries continue to expand, with the euro area improving on the back of positive consumer and business sentiments, while in Japan, growth continues to firm up with further strengthening in business and consumer confidence. The United States (US) economy is showing signs of moderation. Among developing economies, growth continues to be strong in China, India and other nations in Asia, supported by rising exports, investment and consumption.

For the year, world gross domestic product (GDP) is projected to expand further to 4.9% (2005: 4.8%), as shown in *Table 2.1*. The strong growth forecast could be impeded by several downside risks, notably, a further increase in crude oil prices and global interest rates, disorderly adjustments of the global imbalances – the diverging current account positions of the world's main economic regions – as well as heightened geopolitical uncertainties in the Middle East.

TABLE 2.1

Real Gross Domestic Product (GDP) Growth for Selected Countries, 2005-2007 (% change)

	2005	2006 ¹	2007 ²
World GDP	4.8	4.9	4.7
Developed Economies			
Euro area	1.3	2.1	1.9
Japan	2.6	2.8	2.1
United Kingdom	1.8	2.5	2.8
United States	3.5	3.25-3.5	3.0-3.25
East Asia			
China	9.9	10.4	9.3
Hong Kong SAR	7.3	5.5	5.0
Republic of Korea	4.0	5.1	4.9
Taiwan	4.1	4.3	4.0
South Asia			
India	8.4	7.3	7.0
ASEAN 5			
Indonesia	5.6	6.2	6.3
Malaysia	5.2	5.8	6.0
Philippines	5.1	5.5-6.2	5.6
Singapore	6.4	6.5-7.5	4.6
Thailand	4.5	4.5-5.5	5.4

¹ Estimate.

² Forecast.

Source: IMF World Economic Outlook (April 2006) and various sources.

Trade, Investment and Financial Market Performance

World trade continues to drive global growth...

World trade is expected to grow by 8% in 2006 (2005: 7.3%), supported by favourable economic growth and increased demand for semi-conductors brought about by the recovery of the global electronics industry, crude oil, commodities as well as raw materials. Global economic developments particularly in the US, euro area, Japan and China, will continue to have a bearing on world trade.

World trade, as reflected by world imports, is expected to expand by 9.7% in 2006 (2005: 7.4%), with imports still strong in many regions of the world. In Japan, sustained private investment and continuing improvement in the labour market are expected to contribute towards vigorous household consumption, providing impetus for a 5.5% growth in imports. In the euro area, imports are expected to accelerate with business investments and exports picking up and the labour market improving. As for the US, steady growth in trade is expected, though imports are likely to moderate slightly in the face of weaker household consumption towards the second half of the year brought about by a cooling housing market. Imports in emerging Asia will be led by China, now the third main importer after the US and Germany. With strong demand, particularly for raw materials, import growth is expected to reach 20% in volume terms. Elsewhere in Asia, trade continues to be strong with imports rising to meet the sustained private demand in many of the economies. As for Latin America, imports of countries in the region could rise by 8%, driven by strong internal demand and appreciation in their currencies, while rising crude oil prices have benefitted the oil-exporting countries in Africa and the Middle East, leading to higher imports.

Global **foreign direct investment** (FDI) inflows grew by an annualised rate of 29% to USD896.7 billion in 2005. Based on the 2005 United Nations Conference on Trade and Development (UNCTAD) survey, global FDI inflows is projected

to expand further in 2006. The survey indicated that growth in FDI will centre on natural resources and infrastructure, with an increasing trend in cross-border mergers and acquisitions (M&As). The rise in FDI to the natural resources sector will be in response to China's industrial needs and opportunities in the oil and gas industry. As for the other sectors, expectations are high for increased inflows to electrical and electronic products, machinery and equipment, metals and metal products. The FDI outlook for the services sector continues to be positive in the areas of information and communications technology (ICT), public utilities, transportation and tourism. Greater liberalisation in investment regimes, brought about by bilateral, regional and international agreements, is also expected to contribute towards higher FDI flows in 2006. In terms of investment locations, the five most attractive countries ranked by transnational corporations (TNCs) in the survey are China, India, the US, Russia and Brazil.

The performance of major **equity markets** during the first half of 2006 was mixed, dominated by uncertainties over US interest rate hikes, geopolitical tensions in the Middle East and volatile crude oil prices. In the US, stock prices rose in the early part of the year against a background of solid corporate earnings outlook, but declined sharply in mid-May to early June, triggered by the rise in inflation expectations and the associated uncertainty about further interest rate increases by the Federal Reserve Board (Fed).

Most markets rebounded after the Fed maintained the US interest rate at 5.25% on 8 August 2006, as was generally expected. Markets closed higher in the US (3.3% against end-2005), United Kingdom (UK: 4.3%), Germany (5.4%) and France (6.6%), but fell 2.8% in Japan and 4.7% in the Republic of Korea, as shown in *Table 2.2*. Movements in other Asian markets broadly mirrored those in the US with stock prices closing higher in Indonesia (21.5%), Hong Kong (16.6%), the Philippines (12.1%), Singapore (5%), Malaysia (4.6%) and Taiwan (0.4%).

In **foreign exchange markets**, the US dollar continued to weaken against major currencies

TABLE 2.2

Performance of Selected Equity Markets

Indices / Equity Markets	End-2004	End-2005	9 August 2006	% change vs	
				End-2004	End-2005
DJIA, USA	10,783.01	10,717.50	11,076.18	2.7	3.3
Nikkei-225, Japan	11,488.76	16,111.43	15,656.59	36.3	-2.8
FTSE-100, UK	4,814.30	5,618.80	5,860.50	21.7	4.3
DAX, Germany	4,256.08	5,408.26	5,702.81	34.0	5.4
CAC, France	3,821.16	4,715.23	5,025.15	31.5	6.6
HSI, Hong Kong SAR	14,230.14	14,876.43	17,346.58	22.0	16.6
KOSPI, Rep. of Korea	895.92	1,379.37	1,314.93	46.8	-4.7
TWSE, Taiwan	6,139.69	6,548.34	6,573.22	7.1	0.4
KLCI, Malaysia	907.43	899.79	941.26	3.7	4.6
STI, Singapore	2,066.14	2,347.34	2,465.04	19.3	5.0
SET, Thailand	668.10	713.73	708.93	6.1	-0.7
JCI, Indonesia	1,000.23	1,162.64	1,413.10	41.3	21.5
PCOMP, Philippines	1,822.83	2,096.04	2,349.22	28.9	12.1

Source: Bloomberg.

in the early part of 2006 due to concerns of higher crude oil prices and expectations of further increases in the US federal fund rate. When the federal fund rate remained unchanged at 5.25% on 8 August, both the euro and the pound sterling strengthened against the dollar by 8.3% and 9.7%, respectively, compared to end-2005. The US dollar also weakened against regional currencies such as the Thai baht, Indonesian rupiah and Singapore dollar, as shown in *Table 2.3*.

Advanced Economies

Better performance, albeit some moderation in the second half...

Growth among advanced economies is more broadly based, with the US continuing as the main engine of growth, supported by the ongoing expansion in Japan and sustained recovery in the euro area. Going forward, these economies nevertheless continue to remain vulnerable to crude oil price shocks given production capacity constraints as well as the possible disorderly adjustment of global imbalances.

The **US** economy expanded by 4.1% in the first half of 2006 (January-June 2005: 3.4%). Driven by strong consumption, business fixed investment and government spending, the economy grew at a fast pace of 5.6% during the first quarter (January-March 2005: 3.4%). However, against a backdrop of slowing productivity and rising unit labour costs, the economy moderated to 2.5% in the second quarter (April-June 2005: 3.3%), as a result of lower personal consumption, weak government spending and a sharp decline in private fixed investment and residential construction. Consumer spending, which makes up more than two-thirds of aggregate spending, decelerated due to higher energy costs and the cooling in the housing market.

Growth is expected to moderate in the second half of the year. Unemployment rose to 4.8% in July from 4.6% in the previous two months while growth in non-farm employment continued to be weak. Inflation, though moderating, continued to be high with annual core personal consumption expenditure (PCE) price index at 2.7% in June 2006. Giving greater priority at not forestalling growth in an economy that is showing signs of

TABLE 2.3

Performance of Selected Currencies against USD

Currencies	Selected currency to one unit of USD			% change vs	
	21 July 2005	End-2005	9 August 2006	21 July 2005	End-2005
Chinese renminbi ¹	8.2765	8.0702	7.9760	3.8	1.2
Euro ²	1.2143	1.1830	1.2898	-5.9	-8.3
Hong Kong dollar	7.7792	7.7547	7.7771	0.0	-0.3
Indonesian rupiah	9,800.00	9,831.00	9,095.00	7.8	8.1
Japanese yen	112.32	117.48	114.90	-2.2	2.2
Korean won	1,036.00	1,007.30	959.45	8.0	5.0
Malaysian ringgit¹	3.8000	3.7793	3.6685	3.7	3.2
New Taiwan dollar	31.965	32.825	32.772	-2.5	0.2
Philippine peso	55.765	52.985	51.350	8.6	3.2
Pound sterling ³	1.7472	1.7232	1.9093	-8.5	-9.7
Singapore dollar	1.6782	1.6631	1.5725	6.7	5.8
Thai baht	41.86	41.06	37.57	11.4	9.3

¹ Chinese renminbi and Malaysian ringgit pegs lifted on 21 July 2005.

² USD to one unit of euro.

³ USD to one unit of pound sterling.

Source: Bank Negara Malaysia and various sources.

weakening, the Fed on 8 August 2006 decided to maintain the interest rate at 5.25%, after raising it 17 consecutive times since June 2004. With inflation risks remaining, the Fed left open the possibility of further rate hikes. Consistent with the expected moderation in the second half, real GDP growth for 2006 is projected at 3.25% to 3.5% (2005: 3.5%).

The economic recovery in the **euro area** that started in 2005, although interrupted in the fourth quarter by higher energy prices and falling household consumption, picked up again to achieve 2% growth in the first quarter of 2006, rising to 2.4% in the second quarter. This upturn was underpinned by stronger domestic demand spurred by increased private investments in both equipment and construction as well as improved export earnings. Inflation, which remained above the 2% ceiling (May-July: 2.5%), prompted the European Central Bank to raise its benchmark rate to 3% on 3 August, its fourth increase since December 2005. Notwithstanding

inflationary pressures from higher oil prices, the euro area is projected to grow at 2.1% in 2006 (2005: 1.3%).

The **German economy** grew 2.1% in the first half of 2006 (January-June 2005: 0.6%), boosted by rising business investment, as well as construction activities which rebounded from the first quarter when it was impeded by unusually cold weather. The World Cup soccer championship in June and July, which generated USD2.5 billion in extra retail sales, as well as the prospect of a value-added tax (VAT) increase in January 2007, bolstered consumer spending. The economy is projected to grow by 1.7% in 2006 (2005: 1%) on the strength of global demand, with increasing contribution from private investment and consumption as well as the continuation of supportive financing conditions.

Real GDP in the **UK** recorded 2.5% in the first half of 2006 (January-June 2005: 1.9%),

driven by strong growth of 2.6% in the second quarter (April-June 2005: 1.7%). Growth in the second quarter was primarily led by the continuing strength of the services sector and a turnaround in manufacturing. The services sector expanded by a robust 3.6% (April-June 2005: 2.6%), driven by improved performances in all services sub-sectors. Moving forward, the retail sector in particular continued to exhibit strength. During May to July 2006, the volume of retail sales grew by 3.9% with sales predominantly in food stores increasing by 3.2%, while that of non-food stores by 4.6%. Inflation, on an upward trend mainly due to higher energy utility bills, recorded 2.8% in July 2006. To curtail inflation, the Bank of England on 3 August 2006 raised its benchmark interest rate by 25 basis points to 4.75%, the first rate increase since August 2005. The UK economy is projected to achieve 2.5% in 2006 (2005: 1.8%), driven by higher consumer spending, pick-up in business investment as well as government spending, healthier growth in the euro area and a relatively competitive pound.

Japan's economy continued to maintain its growth momentum despite the GDP moderating from 3.8% in the first quarter of 2006 to 2% in the second quarter. Capital spending recorded the ninth consecutive increase with a 9.8% gain in the second quarter. Private consumption, which accounts for about 55% of Japan's GDP, increased by 1.9% in the second quarter, marking the sixth consecutive increase. The rising capital spending, especially in plants and inventories as well as strengthening domestic consumption, signalled that Japan's economy is finally on a sustained growth path with a rebound in prices after years of deflation.

The better growth picture is reinforced by the fact that the Bank of Japan increased its key interest rate from zero to 0.25% on 14 July 2006, the first time in six years. The higher interest rate could further boost the economy as it is expected to put an additional one trillion yen (approximately USD9 billion) into the pockets of consumers, thereby further raising consumption expenditure. Future interest rate hikes would depend on how well the economy adjusts to the new monetary regime. On the fiscal side, the

government faces the challenge of managing its decision to rein in its budget deficit while ensuring the growth momentum is maintained. Japan's growth is anticipated to be 2.8% for 2006 (2005: 2.6%).

Developing Economies

Strong performance led by emerging Asian economies...

Developing economies of **Asia**, with GDP growth averaging 8.5%, have outpaced other regions for the past three years. Leading economies are China and India with growth forecast at 10.4% (2005: 9.9%) and 7.3% (2005: 8.4%), respectively for 2006. The Association of Southeast Asian Nations (ASEAN) member countries are also expected to register strong growth ranging from 4.5% (Thailand) to 8% (Viet Nam). Other Asian economies anticipated to show strong performance include Bhutan (13.2%), Afghanistan (11.7%) and Maldives (8%).

Growth in **emerging Europe** is expected to remain above 5% in 2006, underpinned by strong domestic demand and solid export growth, partly fuelled by the recovery in domestic demand in the euro area. Countries in the region that are expected to record strong growth, despite some moderation from the previous year, include Latvia at 9% (2005: 10.2%), Estonia 7.9% (2005: 9.8%), Lithuania 6.5% (2005: 7.3%), Slovak Republic 6.3% (2005: 6%), Turkey 6% (2005: 7.4%) and Bulgaria 5.6% (2005: 5.5%). Growth in the **Commonwealth of Independent States** (CIS) is also expected to moderate to 6% (2005: 6.5%) on account of tighter international credit conditions and monetary policy as well as lower output growth in the energy sector (Russia, Kazakhstan), political and economic uncertainties (Ukraine, the Kyrgyz Republic) and negative contributions from the external sector (Russia, Ukraine). In **Latin America**, growth is expected to be maintained at 4.3% in 2006, supported by strong global demand for commodities, in particular fuel and metals (Chile, Andean region) and agriculture (Argentina, Uruguay). Against a background of strong growth and fiscal discipline, public debt also declined.

Higher crude oil export earnings had driven growth in the **Middle East** but with production close to capacity, growth in the region is expected to moderate slightly to 5.7% in 2006 (2005: 5.9%). Saudi Arabia is projected to record the highest growth of 6.3% (2005: 6.5%) and the main risks to the regional outlook are geopolitical uncertainties and the slow pace of reconstruction in Iraq. **Africa** is expected to attain 5.7% growth in 2006 (2005: 5.2%). While growth has picked up in countries such as Nigeria and Angola as a result of higher crude oil prices, oil importers such as South Africa and Zambia also posted strong growth driven by higher metal prices. Other countries in the region such as Ethiopia, Mozambique and Sierra Leone achieved impressive growth, benefitting from past reforms.

East Asian Economies

Growth driven by exports and rising domestic demand...

Buoyed by the strong rebound in global electronics demand in the second half of 2005, East Asian export growth continued into 2006. Real GDP growth in the region is anticipated to hold steady at 7.7% in 2006, supported by the sustained expansion in Japan and recovery in Republic of Korea alongside the continued growth of ASEAN member countries and China. Inflation is expected to rise marginally to 2.4% in 2006 as economies in the region adjust to more costly crude oil. The **ASEAN** region is poised to chalk an estimated growth rate of 5.8% in 2006 (2005: 5.5%), underpinned by strengthening domestic demand and exports.

China's GDP in the first half of the year soared to 10.9% (January-June 2005: 9.5%), driven mainly by surging investment in roads, factory equipment and other fixed assets, which recorded an increase of 29.8%. Total retail sales also increased by 13.3% during the same period. Meanwhile, the trade surplus grew by 55% to USD61.4 billion, fuelled by booming foreign trade with total export-import value growing by 23.4%.

Inflation, which has been consistently low, rose by only 1.3% in the first six months on account of domestic overcapacity. The rising crude oil prices did not significantly affect China's

inflation partly because of continued subsidies for energy and utilities.

To rein in growth to a more sustainable level, the government implemented various measures which included limiting excessive credit and investment in certain sectors, such as real estate, steel and cement manufacturing as well as consumer electronics. After announcing its first quarter performance, the bank lending rate was increased to 5.85% in April 2006, the first increase since October 2004. Subsequently, in August the rate was further increased to 6.12%, while the deposit rate was similarly raised to 2.52%. Growth for 2006 is expected to register 10.4% (2005: 9.9%).

The **Republic of Korea** grew at a weaker pace of 5.3% in the second quarter of 2006 (January-March 2006: 6.1%), mainly on account of lower construction spending. Overall, the economy is still solid with strong exports (April-June 2006: 15.3%) and sustained domestic demand (April-June 2006: 4.5%).

In order to pre-empt inflationary pressures, the Bank of Korea increased its key interest rate by 25 basis points to 4.50% in August, after a similar increase in June 2006. The Republic of Korea's growth is expected to accelerate to 5.1% in 2006 (2005: 4%) on the back of stronger consumption, investment and exports. Nevertheless, this optimistic outlook may be affected by a strengthening won, higher crude oil prices and a reversal of demand for information technology products which in turn, could affect the highly-indebted small and medium enterprises and household sector.

Indonesia posted a stronger second quarter GDP growth of 5.2% compared to 4.7% in the first quarter of 2006. This was mainly due to its exports, which increased 11.3%, stimulating an expansion of the agricultural sector by 5% and the mining sector by 5.4%. At the same time, government spending, which increased by 31.4%, also compensated for the weaker consumer spending and a fall in private investment to contribute to stronger growth in the second quarter.

Inflation, which recorded over 17% since October 2005 on account of the increase in fuel prices, eased to 15.5% in July 2006 mainly because of the rupiah appreciation and less

volatile food prices as well as the government putting on hold the planned increase in electricity tariff.

In a bid to further spur economic growth, the Bank of Indonesia cut its policy rate in July this year by 25 basis points to 12.25%, followed by a further cut of 50 basis points in August to 11.75%. Despite the downside risks, mainly from high crude oil prices and the continued global monetary tightening, slow progress in infrastructure development in some regions as well as implementation constraints on the government fiscal stimulus, growth in Indonesia is expected to pick up in the second half of the year, and is forecast to grow by 6.2% in 2006 (2005: 5.6%). This is supported by the improvement in the balance of payments and greater macroeconomic stability as well as the expected increase in consumer and business confidence following the lowering of the interest rate.

The **Philippines** sustained its growth momentum by recording a 5.5% increase in the first quarter of 2006 (January-March 2005: 4.2%). This was supported by the continued growth of the services sector, albeit at a slower pace of 6.2%, improved performance of the industry sector at 5.5% and rebound of the agriculture sector at 3.8%.

The inflation rate recorded a high of 7.6% in February 2006, mainly due to higher crude oil prices and the two-percentage point increase in the VAT. In order to reduce the impact of the VAT increase introduced on 1 February 2006, the government exempted minimum wage earners from personal income tax. Subsequently, inflation has been on a downward trend to record 6.4% in July.

The Philippine economy, while likely to sustain a growth of 5.5% to 6.2% (2005: 5.1%), could be hampered by political uncertainties and continued delays in structural reforms. Growth is expected to emanate from higher private consumption expenditure supported by rising remittances from overseas Filipino workers, and exports.

Singapore's economy expanded at an average of 9.4% during the first half of 2006 (January-June 2005: 4.6%), with growth in external demand decelerating from 16% in the first quarter to

13% in the second quarter. However, total domestic demand grew by 4.9% in the second quarter, mainly due to higher private consumption expenditure and total gross fixed capital formation. Surging tourist arrivals which boosted sales at hotels, restaurants and stores, are set to rise further as Singapore hosts the Annual Meetings of the International Monetary Fund (IMF) and the World Bank in September.

Inflationary pressures from high oil and some non-oil commodity prices have brought the average inflation for the first six months of 2006 to 1.3%. Overall, inflation is expected to be fairly well contained within 1% to 2% for the year (2005: 0.7%). Singapore's economy is expected to expand between 6.5% and 7.5% in 2006 (2005: 6.4%), barring any external shocks to the economy.

Thailand's economy continued to expand in the first quarter of 2006, reaching 6% (January-March 2005: 3.2%) despite internal political problems. The continued growth was primarily contributed by robust export expansion of 20% during the first quarter and steady household consumption. Household consumption, which rose by 4.1%, was mainly due to higher farm income resulting from both higher production and rising agricultural prices, as well as an upward adjustment of minimum wages which took effect from 1 January 2006. Nevertheless, household consumption has been tempered by rising inflation and interest rates as well as political uncertainties.

High crude oil prices have resulted in the Consumer Price Index rising by 5.7% during the first quarter of 2006. It is anticipated that growth for 2006 will range between 4.5% and 5.5% (2005: 4.5%) on account of robust external demand, improved performance of the tourism sector and steady household consumption.

Financial Cooperation and Trade Developments

Closer cooperation for sustained economic growth...

In the face of increasing competition brought about by globalisation, the need for economies to work together becomes all the more pressing.

Through cooperation, countries are able to avail themselves of ideas, best practices and experiences and in the process, strive to formulate appropriate policies that are mutually beneficial. In the area of finance and trade, Malaysia continues to be actively involved, both bilaterally and multilaterally.

Regional Financial Cooperation

Towards closer regional integration and cooperation...

Regional cooperation within the **ASEAN** framework advanced further under the guidance of the ASEAN Finance Ministers. During the Tenth ASEAN Finance Ministers' Meeting held in April 2006 in Siem Reap, Cambodia, member countries moved a step closer towards greater customs cooperation, harmonisation and integration with the finalisation of the Protocol to Establish and Implement the ASEAN Single Window. The Protocol, which encompasses the electronic processing of trade documents and streamlining of customs procedures among member countries, would further facilitate cross-border trade and investment in the region.

Key priorities identified to further enhance the competitiveness and depth of ASEAN's financial sector in a globalised environment include developing ASEAN as an asset class, reinforcing financial services liberalisation, strengthening capacity building and enhancing infrastructure financing. The successful launch of the FTSE-ASEAN indices during the ASEAN Finance Ministers' Investor Seminar in September 2005 in London has fostered further private sector interest to develop ASEAN financial products such as the exchange traded fund (ETF).

As in 2004 and 2005, the ASEAN Finance Ministers agreed to continue promoting the region as a premier investment destination in the face of closer regional economic integration. Based on the theme, *ASEAN: Meeting Global Challenges*, the Third ASEAN Finance Ministers' Investor Seminar would be held on 14 September in Hong Kong and 16 September 2006 in Singapore, essentially to capitalise on regional

events, including the Annual IMF and World Bank Meetings in Singapore, which are expected to draw substantial numbers of international investors, investment bankers and fund managers.

The ongoing fourth round of negotiations on liberalising financial services under the ASEAN Framework Agreement on Services (AFAS), which was launched in April 2005, continues to progress well and is scheduled to conclude by end-2007. Meanwhile, the capital account liberalisation initiative will see the launch of a book on capital account policies of ASEAN countries in September 2006 with updates provided through a web page managed by the ASEAN Secretariat.

East Asian financial cooperation marked another milestone with significant progress made under the Chiang Mai Initiative (CMI) and the Asian Bond Markets Initiative (ABMI) during the Ninth **ASEAN+3** Finance Ministers' Meeting in Hyderabad, India on 4 May 2006. The CMI, which comprises a network of bilateral swap arrangements (BSAs) among member countries and aims to strengthen regional liquidity support, currently stands at USD75 billion. To further enhance the effectiveness of the CMI, member countries adopted the collective decision-making procedure to expedite the swap activation process and support BSA signatories facing short-term liquidity difficulties.

Notable progress under the ABMI is reflected in the significant expansion of the local currency bond market in the region, which has quadrupled since 1997. To further contribute to the development of deeper and more liquid bond markets that would assist in the efficient allocation of the large pool of savings in Asia to finance productive investment in the region, the ABMI continues to focus on strengthening the market infrastructure, including the establishment of a regional credit guarantee and investment mechanism, settlement system, credit ratings and Asian bond standards.

At the inter-regional level, the **Asia-Europe Meeting** (ASEM) of Finance Ministers convened for the seventh time in Vienna, Austria in early April 2006. The Meeting accorded Finance

Ministers from the 13-member ASEAN+3, 25-member European Union and the European Commission the opportunity to discuss global economic developments and issues. ASEM Finance Ministers also agreed to the establishment of a third ASEM Trust Fund for capacity building as well as approved the Terms of Reference of the ASEM Contingency Dialogue Mechanism for Emergent Economic and Financial Events. In addition, the Ministers discussed the issue of quota misalignments among members of the Bretton Woods Institutions and agreed that fair voice and quota distribution that reflect developments in the world economy would improve representation and ownership of these institutions by member states.

Trade Developments

Slow progress in WTO...

The **World Trade Organisation** (WTO) launched the Doha Round of negotiations in 2001 to further progress global trade liberalisation in, among others, agriculture, non-agricultural market access (NAMA) and services. The Doha Round, also known as the Doha Development Agenda (DDA), committed WTO members to

address the needs and interests of developing countries in the negotiations and to resolve a number of concerns raised by developing countries. The progress of the DDA, however, has been limited largely due to the impasse on agriculture and non-agriculture issues. With the current round of negotiations suspended, much work remains to be done in order to bring the Doha Round to a successful conclusion.

Outlook 2007

Major economies expected to see moderating growth...

In an environment of high crude oil prices, tightening monetary conditions and deepening global imbalances, growth in the US is forecast to register 3% to 3.25% in 2007 (2006: 3.25%-3.5%), euro area 1.9% (2006: 2.1%) and Japan 2.1% (2006: 2.8%), with inflation in advanced economies forecasted to remain subdued at 2.1% (2006: 2.3%). Growth in the East Asian region, in particular China, will nevertheless continue to be robust supported by domestic demand and export growth. With growth in major economies generally on a moderating trend, global output in 2007 is projected to be lower at 4.7% (2006: 4.9%).