



International Environment and Economic Cooperation

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Overview

World growth moderating...

The global economy is weighed down by the challenges of slowing growth arising from the financial turmoil precipitated by the United States (US) sub-prime mortgage crisis and mounting inflation triggered by high commodity prices. The adverse effects of the sub-prime mortgage crisis and ensuing credit crunch have impacted the developed economies, particularly the US, where the potential losses from the financial market fallout have yet to be fully tallied. In addition, inflationary pressures, especially from high food and fuel prices, continue to strain household budgets, erode consumer confidence and dampen growth. Consequently, the weaker economic growth and tighter credit conditions affected global foreign direct investment (FDI) flows, while weaker import demand from the developed economies is likely to moderate global trade flows.

The emerging and developing economies have thus far been spared from the turmoil in the more developed financial markets. Consequently, they are expected to post sufficiently strong expansion that would help support global growth, despite facing high food and fuel prices. Furthermore, resource-rich developing economies are likely to experience a boost in FDI into the extractive industries due to the continued strong demand for raw materials and energy resources.

Governments around the world, nevertheless, continue to grapple with the need to manage the impacts of moderating global growth and rising food and fuel prices, against a backdrop of geopolitical tensions and continued global imbalances. These challenges to economic and

financial stability reinforce the need for concerted global efforts towards more comprehensive solutions.

Global Economic Performance

Developing economies contribute to global growth...

Global Gross Domestic Product (GDP) growth in 2008 is expected to register a growth rate of 4.1% (2007: 5.0%), as shown in *Table 2.1*, largely on account of continued resilience among the emerging and developing economies, led

TABLE 2.1

Real Gross Domestic Product (GDP) for Selected Economies 2007 – 2009

		Change (%)	
	2007	2008 ¹	2009 ²
World	5.0	4.1	3.9
Developed Economies	2.7	1.7	1.4
United States	2.2	1.3	0.8
Euro area	2.7	1.7	1.5
Japan	2.1	1.5	1.5
Asia			
China	11.9	9.7	9.8
Republic of Korea	5.0	4.6	4.4
India	9.0	7.7	8.0
ASEAN 5	6.3	5.6	5.9
Indonesia	6.3	6.0-6.2	6.3
Thailand	4.8	4.8-5.8	4.3-5.8
Singapore	7.7	4.0-5.0	4.5
Philippines	7.3	5.7-6.5	5.8
Malaysia	6.3	5.7	5.4

¹ Estimate.

² Forecast.

Source: IMF and national authorities.

by China and India, as well as oil-producing countries. Nevertheless, rising inflation resulting from food and fuel price hikes could erode the growth performance, particularly of the developing economies. For the year, world inflation is expected to increase to 4.7% from 3.9% recorded in 2007, as shown in *Table 2.2*. During the course of the year, governments have instituted various measures to deal with these issues, both nationally and internationally.

The **US** continues to be affected by financial sector problems, which have adversely affected the real economy. Since the onset of the sub-prime mortgage crisis in mid-2007, the US has undertaken various initiatives to contain the negative effects of the financial sector crisis, including the bailing out of one of the largest US investment banks and a proposal to salvage the two largest mortgage finance companies. The

US also introduced a USD168-billion economic stimulus package in 2008, comprising cash rebates and tax incentives to spur consumer spending and investment. The economy subsequently sustained its performance in the second quarter of 2008, expanding 1.8% (April – June 2007: 1.8%), supported by positive contributions from exports of goods and services, government spending, private investment as well as personal consumption expenditure. Meanwhile, inflation increased 3.5% in the second quarter of 2008 (April – June 2007: 2.7%), spurred by increases in the prices of energy and food items. The Federal Reserve Board, nevertheless, left the federal funds rate unchanged at 2.0% in August 2008 as growth continued to be dampened by the higher unemployment rate, continued financial instability and tighter credit conditions, contracting housing market as well as elevated energy prices. Against this backdrop, the US is expected to register lower growth of 1.3% for the year (2007: 2.2%).

Growth in the 15-nation **euro area**, which managed to avoid being badly affected by the US sub-prime mortgage crisis, registered 1.5% in the second quarter of 2008 (April – June 2007: 2.6%), down from 2.2% in the first quarter (January – March 2007: 3.2%). The moderation was largely on account of the major eurozone economies being impacted by surging commodity prices that constrained consumer spending, the strong euro, higher borrowing costs and the US slowdown. Germany, which generally accounts for 30.0% of the euro area output, recorded slower growth of 1.7% in the second quarter (April – June 2007: 2.5%) compared with 2.6% in the first quarter (January – March 2007: 3.4%), due to declining external demand and domestic consumption that continued to be dampened by inflationary pressures. In June and July 2008, inflation in the euro area remained at 4.0%, the highest since the bloc's formation in 1999. In response, the European Central Bank raised its main interest rate by 25 basis points to a seven-year high of 4.25% in July, but kept the rate unchanged in August amid signs of slowing economic growth. Growth for the euro area is expected to register a rate of 1.7% in 2008 (2007: 2.7%).

TABLE 2.2

Inflation Rate for Selected Economies 2007 – 2008

	Change (%)	
	2007	Jan – July 2008
World	3.9	4.7¹
Developed Economies	2.2	3.4¹
United States	2.9	4.4
Euro area	2.1	3.6
Japan	0.0	1.2 ²
Emerging and Developing Economies	6.4	9.1¹
China	4.8	7.7
Republic of Korea	2.5	4.6
India	6.4	7.0 ²
ASEAN 5		
Indonesia	6.4	8.9
Thailand	2.2	6.7
Singapore	2.1	7.1 ²
Philippines	2.8	8.3
Malaysia	2.0	4.4

¹ Estimate for 2008.

² January – June.

Source: IMF and national authorities.

Japan's economy grew 1.0% in the second quarter of 2008 (April – June 2007: 1.8%), down from 1.2% recorded in the first quarter (January – March 2007: 3.2%), mainly due to a decline in exports and consumer spending. The Consumer Price Index (CPI), excluding fresh food, climbed 1.9% in June 2008 from a year earlier, the fastest pace in more than a decade. The Bank of Japan maintained its benchmark interest rate at 0.5% in August to prevent the risk of recession, even as inflation accelerates worldwide. For the year, the economy is forecast to grow 1.5%, down from 2.1% in 2007.

In contrast to the developed countries, the emerging and developing countries continue to chart strong growth. Following the Asian financial crisis, countries in **East Asia** (ex-Japan) have instituted strong macroeconomic policies and structural reforms to enhance their resilience and flexibility. As a result, foreign exchange reserves have increased significantly, non-performing loans of banks have been reduced, debt burdens are on the decline, fiscal space has been created to allow for contingencies, and exports as well as markets have been diversified. Further, supported by strong domestic and regional demand, the region is forecast to continue posting brisk growth of 8.2% in 2008 (2007: 8.7%), despite higher inflation of about 7.5%, as recorded in April 2008.

The largest economy in East Asia (ex-Japan), **China**, grew 10.1% in the second quarter of 2008 (April – June 2007: 11.7%), easing from 10.6% recorded in the first quarter (January – March 2007: 11.1%) amid lower export demand, a strengthening renminbi and rising wages. Exports moderated to 21.9% in the first half of the year (January – June 2007: 27.6%), while imports grew 30.6% (January – June 2007: 18.3%), driven by a surge in crude oil and iron ore prices. Meanwhile, the CPI registered 6.3% in July, down from a 12-year high of 8.7% in February 2008 due to a series of measures implemented, including raising the interest rate and the statutory reserve requirement. At the same time, the government announced new initiatives to stem the inflow of speculative funds,

while allowing capital inflows for genuine trade transactions. China's economy is projected to grow 9.7% in 2008 (2007: 11.9%), supported by consumption and exports.

In the **Republic of Korea**, growth in the second quarter of 2008 registered a rate of 4.8% (April – June 2007: 4.9%), driven mainly by exports, which increased 11.8%. This growth is lower than the 5.5% recorded in the first quarter (January – March 2007: 4.0%) due to a contraction of 0.1% in private consumption (April – June 2007: 0.9%), brought about by high inflation. The CPI registered 5.9% in July, the fastest acceleration since November 1998, breaching the Bank of Korea's target range of 2.5% to 3.5% for the ninth straight month. Since May 2008, the government has intervened to halt the won's decline and consequently, curb inflation. In August 2008, the central bank raised its key benchmark rate to 5.25% to ensure that inflationary pressures remain under control. Overall, the Republic of Korea is expected to register a stable growth rate of 4.6% in 2008 (2007: 5.0%).

India's growth remained high, albeit at a slightly reduced pace of 8.8% in the first quarter of 2008 (January – March 2007: 9.7%), supported by the strong services sector, primarily the trade, hotel, transport and communication sub-sector, which grew 12.4%, as well as the construction sector, 12.6%. Following the government's move to increase the retail price for gasoline and diesel in June 2008, inflation reached a high of 12.4% in the last week of July. Inflation remains high despite the Reserve Bank of India raising its benchmark "repo" lending rate by another 50 basis points to 9.0% in July 2008, the third time in two months, and the cash reserve ratio by 25 basis points to 9.0%, effective end-August 2008. To alleviate the plight of the low-income group, the government undertook fiscal measures, such as loan write-offs for indebted small farmers, a civil service pay rise as well as subsidies on fuel and food. Nevertheless, inflation, compounded by higher wage demands, is expected to exert further pressure on the economy and impact growth. In 2008, growth is forecast at 7.7% (2007: 9.0%).

Indonesia registered a growth rate of 6.4% in the second quarter of 2008 (April – June 2007: 6.3%), marginally higher than 6.3% recorded in the first quarter (January – March 2007: 6.0%), on the back of higher exports, especially of commodities such as coal, palm oil and rubber. Bank Indonesia increased the benchmark interest rate to 9.0% in August (July 2008: 8.75%) as a measure to curb inflation, which rose to 11.9% in July. The higher inflation rate was attributed to the 8.7% increase in transport costs, following the fuel price hike of 29.0% in May 2008. Despite the global slowdown and inflationary pressures, the economy is expected to grow 6.0% – 6.2% (2007: 6.3%), driven by an increase in private consumption, exports as well as investment in infrastructure projects.

The **Philippine** economy grew at a slower pace of 5.2% in the first quarter of 2008 (January – March 2007: 7.1%), mainly due to weak exports and rising food and fuel prices. Exports, which were affected by the slowdown in the US economy, contracted sharply by 11.1% (January – March 2007: 10.8%). However, the services sector remained strong, registering growth of 6.9%, albeit lower than the 8.4% posted during the same period in 2007. Inflation rose 12.2% in July 2008, the highest level since December 1991, as the costs of food, beverages and tobacco jumped 16.5%. To curb inflation, *Bangko Sentral Ng Pilipinas* raised its policy rate 25 basis points to 5.25% in June 2008, the first increase in more than two years. Taking into account the impact of the global slowdown and rising inflation, the government revised the growth forecast for the year to between 5.7% and 6.5%, down from the earlier target of 6.3% and 7.0% (2007: 7.3%).

Singapore's GDP, which increased 6.7% in the first quarter of 2008 (January – March 2007: 7.0%), fell significantly to 2.1% in the second quarter (April – June 2007: 9.1%). The deceleration was primarily due to a contraction of 5.2% in the manufacturing sector, as biomedical manufacturing declined sharply, and slower growth in external demand. Inflation accelerated to a high of 7.5% in June 2008, as a result of higher costs of food, transport and communication as well as housing. In an effort to mitigate the

adverse effect of inflation on the low-income and vulnerable groups, the government continued with programmes such as the senior citizens' bonus, public transport voucher scheme and utilities-save rebates. In April 2008, the Monetary Authority of Singapore intervened to strengthen the currency to contain imported inflation, resulting in the Singapore dollar appreciating by more than 5.0% against the US dollar. For the year, growth is expected to range between 4.0% and 5.0% (2007: 7.7%).

Growth in **other developing countries** is envisaged to remain robust in 2008 due to strong domestic demand and exports. Among the **Middle Eastern oil-exporting countries**, high oil revenue continues to spur government spending on infrastructure and social projects, as well as strong credit expansion to the private sector. Meanwhile, growth continues to be sustained in the **non-oil exporting countries**, such as Egypt with growth anticipated at 7.0% (2007: 7.1%) and Jordan 5.5% (2007: 5.7%), spurred by domestic reforms in housing, education and healthcare services to improve investment and employment opportunities, as well as trade and financial spillovers from the oil-exporting countries. As a region, the Middle East is expected to grow 6.2% (2007: 5.9%). In **emerging Europe**, growth is estimated at 5.5% in 2008 (2007: 6.9%) driven by strong domestic demand, including for residential property. The **Commonwealth of Independent States**, meanwhile, is expected to grow 8.6% (2007: 9.7%) on the back of high commodity prices, expansionary macroeconomic policies, strong capital inflows, rapid credit growth, and rising asset prices. Growth in **Latin America**, on the other hand, is projected to moderate to 4.4% (2007: 5.6%) in 2008, largely due to capacity constraints and tightening monetary conditions. Against this backdrop, high commodity prices are expected to sustain domestic demand across the region. Commodities also underpin **Africa's** economic performance, which is projected at 6.4% (2007: 6.5%). The sustained performance is due to the coming onstream of new production facilities in oil-exporting countries such as Angola and Nigeria, as well as the strong non-fuel commodity exports and investment growth in non-oil exporting countries, particularly South Africa.

Investment Flows

Investment flows holding steady...

In 2007, the rise in FDI flows was due to increased cross-border mergers and acquisitions in the banking industry, extraction and related service industries, as well as greenfield investments. The United Nations Conference on Trade and Development (UNCTAD) estimated that global FDI inflows in 2007 reached a new high of USD1,537.9 billion (2006: USD1,305.9 billion), as shown in *Table 2.3*, indicating that FDI flows remained unaffected by the turmoil in the financial markets that began in the latter half of 2007.

TABLE 2.3

FDI Inflows by Selected Host Regions and Major Host Economies 2006 – 2007

	USD billion		Change (%)
	2006	2007 ¹	
World	1,305.9	1,537.9	17.8
Top 5 recipients for 2007			
United States	175.4	192.9	10.0
United Kingdom	139.5	171.1	22.6
France	81.1	123.3	52.1
Netherlands	4.4	104.2	2,285.1
China	69.5	67.3	-3.1
Developed Economies	857.5	1,001.9	16.8
European Union	531.0	610.0	14.9
Japan	-6.5	28.8	n.a.
Others	333.0	363.1	9.0
Developing Economies	379.1	438.4	15.7
Asia and Oceania	259.8	277.0	6.6
India	16.9	15.3	-9.4
ASEAN 5	48.0	64.7	34.8
Singapore	24.2	36.9	52.6
Thailand	9.8	10.0	2.3
Malaysia	6.1	9.4	54.4
Indonesia	5.6	5.9	6.3
Philippines	2.3	2.5	4.6
Others	119.3	161.4	35.3
Transition Economies	69.3	97.6	40.8

¹ Preliminary estimates.

Source: UNCTAD.

Flows of FDI into developed countries grew for the fourth consecutive year, registering USD1,001.9 billion (2006: USD857.5 billion), with the US maintaining its position as the single largest FDI recipient on account of opportunities, especially in the automotive, defence and aerospace sectors, as well as its investor-friendly environment and well-developed capital markets. The European Union (EU) received about 40.0% of total global FDI, most of which were channelled to the software, business and financial services sectors. The leading investment destinations were the United Kingdom, France and the Netherlands. Meanwhile, Japan experienced a turnaround in FDI inflows of USD28.8 billion in 2007 (2006: -USD6.5 billion), largely to the financial and real estate sectors.

The developing economies continued to attract more FDI, increasing 15.7% to USD438.4 billion in 2007, principally into resource-based industries and manufacturing (Brazil), banking (Egypt) and extractive industries (Angola and Nigeria). The six-year consecutive increase of FDI flows into Asia and Oceania reached USD277 billion in 2007 (2006: USD259.8 billion), accounting for 63.2% of total flows to the developing economies, mainly into sectors such as manufacturing and real estate (China); and services, computer software and hardware as well as telecommunications (India).

Among the five major countries in the Association of Southeast Asian Nations (ASEAN 5), Malaysia's FDI increased 54.4% to USD9.4 billion (2006: USD6.1 billion), reflecting the growing confidence among foreign investors in the country's favourable investment climate. In the 2007 A.T. Kearney FDI Confidence Index, Malaysia's ranking rose to the 16th position out of 60 countries, after falling below the top 25 countries in the last survey. The electrical and electronics (E&E) sector has been the principal recipient of FDI, particularly due to competitively priced quality manpower, which costs 40.0% lower than Singapore and Hong Kong. Based on the UNCTAD World Investment Prospects Survey 2007 – 2009,

Malaysia is the 14th most attractive FDI location in terms of market growth, cost efficiency and quality labour, as shown in *Chart 2.1*. Under the Third Industrial Master Plan, E&E and other key sectors such as petrochemicals, pharmaceuticals, transport machinery and wood-based products are targeted for further development and promotion of FDI into Malaysia.

Global FDI growth in 2008 is expected to remain uncertain due to weaker economic growth in developed countries. Tighter credit conditions and exchange rate fluctuations could aggravate the situation further. Nevertheless, strong global demand for natural resources is likely to boost FDI in the extractive industries of resource-rich countries. Similarly, rising environmental concerns, together with growing demand for energy, are anticipated to result in more investment in environment-related industries and services such as reverse logistics (collection of waste products), recycling and water treatment facilities, new environment-friendly products and processes, as well as alternative energy sources.

Malaysia's FDI prospects in 2008 could be boosted by taking advantage of China's fast-developing market, which will continue to be a catalyst for growth in the global economy. Rising demand from China is expected to spur higher value added production and create more opportunities for commodity-rich economies such as Malaysia. New opportunities in the services sector in Malaysia also abound, especially information and communication technology as well as manufacturing-related services.

Trade Flows

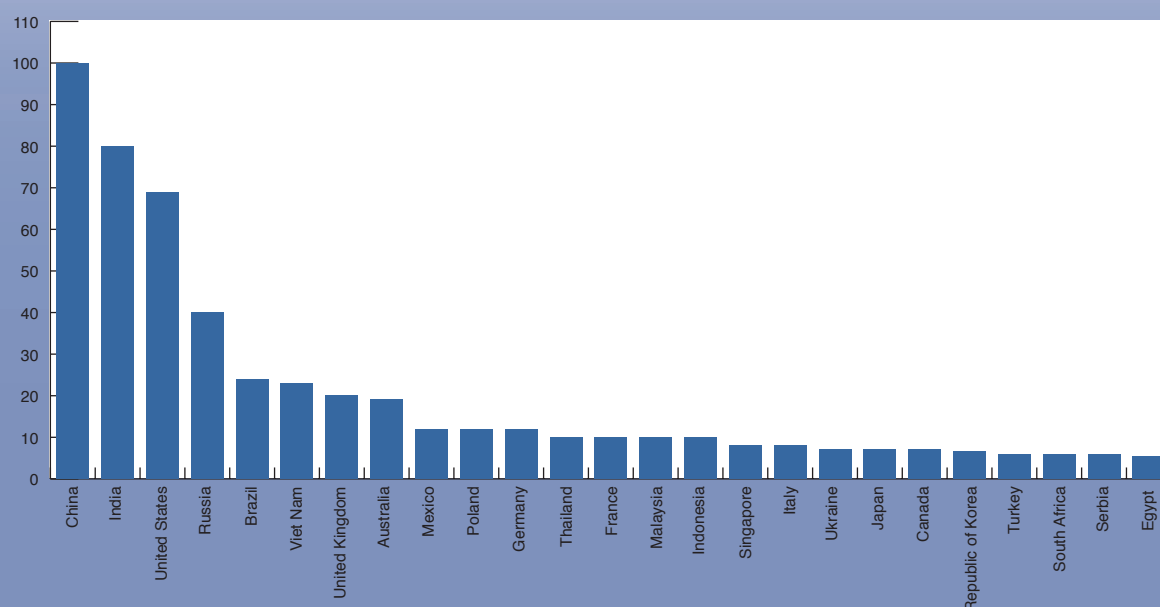
Trade flows moderating...

Global trade flows, which surged 9.2% in 2006, moderated to 6.8% in 2007 as a result of slower import demand from developed countries, especially from the US. Trade is expected

CHART 2.1

25 Most Attractive Economies for FDI 2007 – 2009

(Total number of responses)



Source: UNCTAD Survey, 2007 – 2009.

to decelerate further in 2008 in line with the downturn in the developed economies, though somewhat counterbalanced by the sustained growth momentum in the emerging and developing economies. Preliminary estimates of global trade flows in 2008 indicate growth of 5.6%, taking into account the lower GDP forecast for the year. Countries such as the US, euro area and Japan experienced significant declines in contrast to China and ASEAN.

US imports decreased significantly to 2.2% in 2007 (2006: 6.0%) as business entities and consumers started to reduce both investment and spending due to soaring fuel and commodity prices, declining housing market and tightening credit conditions. The main sources of imports in 2007 are China, with a share of 16.5% (2006: 15.5%); Canada, 16.0% (2006: 16.4%); Mexico, 10.8% (2006: 10.7%) and Japan, 7.4% (2006: 8.0%). Imports include industrial supplies and materials, capital goods, automotives, parts and engines, consumer goods, food and beverages as well as animal feed. The downward trend in imports is expected to continue into 2008. Export growth, which decreased to 8.4% in 2007 (2006: 9.1%), is expected to continue to expand at a slower pace in 2008.

China's exports expanded strongly at 19.4% in 2007 (2006: 18.2%), reflecting robust demand from Europe and developing countries, such as Brazil, Russia and India. Nevertheless, weaker world demand, the renminbi's appreciation and rising domestic costs are expected to dampen China's exports in 2008. Meanwhile, China's import increased marginally to 16.2% in 2007 (2006: 16.0%) as GDP growth eased to a more sustainable rate. Imports into China mainly originated from Japan, 14.0% (2006: 14.6%); Republic of Korea, 10.9% (2006: 11.3%); Taiwan, 10.6% (2006: 11.0%); and the US, 7.3% (2006: 7.5%).

The **EU** is the world's largest goods exporter, and the second largest importer after the US. The EU's main trading partners include the US,

China, Russia, Japan, Republic of Korea, India and Brazil. Although the US remains its largest trading partner, China has taken over as the EU's principal source of goods imports since 2006. The EU's exports consist of machinery and vehicles, as well as chemicals and other manufactured products. In view of the slowing US economy and moderating global growth, EU's trade is expected to expand at a slower pace in 2008.

Exports, the main driver of **Japan's** growth, rose 8.6% in 2007 (2006: 9.7%), led by sales of cars, steel and telecommunications equipment. Exports to China, the EU and oil-producing countries helped offset the decline in exports to the US. Japan's imports expanded 1.8% in 2007 (2006: 4.2%) as rising food and fuel prices prompted consumers and business entities to reduce spending and investments. For 2008, however, exports are expected to record slower growth due to weaker demand from the US and EU.

Singapore's export growth slowed to 4.4% in 2007 (2006: 12.8%), largely due to a decline in electronics shipments amid easing prices, as well as the continued build-up in inventories among major chip makers. Singapore's main trading partners include Malaysia, the US, China, Hong Kong, Indonesia and Australia. The weaker global economic environment is expected to slow the pace of Singapore's export growth in 2008. Nevertheless, supported by the growth momentum in Asia and coupled with its role as both a financial hub as well as a popular business and tourist destination, the government is taking steps to reduce its reliance on electronics exports by further developing its services exports.

The slowing global economy is likely to have an impact on the demand for **ASEAN** (ex-Singapore) exports, especially from the developed economies. However, increasing intra-ASEAN trade as well as the strength of domestic demand are expected to partially offset the slower growth in exports to the developed economies.

International Economic Cooperation

Managing global challenges for economic stability...

Economic challenges currently faced by countries are beyond the capabilities of individual countries to resolve, notwithstanding the accumulated experience gained during previous episodes of crisis management. Global issues of common concerns such as high food and fuel prices and volatile financial markets, therefore, require regional and international efforts to derive global solutions. In this regard, the Finance Ministers, in meetings at ASEAN and ASEAN+3 (China, Japan and the Republic of Korea) levels, as well as the Asia-Europe Meeting (ASEM) and the Asia Pacific Economic Cooperation forum, discussed transborder issues affecting regional and international growth prospects. Other issues discussed included market responses to mitigate and adapt to climate change as well as reform of the international financial institutions (IFIs).

In the global market, **food prices** nearly doubled during the first half of 2008 compared with 2007. The soaring prices were largely on account of robust demand boosted by the rising number of middle-income consumers in China, India and Brazil, as well as supply constraints aggravated by new policies promoting biofuels. The problem was further compounded by globalisation and trade in food commodities, which has led to falling investment in agriculture in developing countries swamped by heavily-subsidised imports from developed countries. A prolonged period of high commodity prices would place serious strains on the balance of payments, especially of countries heavily dependent on food imports.

Realising the socio-political consequences that the food crisis would have on different countries, various leading international institutions and groupings have addressed these issues. In May 2008, the Asian Development Bank announced

the provision of USD500 million in immediate assistance to Asia Pacific countries most affected by rising food prices, as well as doubling the USD1-billion loan in 2008 to USD2 billion in 2009 for agriculture development. In June 2008, the United Nations Summit on World Food Security and Climate Change in Rome recommended expanding food assistance to the more vulnerable communities and boosting small-scale food production, as well as eliminating barriers to trade in food commodities.

The World Bank in May 2008, announced the establishment of a USD1.2-billion rapid financing facility to offer assistance to vulnerable countries. The Bank further urged the US and Europe to remove subsidies and tariffs on biofuels, which aggravate the global food shortage, driving up prices of crops such as wheat, corn and sugar cane. Similarly, the International Monetary Fund (IMF) focused on addressing the needs of food-importing countries that face balance of payments problems. The Sixth Summit of the Group of Eight Islamic Developing Countries, or D8, which was held in Kuala Lumpur from 4 – 8 July 2008, also addressed the issue of food security and recommended the establishment of a food fund to resolve the crisis.

As for the **crude oil** market, the elements influencing crude oil prices include geopolitical problems in oil-producing countries and weather-related disasters that contribute to supply disruptions. Rapid growth and urbanisation have increased demand for transport services, pushing fuel prices up further. In addition, the weak US dollar, troubled credit markets as well as major bourses entering into bear territory have resulted in investors looking for higher yields by investing in the commodity markets, contributing to further increases in crude oil prices.

While it was acknowledged that countries are more resilient to external shocks than a decade ago, the surge in crude oil prices forced some governments to undertake radical measures, such

as reducing subsidies on petrol, and making direct transfers to the more vulnerable groups. Internationally coordinated responses include increasing output and production capacity as well as examining the role of the futures market in stabilising crude oil prices. At the same time, the government of Saudi Arabia provided USD500 million in soft loans to finance energy and development projects in developing countries.

The **financial market turmoil**, triggered by the US sub-prime mortgage crisis and the fragile credit markets, has heightened uncertainties as reflected by market volatility and losses of as much as half the market capitalisation of a number of bourses around the world. In addition to the rescue packages initiated by the US Federal Reserve as well as the central banks of a number of developed economies, several Sovereign Wealth Funds have invested about USD59 billion to recapitalise distressed financial institutions hit by the crisis. These measures helped to stabilise the global financial system. Nevertheless, uncertainties remain, particularly in terms of the duration, extent and impact on the US economy as well as repercussions on the emerging and developing economies that are dependent on US consumer demand. In addition, the crisis could continue to spur a flight to safe havens with investments flowing into the commodities market, further contributing to volatile commodity prices. This has galvanised national governments and the IFIs to look for solutions to minimise the impact on the global economy. These include measures to ensure global financial market stability, support confidence and improve the functioning of markets through regulatory oversight and prudent management of the economy.

In an effort to further strengthen **regional financial stability**, the Chiang Mai Initiative, a regional support facility to assist countries facing short-term liquidity problems on a bilateral basis, is being transformed into a multilateral arrangement.

In this context, the ASEAN+3 Finance Ministers agreed in May 2008 to create a pool of at least USD80 billion in reserves that could be tapped in the event member nations need assistance. Discussions on the ASEAN Infrastructure Financing Mechanism continue to focus on developing a fund from ASEAN reserves to finance infrastructure projects in ASEAN member countries. ASEM also explored the potential of public-private partnership financing for infrastructure development as well as the setting-up of the European Public-Private Partnership Expertise Centre to assist in building capacity through the exchange of experts between Asia and Europe.

Another overarching issue that continues to be the focus of the international community is the impact of **climate change**. There is general agreement that all countries must assume collective responsibility in tackling this multidimensional issue. It is generally acknowledged that the industrialised countries, as the largest emitters of greenhouse gases, disproportionately enjoy the gains from global prosperity, while the poorest countries unduly shoulder the consequences of climate change. These concerns have led to ongoing discussions to reduce the carbon footprint, explore market-oriented responses in mitigating greenhouse gas emissions cost-effectively and facilitate the transfer of green technology to developing countries. The strengthening cooperation is expected to promote the complete, effective and sustained implementation of the United Nations Framework Convention on Climate Change as well as work towards a successor to the Kyoto Protocol.

Efforts at the multilateral level to reform the international financial architecture have narrowed down to **reforming the IMF and the World Bank**. The call for reform is largely aimed at enhancing the institutions' legitimacy and forging inclusiveness to ensure their relevance and responsiveness to the needs of member countries. Hence, greater representation and engagement of all developing countries is vital.

Outlook for 2009

Global growth continues to moderate...

The global economy in 2009 is projected to grow marginally lower at 3.9% (2008: 4.1%). Economic growth in the US and the euro area is expected to continue to be constrained by the financial market turbulence and tight credit conditions, as well as the uncertainties regarding the full ramifications of the sub-prime mortgage crisis. Nevertheless, the financial market crisis is expected to ease in response to measures instituted and policies implemented by the relevant authorities. While growth in the emerging and

developing economies is expected to ease due to lower global demand, China and India are expected to continue providing the momentum for global growth. Commodity prices, which are expected to remain high, will continue to benefit resource-rich developing economies. As a result, global growth, trade and investment are expected to improve in the second half of the year.

The world economic outlook is likely to continue to be affected by inflationary pressures. Nevertheless, continued global and regional commitment on the part of governments and the private sector, backed by multilateral institutions, is required to address the challenges and sustain global growth.