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Press Release

Decline in oil prices to lead to greater tensions over trans-Pacific imbalances

(Singapore) Economic growth in the Asia Pacific is set to slow in 2007 to a still healthy 4.3% across the region, compared to 5.0% in 2006 before a moderate rise in 2008 to 4.5%. East Asia will lead the way with growth at 5.7%, pulling up the rest of region, which is forecast to grow by only 2.6% this year.

However, the forecast from the Pacific Economic Cooperation Council (PECC) warns that with the sharp decline in oil prices since 2006, OPEC members will account for a reduced share of the counterpart surpluses, drawing further attention to East Asian surplus countries. According to the PECC forecast, based on the views of a panel of economic analysts from across the Asia Pacific region, the U.S. current account deficit will shrink from 6.2% of GDP in 2006 to 5.6% this year.

China continues to drive Asian growth, with expansion in real GDP expected to top 10% through 2008. China's economy will be powered again by fixed asset investment, but the contribution of personal consumption to overall GDP growth is expected to be increasingly important as disposable incomes of Chinese households continue to rise. On the external front, China's current account surplus will continue to rise, to US\$315 billion in 2007 and US\$364 billion in 2008. PECC forecasts the renminbi to appreciate to US\$1:RMB7.3 in 2008 from US\$1:RMB8.0 last year, well below the demands of some U.S. lawmakers.

The Japanese economy is expected to slow to around 1.9% real GDP growth in 2007 before rebounding to 2.5% in 2008. The slowdown in 2007 will be due mostly to weaker production, reduced private demand, and an increasing fiscal burden. CPI Inflation is expected to rise by 0.6% in 2007 and 2008 and the GDP deflator will return to positive territory this year, likely marking the end of a long deflationary period in the Japanese economy.

Yuen Pau Woo, President of the Asia Pacific Foundation of Canada and Coordinator of the *State of the Region* report, says "[S]trong growth in East Asia will offset the anticipated slowdown in the U.S. However, the Asia Pacific region continues to be highly interdependent, and we should not expect any economic decoupling of East Asia from the rest of the region."

PECC's economic outlook update is a component of its annual State of the Region report which covers developments across the Asia Pacific region due for release in September.

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Pacific Economic Cooperation Council

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