ASIA PACIFIC

Asia's trade is everyone's business

There is no doubt about it – global trade is taking off. According to statistics from the International Monetary Fund, the growth in global merchandise trade has exceeded the growth of the global economy in each of the past five years. Most recently, in 2006, the rate of growth in trade at 15% was about double the 7.7% rate of growth in global nominal gross domestic product (GDP). The rate of growth in trade over the past five years has been such that the total value of global merchandise trade has doubled, from $12.4 trillion in 2001 to $24.1 trillion in 2006.

Developing countries have been the primary driver for this explosive growth in global trade. Developing countries as a group – defined here to include all countries except the US, Canada, Western Europe, Australia and New Zealand – now account for 54% of global trade, as against 44% only a decade ago. Put another way, developing countries have been responsible for roughly 60% of the growth in global merchandise trade over the past five years.

Among all developing countries, Asia has been and remains the global trade powerhouse. East Asia including Japan has been responsible for 20-25% of global trade for well over 20 years. What is changing these days in Asia is the direction of that trade due to the growing importance of trade partners outside of the traditional markets in the US and Europe.

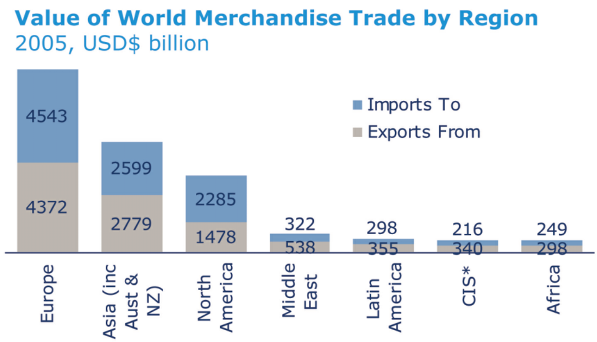
The charts below tell the story (appendices 1 and 2). Twenty years ago, North America absorbed 28% of all exports from East Asia. Today, that share has dropped to only 16.7% of East Asia's exports. Meanwhile, Europe has consistently claimed about 15% of East Asia's exports. In 2006, the developed world absorbed only 32% of East Asia's exports. What this means is that nearly 70% of East Asia's exports go to a destination other than the US and Europe. Increasingly, that destination is found somewhere else in East Asia; as seen in the chart, Asia now absorbs 43% of its own exports. Over the 10 years since 1996, the total value of merchandise trade within East Asia has tripled, from $771 billion to $2.3 trillion.

ANZ expects these stunning rates of intra-Asian growth to continue, based on a number of factors. First, the growth rate of developing countries around the world – East Asia included – is rising as economic management improves. Over the past 10 years, real GDP growth in the developing world has averaged 5.8% per annum; this is up from an average growth rate of 4.8% over the preceding 10 years. Higher growth assures rising wealth, and therefore stronger consumption within the developing world. The increased demand for raw commodities, as reflected by historically high prices for base metals and energy, is a sign of the demand for goods that is being created as millions of people in Asia ascend into the middle class. Within East Asia, ANZ forecasts that real GDP growth will remain above 7.5% per annum through the end of our forecast period of 2010.

Second, the process of globalisation is more than likely to continue, which should boost trade ties. Global trade is likely to advance through ongoing efforts at trade liberalisation through the WTO, whose most recent new member is a rapidly rising Vietnam. Bilateral and multilateral trade deals are also moving forward. Although recent trade tensions between the US and China have raised concerns about the trade ties between these two countries, the efficiencies created by globalisation are likely to prove too compelling to turn back the clock. Rising global trade is also being facilitated by technology, which has allowed companies to create global supply chain solutions. Twenty years ago, global merchandise trade was equivalent to 26% of global GDP; today that figure is 50%. If recent growth rates continue, global trade will reach the $40 trillion mark by 2010, which would be equivalent to 67% of global GDP.

Finally, ANZ believes that the global trade business will expand based on its own improved efficiencies and business processes. For example, in the rapidly expanding market in China, documentary trade finance is still dominant. Upper and mid-market major areas have been the focus of the global banks, and these banks are only now beginning to formulate strategies to expand their markets. Domestic players still have a relatively inefficient process, and lack a strong IT structure. Moreover, the infrastructure in China is still being developed to support trade; an example is the project to turn Shanghai into a deep-channel port. As the physical and soft infrastructure to support trade in China advances in the coming years, the industry itself will become more efficient and able to expand to new horizons.

Appendix 1 – Majority of the world trade has been generated by Europe and Asia and is intra-regional



Source: WTO

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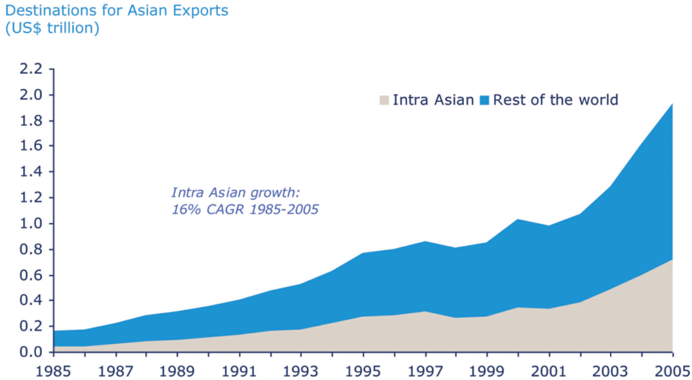


Source: Asia Development Bank

This rapid economic growth in Asia is driving demand for Working Capital solutions, with trade products a particular focus. If we break out the growth by key trade countries, we could categorize as following:

China

Over the last 10 years, China has become one of the top economies in the world when measured by international trade volumes. It has done this by importing vast quantities of energy and resources, raw materials and agriculture, and then exporting large amounts of finished products, manufactured and capital goods and textiles. But the change doesn't stop there.

China's economy, along with its regulations and opportunities, are experiencing continuous shifts, including changes in required licenses, approvals and import/export taxes and rebates. There are ever-changing quotas on the import/export of strategic commodities and restrictions on payment methods and the transfer of funds. Strong growth is on forecast to continue and opportunities are being realised.

India

Growth primarily driven by domestic demand with a growing market for exports of commodities and services. Trade transactions are traditional with structured transactions becoming more prominent and open account settlement considerably more prevalent than in China. India has the second fastest growing economy and is an area of focus for global banks – emerging collateral solutions and sophisticated markets make doing business easier. Domestic (private) players are highly aggressive, innovative, sophisticated and looking beyond India for expansion and world market penetration.

Hong Kong

The most developed trade centre in the world, with a natural linkage and flow-on benefits from Chinese mainland business in particular. Hong Kong is a highly preferred location for booking business, given comprehensive banking services, simple and low tax structure, efficient labour force, good legal structure, etc. A high percentage of overseas conglomerates have established window companies in Hong Kong, creating structured trade financing opportunities and cross-border trades either with their host country or other local and international trading partners.

Key commodities traded in this region include iron ore, aluminium, copper, coke and coal, petrochemicals, crude and small amount of precious metals and rare earth. Commodity companies in-country are either holding company or asset-light trading concerns in absence of manufacturing facilities where no further processing or modification is required.

ASEAN

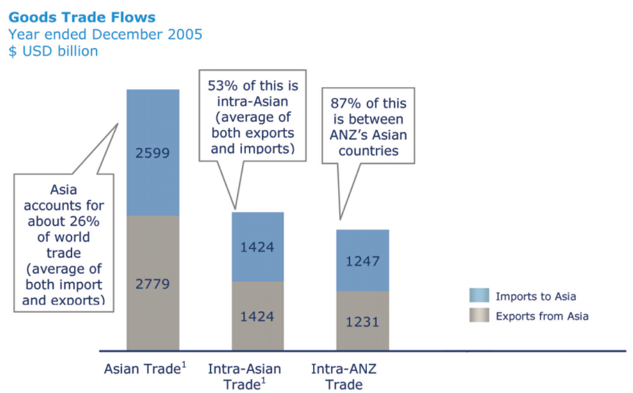
After a slow period following the 1997 Asian crisis, Southeast Asia is re-emerging as a supplier of mid-order products, including apparel and electronics. The market here is driven by open account and supply chain solutions. To date, this has been a lesser area of focus for many global banks, and local bank coverage fragmented although Singapore-based regionals are starting to emerge.

As for **Indonesia**, the investment climate for the first half of the year was positive and foreign and domestic investment rose by 17%. Being the largest producer in the world of thermal coal as well as a major palm oil producer, Indonesia remains an important player on the trade front.

And in terms of **Vietnam**, it is a market largely driven by traditional letter of credit and collection products where risk management is a secondary consideration, with price & relationship being the key determinant. It is fast becoming the alternative investment option from traditional manufacturing based counties such as China, with new plants and investments flows entering into the region to take advantage of the low labour and setup cost.

Traditional agricultural and resource exports underpin the growth of the economy, and coinciding with the growth in manufacturing based investments, the contribution of value-added goods exports (e.g garment, footwear, furniture) are increasingly becoming more significant in the overall trade activities.

Appendix 2 – A key to the Working Capital Solutions business is to capture more Asia trade flows, especially given the growth in intra-Asia flows



South Korea and Taiwan

These are mature, major trading nations. Areas of aggressive expansion for multi-domestics commercial banks. Some relatively undeveloped local banks but certainly some notable exceptions.

Japan

Rebounding economy and remains a centre of interest for international banks. Typically plain vanilla financing options used. Very basic IT offers, and lack of highly structured deals.

But where does ANZ stand in terms of capturing these growth trade flows? ANZ Working Capital Solutions' existing capabilities provide a strong foundation to continuously win more Asia business.

Strong Asian network

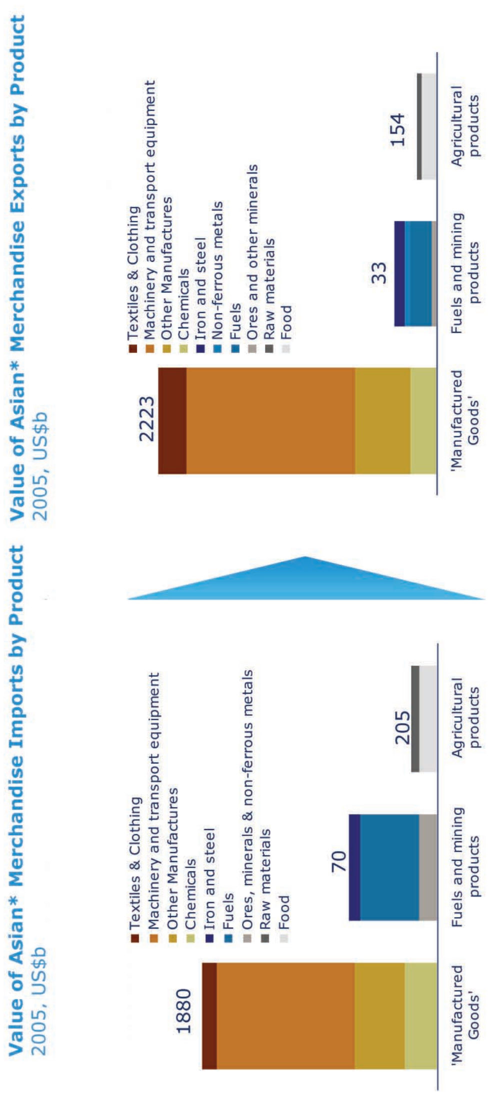
Trade presence in 14 countries supported by a strong sales trade team. ANZ is highly regarded in Asia as a niche Trade finance bank with commodities focus. ANZ has the ability to capture the trade flow at both ends of the transaction. Please refer to Appendix 3.

Deep trade experience

Superior commodity and industry knowledge and deep trade experience as well as deep relationships with our customers.

Appendix 3 – ANZ's Global Trade Representation

Appendix 4 – A key to the Trade business is to capture more Asia trade flows, especially given the growth in intra-Asia flows



- 48.4% of the Asian export flows are intra-Asia (excluding Australia and NZ) and the balance are to the US and Europe. Only 2.8% of exports are to Aust and NZ
- 81% of exports (and 67% of imports) are 'manufacturing' related (non-commodities).

Strong service proposition

ANZ has a global platform that provides a consolidated view of customers (and total business), compared to many competitors that run multiple platforms. ANZ also provides tailored value propositions for key segments, and has a very strong service reputation.

Powerful partnership

Bank network, especially in China, Malaysia, Indonesia, Vietnam and Cambodia. This allows both parties to continue providing solutions to customers and to build brand presence and position in the market. It is also key to capturing the expanding intra-Asia trade flows

ANZ has been in the trade business for more than 160 years, in Asia for almost 40 years and is Australia's leading bank in Asia.

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