Economics & Markets Research

Emerging Asia 2009: The Year of the Bootstrap

22 January 2009

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According to the Chinese (lunar) calendar, the new year slated to begin on 26 January is the "Year of the Ox." The ox is characterized as a dependable, patient, methodical and calm, hardworking, materialistic as well as an ambitious character. While interesting, we are not sure to what extent these traits are able to inform our views about the prospects for emerging Asia this year.

As far as macroeconomics is concerned, we think 2009 should be called the Year of the Bootstrap. Granted, we are deviating from the time-honoured animal theme, but in our view the metaphor sums up the situation facing the region very nicely. Emerging Asia is on its own in 2009 and any growth will have to come from within, either through market-led consumption and investment, or policy-led fiscal stimulus. With the advanced countries in what is likely to be a deep and prolonged recession, demand from the rest of the world is simply not going to be present to any great extent, if at all. So, in order to grow this year, emerging Asia will have to pull itself up by its bootstraps.

This article takes a broad look at the landscape facing emerging Asia in 2009 with the objective of teasing out and exploring the main macro themes for the year. These are:

- In terms of taking stock, our "Asian split" framework remains valid. Those economies that were relatively reliant on net exports for growth in recent years (mainly the Newly Industrialized Economies or NIEs) have suffered the most. Hong Kong and Singapore are in recession, Taiwan's year-on-year GDP turned negative in Q3, and Korea just announced that both its quarter-on-quarter and year-on-year GDP growth turned negative in Q4. In contrast, the economies of Southeast Asia and India, which were more reliant in recent years on domestic sources of growth, have done somewhat better.

- China is an intermediate case in terms of export dependency, and the bulk of the growth slowdown there reflects domestic factors. But can China, by virtue of its size, still decent growth rate and big fiscal stimulus package pull the region out of its slump? We don't think so. China absorbs few of the rest of Asia's exports (properly measured) and we see no reason for that to change.

- Contrary to what has happened so far, the NIEs are better placed to combat weak growth during 2009. The sharp decline in commodity prices has led to a sharp improvement in the terms of trade in these economies, giving consumers and firms some needed breathing space. Public sector balance sheets are stronger in the NIEs. And the political calendar will weigh upon the ASEAN group and India to a degree that will be absent in Northeast Asia.

- Looking further ahead to the eventual recovery, we expect a "first in, first out" pattern. The timing is uncertain—we could be talking about 2010—but the early beneficiaries are likely to be the NIEs. The exports of these economies are concentrated in discretionary (as opposed to basic) goods, which typically register the first signs of a recovery in advanced country demand. ASEAN exports, which are more resource dependent, typically lag.

- The health of banking sectors in emerging Asia will also be important in 2009, and here most of the region seems in good

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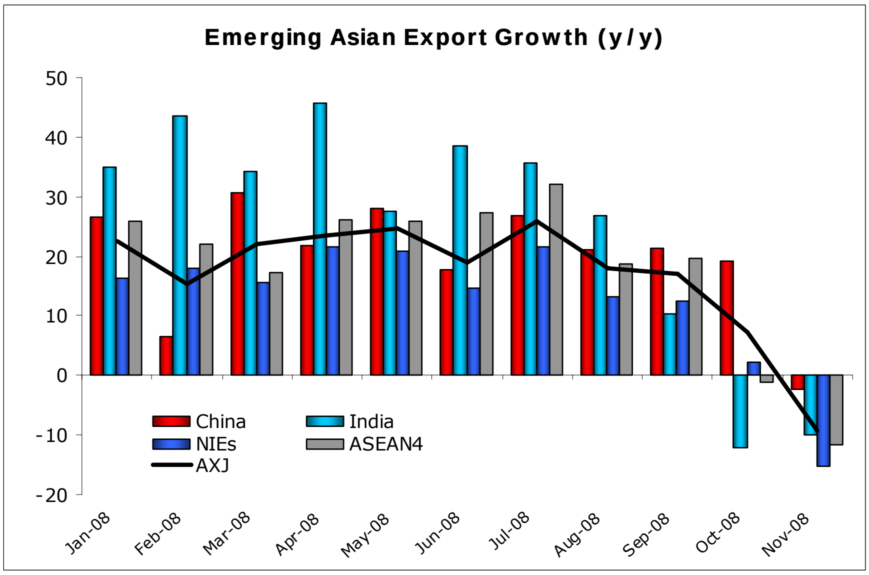
shape so far. Banks managed to avoid heavy exposures to "toxic" assets; they hold only 1-1½% of the world total. That being said, there will be an inescapable deterioration in credit quality in 2009 arising from the slowdown, which will eat into earnings and, in some cases, capital. But the damage should be contained. Further out, low loan-to-deposit ratios (Korea being the exception) suggest that banks have scope to lend once credit demand picks up. China is again an exception as its state-dominated banking system is already starting to pick up the pace of credit supply.

So, overall, 2009 is not going to be a year to remember. Growth will be weak, very weak in some economies, and there is not much Asia can do to expedite a global recovery other than try to support the pace of domestic demand with (mainly) fiscal policy measures. The problems with the global economy lie elsewhere. Finally, we present some country-specific macro themes for this year in an Appendix.

Crisis Impact: Adios External Demand

The speed at which external demand for Asian exports evaporated has been truly staggering (see *The Anatomy of Asia's Export Slowdown*, December 2008). While the region's export growth was moderating throughout 2008 in line with the global growth slowdown, it was still a respectable 17% (y/y) as of September. Moreover, there was relatively little variation across the region.

The Asian export picture changed markedly in October as the global downturn entered a new phase following the collapse of Lehman Brothers. With the exception of China, export growth rates in Asia dropped off considerably. Moreover, the decline was broad-based across most geographies and non-basic goods, implying that the benefits of diversified products and destinations (enjoyed, for example, by Korea) were minimal. There was some brief speculation that China might be spared the worst since it exports more into the lower end of the retail market, where sales numbers had been outperforming. However, China's export growth numbers followed the region down in November.



What is striking is not that the downturn in emerging Asia's exports took place. That was to be expected after all as the advanced economies headed into what looks to be their worst recession in decades. What surprised us was both the speed and the magnitude. In a period of a few months, external demand for emerging Asia's exports evaporated. Shipments are down by a staggering 42% (y/y) in Taiwan and by 18% in Korea and Singapore. As of this writing, each of the eleven emerging Asian markets we cover has a negative year-on-year export growth rate.

We suspect that the export downturn has been exacerbated by the shortage of trade financing resulting from the global credit crunch. While disentangling the effects of a "pure" drop in foreign demand from those of the credit crunch is inherently difficult, anecdotal evidence points to the latter being a significant factor. The implication is that there may be some upside to Asian exports if a normalization of credit markets leads to the release of demand pent-up by the lack of access to trade financing. But given that underlying foreign demand will be exceptionally weak, this improvement would be off of a very low base.

What has been the impact on emerging Asia so far? As we have argued in our "Asian Split" framework (see *Emerging Asia in a Post-Lehman World*, September 2008), those countries with the highest export dependency—measured on an expenditure contribution to growth basis, not the export-to-GDP ratio—would be hardest hit. This implies that the NIEs would take a bigger hit to growth than the rest of the region, and this has indeed been the case with all four NIEs—Korea being the latest addition with today's GDP data release (-3.4% growth, y/y)—now with negative growth. SE Asia has faired better, though growth there is running at or below trend and continues to decline. China's slowdown is more domestic than foreign led given its moderate export exposure. Our preliminary empirical work shows that net export dependency has been the most powerful explanatory variable of emerging Asia's growth slowdown so far.

China to the Rescue?

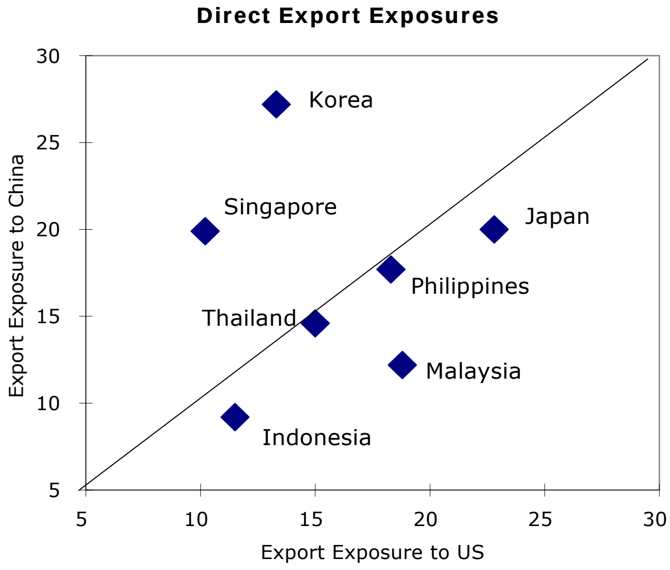
China's growth has slowed sharply over the past year, dropping from a revised 13% in 2007 to 9% in 2008, with Q4 2008 on Q4 2007 growth coming it at 6.8% - a significant slowdown by any metric. However, much of this slowdown reflects domestic factors. While China is moderately dependent on net exports for growth (estimated at less than ¼ of the total contribution), and the recession in the advanced countries has led to a steep drop in exports as we have seen, the growth slowdown pre-dates the crisis. In early 2007 the authorities realized that the economy was overheating and began a series of market-based (e.g., interest rate hikes) and administrative (credit limits) measures to slow the rate of growth in overheated sectors. The global crisis came over the top of these efforts and exacerbated the downturn.

That being said, with roughly half of emerging Asia's GDP and growth still high by most countries' standards, China would seem positioned to make a contribution to the growth of other countries in the region in 2009. In addition, with Japan in recession, China seems poised to assume the role of regional economic locomotive. Moreover, with a sizeable fiscal stimulus plan underway, one could argue that China's potential to prop up growth in the rest of the region would be enhanced.

We do not subscribe to this view on two counts. First, China does not absorb a large percentage of the rest of the region's exports when measured properly. Second, from a resource use perspective, the infrastructure and construction-heavy stimulus plan will be "financed" largely by domestic sources.

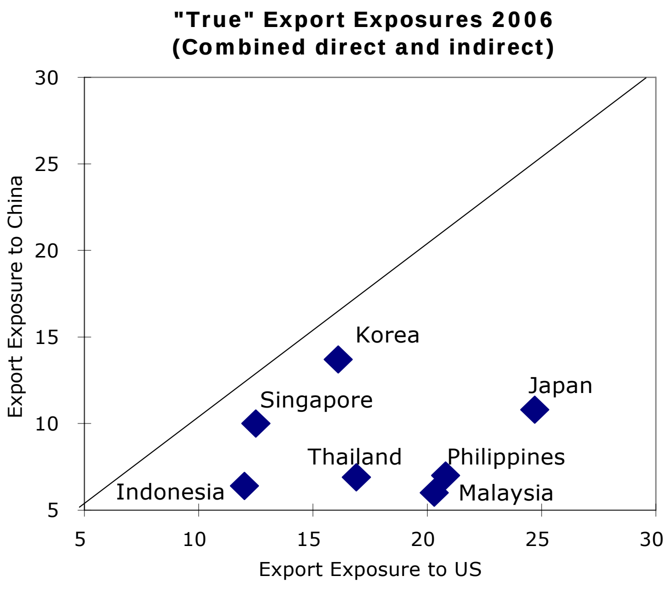
The first of these requires further explanation and analysis.[1] At first blush, it would appear for most Asian countries that China absorbs a share of exports at least on a par with the United States. However, this is potentially misleading since many exports from elsewhere in Asia to China are intermediate inputs for the processing trade and therefore need to be adjusted to reflect the ultimate source of demand.

[1] The material in this section draws on recent research by Zhiwei Zhang of the Hong Kong Monetary Authority: "Can Demand from China Shield East Asian Economies from the Global Slowdown?" (December 2008).



Source: Hong Kong Monetary Authority.

Recent research by the Hong Kong Monetary Authority attempts to disentangle these effects to arrive at "true" export exposures. The result is striking. After accounting for direct and indirect effects, Asia's export exposure to China drops dramatically in all countries in the sample, and with the exception of Korea and Singapore, falls well below the export exposure to the United States. (The analysis does not cover the EU, Asia's largest trading partner, but we suspect the results would be similar.)



Source: Hong Kong Monetary Authority.

The implication should be clear. While Chinese growth will be a relative bright spot in Asia this year, the export exposure of the rest of the region to China is actually quite modest. So even if China is able to bring growth in 2009 back above the 8% threshold needed for social stability, the benefits to the rest of the region are likely to be minimal. India, emerging Asia's other large economy with a share of regional GDP on the order of 20%, is less integrated with East Asia and therefore also unlikely to provide much in the way of being a source of final demand for the region.

The Contours of 2009: Who's Up, Who's Down

If the NIEs were the hardest hit group in Asia during the first phase of the crisis, what will happen as 2009 unfolds? Actually, we think that the NIEs will benefit relative to the ASEAN group in three ways, which should serve to lower the yawning growth gap we have seen open up since mid-2008.

Commodity prices. The sharp slowing of global growth, along with the sharp reduction in risk appetite, has led to a steep decline in commodity prices since mid-2008. Commodity price changes have unequal effects across firms in Asia, although the effect on consumers is largely uniform.

Northeast Asia tends to be commodity (including energy) poor, so lower prices translate into more purchasing power for households and firms. Only those firms in energy production would be worse off, but on balance the net effect on these economies is positive. Moreover, since subsidies are lower in this part of Asia, we would expect the pass-through of global price changes to end users to be quicker.

In contrast, Southeast Asia is generally long commodities so the recent drop in prices will have different effects. Consumer and end-users will benefit as in the rest of the region, but producers will be hit hard as their output prices will have dropped sharply, putting pressure on margins. We would also expect some delays in the pass through to end-users since in Southeast Asia fuel prices are commonly administered by governments, and the recent drop in prices has improved public balance sheets as subsidy levels have declined.

Fiscal space. The combination of extreme risk aversion and balance sheet protection, along with ongoing uncertainty as to how the crisis will play out, has led to a global shortfall of expenditure. Under these circumstances monetary policy loses its effectiveness as a demand management tool as interest rate cuts, while helping debtors by lowering debt service costs, do not lead to higher spending by firms or consumers. Under these circumstances it is necessary to "force feed" the patient and fiscal policy is therefore likely to prove more effective.

In order to credibly implement a stimulus programme, a government must have "fiscal space." This means that the government balance sheet, namely the public debt to GDP ratio, must be strong enough to absorb the increase in government debt necessary to finance the expenditure program. Or, equivalently, the government could have a structural fiscal surplus that could be run down temporarily with higher expenditures. A look at recent fiscal data across emerging Asia shows that the NIEs are relatively well-placed to undertake a fiscal stimulus. The picture is mixed in Southeast Asia and India would appear to have the least fiscal space.

Selected Fiscal Indicators (% of GDP)

	General Government Gross Debt			Central Government Fiscal Balance		
	2006	2007	2008e	2006	2007	2008e
China	16.5	20.9	17.1	-0.7	1.0	0.8
India	80.5	79.9	78.3	-3.4	-2.8	-3.8
NIEs	**29.0**	**28.3**	**28.0**	**0.6**	**2.2**	**-0.1**
Hong Kong	1.7	1.3	1.1	4.0	7.6	0.1
Singapore	n.a.	n.a.	n.a.	7.6	9.0	6.1
South Korea	32.2	32.1	32.4	-1.3	0.4	-1.3
Taiwan	34.9	33.3	32.0	0.3	0.9	-0.1
ASEAN-5	**45.2**	**41.1**	**39.6**	**-1.0**	**-1.6**	**-1.6**
Indonesia	39.0	35.0	33.3	-1.0	-1.2	-1.0
Malaysia	43.2	41.8	43.2	-3.3	-3.2	-4.6
Philippines	73.9	60.9	60.8	-1.4	-1.7	-1.0
Thailand	41.0	38.1	36.1	-0.3	-1.1	-0.5
Vietnam	42.9	43.1	38.2	1.1	-2.2	-2.2

Source: IMF: *Asia-Pacific Regional Economic Outlook* (October 2008).

Assuming that a government has the space—and importantly the will—to undertake a fiscal stimulus programme, what should such a programme look like? According to a recent IMF Policy Position Paper,[2] the optimal fiscal package should be "timely, large, lasting, diversified, contingent, collective, and sustainable." From a multi-lateral perspective, given that the lack of demand is a global phenomenon, a desirable fiscal package should also be collective.

Which types of fiscal stimuli are likely to be the most effective? After all, if the objective is to increase effective demand, fiscal actions that are potentially better at achieving that end should be ranked higher than those that do not. In the parlance of public finance, the more effective measures should have higher "fiscal multipliers." The IMF study concludes that spending increases, and targeted tax cuts and transfers, are likely to have the highest multipliers. Actions with lower multipliers include general tax cuts or subsidies, either for consumers or for firms.

On this basis, we would note that many of the plans already adopted or being proposed by governments in emerging Asia would appear to be well structured. Most of the policy action would appear to be focussed on the expenditure side, or targeted tax cuts. While estimating multipliers under the current circumstances is likely to be problematic, the rule of thumb is that, in the absence of effective private sector demand, multipliers are in the range of 1 to 2, meaning that an action equivalent to one unit on the fiscal balance sheet (say, an infrastructure outlay or targeted tax cut) would ultimately generate 1 to 2 units of final demand (and GDP).

Emerging Asia: Fiscal Stimulus Plans

	% of 2008 GDP-PPP	Infra-structure	Credit support to SMEs	Targeted Tax cuts	Ad-hoc measures
China	13.7	√	√	√	
Hong Kong	-		√		
India	6.4	√	√	√	
Indonesia	1.6	√		√	
Korea	1.5		√	√	
Malaysia	1.0	√		√	
Philippines	4.4	√	√		
Taiwan	1.4	√			√
Thailand	3.3		√	√	
Singapore	…	√	√	√	
Vietnam	1.1		√		√

Note: Ad-hoc measures include measures that could be rolled back in the eventuality of normalised economic conditions (such as cash vouchers etc.)

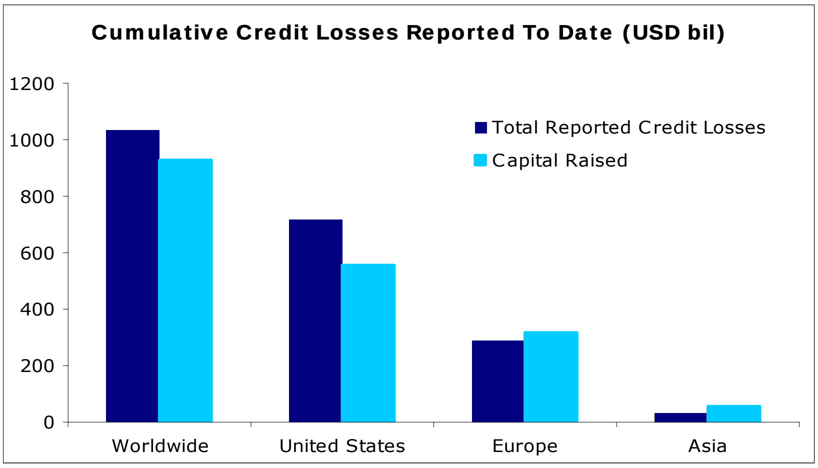
Political Risk. A third area to watch in 2009 will be political risk. Here again, the NIEs seem better placed. While the political calendar is relatively empty in that part of the region, the calendar seems fuller in the ASEAN group and India. The main channel for political risk to affect the economy is to increase uncertainty about the future course or timing of policy, which could have real as well as financial consequences.

Turning to specifics, Thailand's political turmoil continues to dampen confidence and have a negative impact on consumption, investment, and tourism. As for the political calendar in 2009, Malaysia has a succession taking place in March-April; Indonesia has a Presidential election in July, although by local standards this one looks to be quite smooth; and the Philippines has presidential elections in 2010, but with a likelihood that uncertainty could have an impact in 2009. While these risks may be relatively tame by recent regional standards, the fact remains that political risk is a factor in the ASEAN group this year, and will be largely absent from NE Asia. Finally, India has Federal Government elections in May which are likely to constrain fiscal policy manoeuvre even further.

[2] "Fiscal Policy for the Crisis," IMF Policy Position Paper SPN/08/01, December 2008.

Banks in 2009: Credit Quality Deterioration Ahead

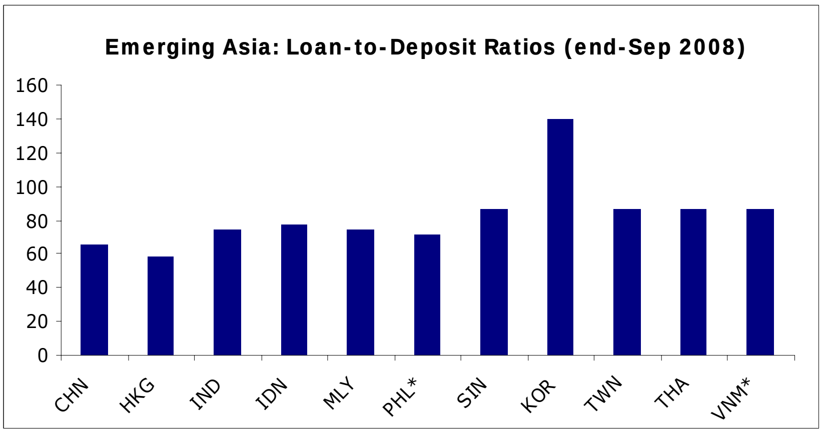
Will banks be a help or a hindrance in Asia this year? As we have noted, Asian banks came through the sub-prime/credit crisis in relatively good shape. While the total write-downs related to "toxic" debt continues to rise and now exceeds $1 trillion. Asia's share of the total has been steady throughout at around 3%. If we strip out Japanese banks, the total for emerging Asia is less than ½ of the Asian total. We have argued that the sub-prime/credit crisis would for the most part be an earnings event on emerging Asia, with few banks of systemic importance having to raise new capital, and so far this has been largely correct.



Source: Bloomberg.

However, we think that the next phase of the crisis, which will play out during 2009, will be less digestible for the region's banks. With growth slowing across the region, credit quality is likely to deteriorate. Unlike the exposure toxic debt, which was avoidable, the negative effects on banks of credit quality from slower growth will be more widespread and less escapable. We would expect to see not only a hit to earnings this year, but an erosion of capital in certain circumstances. Nonetheless, the overall damage will most likely be manageable at the systemic level.

All told, Asian banks appear to be well-positioned for the eventual recovery. With the notable exception of Korea, loan-to-deposit ratios are quite low, particularly in NE Asia, suggesting that when the demand for credit picks up, banks will not be constrained in meeting that demand. This assumes that uncertainty has been greatly reduced and risk appetite has begun to be rebuilt, which strike us as necessary conditions for the resumption of global growth.



Source: CEIC

* Lastest available data for VNM are end-June 2007 and for PHL end-February 2008.

We would note that China, again, is somewhat of a special case. In our view, the state-dominated banking system may actually be a positive factor in the short run as lending is less likely to be made for pure commercial reasons. Indeed, new Yuan loans in December were up 62% (m/m) as the government dropped lending quotas as part of its package of measures to support growth.

The (Eventual) Recovery: Who Will Benefit First?

Whether we are talking about late 2009 or early 2010, the signs of a pick-up in growth in emerging Asia are almost certain to be seen first in the NIEs. Taiwan, and to a lesser extent, Korea are considered to be the bell-weather economies of the region and we would expect export orders into these economies to signal an incipient rise in foreign demand. The reason is that, as confidence and demand recover in foreign markets, the producers of discretionary goods, which should benefit disproportionately from the recovery (just as they were punished in the downturn), are located mainly in Northeast Asia.

As export orders typically precede final shipment by several months, there is a reasonable chance that a rise in export orders could be seen in late 2009. As the recovery broadens and deepens, we should eventually see a rise in commodity prices, which would tend to benefit the Southeast Asia. But we are getting ahead of ourselves. The task at hand in early 2009 is to ensure that policy in undertaken in ways that will mitigate the effects of the sharp global downturn.

Bottom Line for 2009: A Year Not to Remember

This note has argued that emerging Asia is on its own this year. While there is some domestic demand in the region and a good deal of fiscal policy space, there will be little or no foreign demand and confidence and risk appetite are likely to remain weak. So it is going to be growth by the bootstraps for Asia in 2009.

The Appendix provides our country-specific views but, in a nutshell:

- China will struggle to claw its growth rate back to the 8% comfort level in light of ongoing global headwinds. Also, China's final demand for Asian goods is not large enough to pull the region's growth back up to "acceptable" levels.
- India will see growth fall below 6% with little in the way of fiscal policy space to help support activity.
- The NIEs will hope that growth for the year will be above zero. But will governments use their ample fiscal space to achieve this?
- The "outperforming" ASEAN group will also register a sub-par year, but growth should remain positive.

So, all in all, 2009 will be a very weak year but not a disaster for emerging Asia. There will likely be no balance of payments crises or systemic bank failures or other traumas to compare with 1997-98. But it will definitely not be a year to remember.

As to the timing of the recovery, there is not much the region can do. The problems largely lie elsewhere so Asia will have little choice but to sit tight, nurture its modest level of domestic demand, and wait for the advanced countries to recover—not only their household and bank balance sheets, but confidence in the financial system itself. When that comes—and it eventually will—emerging Asia, with its still-strong fundamentals, will be well-positioned to return to high growth.

Appendix: 2009 Country Growth Themes

Emerging Asian Economies

China. Growth has become more balanced (less domestic demand led) in recent years, but two of the three growth legs—investment and net exports—have weakened substantially in recent quarters. Will consumption, which has remained robust so far, hold up? The authorities have the tools and the will to use fiscal expenditure to pump up demand, but the headwinds are substantial. We see growth of around 6 to 6½% in H1, rising to the authorities' comfort level of 8% in H2 as the massive fiscal stimulus kicks in. Growth should average 7 to 7½% for the year, with the risks to the downside. If consumption, the sole remaining engine of expenditure, falters, growth could decline sharply.

India. The lack of openness of the economy (exports and imports sum to less than 20% of GDP) has helped India weather the trade effects of the global slowdown. But with one of the few current account deficits in emerging Asia, India has been punished as capital inflows necessary to finance investment and growth have reversed. Moreover, unlike much of the rest of Asia, India has limited room to stimulate the economy through expenditure given its weak public sector balance sheet. Growth will struggle to reach 6% in 2009 after averaging 8% over 2004-07.

South Korea. Quarterly GDP growth finally turned negative in Q4 (in a big way, taking y/y growth into negative territory as well) as consumption, investment and net exports all weakened substantially. Korea's relatively diversified economy and export base will provide limited comfort in 2009 given the broad-based downturn, and we see a risk of negative growth unless the government uses its ample fiscal space to support activity (it has been a reluctant spender in the past). Given the Q4 outturn, GDP growth in 2009 is likely to struggle to reach positive territory. Contrary to some commentary, we see little risk of an external crisis, although the health of the banks remains weak.

Taiwan. The recent news has been bad for one of the region's most export dependent economies, with exports falling by a staggering 42% (y/y) in December. Imports have tanked as well, partly due to the import content of exports, but also due to languid domestic demand. With no growth cylinders firing, growth in Taiwan is heading for negative territory this year, with sharply negative growth in H1. The government's clever voucher programme will help at the margin, but -1% growth for the year as a whole would be a good outcome. The bright spot: as a bell-weather, Taiwan will be one of the first to exit the global slowdown when risk appetite and consumer demand return.

Hong Kong. As a small open economy, Hong Kong has taken a direct hit from the global slowdown and looks set to have fractionally negative growth in 2009. The fiscal impetus of recent years should help support demand somewhat as well as the HKMA's monetary policy stance, which shadows the US Fed as required by the currency board regime. Unlike its fellow money centre (Singapore), Hong Kong will be party shielded from the worst of the downturn owing to its closer economic and financial ties to Mainland China, where growth should be reasonably strong in 2009.

Singapore. The city-state has been hit hard by the global recession, with growth dropping to -3.7% (y/y) in Q4 2008. As a "high beta" economy due to its extreme openness and given its status as a financial centre, Singapore is in for a tough year. All demand components look weak in early 2009 if not beyond, with the only potential saving grace being the strong public sector balance sheet. But even then, there is a chance of substantial leakage if a fiscal package is not designed properly. We see growth toward the high end of the Government's revised -2% to -5% growth range.

Indonesia. Southeast Asia's largest economy has been the Poster Child for our Asian split story. Growth through Q3 was still running north of 6%

(y/y) on the back of strong domestic demand momentum. This was a whopping 7 ppt better than Taiwan! But the pace of activity has slowed in recent months, reflecting a weaker global economy combined with falling commodity prices (a huge factor outside Java) putting Indonesia on a 4-5% growth track for 2009. Not great, but very solid for a year of global recession.

Malaysia. The relative openness of the Malaysian economy and the integration into the global electronics supply chain have started to eat into growth with industrial production falling and exports declining. Malaysia still has decent consumption momentum, but it may not be enough to keep growth near 2008 levels. Moreover, a high fiscal deficit and a relatively high public debt ratio suggest limited fiscal space. We see growth falling to 2-3% in 2009, but a relatively early pick-up for an ASEAN economy given the role of electronics in the export basket.

Philippines. The Philippine economy will not be spared from the global downtrend with GDP growth projected to decline to 2-3% in 2009 from 4.1% last year. Exports, particularly for electronics and semiconductors, will be weighed down by the depressed economies of its major trading partners. Overseas remittances, which contribute 10% of GDP, will also take a hit with layoffs in the overseas job markets, but will remain a prime contributor to growth.

Thailand. The economy has been battered by the effects of political strife, which has taken a toll on confidence as well as tourism. Is there any scope for a bounce back in 2009? Probably not. While the base is low, we see limited upside for Thailand in 2009 as the recovery to normalcy should be moderate at best given the global headwinds. Some fiscal stimulus will help, but look for Thailand to continue to underperform its SE Asian peers with growth of only 2-3% this year.

Vietnam. 2009 will be a sub-par year for Vietnam with growth trundling along at around 6%. The economy is still recovering from the episode of overheating and the mini-balance of payments crisis in mid-2008. But the trade balance has moved back into sustainable territory and inflation now seems under control. As a result, the SBV has been able to cut rates and the government has announced a modest stimulus programme. The challenge confronting Vietnam is to enact the broad range of reforms needed to ensure the economy can grow at “Chinese rates” without creating the pressures that emerged in late 2007 and early 2008. The unknown quality of bank balance sheets is a risk going forward.

Other Asian Economies

Cambodia. With the banking system having few linkages to the global financial system, the global credit crisis did not have a direct impact on Cambodia, at least initially. Instead, the transmission mechanism has been the impact of slower global growth on tourism and garment exports in the second half of 2008. At the same time, a fall in FDI into real estate, particularly from South Korea, along with tighter government regulations, has led to a severe downturn in the property market. As a consequence, 2009 should see GDP growth of 4%-5%, but with substantial risks to the downside, particularly from lower tourism and garment exports.

Laos. The economy remains largely agricultural, with the sector employing 80% of the workforce and creating 41% of GDP. Like Cambodia, linkages to the advanced economies are relatively weak. Industry and tourism are forecast to drive growth over the medium term, with a gradual shift away from agriculture as industry and service sectors grow. The banking sector is very under developed and basic, and the government has been pushing reform and capitalising banks. Recently, tourism has been weak, reflecting in part spillovers from the political turmoil in Bangkok, the gateway to Laos. GDP growth should slow to around 6% this year from 8% in 2006-07 and around 7% in 2008.

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