

Open partnerships  
Open possibilities

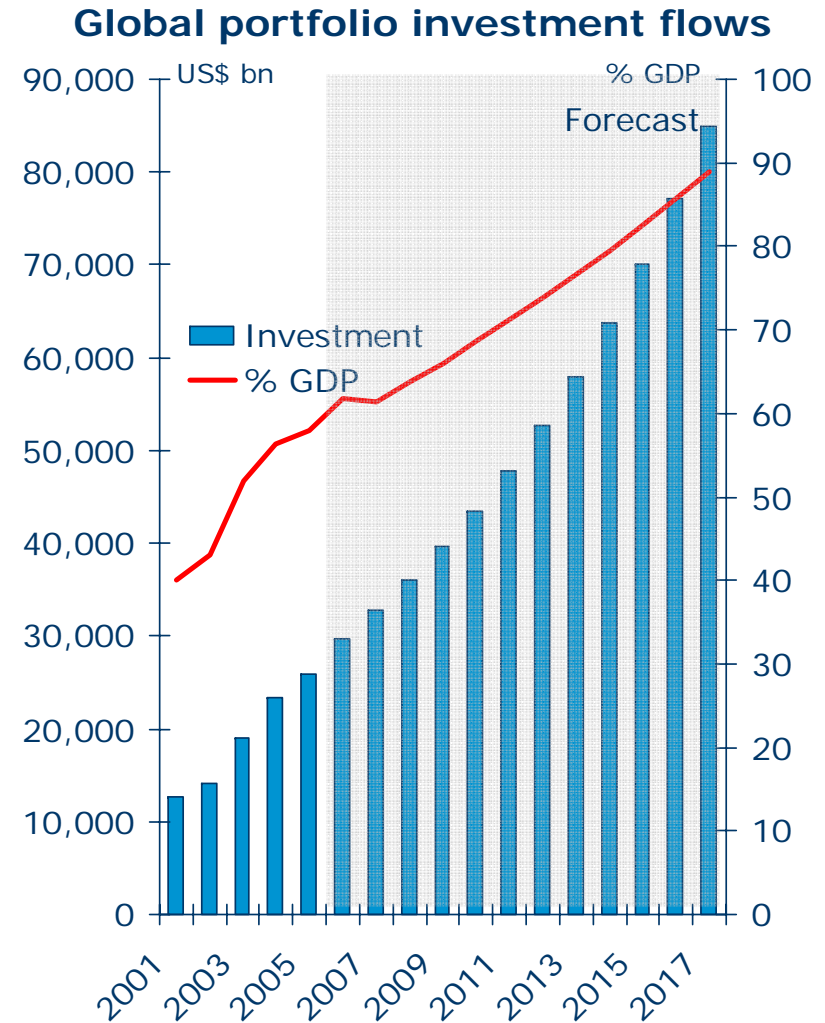
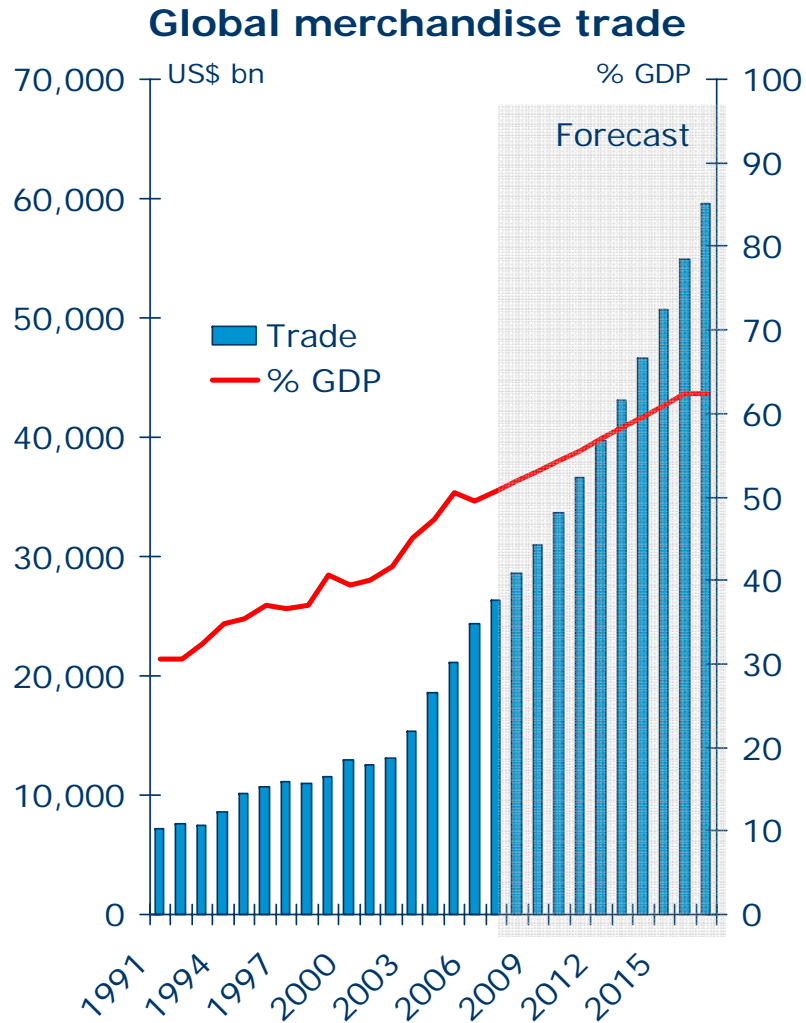
# Korea and Australia in a globalised world

November 2007

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Economics@ANZ

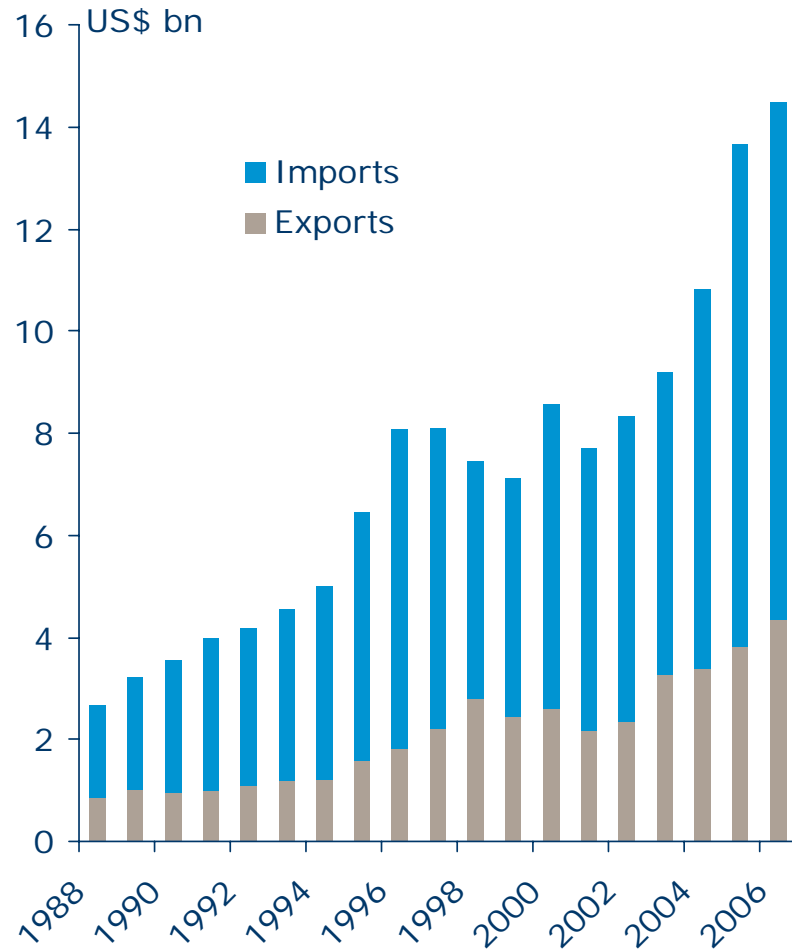
## Globalisation is the structural change of our time



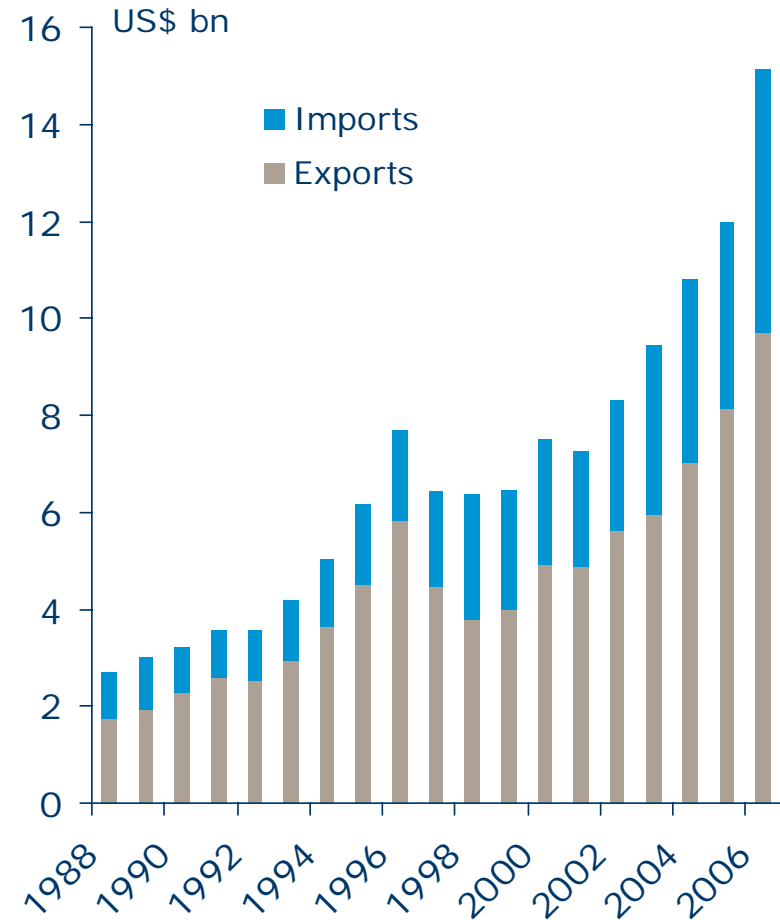
Source: IMF, Economics@ANZ

## Bilateral trade between Korea and Australia has doubled over the past five years

### Korea's reported trade with Australia



### Australia's reported trade with Korea



Source: Datastream, ABS, Economics@ANZ

On the whole, trade growth is up to speed with region

### Australia's trade partners

	2001		2006
Japan	44.8	Japan	54.9 (+22.5%)
USA	44.8	<b>China</b>	<b>50.3</b> <b>(+152%)</b>
China	19.8	USA	47.6 (+6.3%)
UK	19.0	UK	22.8 (+19.5%)
New Zealand	15.9	<b>Singapore</b>	<b>22.2</b> <b>(+60.6%)</b>
Korea	15.5	Korea	21.1 (+36.5%)
Singapore	13.8	New Zealand	19.8 (+22.8%)
Germany	10.3	Germany	12.5 (+21.6%)

### Korea's trade partners

	2001		2006
USA	53.5	<b>China</b>	<b>118.0</b> <b>(+274%)</b>
Japan	43.1	Japan	78.4 (+81.8%)
China	31.5	USA	76.8 (+43.3%)
Hong Kong	10.7	Taiwan	22.2 (+119%)
Taiwan	10.1	Germany	21.4 (+143%)
Germany	8.8	<b>Hong Kong</b>	<b>21.1</b> <b>(+97.3%)</b>
Indonesia	7.8	Australia	16.0 (+107%)
Australia	7.7	Singapore	15.3 (+116%)

## Growth in our largest export markets will remain strong

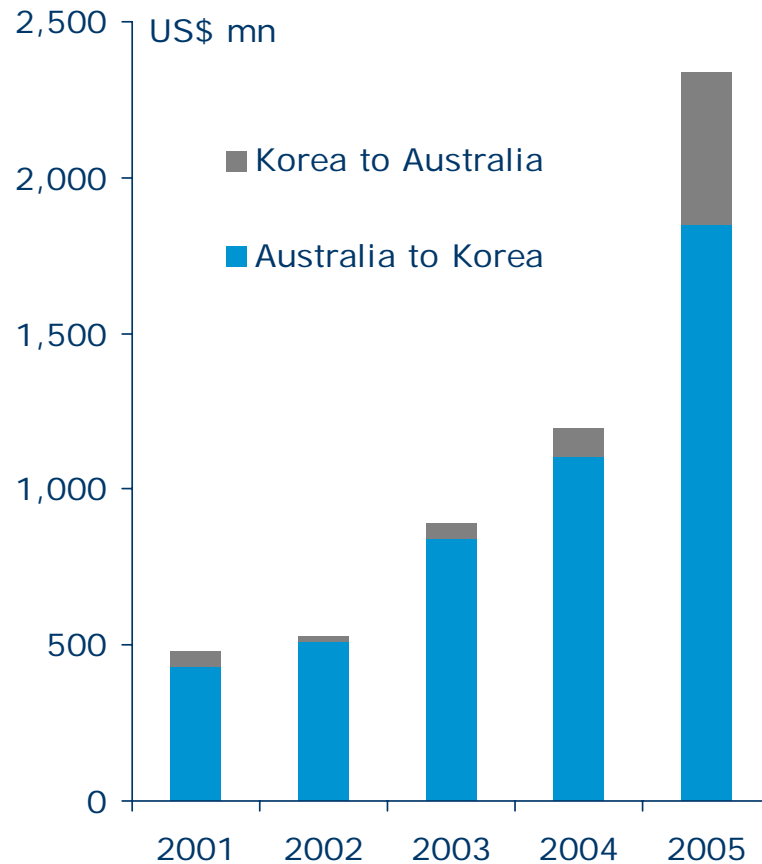
### Real GDP growth forecasts (PPP basis)

	% change in real GDP from previous year			
	2006	2007	2008	2010-2020
United States	2.9	2.2	2.9	2.9
Japan	2.2	1.6	2.2	1.8
Euro area	2.6	2.3	1.9	2.0
Australia	2.7	4.3	3.9	3.4
New Zealand	1.5	2.2	1.2	2.5
China	10.7	11.3	10.3	9.0
Korea	5.0	4.8	4.2	4.6
Taiwan	4.6	4.6	4.2	4.0
Indonesia	5.6	6.2	6.5	6.0
Thailand	5.0	4.3	5.6	5.0
Hong Kong	6.8	6.3	5.7	6.0
Vietnam	8.2	8.5	9.0	8.4
<b>East Asia excl Japan</b>	<b>9.3</b>	<b>10.1</b>	<b>9.7</b>	<b>8.7</b>

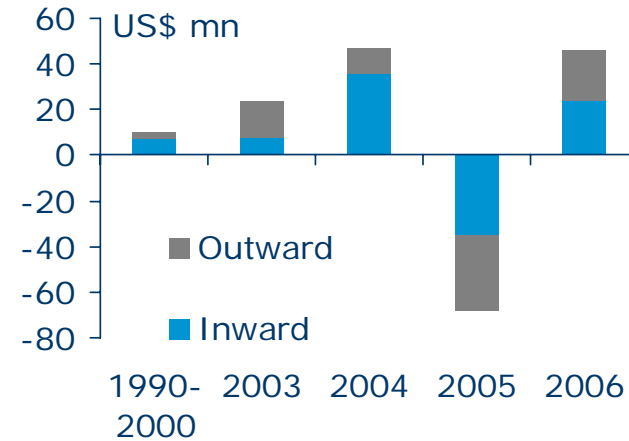
Source: IMF, Economics@ANZ

## Investment flows are far weaker between the 2 countries

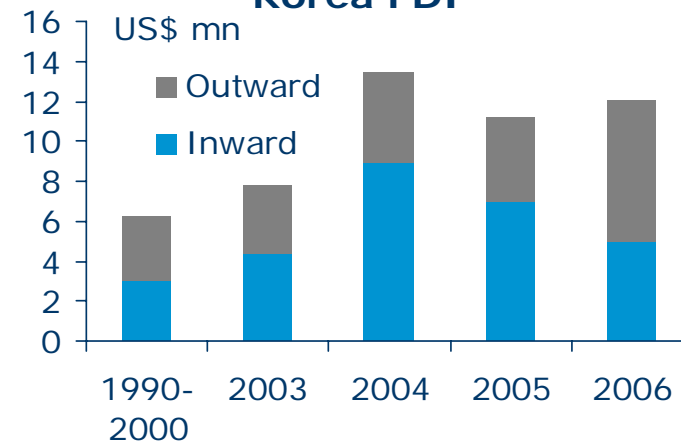
### Bilateral investment flows



### Australia FDI



### Korea FDI



## As both are still investing in traditional trade partners

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### Australia outbound investment

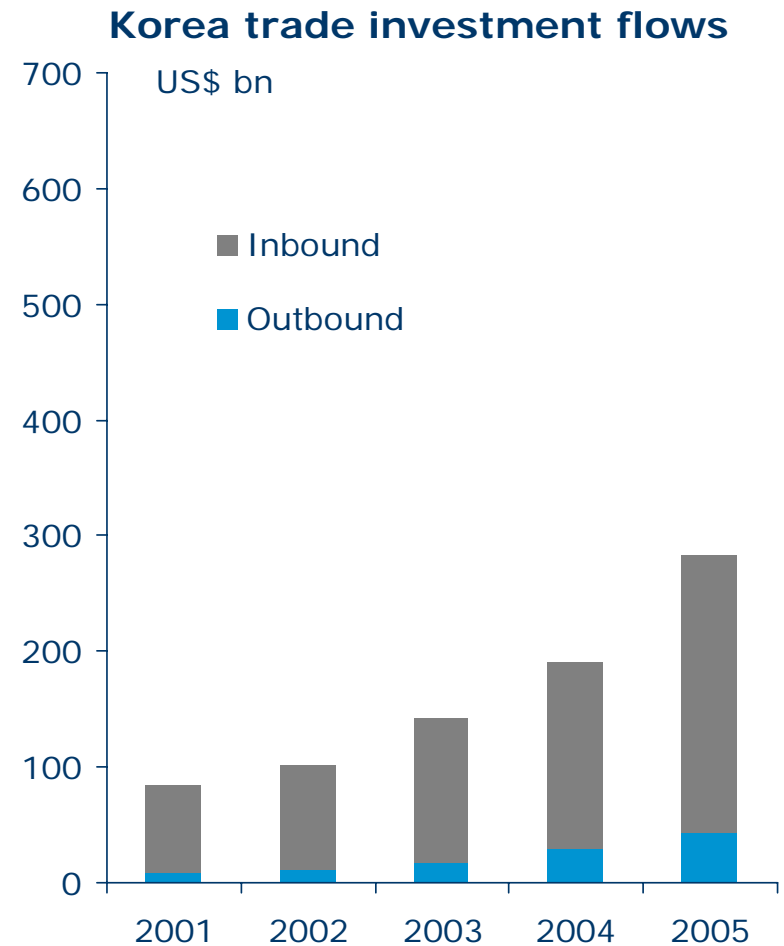
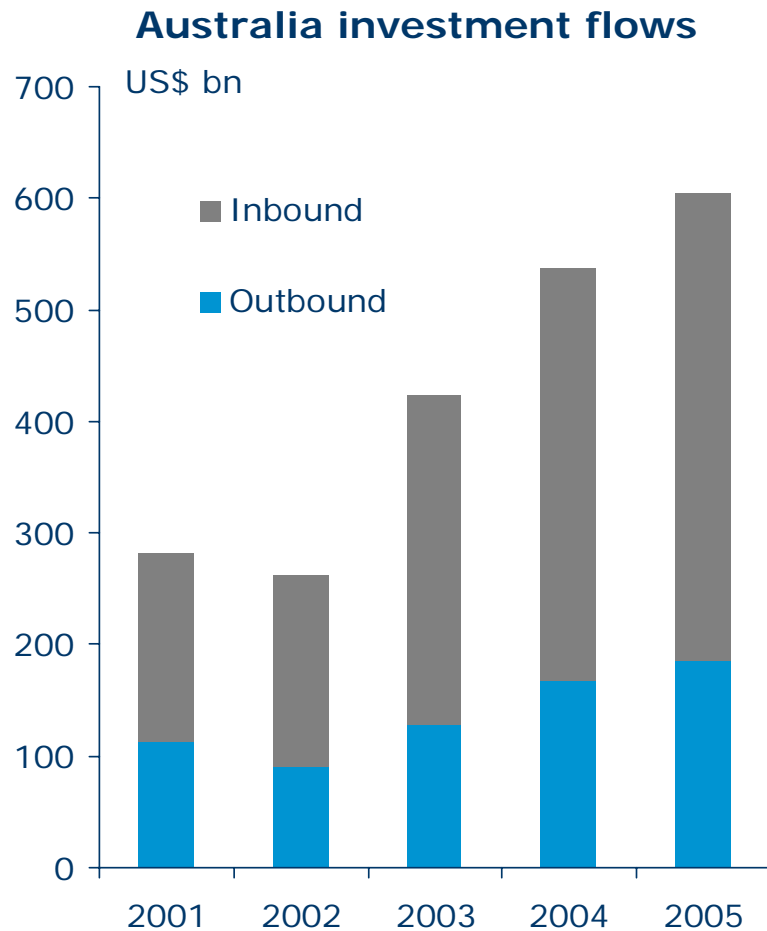
Country	Rank	Investment value US\$ mn
United States	1	93,662
United Kingdom	2	17,053
Japan	3	14,684
Netherlands	4	11,557
France	5	7,904
Germany	6	7,335
Korea	11	1,849

### Korea outbound investment

Country	Rank	Investment value US\$ mn
United States	1	19,668
Luxembourg	2	6,810
Cayman Islands	3	3,684
United Kingdom	4	2,401
France	5	1,506
Japan	6	1,463
Australia	12	491

Source: IMF Coordinated Portfolio Investment Survey, Economics@ANZ

## Korea is less open to capital flows than Australia



Source: IMF, Economics@ANZ



But this will change as Korea's economy matures

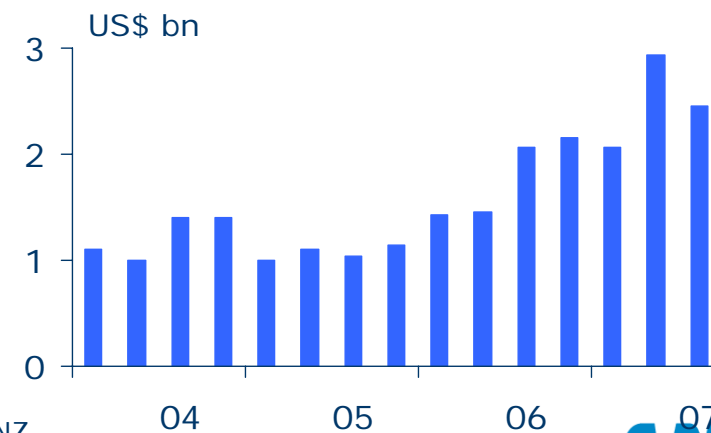
### Structure of economy

Sector	% of total, 2006
Manufacturing	33.5
Wholesale and retail trade	9.3
Construction	7.6
Financial intermediation	7.5
Transport, storage and comms	8.3
Agriculture and forestry	3.6

### Main exports

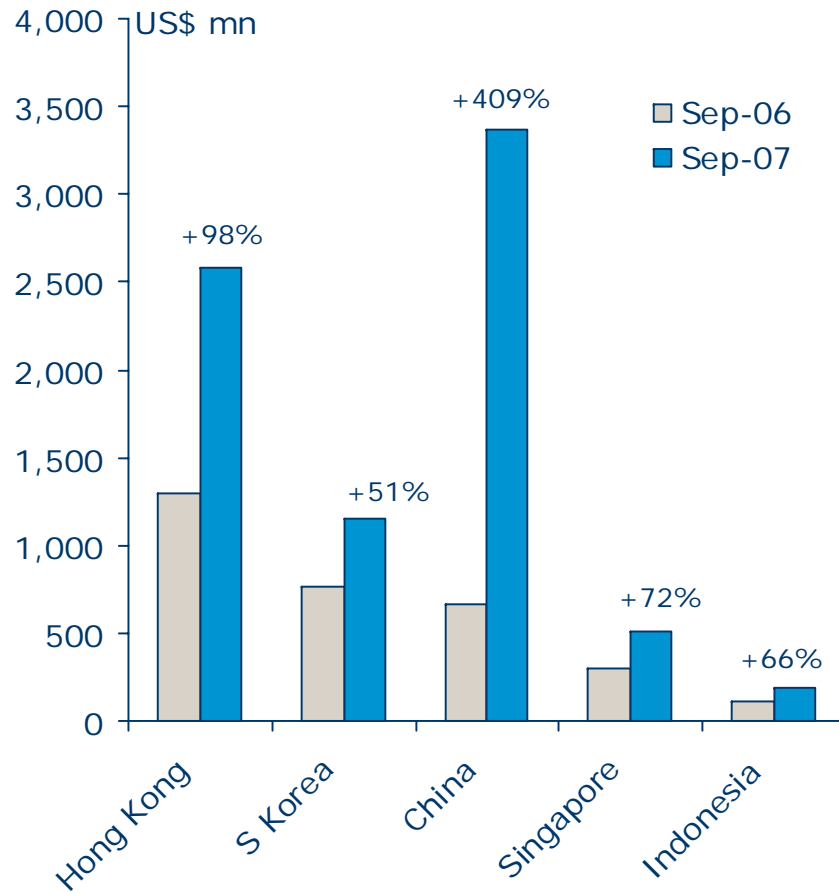
Sector	US\$ bn, 2006
Electrical and electronic products	91.6
Machinery and equipment	43.5
Passenger cars	31.2
Chemicals	28.9

### Outbound foreign direct investment

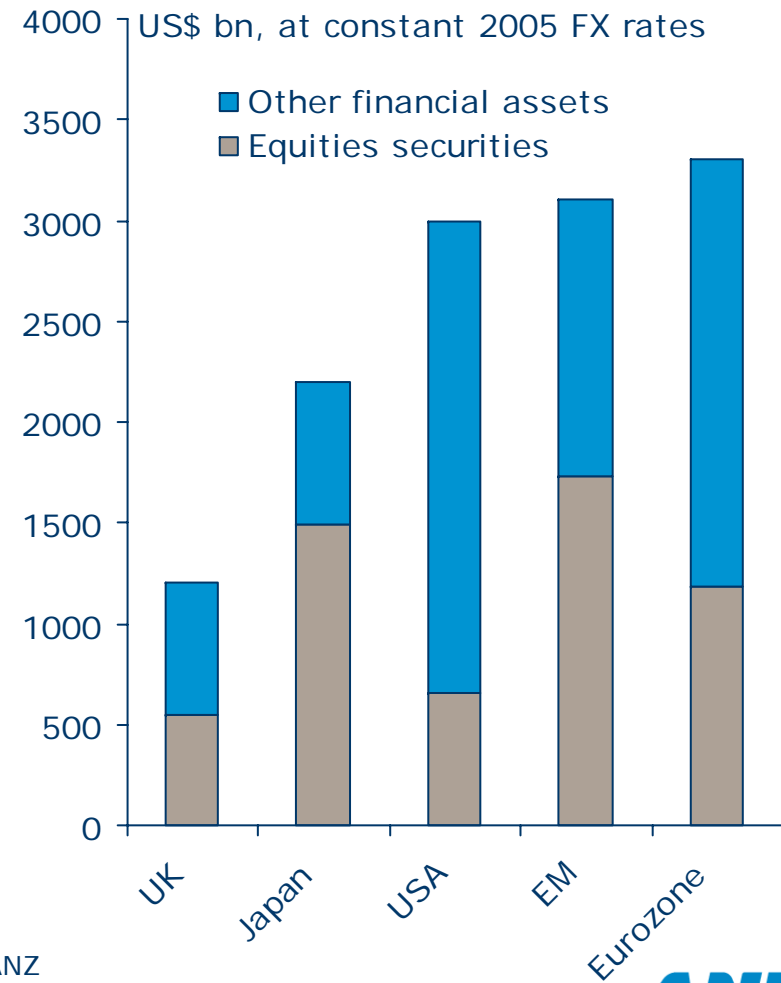


# And growth of Asia markets outpaces that of US and EU

### Equity market capitalisation



### Size of financial stock, 2005

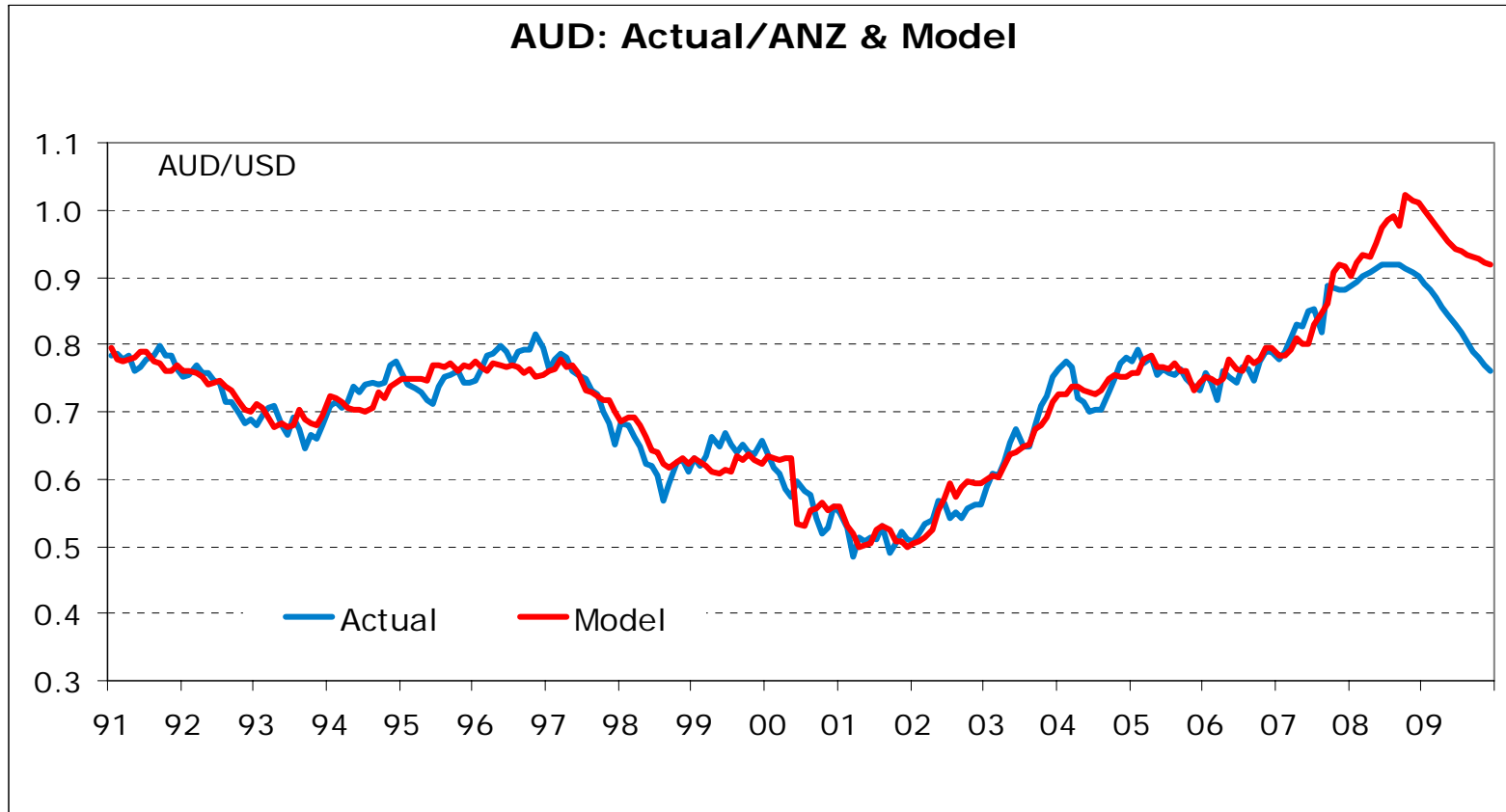


Source: McKinsey Global Institute, Bloomberg, Economics@ANZ



## A word on exchange rates

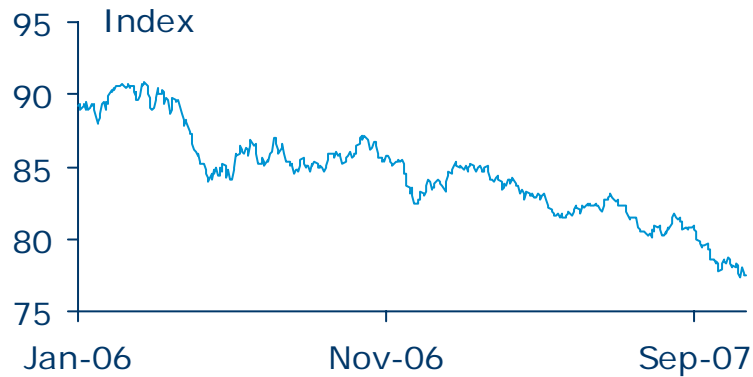
### ANZ Fair Value model for the Australian dollar



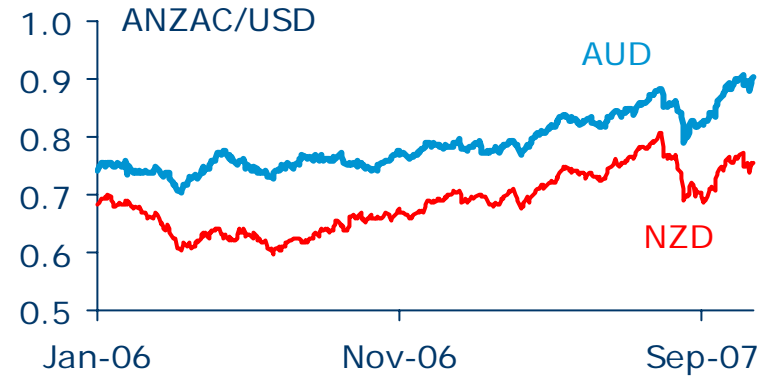
Source: Economics@ANZ

# US\$ weakness a theme for 3-6 months

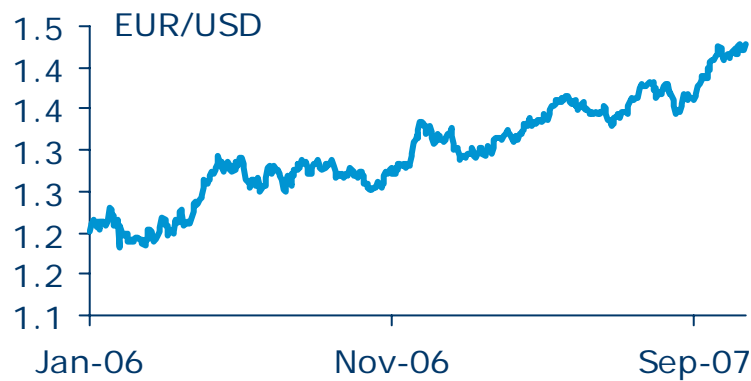
**USD broad currency index hits new lows**



**AUD and NZD rallying**



**EUR climbing higher**



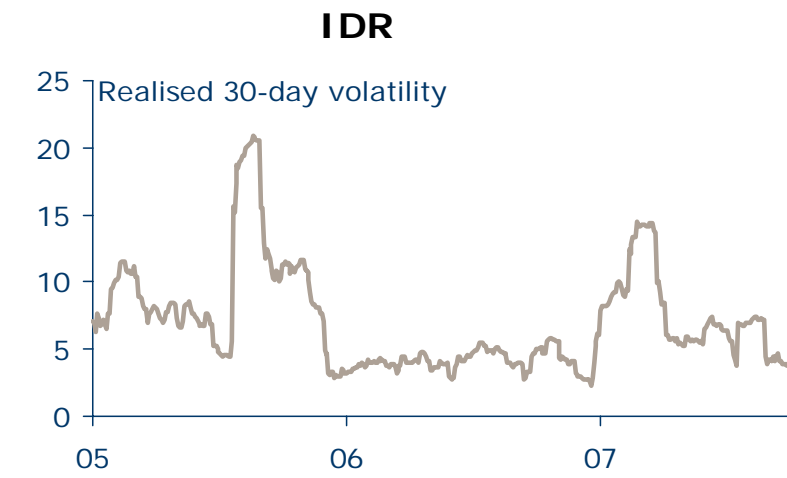
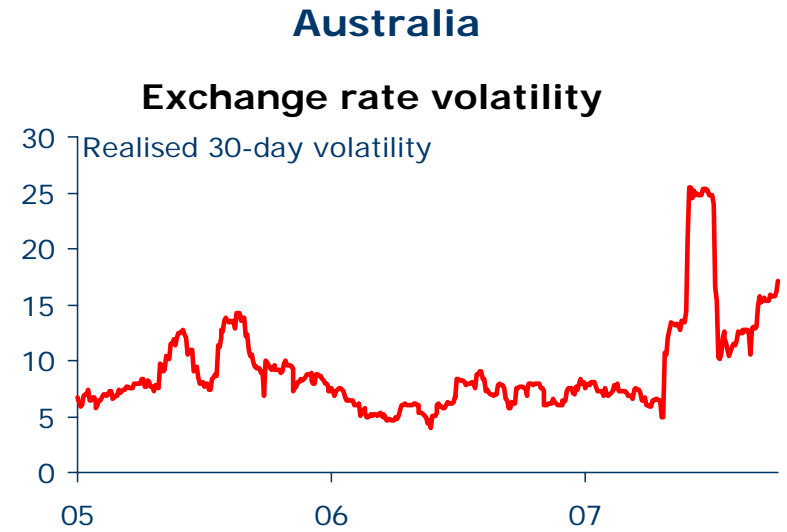
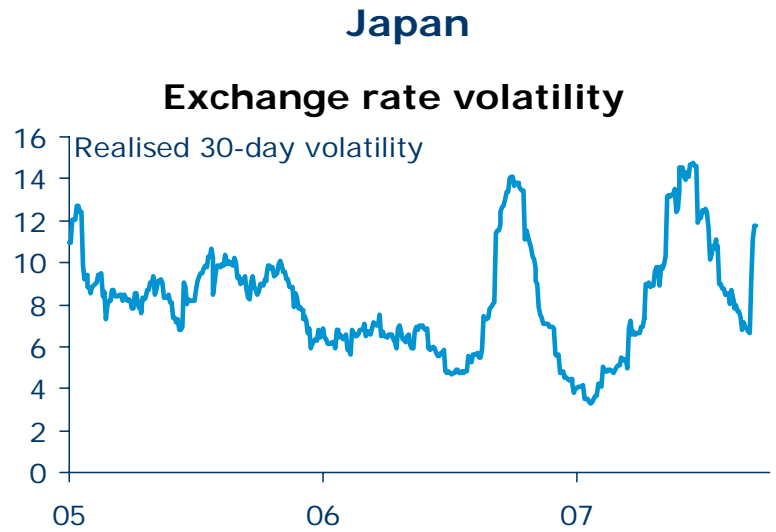
**As is JPY**



Source: Bloomberg and Economics@ANZ



# As is higher market volatility



Source: Bloomberg, Economics@ANZ

Source: Bloomberg, Datastream, CEIC



## Regional financial market forecasts

	Sept 2007	Oct 2007	Dec 2007	June 2008	Dec 2008
US Fed funds rate	4.75	4.75	4.50	4.25	4.25
RBA cash rate	6.50	6.50	6.75	7.25	7.25
Bank of Japan call rate	0.50	0.50	0.50	0.75	1.0
European Central Bank refi rate	4.0	4.0	4.0	4.25	4.25
US 10-year bond yield	4.59	4.40	4.50	4.75	5.35
US\$ - ¥	114.8	114.5	114	112	108
€ - US\$	1.4267	1.43	1.45	1.46	1.39
£ - US\$	2.047	2.05	2.06	2.05	1.99
US\$ - KRW	915	915	900	880	870
AUD – US\$	0.8879	0.90	0.94	0.96	0.90
NZD – US\$	0.7579	0.76	0.77	0.74	0.68

Source: Economics@ANZ

# Disclaimer

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