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Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email: fadt.sen@aph.gov.au

Dear Secretary

China-Australia Free Trade Agreement

I write to express ANZ's strong support for the China-Australia Free Trade Agreement (ChAFTA) being considered by the Senate Foreign Affairs, Defence and Trade Legislation Committee.

ANZ CEO Mike Smith has noted publicly that ChAFTA is one of the most important economic events in recent Australian history. China will be the world's largest economy by around 2025 and is already Australia's largest two-way trading partner.

ANZ commends the Government and Opposition for the 21 October agreement supporting the passage of the enabling legislation. The passage of the legislation will help Australian businesses to gain improved access to the Chinese market at the earliest opportunity.

ANZ supports the legislation being considered by the Committee. The legislation will embed reductions in tariffs and duties for goods originating in China and introduce new rules of origin for goods that are imported into Australia from China. This legislation formalises key items of ChAFTA and will provide entry into force before the end of 2015 to maximise benefits for both Australia and China.

ChAFTA will create opportunities for Australian businesses at a time when it is particularly important to support the diversification and growth of the Australian economy.

Benefits to business

Newly completed ANZ research establishes the high level of interest among Australian businesses in operations in or trade with Asia, in particular China, and indicates substantial benefits flowing from this trade.

The *Opportunity Asia* research (at Attachment 1) reports on Australian businesses' experience with Asian trade. It is based on a random sample of 1,017 Australian businesses. Small and medium sized businesses were strongly represented (37 per cent



of surveyed businesses were less than \$4.9m annual turnover; 35 per cent had less than 20 employees).

A majority of surveyed businesses have are currently doing business with Asia (35 per cent) or are planning to establish such operations (20 per cent).

China is the priority among businesses considering expansion into Asia with 52 per cent identifying it as the top priority. Of the businesses already doing business with Asia, three quarters (76 per cent) have operations in or are doing business with Greater China (China, Hong Kong and Taiwan). Nearly two thirds (62 per cent) of businesses planning to establish operations in or trade with Asia are focusing on Greater China.

Companies active in Asia believe they are far more likely to achieve long-term growth than their counterparts that are domestically focused. *Opportunity Asia* shows these companies are now reaping almost half of their revenue from outside Australia and have substantially improved profitability since expanding operations.

In relation to the businesses that had operations in or trade with Asia:

- 76 per cent said profits had increased substantially or will increase in the future
- 47 per cent indicated revenue derived from Asian operations was higher than domestic income
- 38 per cent of small businesses said they achieved a satisfactory return on investment within 12 months and a further 26 per cent achieved this goal within three years
- 59 per cent of medium and 39 per cent of larger sized businesses achieved a satisfactory return on investment within 3 years.

Around half the businesses surveyed were aware of ChAFTA. The key benefits cited for Free Trade Agreements were reduced barriers to entry (83 per cent), enhanced competitiveness for Australia (81 per cent), contribution to underdeveloped economies (77 per cent) and cost reduction (68 per cent).

Reductions in trade and investment barriers

As set out in ANZ's previous submissions (see Attachment 2 for the ANZ submission to the Joint Standing Committee on Treaties, and Attachment 3 for the submission to the Senate References Committee), ChAFTA substantially reduces the barriers to doing business with China:

- ChAFTA provides Australian businesses with access to around forty Chinese service sectors at levels either equivalent to, or better than, those enjoyed by other nations.
- Chinese tariffs on agricultural exports such as beef, dairy and horticulture will be eliminated over time. They will also be removed from resources, such as coal and alumina, as well as from pharmaceutical and processed food products.
- Market access for Australian exporters under ChAFTA will continue to improve in the future. Under the ChAFTA Most-Favoured-Nation provisions, Australian exporters in many sectors will automatically gain greater access when China offers increased access to other nations in the future.
- ChAFTA contains the first treaty level commitments by China in relation to financial services. More transparent and liberal regulatory processes and rules will strengthen the relationship between Chinese regulators and Australian financial services providers.



- ChAFTA increases certainty for Australian investors. The negotiation of a comprehensive investment chapter will create further opportunities.

ChAFTA gives Australian businesses unprecedented access to the Chinese market and the opportunity to create long term business relationships with their customers and suppliers. ANZ believes that ChAFTA represents an unparalleled opportunity at a critical time for the Australian economy and deserves the support of the Parliament.

• Yours sincerely

Rob Lomdahl
Head of Government and Regulatory Affairs



Attachment 1

GROWTH AND PROSPERITY FOR AUSTRALIAN BUSINESSES IN ASIA

ANZ OPPORTUNITY ASIA



AUSTRALIAN BUSINESSES ARE:

Deriving greater
profit margins from
their Asian operations

Realising ROI
within 3 years

Achieving sustainable growth
and increasing profits due to
their Asian expansion

Looking to further
expand their Asian
operations in the future



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FOREWORD

For Australian businesses, small and large, we are on the cusp of one of the most exciting periods of potential growth and reward.

Our Asian neighbours are growing faster than any other market globally and their demands are turning to products and services that Australian businesses are exceedingly well positioned and able to serve.

In 2014 our country signed Free Trade Agreements with Japan and South Korea and we are close to finalising an FTA with China. It adds to the strong trade links our country has with countries throughout Asia.

ANZ is now the largest and best connected Australian Bank and well established in every major market in Asia.

Our customers in Australia are telling us that they are ready to take advantage of the opportunities the Asian century offers, but some are cautious.

The market place is saturated with reports about the Asian Century. Everyone has a view around what businesses should and should not be doing. Recent news tends to sensationalise fluctuations in the Asian economy, especially the Chinese economy, and some are pessimistically promoting worst case scenarios.

At ANZ, we want to tell a different story. We want to help paint a picture that draws insights from those who have successfully grown and established their business across Asia, providing a best practice “how to” guide for Australian businesses planning their approach.

Without glossing over the challenges and effort required, we also want to showcase the rewards, demonstrating what is possible from a financial and business performance perspective.

To do this we commissioned EY Sweeney, a renowned global research firm, to survey over 1,000 Australian businesses during August and September 2015, to get their views on doing business in Asia.

The results speak for themselves.

Those who are doing business in or with Asia have a far brighter and more prosperous outlook than those who are not.

This report highlights that companies that are either active or planning to be active in Asia, believe that they will be far better positioned to achieve long term sustainable growth and profitability than their counterparts whose operations remain domestically focused.

There is no doubt that there are some challenges and risks facing businesses that are looking to expand into Asia – Australian companies are concerned about complexity, resource requirements and short term viability when considering expansion.

Ironically, not considering the opportunities may be even riskier.

This ANZ Opportunity Asia report demonstrates that expanding a business across Asia may be less complex than Australian businesses think.

At ANZ, we will continue to invest to make it easier for more Australian businesses to succeed in the Asian Century.

I hope you find this report insightful, practical and valuable.

Mark Hand

Managing Director
Corporate and Commercial Banking, ANZ



ABOUT THIS REPORT

Asia's position as the growth engine of the world economy has clearly intensified in recent years.

In 2000 the region accounted for less than 30 percent of world output. By 2014 this contribution had risen to almost 40 percent, and is predicted to account for over half by 2050.¹

Asia is now home to 60% of the world's population, and the cities throughout the region are transforming faster than ever, with populations doubling within the last 10 years.²

As a result of this, Asia's middle class and their disposable income is rapidly increasing, presenting a significant opportunity for Australian businesses.

However, there are still a few concerns holding our companies back.

To debunk these misconceptions, we have surveyed over 1,000 small to medium enterprises (SMEs), right through to large corporates. We have considered responses from businesses with well-established Asian operations, right through to those who are yet to start their Asian journey.

Our vision for this report is to encourage more Australian businesses to consider Asia and the opportunities it presents.

And I believe the findings support this.

We know that taking your business across borders is a big decision.

We hear this from our clients every day.

¹ The Organisation for Economic Co-operation and Development, <http://www.oecd.org/>, September 2015

² The Organisation for Economic Co-operation and Development, <http://www.oecd.org/>, September 2015

However with help from the right people with the experience, 'know how' and with the right connections on the ground, making the move is a lot easier.

At ANZ we are committed to helping Australian businesses grow across borders and reach their full potential.

That's why we have been building our offshore network for over 40 years.

We have over 16,000 staff on the ground in Asia ready to help your business grow.

For me, the question is not why. It is why not?

Kip Hanna

Head of Super Regional Business Development, ANZ



EXECUTIVE SUMMARY

ANZ surveyed over a 1,000 Australian businesses to understand their sentiments on doing business in Asia and the findings revealed:



Greater China
is the **most
popular region**
to do business

55%

were either **active in
Asia** or **planning** their
cross border strategies

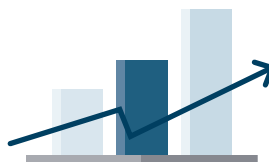


established their
Asian operations
over 6 years ago



18%

said that it was **imperative**
to have **quality products and
services** that are in high demand



47%

said **Asian profit margins were higher**
than domestic profit margins



48%

planning Asian market entry
strategies **are considering JV's**



38%

of small businesses **achieved
ROI within 12 months**



84%

said that their Asian **expansion** made **sustainable growth** far more achievable



76%

said their Asian operations **substantially increased profits** or will increase them in the future



16%

said that having **good relationships** with partners and customers on the ground was an **important factor** in **driving success**



Only

52%

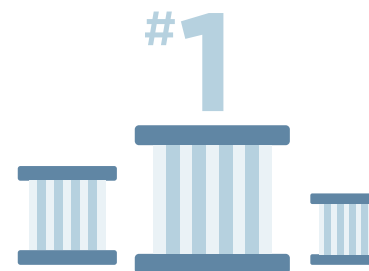
said they **were aware** their bank could **provide them with access** to a range of trade and finance specialists



Only

48%

stated that their **financier** **could help** them **secure funding** for an Asian expansion



ANZ was perceived to be the **top Australian bank** with **Asian expertise** and **experience**

SUCCESS FAVOURS THE BOLD

Succeeding in Asia
is not a given.

There are stories of companies who have entered the region in haste and without thorough and careful planning. These stories often end with companies failing to gain the traction they are looking for.

There are lessons to be learnt from these scenarios, but this should not deter Australian businesses from taking the risk.

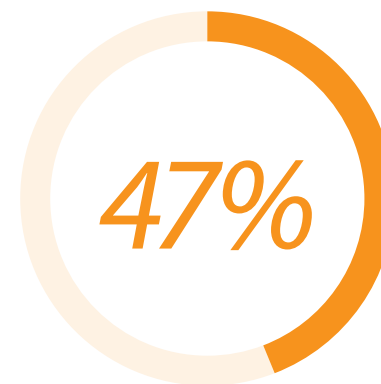
**The opportunities are plentiful
and the rewards can be great.**

Show me the money

It's pleasing to note that many Australian businesses are not discouraged.

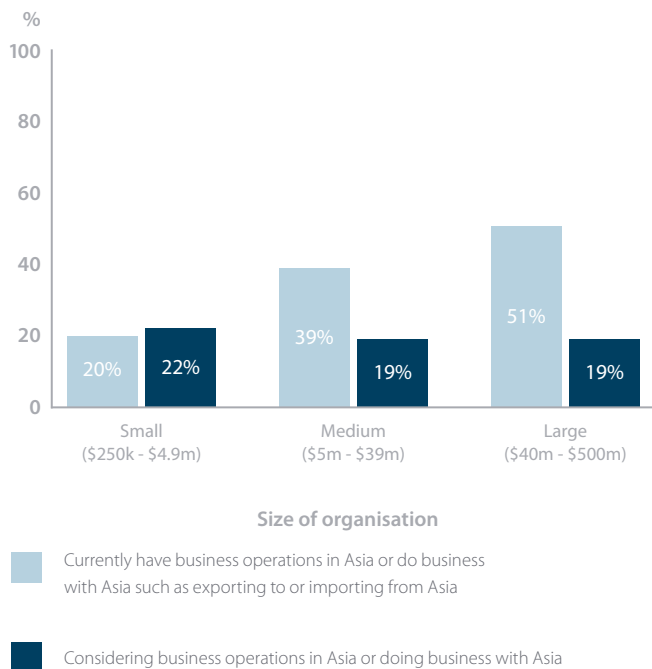
In fact, 35% of our survey participants are active in Asia, with 61% establishing their operations at least six years ago.

As expected, larger organisations are leading the way accounting for 51% of businesses doing business with / in Asia.



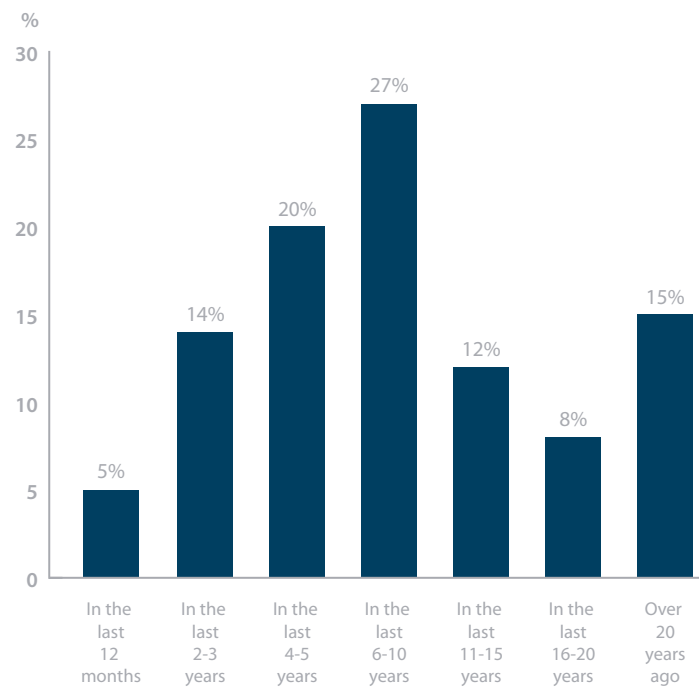
said revenue from Asian operations
was higher than domestic revenue

Status of Australian Business Asian operations – Survey Participant Profile



Base: Small businesses (n=381), Medium businesses (n=393), Large businesses (n=243)

When did you establish operations with / in Asia?



Base: Has current operations or dealings with / in Asia (n=353)



Encouragingly, a further 20% of businesses surveyed are planning to initiate their cross border strategies.

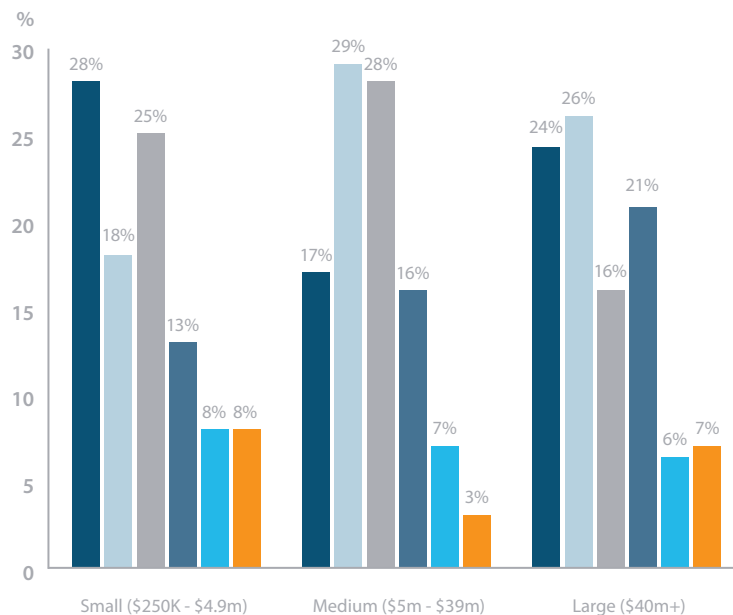
This is a promising sign, suggesting Australia may be recovering from a hiatus in business confidence which has impaired the marketplace for quite some time.

Those who have already taken the first step, usually with careful planning and good advice, are doing it well.

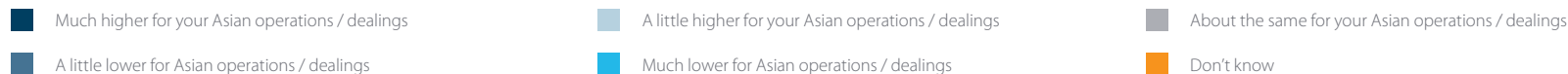
Forty seven percent indicated that revenue derived from their Asian operations was higher than their domestic income.

This was true across all market segments, including small, medium and larger sized businesses (46%, 46%, and 50% respectively).

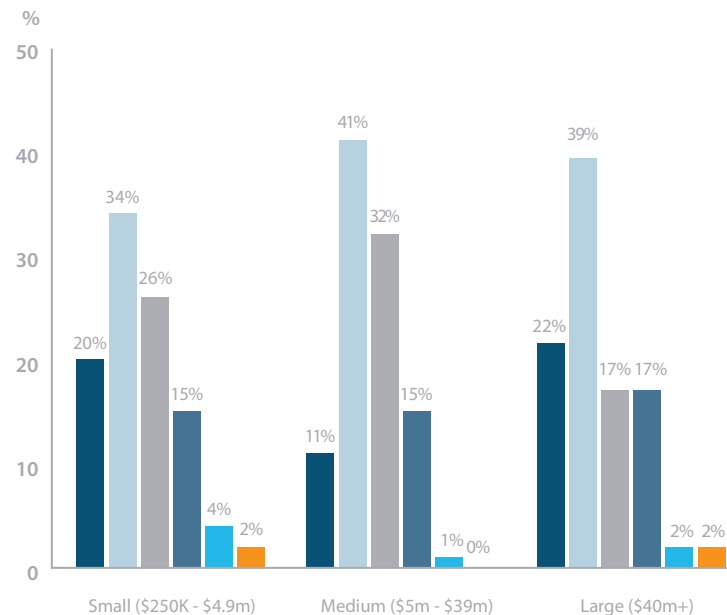
How would you describe your total annual revenues?



REALITY



Base: Businesses with established operations in / with Asia – Small businesses (n=76), Medium businesses (n=152), Large businesses (n=125)



EXPECTATIONS

Base: Businesses planning to establish operations in / with Asia – Small businesses (n=82), Medium businesses (n=75), Large businesses (n=46)

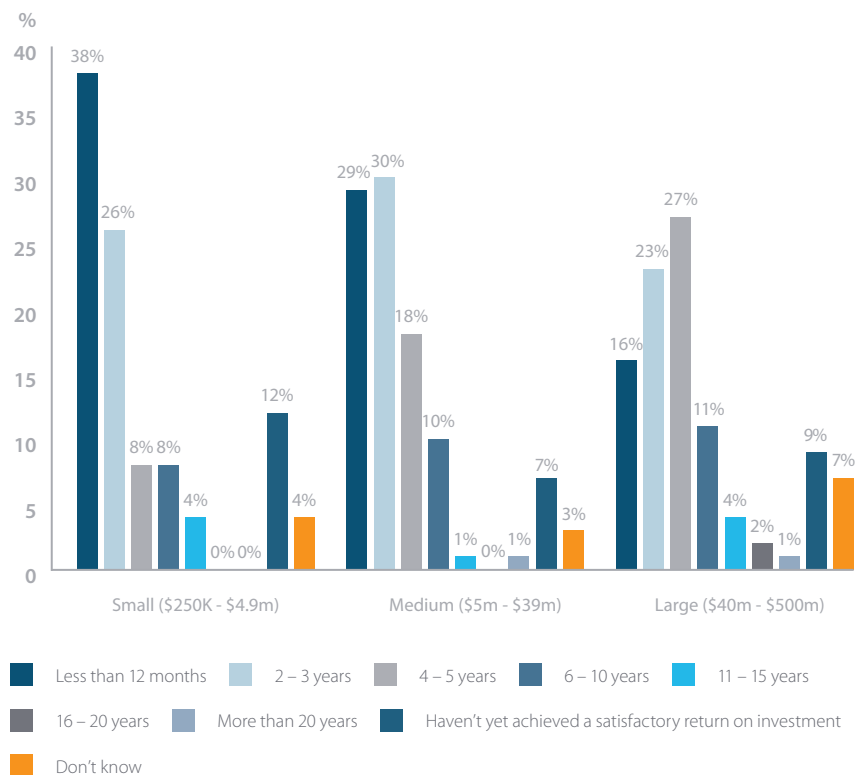
Not only are our companies seeing the financial benefits, they are seeing them relatively quickly.

Thirty eight percent of small businesses surveyed doing business in / with Asia said they achieved satisfactory return on investment within 12 months and 59% of medium and 40% larger sized businesses accomplished this within 3 years.



of small businesses achieved satisfactory ROI within 12 months

Duration for Australian Businesses to achieve return on investment



Base: Businesses with established operations in/with Asia – Small businesses (n=76), Medium businesses (n=152), Large businesses (n=125)

The rise of the giant

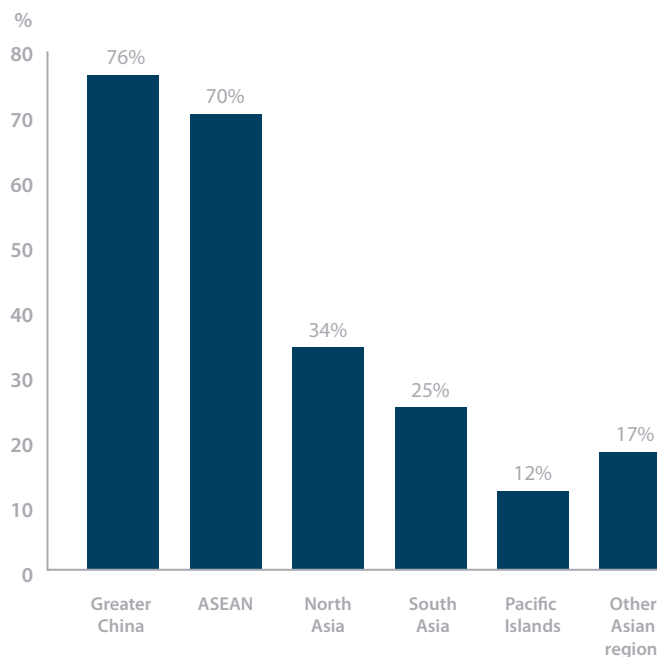
Greater China is the most popular region for Asian expansion among our Australian businesses surveyed.

Seventy six percent of surveyed businesses doing business in Asia have operations in / with China, and 62% of businesses planning their Asian expansion, are focusing their attention on the region.

China's attractiveness is understandable given its dramatic economic growth, averaging 9.5% annual GDP increase over the last ten years.

China is also Australia's largest trade partner, accounting for approximately 25% of our exports, sustaining over 200,000 permanent Australian jobs³

In which Asian region does your organisation currently have business operations or dealings with?



³ Australia China Business Council, www.acbc.com.au, August 2015

Base: Businesses with established operations in / with Asia (n=353)



Healthy appetite

Sixty seven percent of healthcare businesses surveyed doing business in Asia, have operations in China.

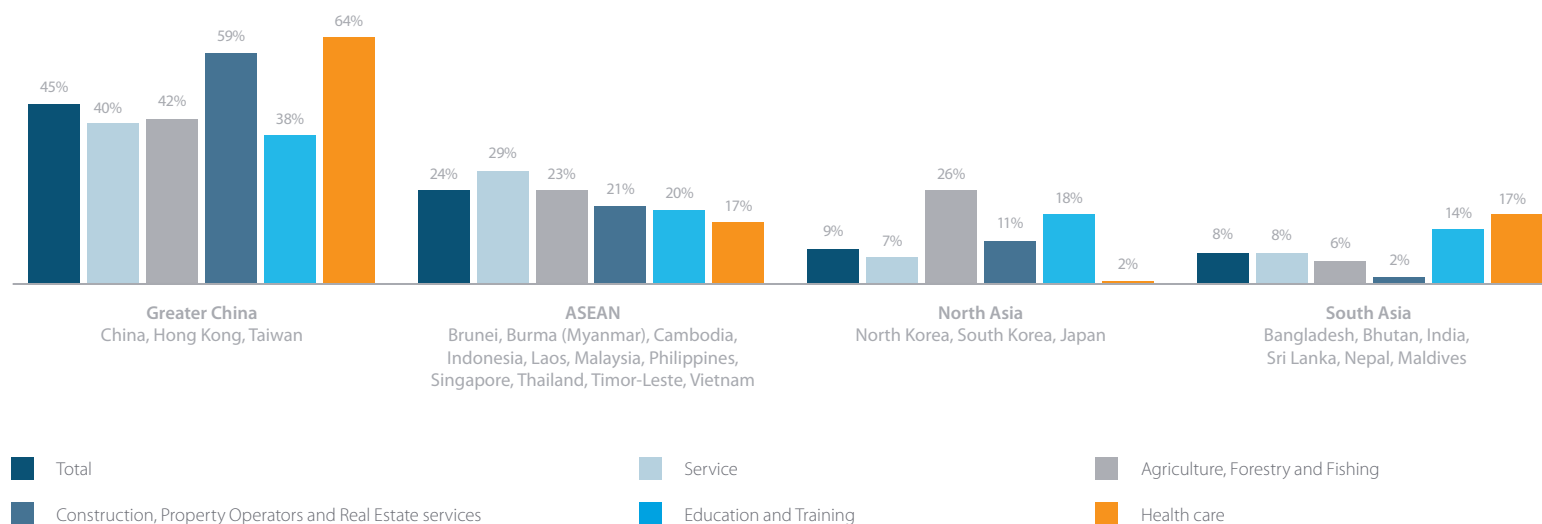
This trend is likely to increase with necessity driving China's decision to open up foreign investment in healthcare, which has largely been a no go zone in the past.

Healthcare spending in China has been rising 20% annually over the last ten years and is now estimated at \$705 billion.⁴

The market is attractive to foreign investors looking to capitalise on the boom – with an increased focus on hospitals, insurance and medical devices.

⁴ Asia Society, <http://asiasociety.org/>, September 2015

What proportion of your Asian revenue is derived from each of the following regions?



Base: Businesses with established operations in / with Asia – Total (n=331), Services (n=111), Agriculture, Forestry & Fishing (n=23), Construction, Property Operators & Real Estate Services (n=16), Education & Training (n=24), Healthcare (n=10). 'Not answered' excluded.

Note: Other industries not shown

ASEAN

ASEAN (Association of South–East Asian Nations)* is the second most popular destination. Seventy percent of businesses surveyed with active Asian operations said they have operations in / with the region.

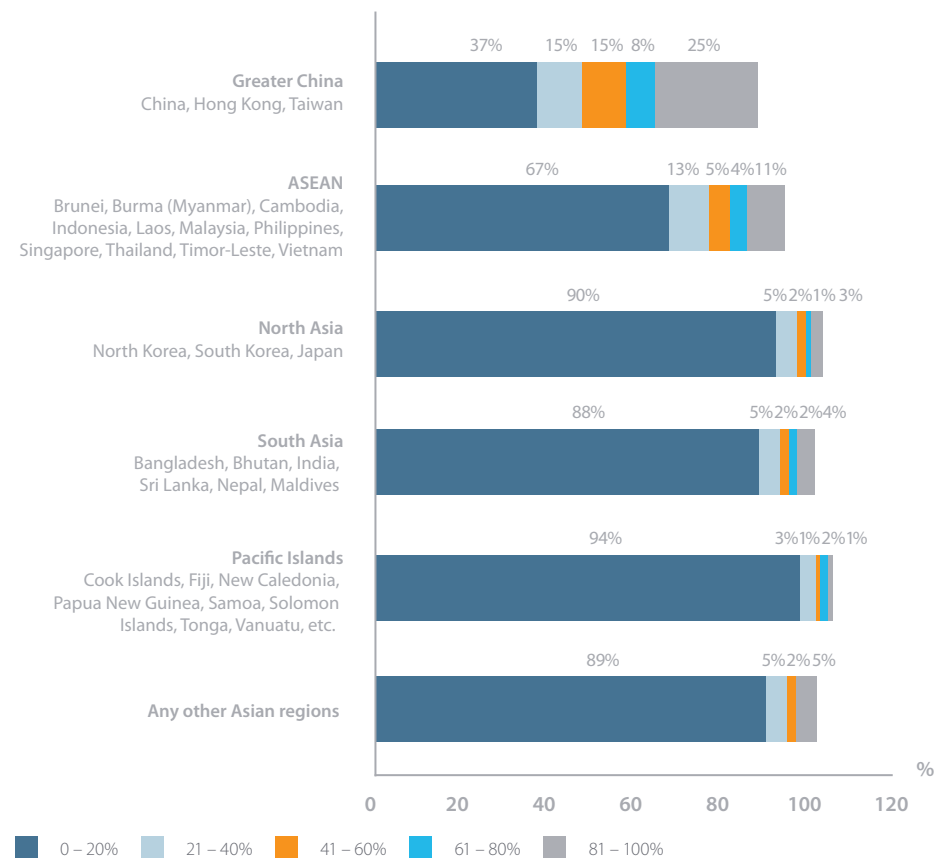
The ASEAN–Australia–New Zealand Free Trade Area (AANZFTA), which was enforced on 1 September 2015, is likely to be the driving force behind this, as it was Australia’s first multi-country FTA covering all sectors including goods, services, investment and intellectual property simultaneously.⁵

Service with a smile

Businesses surveyed in the Australian services sectors are increasingly looking at opportunities throughout the ASEAN region, with 68% saying they are doing business there.

In fact, by 2030, the service sector is predicted to become Australia’s number one export to Asia in terms of total value added, and is tipped to support over a million Australian jobs⁶ in the process.

What proportion of your Asian revenue is derived from each of the following regions?



⁵ Department of Foreign Affairs and Trade, <http://dfat.gov.au/>, September 2015

⁶ AUSTRALIA'S JOBS FUTURE The rise of Asia and the services opportunity, Asia Link, www.asialink.com, September 2015

* ASEAN includes the following members: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam

Base: Businesses with established operations in / with Asia (n=331). 'Not answered' excluded



READY FOR TAKE-OFF

Asia is fast becoming the world's most favoured destination for business growth, and it spans an area far greater than the USA and Europe combined.

However, the challenge facing businesses continues to be how to identify where the biggest opportunities lie for specific products or services, and also how to determine the most successful ways to access them.

Large and complex

Asia is in no way a single homogenous market, but a disparate and fragmented one, with numerous cultural, social and economic differences – and these factors are some of the top reasons holding businesses at bay.

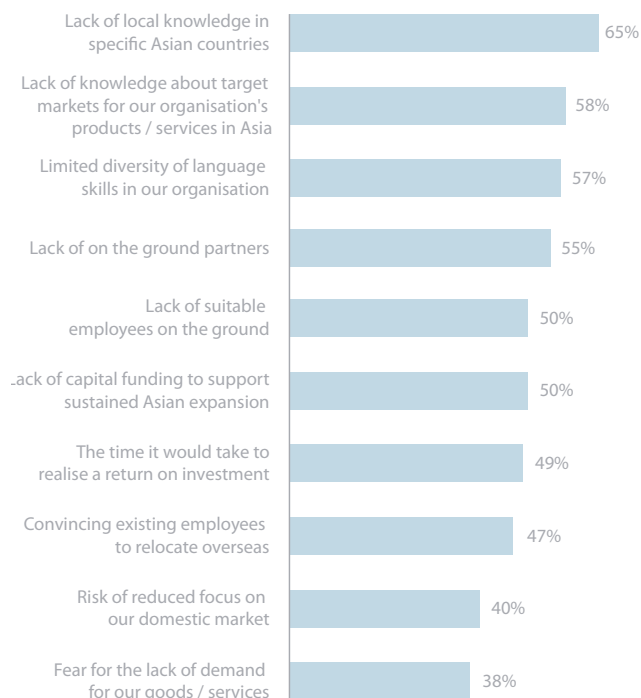
Sixty five percent of businesses surveyed said that a lack of local country knowledge was the main reason that they haven't started doing business in / with Asia or further expanded their operations.

Fifty eight percent surveyed said that a lack of understanding around the target market was a deterrent, while 57% acknowledged that limited language skills was a constraint.



said that securing capital funding
was an impediment

Factors inhibiting businesses from doing business in / with Asia



Base: Total sample (n=1,017)

Empty pockets

Half of the surveyed respondents said that securing capital funding was an impediment.

This is not a surprise. Research has revealed that 25% of Australian businesses operating internationally require additional debt funding every year, while 62% of those businesses said they found it difficult to source this funding from Australian financial institutions.⁷

Global connectivity counts

It can be difficult for businesses to secure funding from banks in Asia, including global, Australian and local banks. Given the perceived risk associated with Asian expansion, many financiers often ask for a heightened level of security, which the majority of Australian SMEs are not well placed to provide.

However, at ANZ we allow businesses to leverage the strength of their domestic operations, making it a lot easier and more achievable to secure much needed funding.

Also by banking with ANZ, Australian businesses avoid the challenging process of deciphering and translating international policies, procedures and other documents requested by Asian banks, which can sometimes be confusing and time consuming.

⁷ Australian International Business Survey 2014, Export Council of Australia and the University of Sydney, September 2014



Supporting trade

ANZ is committed to be the trade partner with clients, and we continue to invest in this space, launching the \$3b Trade Lending Pledge in May this year.

The trade pledge aims to raise awareness around how we can help Australian based business customers, big and small, who are looking to expand in new markets.

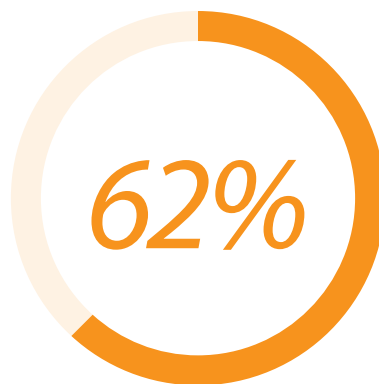
We also continue to support our clients with ANZ Transactive Trade, a global, web-based trade and supply chain finance transaction processing system.

It is available across a wide range of geographies and provides workflow capabilities that helps our clients better manage and optimise their trade and supply chain activities.

Silver lining

The silver lining is that 62% of surveyed businesses are not concerned about the demand for their goods or services.

We are likely to see more Australian businesses expand into Asia once businesses overcome the logistical challenge of finding the right partners on the ground, building good relationships with customers and identifying the right markets and entry strategies.



are not concerned about the demand for their goods or services in Asia

Market entry

When it comes to developing Asian market entry strategies, businesses surveyed who are planning expansion are looking to form joint ventures (JVs) (48%) or undertake mergers and acquisitions (M&As) (21%).

This is in stark contrast to those who have already established business in Asia.

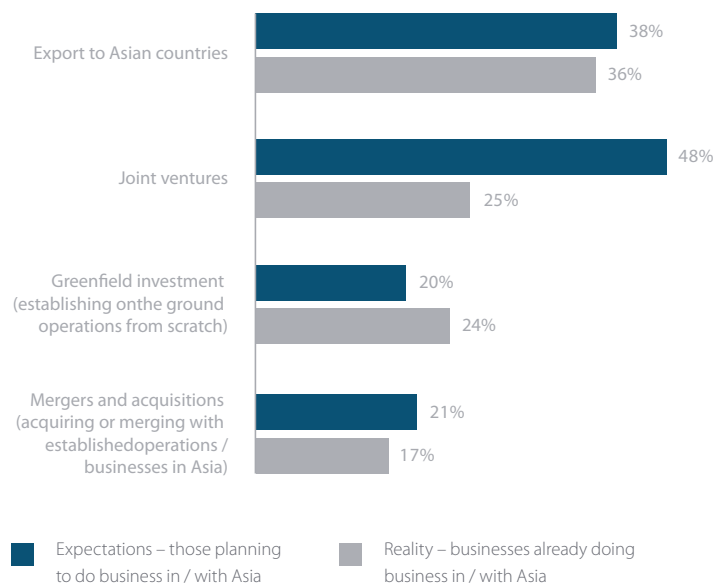
Only 25% said they formed JV and 17% undertook M&A transactions.

The healthy appetite to plan JVs could be a result of increased valuations making M&A less attractive, as well as the growing pool of wealthy and willing prospective Asian partners.

However, in reality pursuing a JV is still a challenge.

Many businesses often end up developing alternative market entry strategies. This is a result of issues associated with not being able to identify the right partner who can make strategic tangible business contributions, inability to safeguard intellectual property and difficulty in ensuring ongoing operational control.

Asian market entry strategies



Enhancing the food quality in Asia

Exporting is the most popular way Australian businesses enter Asian markets, and 83% of businesses surveyed in the agricultural sector said that it was their chosen market entry strategy.

It is well known that Asia has the fastest-growing population in world. This is increasing the demand for food, but greater urbanisation, westernisation and rising personal wealth is changing the form in which food is consumed.

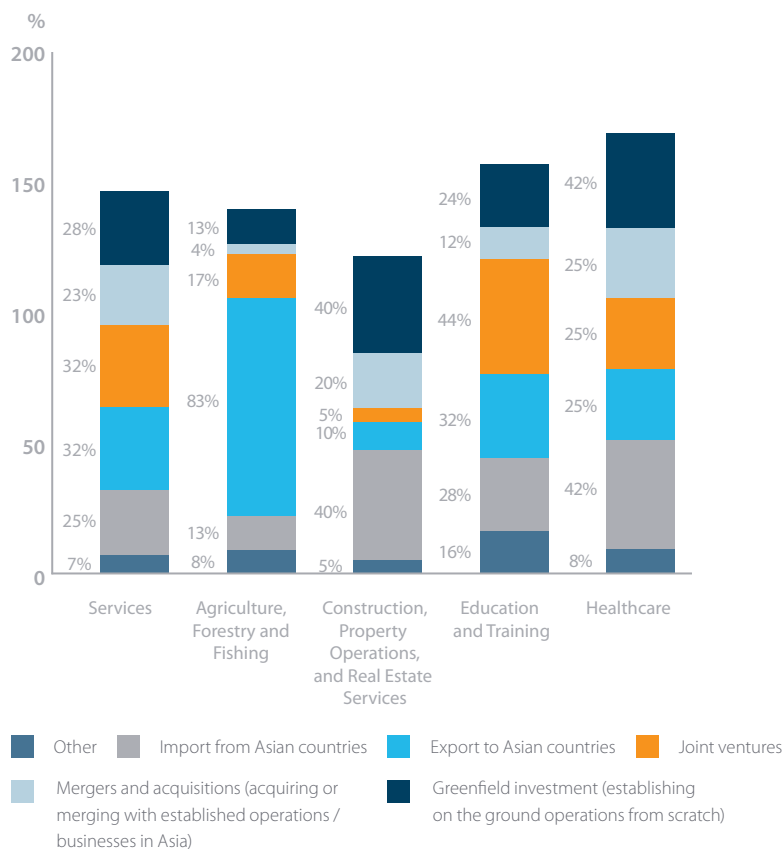
There is a rising demand for more animal protein in the diet, more dairy products and a greater variety of fresh fruit and vegetables.

There is also more demand for value-added food: food that is convenient, safe and which has been produced more sustainably.

This is a significant opportunity for Australia's agricultural sector, which is well positioned to take advantage of the emerging trends.

Base: Businesses planning to establish operations in / with Asia (n=203), Businesses with established operations in / with Asia (n=353)

Asian market entry strategies



This year ANZ launched the Opportunity Asia Client Tour Program, designed to take businesses throughout Asia on a bespoke week-long guided visit, tailored to their industry.

The aim of the program is to assist businesses develop knowledge of the potential trade opportunities and to foster and strengthen relationships and networks.

It provides participants with the opportunity to experience business, life and culture within Asian cities. Most importantly, it unlocks the full potential for businesses, helping them to seize the opportunities that Asia presents.

The inaugural tour was focused on animal protein, promoting the awareness of the Australia red meat industry and its relationship with the Chinese supply chain.

It highlighted emerging trends in population and consumer behaviour that will influence production and processing in Australia as we cater to this critical growing market.

All of our participants noted that this unique program exceeded their expectations and was extremely valuable – and we are excited to support more industries throughout this program over the coming years.

Base: Businesses with established operations in / with Asia – Total (n=353), Services (n=116), Agriculture, Forestry & Fishing (n=24), Construction, Property Operators & Real Estate Services (n=20), Education & Training (n=25), Healthcare (n=12) **Note:** Other industries not shown

Training and education

The Global Financial Crisis shook the higher education industry in many developed countries, especially in Australia. Now, the lucrative income from Asian students that has been received for over two decades is now in decline.

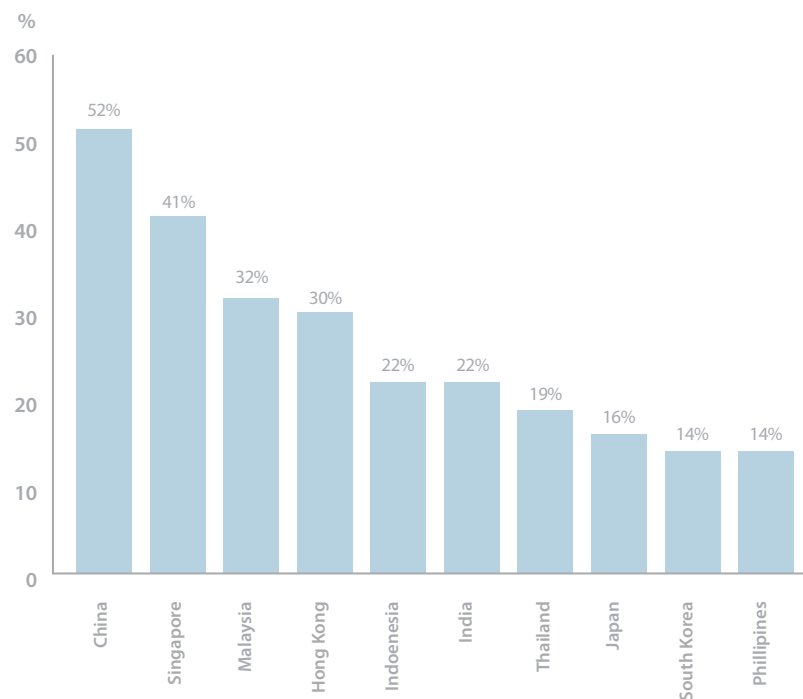
Conversely, Asian countries are pouring in billions of yuan, rupee and rupiah to expand their own higher education systems on a scale and at a rate that is without precedent.

By 2020, China, India and Indonesia could add almost 15 million enrollments to the world's stock of higher education places. This figure is approaching 10 times the predicted growth of all higher education enrollments in the rest of world combined.⁸

Now that the governments of China, India and Indonesia have all signaled their intention to welcome high-quality foreign universities in a bid to help boost the quality of local institutions and seed excellence – businesses within Australia's education and training sector have significant opportunities.

Given this trend, it's not surprising that those businesses surveyed from the education and training sectors, are already focusing their attention on forming the right partnership to enter Asia, with 44% saying JVs were the chosen market entry strategy.

Asian country consideration – Top 10 countries



⁸ ICEF, <http://monitor.icef.com/>, September 2015

Base: Businesses planning to establish operations in / with Asia (n=203)



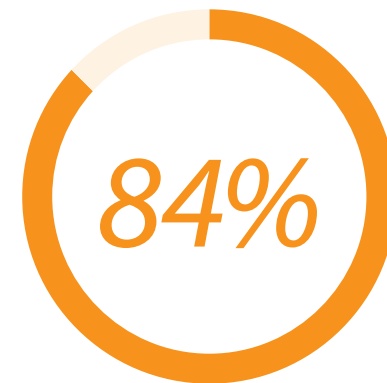
WINNING FORMULAS

Succeeding in Asia.

Businesses generally expand across borders because they are growing and performing well domestically, meaning they were are in a position to invest.

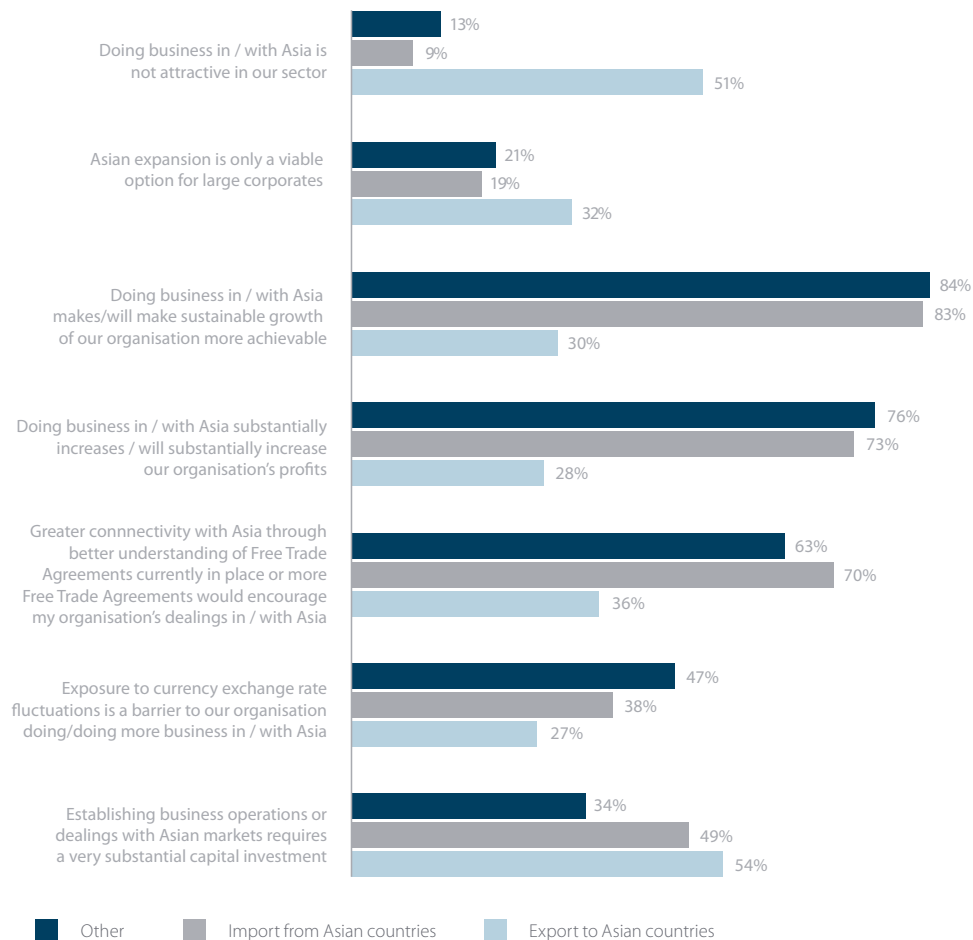
Our survey participants who were active in Asia said they were motivated by the increasing demand for their goods or services and the tremendous opportunities due to growing economies.

Eighty four percent of these businesses also said that their Asian expansion made long term sustainable growth far more achievable. Seventy six percent said that their profits had or will increase substantially.



said Asian expansion made long term sustainable growth far more achievable

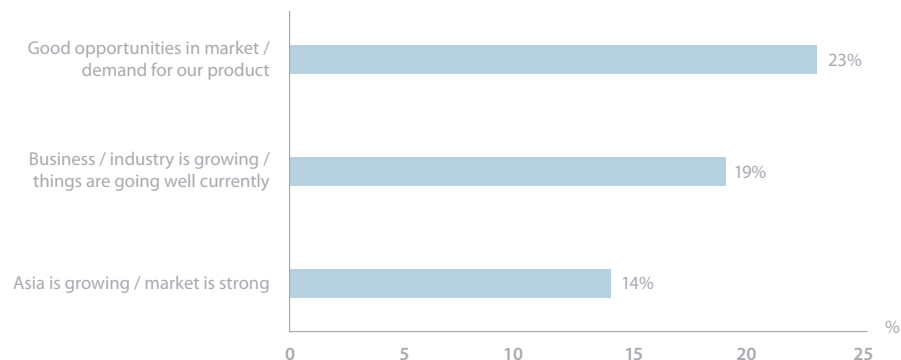
Australian business attitudes about doing business in / with Asia



Base: Actives – Businesses with established operations in / with Asia (n=353), Planners – Businesses planning to establish operations in / with Asia (n=203), Potentials – Businesses not currently planning to establish operations in / with Asia (n=461)



Top 3 reasons for expansion expectation



Currency volatility

The past 12 months has seen the Australian dollar fall over 23% which is placing significant pressure on unhedged trade importers.

It's now more important than ever for businesses to develop and implement sound long term hedging strategies.

Understandably, 47% of surveyed businesses who had operations in Asia said that currency exchange rate volatility was a perceived barrier, compared to only 38% of businesses planning to make the move.

This potentially indicates that those with established Asian businesses have felt the adverse impacts of currency risks in the past, and truly understand what's at stake.

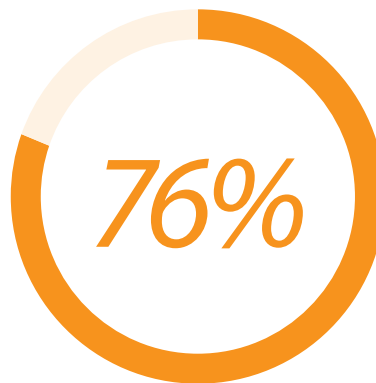
Research has shown that Australian businesses may have a more sophisticated approach to hedging currency risk compared with their global equivalents, however they are more likely to be concerned by foreign exchange fluctuations, which would explain the survey results.⁹

According to research 45% of Australian businesses are using hedging tools to create certainty around cash flow and margins, in comparison with the global average of 32%.¹⁰

Despite this promising trend of the use of hedging tools, Australian businesses are still concerned, with 15% of Australian businesses surveyed canceling their Asian growth plans and 12% are scaling back their businesses due to currency volatility – in stark comparison to global companies at 9% and 6% respectively.¹¹

To assist clients mitigate these risks, ANZ provides clients with direct access to a range of specialists, including trade finance and foreign exchange experts.

Also as trade with China is increasingly denominated in their local currency renminbi (RMB), ANZ is best placed to assist businesses to trade, invest and remit funds given we are the only Australian bank with both corporate and retail (RMB) licenses.



said Asian expansion substantially increased their profits

Key to success

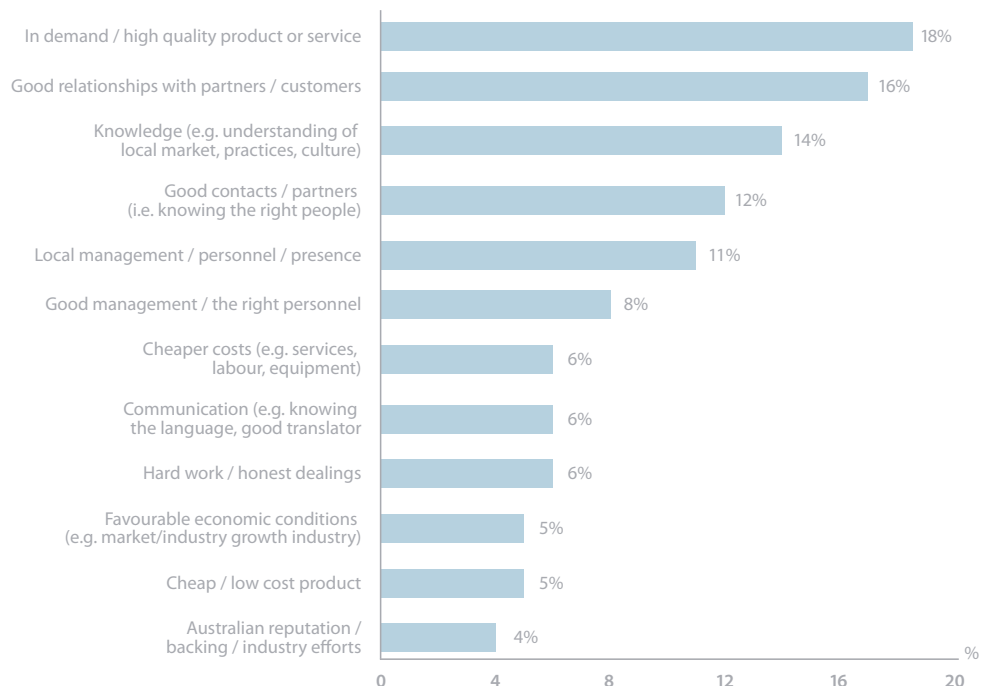
When asked about the key to success, 18% of businesses surveyed with established Asian operations said that it was imperative to have quality products and services that were in high demand.

Having good relationships with partners and customers was also an important factor in driving success (16%), as was having the right knowledge of the local environment (14%).

¹⁰ The Australian International Business Survey 2014, Export Council of Australia and the University of Sydney, 2014

¹¹ The Australian International Business Survey 2014, Export Council of Australia and the University of Sydney, 2014

Key drivers of success



When asked about the advice businesses needed to successfully expand into Asia, 40% of respondents said they needed to know the intricacies of business networking.

Ironically, in an ever increasing globalised world, where we are more connected than ever as a result of digital innovation, it's becoming increasingly complicated to find the right forums, networks and ways to meet the right business partners, suppliers and alliances.

We've been hearing this from our customers for some time now, and we have been working with government agencies and industry associations, facilitating introductions and meaningful connections.

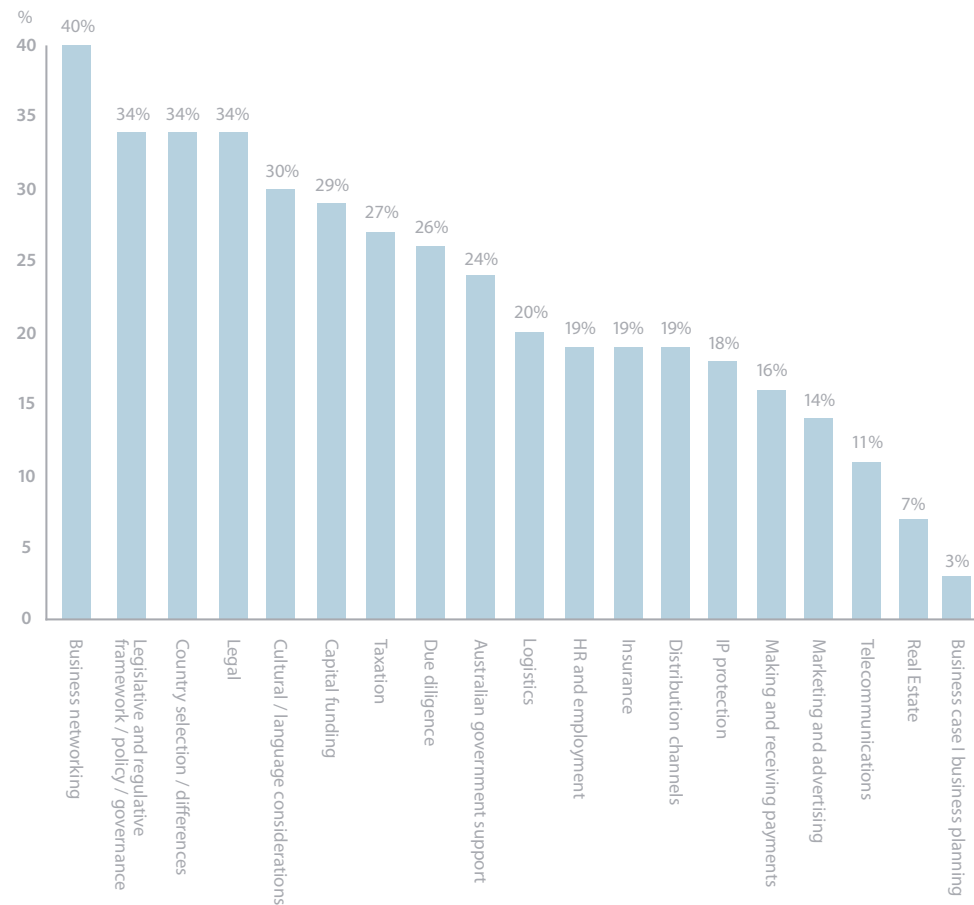
Base: Businesses with established operations in / with Asia (n=353)

Note: 'Don't know' (2%), 'None / nothing' (1%) and results below 4% not shown

In the digital space, we have launched the official ANZ Opportunity Asia LinkedIn Group, an incredibly powerful platform that connects buyers, sellers, suppliers and business owners to build their international networks to support cross border business.

We have also established dedicated Australian Desks in all major Asian markets, providing personalised concierge service to assist businesses facilitate banking arrangements and provide in-depth local insights as they expand into or trade with the region.

Advice requirements for Asian operations / business dealings



Base: Total sample (n=1,017)



FOSTERING A BRIGHT FUTURE

The future for Australia in the Asian Century is very bright.

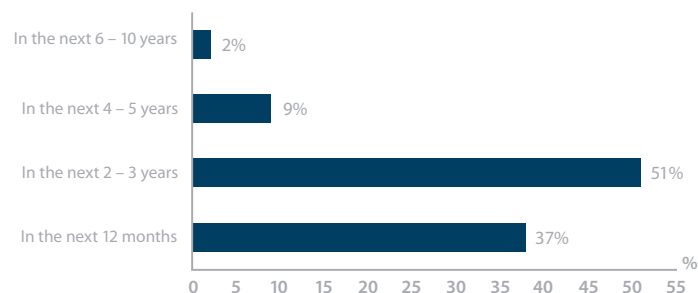
Almost 90% of the businesses surveyed are planning to establish their Asian operations over the next three years, while over a third expects this to occur within the next 12 months.

Small businesses are leading the way

This charge is being led by the small business sector with 40% saying they'll execute their Asian strategy within a year.

This is understandable given that recent statistics show that 70% of growth in Australian exports is attributable to small-medium enterprises. Also over half of the 2788 services exporters in 2013 – 14 were in the "less than \$1 million" value range.¹²

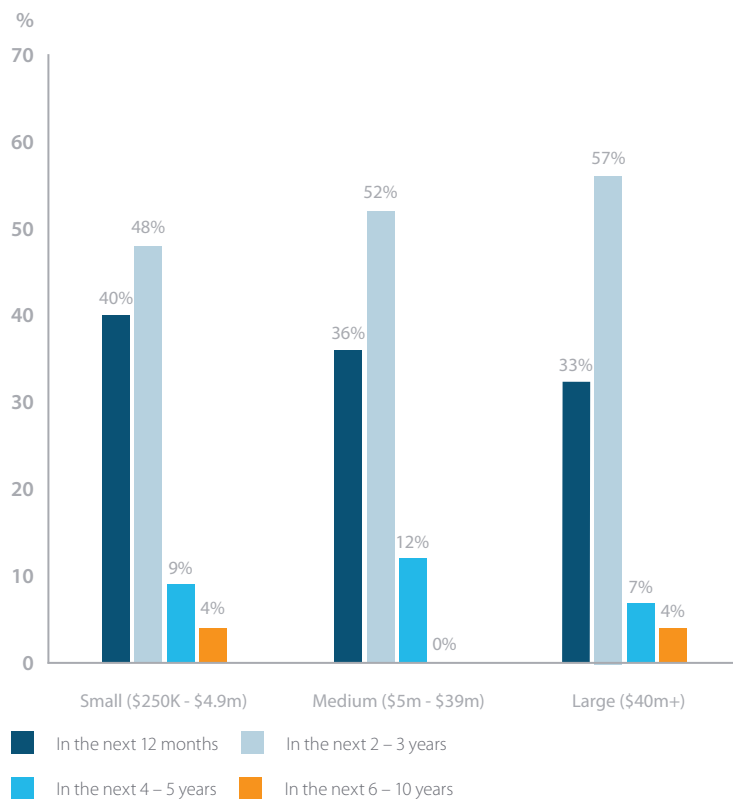
When do Australian businesses who are planning to expand to Asia, think they will make the next step?



Base: Businesses planning to establish operations in / with Asia (n=203)

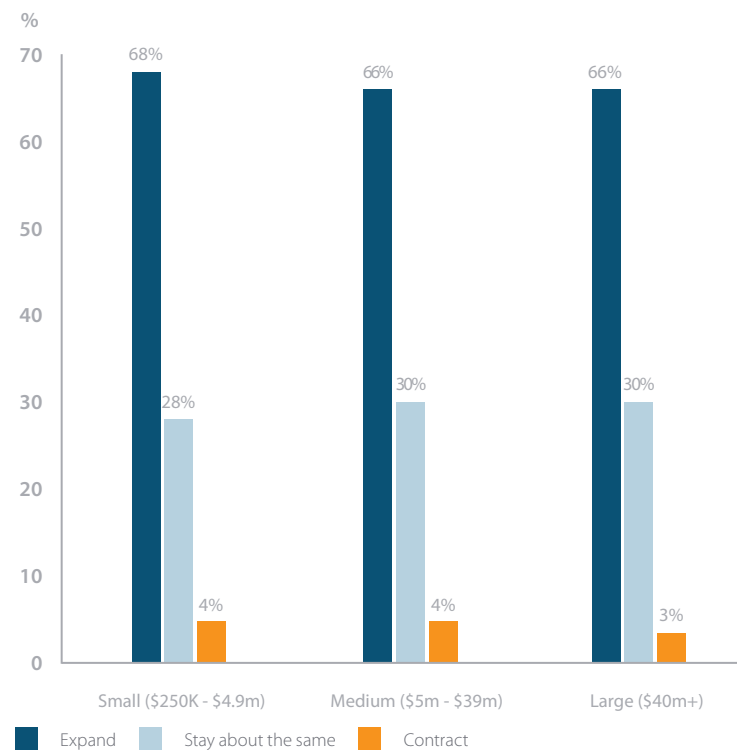
¹² Australian Bureau of Statistics, www.abs.com.au, September 2015

When do you plan to expand into Asia?



Base: Businesses planning to establish operations in / with Asia – Small businesses (n=82), Medium businesses (n=75), Large businesses (n=46)

Do you expect your business to expand, contract or stay the same?



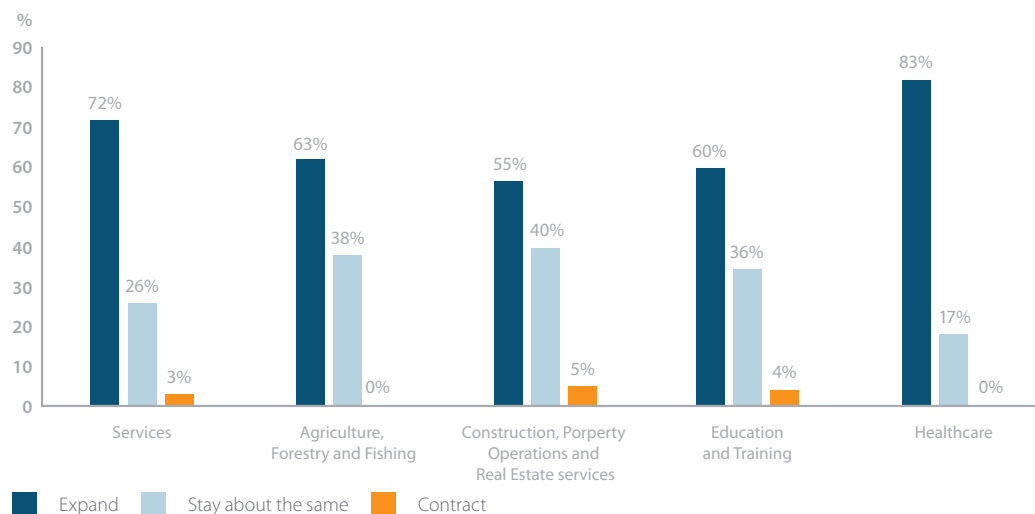
Base: Businesses with established operations in / with Asia who expect to expand – Small businesses (n=76), Medium businesses (n=152), Large businesses (n=125)

Ramping up

When asked about the future direction of their operations, more than two thirds of survey participants who had established businesses across Asia overwhelmingly said that they were looking to expand.

This message was consistent across all market segments, from SMEs to large corporates, and also across industries, however with a particular buoyant outlook for healthcare and services.

Do you expect your business to expand, contract or stay the same?



Base: Businesses with established operations in / with Asia – Total (n=353), Services (n=116), Agriculture, Forestry & Fishing (n=24), Construction, Property Operators & Real Estate Services (n=20), Education & Training (n=25), Healthcare (n=12)

Note: Other industries not shown

Free Trade Agreements (FTAs)

Trade with Asia is certainly a driving force of Australia's long term economic prosperity and FTAs are a key success factor in stimulating and fostering greater trade flows.

The recently signed and well-publicised China–Australia Free Trade Agreement will further enhance opportunities across the region, however some industries will be better positioned to take advantage than others.

The agricultural industry (including dairy, wine and beef), the funds management sector, education, health (aged care and hospitals) and the vitamin industry are all predicted to benefit the most from the agreement that is likely to be enforced next year.

Underutilisation

However, despite Australia's active participation in trade agreements, with nine FTAs in force and seven under negotiation, FTAs continue to be underutilised with research showing only 19% of Australian businesses are taking advantage of the benefits.¹³

Businesses that overlook the benefits of trade agreements, risk missing opportunities as the research has shown 75% of those businesses that embed FTAs within their business strategy, experienced increased export growth.¹⁴



planning to establish their Asian operations are expecting to do this in the next three years

¹³ Economists Intelligence Unit, September 2015

¹⁴ Economists Intelligence Unit, September 2015



who embed FTAs within their business strategy, experienced increased export growth

Knowledge gap

Not only is there clearly a knowledge gap amongst Australian businesses around the FTAs in force, there is also a significant lack of understanding around the benefits they bring and how to actually make FTAs work for business.

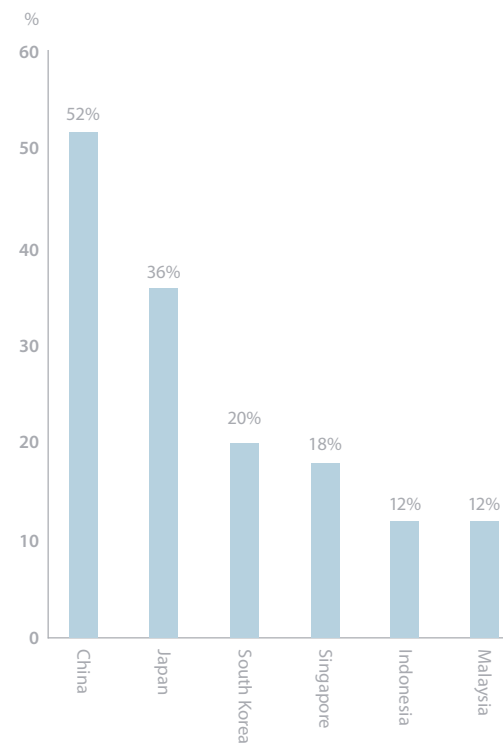
Only 52% of businesses were aware that Australia had a FTA with China, followed by 36% for Japan, 20% for South Korea and just 18% and 12% for Singapore and Indonesia respectively.

Thirty two percent of businesses surveyed didn't know that FTAs could reduce costs associated with trade.

Thirty five percent were not aware that FTAs provide clarity and consistency around product standards, and 35% failed to understand that FTAs have been designed to support eCommerce opportunities.

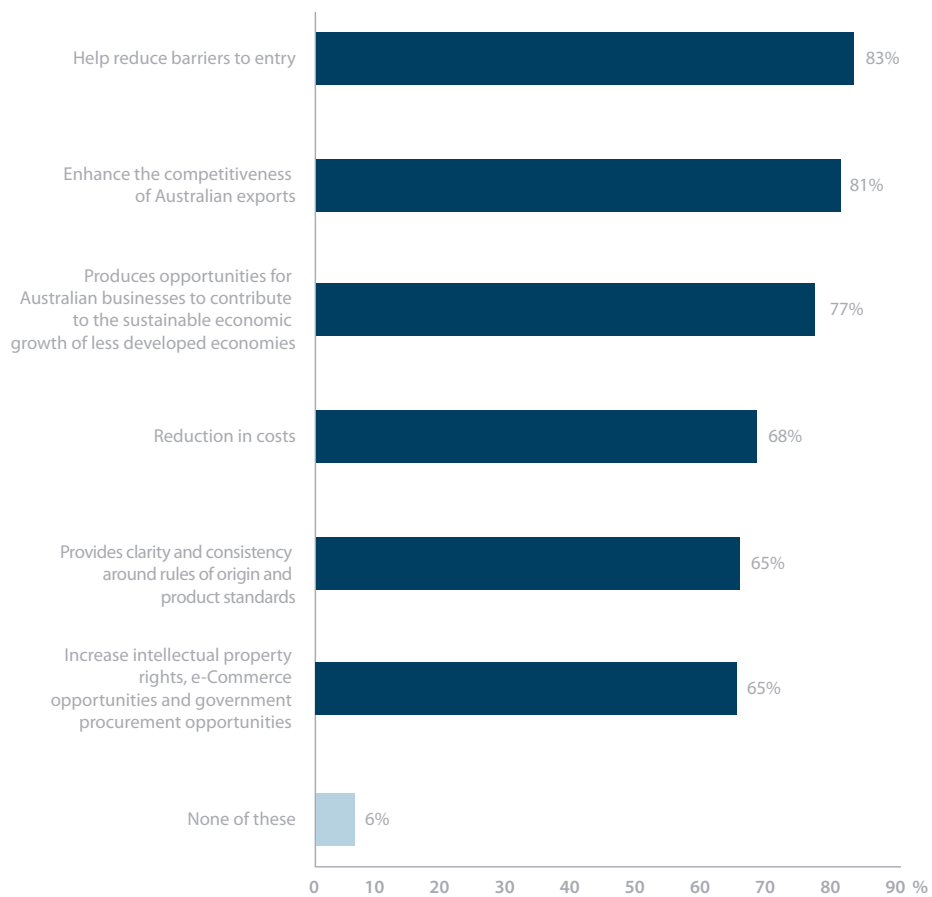
There is a wealth of information available of FTAs especially from industry bodies such as the Austrade and the Export Council of Australia, and going forward it will be important for Australian businesses to look at closing this knowledge gap by utilising resources such as the FTA Tool.

Free Trade Agreement awareness – Top 6 countries



Base: Total sample (n=1,017)

Awareness of Free Trade Agreement benefits



Base: Total sample (n=1,017)



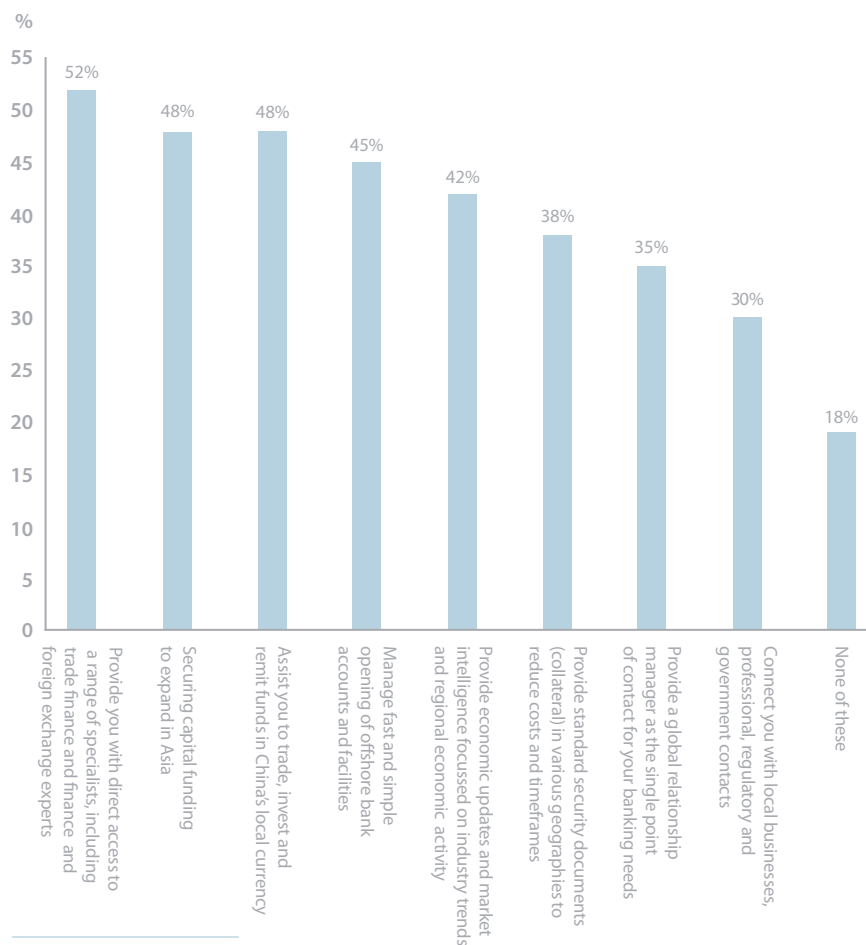
Banking on relationships

For Australian businesses to thrive and excel in expanding their operations into Asia, not only should they aim to learn more about FTAs and the benefits they can bring, but also ask and challenge their bank around how they can assist and partner them throughout their Asian journey.

Only 52% of businesses surveyed said they were aware their bank could provide them with access to a range of trade and finance specialists, and just 48% stated their financier could help them secure funding for an expansion into Asia.

Fifty two percent of businesses surveyed said they didn't know their bank could help them trade, invest and remit funds in China's local currency and a staggering 65% said they didn't know their bank could provide a global relationship manager to act as a single point of contact.

Awareness of how your bank can assist you to expand into Asia?



Base: Total sample (n=1,017)

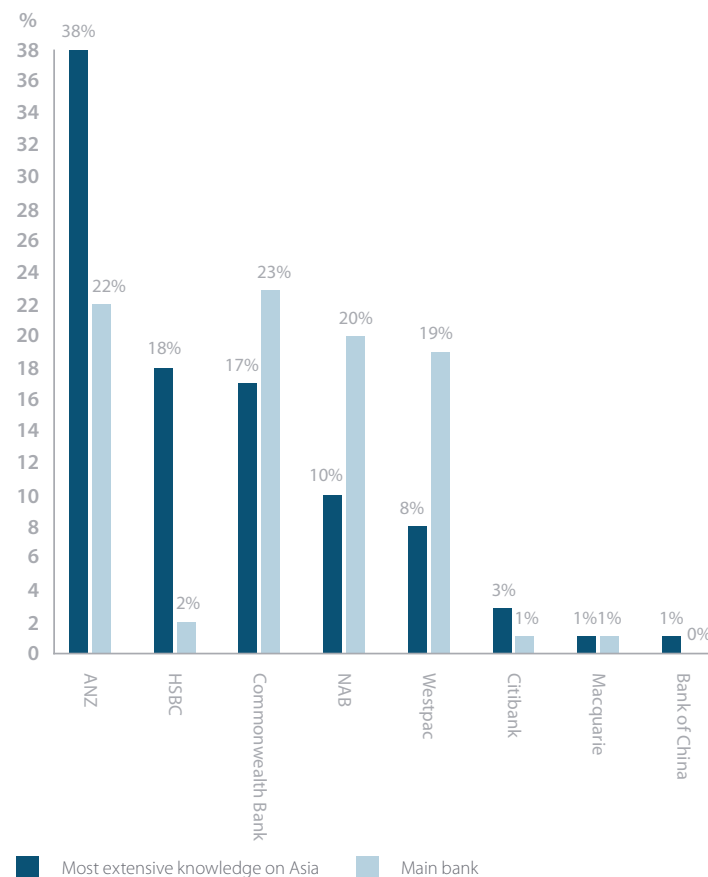
ANZ is proud to be able to support our customers with these services.

We've also gained a reputation as innovative specialists in a range of products and services from trade finance, foreign exchange, leasing and structured asset finance, project and export finance, capital markets and mergers and acquisitions, to personal banking, private banking and wealth creation.

Our local connections and expertise allow us to provide our clients with comprehensive and timely economic updates and market intelligence, focused on industry trends and regional economic activity.

Our outstanding track record of developing award-winning products means we're ideally placed to help Australian businesses with ambitious growth goals throughout the region.

Bank expertise and usage – Top 8 banks with perceived expertise in Asian operations



Base: Knowledgeable bank (n=677). Main bank (n=997). 'Don't know / none' excluded for both

RECOMMENDATIONS

- Australian businesses should not underestimate the opportunities in Asia for their business – especially those who are looking for sustainable growth and increased revenue streams.
- Expanding your business across borders may be easier than you think. Consider a range of banking options – capital and trade requirements may not be as complex as anticipated and ROI may be very achievable in a timely manner.
- Do your due diligence on market and country selection and also market entry strategies – seek advice from a range of government agencies, industry bodies and financiers with the experience and ‘know how’.
- Start networking now. Investigate numerous eCommerce platforms and business forums to make valuable connections.
- Speak to experts around currency exchange volatility and the risks it presents for your business.
- Understand the benefits that FTAs can provide. There is a wealth of information available especially from bodies such as the Export Council of Australia. Visit **ftatool.com.au**
- Challenge your financier around how they can assist and support you throughout your Asian journey.

HOW DOES YOUR BUSINESS MEASURE UP?

Do you want to know how your business compares to your peers?

Visit **anzopportunityasia.com** to use our interactive benchmarking tool. You will be able to see how your competitors are expanding into Asia, what markets they are targeting and their predicted revenue streams.



ABOUT ANZ

A long history of regional investment

ANZ has been building our offshore network for over 40 years in Asia and more than 100 years in the Pacific.

With more than 16,000 staff on the ground, we have about ten times as many bankers in Asia Pacific as our Australian competitors.

Covering 34 markets globally, ANZ is present in more of the locations where you are doing business.

Expert local knowledge and capability

ANZ provides you direct access to a range of specialists, including trade finance and foreign exchange experts.

We also draw on our networks to access local business, professional, regulatory and government contacts to support your business across Asia Pacific.

ANZ is the only Australian bank with both corporate and retail renminbi (RMB) licenses. As trade with China is increasingly denominated in RMB, ANZ is best placed to assist you to trade, invest and remit funds in China's local currency.

Global Relationship Management

ANZ views you as a single client across all the countries you operate in.

Our global relationship management structure gives you access to:

- A global relationship manager as the single point of contact for your banking needs across Asia Pacific; and
- A relationship team in each country where you operate to provide local country insights and operating capability.

Dedicated to our customers

ANZ has dedicated Australia Desks, a dedicated concierge service established in major Asia Pacific markets.

These Desks facilitate banking arrangements as you expand into or trade with the region.

As well as providing with local insights, the Australia Desks also have an in depth understanding of the Australian market. ANZ also provides inbound investment support to offshore businesses entering the Australian market in both an investment and trade capacity.

Banking outside Australia

ANZ simplifies the way we support you across multiple geographies.

- **Onboarding:** Our team of specialists are experts in regulatory and government policies, allowing fast and simple opening of offshore bank accounts and facilities.
- **Documentation:** We utilise standard security documents in various geographies which substantially reduce costs and timeframes for foreign legal advice.

Global Insights

By leveraging our presence across the region we offer you access to economic updates and market intelligence focused on industry trends and regional economic activity.

So whether you're already doing business in Asia, or you're considering it, talk to ANZ.

CONTACT US

ANZ Super Regional Desk

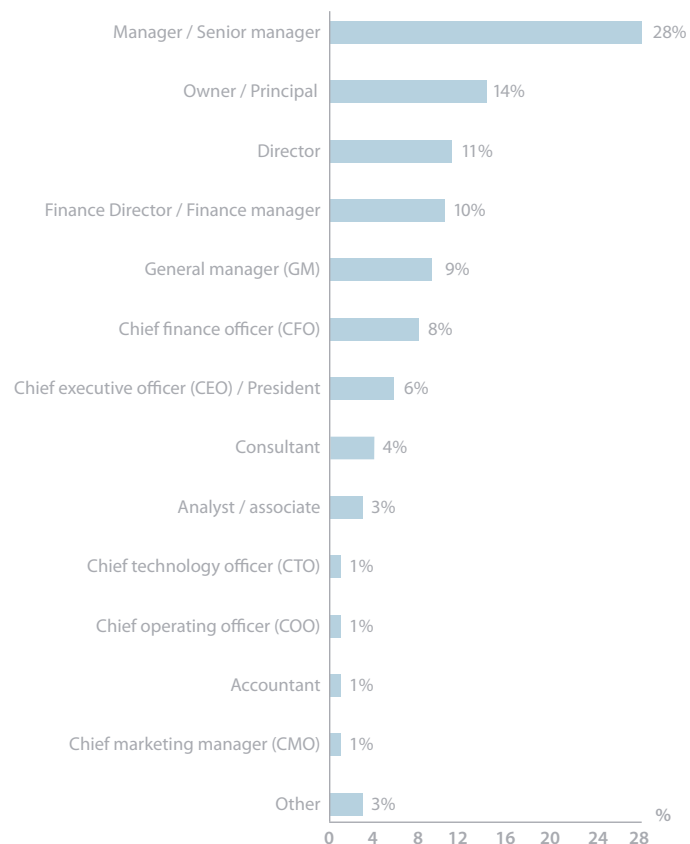
M: +614 6633 1280

E: superregional@anz.com

W: anzopportunityasia.com

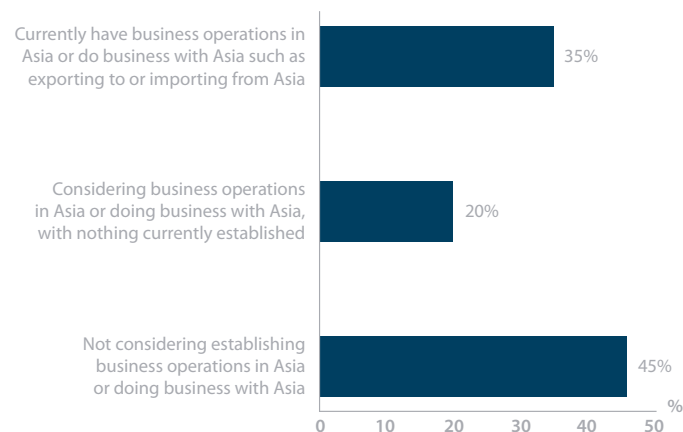
SURVEY DEMOGRAPHICS

What is your job title?



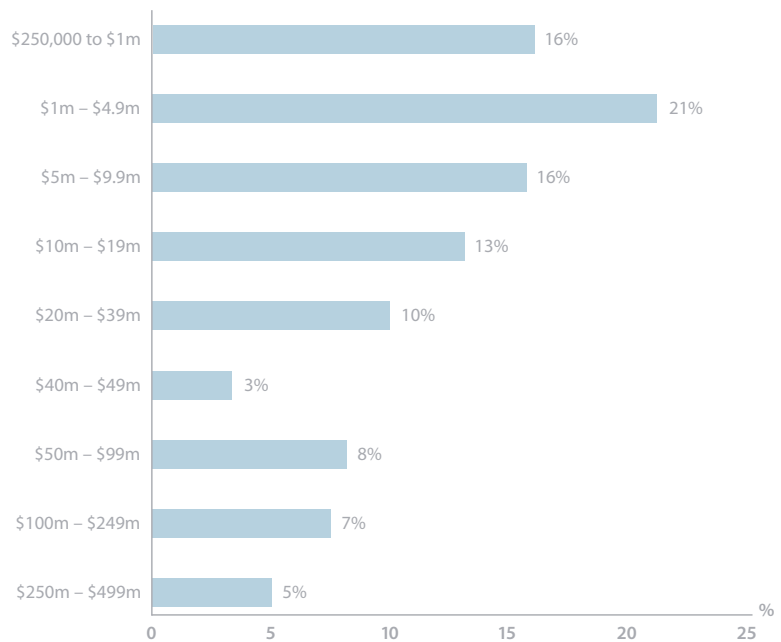
Base: Total sample (n=1,017)

Which of these describes your organisation's operations in Asia?



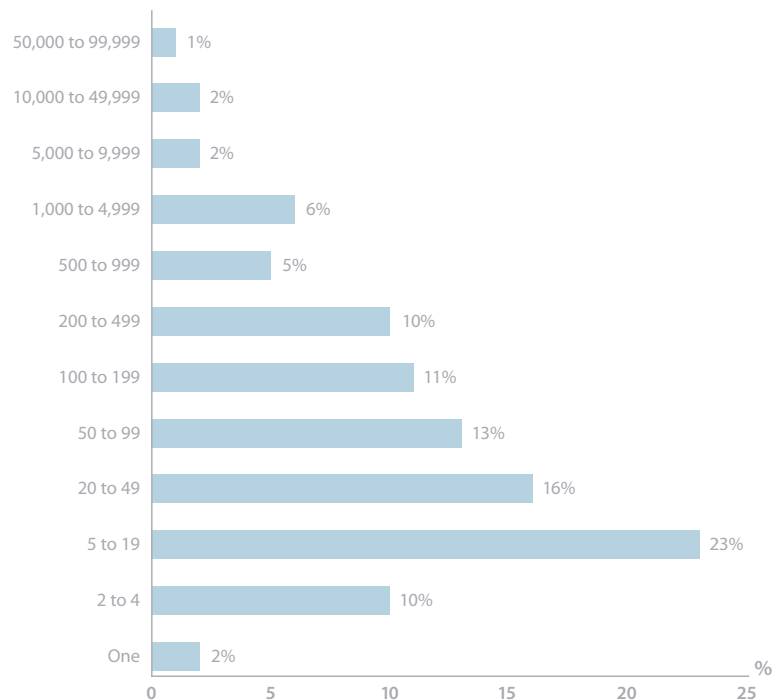
Base: Total sample (n=1,017)

What is the annual turnover of your organisation?



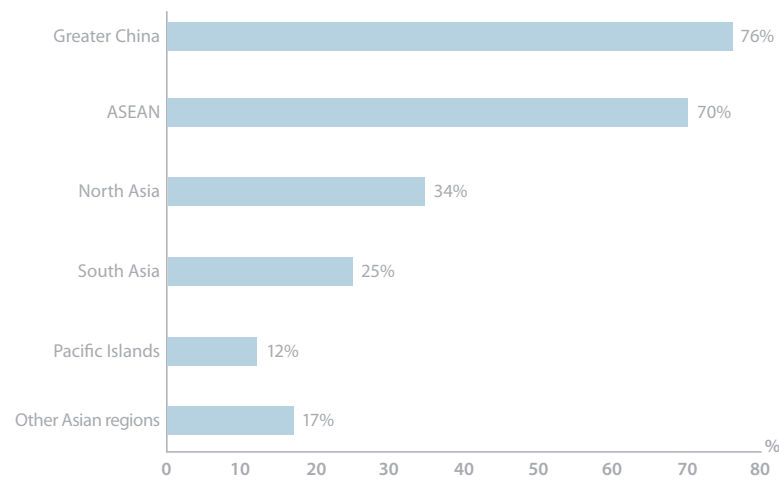
Base: Total sample (n=1,017)

How many people does your organisation employ in total?



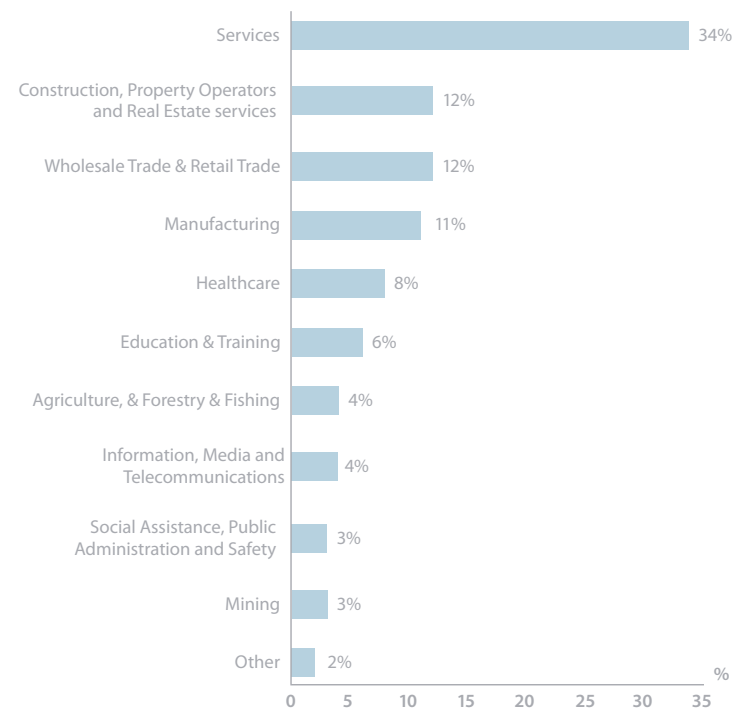
Base: Total sample (n=1,017)

In which Asian countries does your organisation currently have business operations or dealings with?



Base: Businesses with established operations in / with Asia who expect to expand (n=353)

What industry is your business in?



Base: Total sample (n=1,017)

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EY Sweeney (a trading name of Ernst & Young) ABN: 75 288172749, has been engaged by ANZ to perform the survey which has been completed in accordance with the ISO20252 market research standard. Users should seek their own professional advice before acting on any research data.





Attachment 2



21 July, 2015

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

By email: jsct@aph.gov.au

Dear Secretary

China-Australia Free Trade Agreement

I write to support the China-Australia Free Trade Agreement (ChAFTA) signed on 17 June 2015 by the Australian Minister for Trade and Investment, Andrew Robb, and the Chinese Commerce Minister, Gao Hucheng, and now before the Joint Standing Committee on Treaties.

ANZ congratulates the Australian Government on the finalisation of a comprehensive Free Trade Agreement. It will significantly boost trade in goods and services, and bilateral investment flows, between Australia and China. ANZ believes ChAFTA will increase the growth and diversity of the Australian economy and is in Australia's national interest.

China is already Australia's largest two-way trading partner, accounting for AUD150 billion or 23 per cent of Australia's trade in 2013. Australia receives a high share of China's outbound investment flows at around 10%, or USD9-10 billion for the period 2011 to 2013. 800,000 Chinese visitors now come to Australia annually, up from 280,000 in 2005. 95,000 Chinese students are enrolled in Australia representing 25% of all international students in Australia.

ChAFTA substantially extends the strong relationship between China and Australia. To support our business customers and help them take advantage of ChAFTA, ANZ published a detailed report in March, *ANZ Opportunity Asia – The ChAFTA and implications for Australian business*. The report describes the opportunities arising from the agreement and is available at <https://bluenotes.anz.com>.

Reductions in tariffs for agricultural and other products will promote opportunities for all sizes of businesses. ChAFTA eliminates tariffs over time in agricultural sectors including beef, sheepmeat, dairy, wine, leather and hides, horticulture, seafood and pork. Tariffs are removed on resources, such as coal and alumina, as well as on pharmaceutical and process food products.

ChAFTA includes important commitments in a range of services sectors and creates a strong base for further liberalisation of bilateral services trade. It commits China to improved market access in around 40 areas to



levels either equivalent or better than those enjoyed by other nations. Tourism, aged care, health, finance, engineering, construction and legal firms are among the potential beneficiaries.

In relation to the finance sector, ANZ congratulates the Government for achieving the first treaty level commitments by China in relation to financial services. Streamlined branch access applications will assist Australian banks to expand in China. More transparent and liberal regulatory processes and rules will strengthen the relationship between Chinese regulators and Australian financial service providers. They increase certainty for Australian investors more broadly. We look forward to the negotiation of a comprehensive investment chapter (Article 9.9).

ANZ particularly endorses the inclusion of 'Most-Favoured Nation' provisions. This means Australia benefits from any more favourable treatment of trade, services and investment that is offered in the future by China to other trading partners. We note that MFN is not applied to financial services under Annex 8B but that there is provision to ensure that ChAFTA is an evolving Agreement that will deliver further liberalisation in future.

ANZ wishes to endorse a number of additional specific outcomes in relation to services and financial services and these are detailed in the attachment.

ANZ also notes and support the steps being taken by the Government to help Australian businesses, particularly small and medium businesses, to take advantage of ChAFTA. A pleasing initiative is the *E-commerce in China – a guide for Australian business* report published by Austrade in June 2015. This report contains practical information in areas such as preparing a product for the Chinese market, steps in selling and distributing products in China and Chinese regulation.

ANZ looks forward to ChAFTA's entry into force and to supporting Australian businesses to take advantage of the opportunities it is creating. ANZ Deputy CEO Graham Hodges is available to answer questions or appear if this would assist the Committee in its considerations.

Yours sincerely

Rob Lomdahl
Head of Government and Regulatory Affairs



ATTACHMENT

Comments on specific ChAFTA Articles

Article 8.13: Domestic Regulation

- ANZ supports the objective of ensuring domestic regulations in key sectors are reasonably and objectively administered.
- We look forward to the outcome of the joint review of qualification requirements and procedures, technical standards and licensing requirements to ensure consistency with GATS Article VI.

Annex 8B, Article 3: Domestic Regulation

- ANZ supports protections in relation to prudential regulation and customer privacy.

Articles 8.14: Recognition; Article 8.15: Qualifications Recognition Cooperation; Annex 8B, Article 4: Recognition

- ANZ welcomes efforts to improve recognition of education and experience or licences or certification of service suppliers
- We also note our support for recognition of prudential measures.

Article 8.18: Transparency; Annex 8B, Article 5: Transparency

- ANZ strongly supports these provisions to ensure regulatory changes and licensing requirements are transparently communicated, including processes and timelines for administrative decisions on the supply of financial services.

Article 8.20: Committee on Trade in Services; Annex 8B, Article 7: Committee on Trade in Services and Financial Services

- Commitments in ChAFTA to regularly review the operation of the Agreement and discuss further measures to promote the liberalisation of trade in services will also create a strong base for future liberalisation and the smooth operation of the current Agreement.

The Side Letter on Financial Services also sets out an important pathway for further cooperation on issues including over-the-counter derivatives (securities) and payment systems, combating money laundering, and branch applications.



Attachment 3



Rob Lomdahl
Head of Government & Regulatory Affairs
ANZ Corporate Affairs

833 Collins Street, Docklands, VIC 3008
Phone: +61 3 8654 3459 | Fax: +61 3 8654 8886
Email: Rob.Lomdahl@anz.com

31 August, 2015

Committee Secretary

Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email: fadt.sen@aph.gov.au

Dear Secretary

China-Australia Free Trade Agreement

I write to express ANZ's strong support for the China-Australia Free Trade Agreement (ChAFTA) signed on 17 June 2015 that is being considered by the Senate Foreign Affairs, Defence and Trade Committee.

ChAFTA is a transformative Agreement. It is creating new opportunities for Australian businesses at a time when it is particularly important to support the diversification and growth of the Australian economy.

ANZ CEO Mike Smith has noted publicly that ChAFTA is one of the most important economic events in recent Australian history. China will be the world's largest economy by around 2025 and is already Australia's largest two-way trading partner. China's annual economic growth has slowed, but nevertheless increases at a rate equivalent to adding the New South Wales economy each year.

ANZ has previously provided a submission to the Joint Standing Committee on Treaties (JSCOT) outlining our support for ChAFTA (attached). Key points made in the submission are that:

- ChAFTA provides Australian businesses with access to around forty Chinese service sectors at levels either equivalent to, or better than, those enjoyed by other nations.
- Chinese tariffs on agricultural exports such as beef, dairy and horticulture will be eliminated over time. They will also be removed from resources, such as



coal and alumina, as well as from pharmaceutical and processed food products.

- Market access for Australian exporters under ChAFTA will continue to improve in the future. Under the ChAFTA Most-Favoured-Nation provisions, Australian exporters in many sectors will automatically gain greater access when China offers increased access to other nations in the future.
- ChAFTA contains the first treaty level commitments by China in relation to financial services. More transparent and liberal regulatory processes and rules will strengthen the relationship between Chinese regulators and Australian financial services providers.
- ChAFTA increases certainty for Australian investors. The negotiation of a comprehensive investment chapter will create further opportunities.

ANZ is concerned that misleading claims about ChAFTA could threaten its implementation. We consider it would be a mistake to believe that China needs ChAFTA more than Australia does. Many other nations are able to supply mineral and agricultural resources, manufactured products or services to China.

A successful trade relationship with China will be a critically important factor in our future prosperity. ANZ believes that ChAFTA represents an unparalleled opportunity at a critical time for the Australian economy and deserves bipartisan support.

Yours sincerely

Rob Lomdahl

Head of Government and Regulatory Affairs



ATTACHMENT 1

ANZ SUBMISSION TO JSCOT

Committee Secretary

Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

By email: jsct@aph.gov.au

Dear Secretary

China-Australia Free Trade Agreement

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ChAFTA includes important commitments in a range of services sectors and creates a strong base for further liberalisation of bilateral services trade. It commits China to improved market access in around 40 areas to levels either equivalent or better than those enjoyed by other nations. Tourism, aged care, health, finance, engineering, construction and legal firms are among the potential beneficiaries.



In relation to the finance sector, ANZ congratulates the Government for achieving the first treaty level commitments by China in relation to financial services. Streamlined branch access applications will assist Australian banks to expand in China. More transparent and liberal regulatory processes and rules will strengthen the relationship between Chinese regulators and Australian financial service providers. They increase certainty for Australian investors more broadly. We look forward to the negotiation of a comprehensive investment chapter (Article 9.9).

ANZ particularly endorses the inclusion of 'Most-Favoured Nation' provisions. This means Australia benefits from any more favourable treatment of trade, services and investment that is offered in the future by China to other trading partners. We note that MFN is not applied to financial services under Annex 8B but that there is provision to ensure that ChAFTA is an evolving Agreement that will deliver further liberalisation in future.

ANZ wishes to endorse a number of additional specific outcomes in relation to services and financial services and these are detailed in the attachment.

ANZ also wishes to note and support the practical steps being taken to help Australian businesses, particularly small and medium businesses, to take advantage of ChAFTA. A pleasing initiative is the *E-commerce in China – a guide for Australian business* report published by Austrade in June 2015. This report contains practical information in areas such as preparing a product for the Chinese market, steps in selling and distributing products in China and Chinese regulation.

ANZ looks forward to ChAFTA's entry into force and to supporting Australian businesses to take advantage of the opportunities it is creating. ANZ Deputy CEO Graham Hodges is available to answer questions or appear if this would assist the Committee in its considerations.

Yours sincerely

Rob Lomdahl

Head of Government and Regulatory Affairs



ATTACHMENT TO JSCOT SUBMISSION

Comments on specific ChAFTA Articles

Article 8.13: Domestic Regulation

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- We look forward to the outcome of the joint review of qualification requirements and procedures, technical standards and licensing requirements to ensure consistency with GATS Article VI.

Annex 8B, Article 3: Domestic Regulation

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- Articles 8.14: Recognition; Article 8.15: Qualifications Recognition Cooperation; Annex 8B, Article 4: Recognition
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Article 8.18: Transparency; Annex 8B, Article 5: Transparency

- ANZ strongly supports these provisions to ensure regulatory changes and licensing requirements are transparently communicated, including processes and timelines for administrative decisions on the supply of financial services.

Article 8.20: Committee on Trade in Services; Annex 8B, Article 7: Committee on Trade in Services and Financial Services

- Commitments in ChAFTA to regularly review the operation of the Agreement and discuss further measures to promote the liberalisation of trade in services will also create a strong base for future liberalisation and the smooth operation of the current Agreement.
- The Side Letter on Financial Services also sets out an important pathway for further cooperation on issues including over-the-counter derivatives (securities) and payment systems, combating money laundering, and branch applications.