

# White Paper on Australia in the Asian Century

March 2012

ANZ Submission to the White Paper Taskforce

# EXECUTIVE SUMMARY

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Australia must make more of the Asia opportunities provided to it by its history, resources, physical proximity and its social and economic success. Australia is in many ways the most successful country in the region. Notwithstanding our challenges, our political and social stability, rule of law, physical resources and economic success make us the 'stand out' country of East Asia.

But if we are to build on this success we must do more to integrate ourselves politically, socially and economically with the region. This needs to be shared priority of the nation, not something left to government. ANZ acknowledges the significant efforts of governments over many years in pursuing these issues in particular through government to government discussions and agreements, and bilateral, regional and global engagement on trade and investment policy. But these can only provide the framework. More must be done to build our political, social and economic relationships and to broaden the responsibility for doing so.

We cannot rely on our physical proximity and natural resources to somehow 'deliver' the mutual benefits achievable through closer integration. Australia faces competition for the opportunities arising in Asia. We need to respond to competitive pressures as other nations and businesses from other parts of the world seek to 'hitch their wagons' to Asia's growth.

### *Future growth through commodity exports*

Recent ANZ research<sup>1</sup> concludes that Australia is not simply experiencing a routine commodities 'boom' but that changes occurring in the global economy are having a profound influence on the structure of our economy.

The ANZ report has quantified the export growth opportunity Australia has in resources and agriculture as developing economies in Asia – most notably China and India, and to a lesser extent Vietnam and Indonesia – continue to rapidly industrialise and urbanise. As the report notes, this opportunity could last for decades transforming the Australian economy in the process through the creation of hundreds of thousands of jobs and the emergence of world class services companies.

If Australia can rapidly expand commodity output, ANZ analysis suggests export revenue from hard and soft commodities could be of the order of half a trillion dollars in real terms by 2030.

Realising this growth in output presents important challenges to the Australian economy. Increasing output requires enormous capital investment. ANZ estimates this could be of the order of around \$1.8 trillion over the next 20 years.

<sup>1</sup> Earth, Fire, Wind and Water: Economic opportunities and the Australian commodities cycle- (<http://www.anz.com/resources/2/3/231b7a80484044f3a98fafd7e84a6db8/ANZInsightIssue1August2011.pdf>)

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## *Growth through direct investment into Asia*

Improving access for Australian service providers with Australia's key trading partners will help expand and diversify our export base beyond commodities, particularly as developing countries industrialise and consumption of services increases.

The biannual ANZ Services Index<sup>2</sup> highlights that rising living standards in the Asian region will create enormous demand for services such as education, health, transport, and tourism. Financial services are critical to facilitating growth and greater spending in all these service sectors.

ANZ supports the government's trade policy efforts to further open Asian services markets to foreign firms but recognises progress will in many cases continue to be slow. However, projected high growth rates in Asia mean services markets will continue to grow and continued efforts to open Asian services markets will have significant benefits for the Australian economy.

## *ANZ's strategy in the region*

ANZ is leveraging the opportunities provided by The Asian Century. The company's strategy is to become a 'super regional' bank in the Asia Pacific – that is, a bank that allows for seamless cross-border financial services and solutions to its customer base.

The Australian market for financial services provides limited opportunities for growth and, while opportunities remain to improve our products and services domestically, there are large growth opportunities in Asia. Asia is a logical growth market for Australian banks due to its strong and growing intra-regional trade flows, close geographic proximity and Australia's long standing bilateral relationships in the region.

ANZ has a long-standing and growing presence in the Asia Pacific region, including Australia's largest investments in Greater China, India, Indonesia, Malaysia and Vietnam as well as in key markets in the Pacific. ANZ has \$7.5 billion worth of capital invested in Asia and is Australia's largest outbound foreign direct investor in the region.

## *Key recommendations*

ANZ's key recommendations include:

- Continued focus on outcomes on services from free trade agreements and reducing barriers to services trade;
- Australia should work with Asian governments to reduce the impact of different regulatory and prudential rules in the financial services sector, through harmonisation or mutual recognition;

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<sup>2</sup> PricewaterhouseCoopers Institute AsiaLink Index

## EXECUTIVE SUMMARY

- Australia should pursue policies to develop an Asia-capable workforce, including building cultural awareness and improving literacy in Asian languages.
- Increase diplomatic resourcing in the Asia Pacific region and align our overseas representation with our economic and strategic priorities;
- Australia should examine its actual and potential projection of its “soft power” in the region. Our public diplomacy program needs substantial upgrading and expansion. More must be done to build people to people relationship with our key neighbours; and
- Regulation and taxation should not impose unnecessary burdens on Australian companies to ensure Australia remains globally competitive and should not disadvantage Australian businesses seeking to grow in Asia.

We would be pleased to provide any further information about this submission, as required, and can be contacted as follows:

Michael Johnston  
Head of Government and Regulatory Affairs  
Level 9, 833 Collins St  
Melbourne VIC 3008  
Ph: (03) 8654 3459  
Email: michael.johnston2@anz.com

# STRONG BANKS SUPPORT A STRONG ECONOMY

## STRONG BANKS SUPPORT A STRONG ECONOMY

The financial services sector is an important part of the Australian economy. As the third largest sector in the economy, (after manufacturing and property/business services) the industry:

- accounts for 8 per cent of Gross Domestic Product (GDP), or \$52 billion, up 146% since 1984/1985;
- the finance industry directly employed over 216 000 people (as at November 2010), making up approximately 2 per cent of the Australian labour force; and
- makes up around 40% of market capitalisation on the Australian Stock Exchange (ASX), up from 17% in 1992.

Investment fund assets in the Australian wealth management industry are the largest in Asia and the fourth largest in the world (after the US, France and Luxembourg).

The finance and insurance industry makes the largest contribution to the Australian economy of any industry<sup>3</sup>:

- banks offer important services to approximately 15.5 million customers. These services include financial products, such as transaction accounts, credit cards, home loans and financial advice. The payments system, of which banks make up a considerable portion, process an extremely large volume of transactions each day. In 2010, a total of 7.5 billion transactions were conducted using ATMs, EFTPOS, cheque, direct entry and credit cards with a value of \$13.3 trillion. This equates to over 20 million transactions daily.
- the finance and insurance industry contributed \$135 billion to Australia's \$1.2 trillion economy (over the 12 months to the end of December 2010). This represents 11.1 per cent of Australia's economic activity over the period. The next largest industries were mining with 10 per cent, manufacturing with 9.2 per cent and construction with 7.6 per cent;
- banks provide the Australian Government with considerable tax revenue. Over the past five years, banks have paid \$38 billion in tax with \$7.9 billion being paid in 2010;
- banks continue to return wealth to shareholders. Over the past five years, banks have paid out a total of \$70.5 billion in dividends, with \$15.8 billion paid out in 2010. Many of these payments have gone into superannuation funds which support the income needs of current retirees and maintain a growing retirement savings pool for future retirees; and
- Banks also contribute to Australia's economic development by making large investments into IT, which is one of the drivers of productivity. Over the past five years banks have invested

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<sup>3</sup> ABA Occasional Paper: Linking Banks and Strong Economic Growth, August 2011

## STRONG BANKS SUPPORT A STRONG ECONOMY

\$14.3 billion in IT, with \$3.4 billion invested in 2010. In addition to this important investment in the nation's IT, banks are an important provider of employment.

The Johnson Report<sup>4</sup> noted that our exports and imports of financial services relative to the size of our financial sector are low by international standards. Further, despite having one of the largest and most sophisticated funds management sectors in the world, the volume of funds under management in Australia that is sourced offshore is very low.

The Australian banking sector is an important participant in discussions about Australia in the Asian Century, whether in its capacity to grow its own business in Asia, or support our clients to grow theirs. Australia benefits through an increased tax base, employment opportunities and safe, competitive banks.

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<sup>4</sup> *Australia as a financial centre – Building on our strengths*, Report by the Australian Financial Centre Forum (Johnson Report), November 2009

# ANZ IN ASIA

## ANZ IN ASIA

While cross-border exports in services have been affected by the rising real exchange rate resulting from the resources boom, Australian services firms have nevertheless enjoyed some success in Asia. Exporting services through establishing an overseas commercial presence in Asia has been an important growth strategy for many Australian services firms. ANZ is a prime example.

Services exports are difficult to measure accurately but are more significant than generally recognised. While Australian firms have historically invested far more in traditional European and North American markets, Australia's direct investment in Asia compares favourably with that of other industrialised economies. Asian barriers to foreign investment are on the whole higher, but ANZ is showing what can be achieved.

ANZ understands the importance of developing strong business and personal relationships over a longer time frame in order to forge solid business relationships and to create opportunities. ANZ has the largest presence of any Australian bank in Asia and is one of the fastest growing corporate banks in Asia and in the top 10 overall. ANZ, with a heritage spanning 175 years, operates in 32 countries worldwide, employing more than 48,000 people, with representation in Australia, New Zealand, Asia Pacific, Europe, America and the Middle East (the majority of our operations are in Australia and New Zealand). We are one of the 20 largest listed banks globally by market capitalisation with over 8 million customers globally. ANZ is a top 5 listed company on the Australian Stock Exchange with over 400,000 shareholders and a market capitalisation of A\$62bn as at January 2012. We are the largest banking group in New Zealand and the Pacific.

ANZ provides a full range of banking products and services to Retail, Commercial, Corporate and Institutional customers in the region. Within Asia, ANZ is represented in Cambodia, China, Hong Kong, India Indonesia, Japan, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam, and South Korea.

We have identified a number of priority markets in the region in which we intend to grow our business. We aim to be a top tier domestic bank in Malaysia, Vietnam and Indonesia and a leading foreign bank in Greater China and India. In the Pacific, Papua New Guinea, Timor Leste and the Solomon Islands present strong growth potential given their increasing trade connections with markets in Asia.

In the past four years, ANZ has made significant progress on becoming a leading regional bank. We now services more than 2.6 million customers, 162 branches and 547 ATMs with around 12,000 staff (up from 2,000 in 2008). Our Asia business has more than doubled its contribution to ANZ's Group profit from 6% in 2008 to 13.5% in 2011. The Group aspiration is for Asia derived revenue to contribute 25-30% of Group NPAT by 2017.

## ANZ IN ASIA

Our strategy is focussed on connecting clients with opportunities across ANZ's regional network including Asia, the Pacific, New Zealand and Australia. It leverages the continued growth in Asia and capitalises on the significant trade and investment flows across the region. To facilitate market entry and to build our capability, ANZ currently has five strategic partnerships in Asia:

- Shanghai Rural Commercial Bank in China (20%)
- Bank of Tianjin in China (20%).
- PT Panin Bank in Indonesia (39%)
- AmBank Group in Malaysia (23.8%)
- Metrobank Card Corporation in the Philippines (40%)

ANZ also acquired some of the Asian assets of RBS in 2009 including the RBS retail, wealth and commercial businesses in Taiwan, Singapore, Indonesia and Hong Kong, and RBS' institutional businesses in Taiwan, the Philippines and Vietnam. This acquisition was a means to provide scale, additional clients, products and greater visibility in key markets.

Last year, ANZ opened a sixth specialist shared service and operations hub in Manila to support our expansion in the Asian region and the Group more broadly. Our other specialist hubs are located in Melbourne, Fiji, Bangalore, Chengdu (to support Chinese speaking customers) and Wellington.

Consolidating parts of our business in regional hubs delivers efficiencies in our back office operations including through: the skills base in host countries (e.g. India adds over 2 million graduates to the 49 million existing every year, many with technology skills in short supply in Australia and New Zealand); lower total costs, extended working day; adds resilience to our business continuity planning by spreading operations geographically and to achieve economies of agglomeration.

On this last point, the Indian Government has strongly supported the development of its Business Process Outsourcing (BPO) industry for over 20 years and has been very proactive in developing a successful comparative advantage in this industry. Bangalore has developed as a global technology centre with many of the world's largest companies, including IBM and Microsoft, HP, Dell, Accenture, GE and Intel basing key parts of their technology and operations support functions there. This provides ANZ's staff with better access to vendor laboratories that are located in India. Similar facilities are not located in Australia.

ANZ Bangalore is part of the bank's approach to building a highly skilled, efficient workforce that contributes to advancing its business strategy. At the same time as the scale of operations and employee numbers have been increasing in Bangalore and our other hubs, they have also risen in Australia. ANZ's Australian based workforce increased from 21,772 in 2007 to 26,167 in 2011.



## ANZ IN ASIA

This benefits Australians and the Australian economy because our business is growing, taxes are paid in Australia, we are expanding our overall workforce, including gaining expertise in-house which is shared across our network. Close management of costs enables us to deliver better and lower cost products to our Australian domestic customers.

ANZ's Super Regional Strategy has the longer term benefits of diversifying the Bank's earnings, its funding and customer and market concentration. Reduced reliance on the prospects of any single market or geography will assist the Bank to grow its business in a predictable and stable way over time while seeking opportunities to service clients who are increasingly integrating into the region.

# CHANGING BUSINESS REQUIREMENTS

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Australian companies are increasingly growing through internationalisation. Many retain an Australian headquarters as their overseas presence grows. Partnerships and joint ventures with foreign firms will become more common as a market entry strategy for an internationalised business sector.

This changing business environment means there is a need for the Australian Government to revise its strategies and policy settings for engaging with Asia.

### *Readying Australians to work with and in Asia (education and skills)*

As Australian businesses grow in Asia, the demands of serving our customers will reshape the structure and the way we organise the business. With that comes the need for Asian language and Asian cultural skills and a nuanced understanding of a particular country and its people. We will also need to deploy company resources across our network.

For ANZ, this has meant building a retail and corporate footprint throughout the countries in which we do business. We have made strategic acquisitions to facilitate our market entry and with that have come experienced local bankers who have also transferred their skills to other staff in our business. In the years ahead, the scale of growth required means we will need to recruit aggressively from within our Asian markets to serve local customers. While this will build our Asian expertise, it will not be enough. Growth in our Asian business will offer Australian recruits a wider set of opportunities to work in the region. Our Australian-based staff will also need skills that will enable them to work with and in our Asian business.

To maximise the opportunities in the Asian century, Australia will need a business community confident in its ability and possessing the core capabilities required to succeed in Asian and global markets.

Yet Australian businesses report being unprepared (AIG/AsiaLink Survey March 2011) with less than half of businesses with dealings in Asia reporting having any Board members or senior executives with Asian experience or language ability. ANZ has carefully built its expertise in this regard and has experienced Asia practitioners building our franchise in Asia. Our strategy means we have recruited from within Asia for our Asian businesses. We need staff with strong Asian cultural and language literacy. However being 'Asia capable' is more than experience at Board/senior executive level and possessing language ability.

While Australia has for decades been conducting business in Asia, the scale and pace of the changes ahead mean we are ill equipped to exploit the opportunities that will come in the decades ahead. The sheer numbers of Asia capable graduates required is a potential barrier to Australia making the most of the opportunities. This is not to deny that Australian executives have demonstrated a capacity to operate successfully in Asian markets.

## CHANGING BUSINESS REQUIREMENTS

Businesses such as ANZ will need a combination of in-country experts and Australians equipped with the capabilities to fully engage with the Asian region. ANZ has gone to some effort to recruit 'Asian insiders' from outside the bank in order to bring in local on the ground experience in our business. We have also placed a number of expatriate staff into Asia. Many of these have now returned to senior positions in Australia boosting our capability as a super regional bank.

Business has a role to identify what is needed to develop an Asia capable workplace and to identify initiatives that business can undertake, in partnership with government and education providers, to develop Australia's Asian capability.

Government education policy should place greater emphasis on Asia. More Australians must build awareness about Asian cultures and learn Asian languages to prepare young people for the realities of work in the century ahead. The wider community needs information about the trends ahead so that they can make informed decisions and choices about their education and career goals. This will require an increase in opportunities for Australians to experience, study and work in Asian countries. Overseas study programs already in place in many Australian universities are a good start.

Governments can also assist in building people to people links. The Colombo Plan is an example of an initiative which effectively built links and good will between Australia and Asia. Governments can support programs such as this which provide selective placements or exchanges in the public and private sectors.

### *Movement of people across borders within global companies*

Australia's growing trade in services involves the interaction of increasing numbers of Australians with clients, customers and service providers across the region. This contributes directly to Australia's connections, including people-to-people links, with countries in the region. ANZ is growing its Asia expertise and building local understanding through our people and their knowledge of our local markets.

Global companies require the free movement of their people within their business and across borders. We operate in 32 countries and our business operations can be impacted by difficulties in moving our people within our organisation, including from overseas locations to Australia. The Australian government needs to ensure its visa requirements support businesses wanting to move their people within their network and seek the same from other countries in Asia. Trade liberalisation negotiations, and the government in its discussions with other regional governments, should seek to remove barriers to this movement of people. This would enable greater flexibility and autonomy in staffing decisions by companies operating across borders.

# DIPLOMACY AND GOVERNMENT-TO- GOVERNMENT LINKS

## DIPLOMACY AND GOVERNMENT-TO-GOVERNMENT LINKS

ANZ recognises the importance of Government-to-Government links in fostering bilateral and regional economic relations. For example, trade missions and industry roundtables with regional counterparts are initiatives that have been successful in growing inter-regional business.

Government and its agencies can assist businesses enter markets by working to remove trade barriers and providing counsel on the in-country operating environment. Diplomacy has an important role to play in continuing to support and increase an open regional economic system. ANZ has benefitted from support and advice from the government and Department of Foreign Affairs and Trade in understanding in-country dynamics and aligning our commercial interests with Australia's national interests.

ANZ would support government policy placing greater emphasis on ensuring DFAT has the technical capacity to advance understanding in the region of the importance of strengthening domestic economic policy and regulation.

Ensuring Australia's place in the Asian Century will require a reinvigoration of Australia's diplomacy including an adjusted diplomatic footprint to more closely align with countries of economic importance to Australia and to place greater emphasis on achieving results in the near term to aid Australian firms focussed on the business cycle. Greater resourcing in the region will also be required including opening new missions in emerging centres of influence and economic opportunity (e.g. expanding in key markets such as China and India to include Consuls General in large regional commercial centres).

Australia is diplomatically underrepresented in countries important to Australia and overstretched in those places where Australia does have representation. Our missions require language proficient, culturally adept Asia specialists to interpret the external, in-country environment, and support business in its endeavours to seek growth opportunities and to navigate trade and other barriers restricting market entry.

As a small country with limited resources, a particular focus of our diplomatic resources should be public diplomacy, in particular e-diplomacy. This projection of our 'soft power' is intended to improve attitudes towards Australia and promote understanding and acceptance of our national interests. In the absence of deep people-to-people links with many of our regional neighbours, it is an important tool the Government can use to influence our external environment.

In 2003, the US State Department established an Office of eDiplomacy and successive Secretaries of State have championed the need for e-diplomacy. DFAT does not have an office dedicated to a department-wide e-diplomacy strategy and is yet to take advantage of the opportunities available to further Australia's public diplomacy through the use of online resources and social networks.

# IMPEDIMENTS TO REGIONAL EXPANSION

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Impediments to increasing Australia's economic engagement with Asian countries take two forms:

- domestic policy impediments to raising productivity in Australia and ensuring Australian firms remain internationally competitive; and
- the international environment for Australian businesses

In relation to Australia's competitiveness, ANZ strongly supports efforts to improve Australia's productivity. Strategies proposed to reform the financial services sector across the region are important, but can be expected to be slow to take effect. It is therefore critical to the short-term success of Australian business that productivity enhancements at 'home' should be prioritised. Other submissions and industry reports deal with this issue in detail.

Attention here is given to some of the international issues affecting Australian business. The Mortimer Review<sup>5</sup> recommended that the government set future market development priorities on the basis of clearly identified opportunity or demand, sectoral and firm-level growth strategies and capacities, the level of industry commitment to future growth and the extent to which new markets will strengthen competitive advantages and address disadvantages. The financial services sector should be one of those market development priorities.

Regional trade, prudential, and securities reform in the financial services sector will be challenging. Although gains may be slow and difficult, there is the potential for large improvements for Australian businesses in market access and the ability to compete.

### *Asia-Pacific financial market*

Ultimately, the creation of an Asia-Pacific financial market would be a welcome development, however this is a long way off.

A priority would need to be improving the regulatory systems, including legal systems, and corporate governance requirements in developing financial markets as a prerequisite to exploring an Asia-Pacific financial market.

Initial steps would need to concentrate on integration of existing markets and the development of international standards of regulatory and prudential systems.

Some of the issues that would need to be addressed as stepping stones towards the goal of a single market include:

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<sup>5</sup> Mortimer, David, *Winning in world markets: Meeting the Competitive Challenge of the new global economy – Review of export policies and programs*, 1 September 2008

## IMPEDIMENTS TO REGIONAL EXPANSION

- encouraging closer cooperation between countries on business and financial market reforms;
- working towards mutual recognition agreements;
- adopting common clearance and settlement systems;
- cross-border trading systems;
- implementation of common approaches to cross-border insolvency (the region, with the exception of Hong Kong and Singapore, has traditionally been weak in insolvency regimes. This is an issue for creating certainty with this type of market); and
- corporate governance, compliance regimes and accounting standards.

Countries with developing financial sectors need to build sound institutions and supervisory capacity in their own markets as a pre-requisite for eventual integration with other markets. Australia should focus on offering assistance with institution building, harmonising regulatory frameworks and advancing mutual recognition.

Some of these issues are discussed in more detail below.

### *Complementary domestic and international prudential regulation*

Banking operations need to comply with the laws and regulations of the country in which the business is operating. Multilayered compliance obligations, within and between countries, increase the costs and complexity of doing business. Ideally, as the Asian Century progresses and financial services business internationalise, we would see a greater harmonisation of prudential regulation and also barriers to market entry removed across jurisdictions.

As a general principle our expectation is that Australian prudential regulation should keep pace with, but not get too far in front of, international changes so as not to disadvantage Australian companies. We would also wish to see a more ambitious agenda for gains in services in free trade agreements. These examples are discussed below.

### *Trade*

ANZ has worked over many years to develop good relationships with the governments of Asian countries. However, that is not enough. Financial markets work more efficiently without significant barriers to trade and investment. Access to key markets will be important in helping Australian financial services providers to capitalise on regional economic growth.

During the past five years, trade between Australia, New Zealand and Asia has doubled to almost \$300 billion and trade between countries of Asia has reached over \$4 trillion. At the same time, Asian governments, companies and individuals increasingly see Australia as a safe and attractive place to invest. Australian companies are also looking to Asia and the

## IMPEDIMENTS TO REGIONAL EXPANSION

money it has to lend and invest. For example, ANZ has recently led Asia-targeted transactions for a number of Australia's largest companies in the region. Almost half of all of our corporate customers are doing business in the region and their strong performances testify to the fact that they are well received and successful in Asia.

The economic complementarities that exist between Australia and our key trading partners in North and South-East Asia will continue to drive demand for Australian resources and energy exports. And the transition to more developed, consumption driven economies in the region will grow demand for Australian service exports.

### *World Trade Organization*

ANZ supports the Gillard Government's different approach to the Doha Round and Minister Emerson's efforts to break the integrated approach in the WTO that has until now required securing results in all sectors concurrently. We welcome the prospect of a group of WTO members developing a set of measures to liberalise services amongst participating countries.

ANZ strongly believes that whatever approaches to liberalising services are agreed to by the limited member negotiation should be designed so that in future other members of the WTO can sign on to these provisions.

Australia's existing FTAs and ongoing FTA negotiations are another avenue for helping ensure Australia's economic and trade interests are promoted through greater liberalisation in areas like services and investment.

### *Services trade*

For an advanced, predominantly services based, economy such as Australia's, delivering outcomes on services as part of Australia's free trade negotiations is crucial. Improving access for Australian service providers with Australia's key trading partners will help expand and diversify our export base, particularly as demand for services in the region grows.

The urbanisation of developing markets in Asia and rising living standards in the region will create enormous demand for services such as education, health, transport, tourism and finance.

However, differing policies, rules and regulations within countries and their application add to the challenges facing foreign businesses. While the timeframes involved in the issues we raise here may be lengthy, ultimately establishing a transparent regulatory framework and decision making process for the region will have long-term benefits to trade in financial services.

### *Trade liberalisation can unlock future benefits*

In any consideration of whether to invest or establish operations overseas, ANZ looks for transparent regulations and corporate governance based on international standards, rule of

## IMPEDIMENTS TO REGIONAL EXPANSION

law (and its enforcement), clearly defined dispute mechanisms and a well resourced and independent regulatory structure with established prudential oversight. In the case of financial services, regulatory transparency and policies governing activities of financial institutions are integral in facilitating access of foreign financial institutions to markets.

The Mortimer Review recommended that Australia accord a higher priority to services market access issues in multilateral and bilateral trade negotiations. It is ANZ's view that, ideally, Australia's FTAs should seek to enhance the regulatory and governance arrangements for financial services to ensure Australian companies are treated no less favourably than their local counterparts in most (if not all) aspects of business. In summary any FTA would:

- bind, at a minimum, WTO that requirements governments have agreed to implement;
- seek to remove other barriers to trade in financial services; and
- set the same rules for local and foreign banks where differences remain.

ANZ acknowledges the work of Governments in the region to liberalise their financial services sectors. While significant opportunities exist for the Australian financial services sector in Asia, there are a range of regulatory barriers which restrict Australian banks from further expanding their operations in some markets in the region. Current regulations mean that foreign banks do not compete on a level playing field with domestic banks.

Two issues impact ANZ's ability to expand its business in Asia: (i) restrictions on investment and (ii) government regulations and decision making processes. Specifically, these barriers include restrictions on ownership, investment, banking licenses and branch presence, product offerings, taxation, and statutory lending to priority sectors. Weak dispute resolution and intellectual property protections are also areas that make it difficult for Australian banks to enter regional markets with confidence and difficult for a foreign bank to gain a significant foothold in markets in the region. Therefore a core interest for ANZ in Australia's FTA negotiations are the so called 'behind the border' issues.

Australia's bilateral trade negotiations have had some success to date on these matters. However, it is an area where continued efforts are required because improving access to markets in the region will be critical in helping position Australian service providers of the future.

For example, some of these issues include:

- Restrictions on foreign ownership of Chinese banks, including a 20 per cent equity limit and a two-bank rule imposed on foreign investors. Foreign banks in China also face restrictions on the rate at which they can open branches (currently, banks are restricted to opening one new branch per year per city and sub-branch per city per year)



## IMPEDIMENTS TO REGIONAL EXPANSION

- Restrictions in India on the number of branches and ATMs a foreign bank can own and a single presence policy which prevents banks investing in more than 5 per cent of a local bank, making it difficult for a foreign bank to gain a foothold in the Indian market
- Restrictions on foreign ownership of Malaysian banks, including a 30 per cent cap on foreign ownership of a domestic bank. Prime Ministerial approval for equity holdings greater than 30% may be considered on a case-by-case basis
- A 'positive list-based' regulatory regime in Korea which restricts a foreign bank's ability to conduct new product business, requiring pre-approval from the regulator for each new product or service
- Restrictions in Indonesia on the temporary entry of banking staff and the requirement that work permits for foreign bank personnel are first approved by Indonesia's Central Bank
- Exchange control places limitations on the purchase and sale of currencies outside national borders for companies and individuals.

Australia's FTAs with the United States, Singapore, Thailand, New Zealand, ASEAN and Chile have helped promote more open markets and encouraged the removal of barriers to trade and investment. While the degree of liberalisation varies considerably across these agreements, they have delivered trade liberalisation outcomes, including by addressing behind the border impediments to trade and investment. For example, in the case of the ASEAN-Australia-New Zealand FTA, agreement was reached to promote greater transparency and timely processing of licensing applications and improved temporary entry commitments for business entry.

The Government is negotiating further FTAs with key regional trading partners, including China, Japan, Korea, Malaysia, India and Indonesia. ANZ supports each of these.

### *The Trans-Pacific Partnership Agreement*

ANZ is particularly interested in seeing a strong liberalising outcome from the Trans-Pacific Partnership Agreement (TPP) negotiations. The importance of this FTA has been heightened by the potential inclusion of Japan in the negotiations. ANZ welcomes this development.

We understand the Australian Government will pursue a TPP outcome that substantially reduces barriers to trade and investment. Of note is the inclusion of chapters on Investment and Financial Services that could provide improved opportunities for Australian financial services providers by removing behind the border barriers, such as regulations and administrative procedures that discriminate against foreign financial services companies in a market. This precedent should be mirrored in other FTAs under negotiation.

In the short term, the Australian Government should seek an outcome that extends to Australian banks preferential arrangements that already exist for some foreign banks in certain Asian countries.

## IMPEDIMENTS TO REGIONAL EXPANSION

The United States is a strong supporter of financial services liberalisation and adopts a similar approach to this issue as Australia. We are therefore hopeful that involvement of the US will strengthen the TPP outcome on financial services. This will be critical in the event that the TPP becomes the blueprint for an Asia Pacific Free Trade Area.

ANZ also considers it important that the TPP structure should facilitate membership of other key economies, particularly China.

### *APEC and engaging the United States*

ANZ strongly supports the work of APEC. APEC's importance as a regional forum lies in its mandate to promote region-wide economic reform, notably its objective of removing barriers to trade and investment, and its inclusion of key global powers, particularly the United States and China.

The APEC agenda includes a program, financially supported by Australia, directed towards promoting structural adjustment. ANZ welcomes this. APEC Also includes a forum on economic and financial issues. The APEC Finance Ministers' Process offers the opportunity for APEC member economies to discuss regional economic and financial developments and national and regional policy priorities.

Engaging the United States in the process of shaping of the Asian Century is vital for Australia's interests in improving the institutions governing the operation of financial services, notwithstanding aspects of US policy and governance practices which may be considered less desirable.

### *Monitoring market access*

As a means to track our progress as a nation, we support the Mortimer Review's recommendation that DFAT publish an annual foreign market access report. This report would identify the most important tariff and non-tariff barriers affecting Australian exports of goods and services, present a detailed inventory of market opening results that would generate new commercial opportunities for exporters and investors, and include a forward work program.

We recognise that free trade agreements perform a larger role than simply removing trade barriers. While outcomes on services, including financial services, have been mixed, FTA consultations have helped facilitate ongoing dialogue between Australian companies and the Government on issues which impact operations and investment considerations. Our experience has been that bilateral FTA negotiations have also been useful in raising awareness about some issues specific to ANZ, including our plans for growth, with negotiators and officials. In some cases, this has helped build a wider appreciation within government for our growth plans in these countries.

# IMPEDIMENTS TO REGIONAL EXPANSION

## *Harmonisation of regulatory and prudential standards*

Australia should continue to pursue opportunities to harmonise regulatory and prudential standards bilaterally and across the region where possible. We would also welcome any additional relationship building, cooperation and collaboration between Australia and other countries' financial services regulators.

The Australian banking system withstood the worst of the Global Financial Crisis due to the standard of prudential regulation and the conservative approach adopted by local banks to lending and management of their balance sheets.

Flowing from the G20 we have seen an international commitment to adopt consistent capital and liquidity regulations. However in the implementation, we are seeing varying interpretations of the standards between countries.

For example, the Australian Prudential Regulation Authority (APRA) is proposing a more conservative approach to interpreting Basel III standards in the way subsidiaries will be treated when calculating capital requirements (Australian parent companies will be required to hold more capital than their US and European competitors). Asian regulators have yet to confirm their proposed treatment.

There will be an immediate cost to Australian banks and these costs will increase as Australian banks look to grow their business in the region, a strategy actively supported by successive Australian Governments. Given that regulatory rules in the Asia Pacific region generally only allow minority investments as a first step towards ultimate control and ownership, it is likely any expansion will be more financially difficult for Australian banks compared with European or US counterparts.

APRA's regulation of the banking sector has served the nation well, especially in recent tumultuous times. In addition, appropriate capital levels benefit both depositors and system stability, in economic terms there are diminishing returns with too cautious an approach to capital management.

The path ANZ has adopted to build its Super Regional business has been lower risk, via partnerships and modest acquisitions. APRA's proposed capital rules do not support this approach. To the contrary, they impose a full capital impost to partnerships as if they were consolidated on the bank's balance sheet and the Group was exposed proportionately to the risks of those assets and operations. The minority interest position means that the risks are capped and substantially lower than the way they are treated from a capital perspective. The proposed approach also discounts entirely any value in those businesses. In effect they unduly penalise a low risk path to expansion in the region.

We raise this example to demonstrate that if Australian business is to prosper in the Asian Century, then whole-of-government focus must be brought to bear when assessing the opportunities and enabling Australian business to compete equally. While the government

## IMPEDIMENTS TO REGIONAL EXPANSION

has limited opportunities to influence other Governments, our own approach to rule setting should seek to keep the playing field level for Australian business.

### *Taxation*

The Government should continue to progress reform of the taxation regime to align with the realities of cross-border business in the Asian Century. This will require the removal of unnecessary impediments to Australia's competitiveness, including as an exporter of financial services, and as both a source and destination for cross-border direct investment.

For example, the Government has taken steps to phase down interest withholding tax. We welcome this effort and in the long term would like to see interest withholding tax abolished

### *Listing on foreign stock exchanges*

There is scope for improving the operating environment for businesses in Australia and overseas through mutual recognition of regulatory frameworks in participating countries.

Ideally, exchanges around the world would move towards more harmonised listing rules and prospectus requirements. While this set of policy issues is complicated by an individual country's securities and corporate law, as a general principle, as bilateral and regional work continues to promote freer trade and more open capital markets, this objective should be included on the agenda.

We would like to see financial statements, based upon international accounting standards accepted, without amendment or the requirement for additional information or reconciliations, for listing and prospectus purposes on all exchanges globally. This would allow a company to list on any exchange using internationally agreed listing rules to issue one prospectus for capital raisings. At present, each country and each exchange has its own rules and regulations, which increases costs and complexity to business.

Consideration should also be given to applying the model to the registration and licensing requirements for managed investment schemes and financial service providers.

ANZ supports further consideration of opportunities for mutual recognition and business and financial market reforms. Establishing a Financial Services Advisory Council to work through technical issues and develop solutions would be one approach to advancing this policy objective.

## **CONCLUSION**

This paper has made a number of recommendations to assist Australia seize the opportunity available to it by the rapid growth in Asia. More broadly, all stakeholders should seek a broader national discussion of these issues, possible responses to them and most importantly the social, economic and security benefits which all Australians will benefit from if we are able to grasp the opportunity.