

# Productivity Commission Study into Bilateral and Regional Trade Agreements

ANZ Submission

## *Executive Summary*

ANZ has a long-standing, substantial and growing presence in the Asia-Pacific region, including some of Australia's largest investments in Greater China, India, Indonesia and Vietnam as well as in key markets in the Pacific.

ANZ's regional presence means it is well-placed to take advantage of the increasing trade and investment flows between Australia, New Zealand and Asia. Notwithstanding, access to key markets will be important in helping Australian financial services providers such as ANZ to capitalise on the region's economic growth. A core interest for ANZ in Australia's FTA negotiations is therefore the so-called 'behind the border' issues which include barriers on commercial presence and transparency disciplines, such as timeframes for the processing of banking licenses.

Despite limited breakthroughs on these issues, FTA negotiations offer the possibility of agreeing deeper levels of liberalisation than appears is currently possible through the multilateral system of trade negotiations. 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.

ANZ supports the Government's approach of attaching primacy to multilateral efforts to liberalise world trade through the WTO Doha Round but at the same time complementing these efforts through the negotiation of bilateral and regional FTAs which are consistent with Australia's trade rules. Furthermore, as Asia emerges from the global economic crisis in a stronger economic and strategic position Australia needs to be 'at the table' when it comes to developing economic frameworks to promote trade and investment in the region. Australia's suite of FTAs and ongoing FTA negotiations are one avenue for helping to ensure Australia's economic and trade interests are promoted.

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

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## *Introduction*

ANZ welcomes the opportunity to contribute to the Productivity Commission's study of bilateral and regional trade agreements, including their effectiveness in responding to national and global economic and trade developments, and in contributing to efforts to boost Australia's engagement in the region and evolving regional economic architecture. The focus of this submission is on Australia's bilateral and regional trade agreements in Asia and the Pacific, reflective of ANZ's growing interests in the region.

ANZ has a long-standing, substantial and growing presence in the Asia-Pacific region. The breadth of ANZ's network puts it among the top 5 banks in Asia, with operations in 14 markets. ANZ has some of Australia's largest investments in Asia, including in Greater China, India, Indonesia and Vietnam. We are the leading bank in the Pacific, employing over 2000 staff and operating full service retail and commercial banking in 11 countries: Papua New Guinea, Fiji, Solomon Islands, American Samoa, Samoa, Cook Islands, Tonga, Vanuatu, Kiribati, Timor Leste and Guam and a representative office in New Caledonia.

ANZ's strategy is to become a 'super regional' bank in the Asia Pacific – that is, a bank that has the scale and quality of a global bank but with a regional focus. As part of our strategy we have identified a number of priority markets in the region in which we intend to grow our business. We aspire 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.

### *The opportunity - Australia's economic and trade engagement with Asia*

Australia's economic and strategic interests are more than ever tied to the Asia Pacific region. We have proximity to the fastest growing region in the world and a great opportunity to further build our trade and investment relations by linking our economy more closely with the economies of Asia.

Australia's total trade with Asia has grown exponentially over the last decade, making it the fastest growing region for Australian trade. Australia arguably avoided in part the worst of the global economic downturn for the fact that a number of our key trading partners in the region have rebounded to strong levels of growth.

And with major economies in Asia likely to emerge from the global economic downturn stronger and better placed than key economies in Europe and North America, they will become even more important to Australia's economic future.

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 realising that Asia has money 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. ANZ is well-placed to take advantage of the opportunities presented by increasing regional trade and investment flows. Notwithstanding, access to key markets will be important in helping Australian financial services providers such as ANZ to capitalise on regional economic growth.

#### *Australia's bilateral and regional trade agreements – addressing regulatory barriers in financial services*

While significant opportunities exist for the Australian financial services sector in Asia, however there are a range of regulatory barriers which restrict Australian banks from further expanding their operations in some markets in the region. Barriers include limits on commercial presence and transparency disciplines (such as timeframes for the processing of banking licenses). These issues are being discussed within the context of Australia's bilateral trade negotiations, albeit with limited success to date. For example, some of these issues (refer ANZ submissions to the Department of Foreign Affairs and Trade – [www.dfat.gov.au](http://www.dfat.gov.au)) 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)

- 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
- 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 be first approved by Indonesia's Central Bank.

Limited success notwithstanding, FTA negotiations offer the possibility of agreeing (relatively) deeper levels of liberalisation than is currently possible through the multilateral system of trade negotiations. For an advanced, predominantly services based, economy such as Australia's, delivering outcomes on services as part of Australia's free trade negotiations is important. Negotiating better access for Australian service providers overseas will expand and diversify Australia's export base, particularly as demand for services in the region grows. Furthermore, Australia's growing trade in services involves the interaction of increasing numbers of Australians with clients, customers and service providers across the region, contributing directly to Australia's connections, including people to people links, with countries in the region

#### *The Government's policy approach*

ANZ supports the Government's approach of attaching primacy to multilateral efforts to liberalise world trade through the WTO Doha Round but at the same time complementing these efforts through the negotiation of bilateral and regional FTAs which are consistent with Australia's trade rules.

With uncertainty surrounding global trade liberalisation in the Doha Round, we support the view that further trade liberalisation in the near term is more likely to occur as a result of bilateral and regional preferential trade agreements. Australia should therefore continue to seek to negotiate and implement bilateral and regional

FTAs which support and reinforce the multilateral trading system and which promote deeper liberalisation in areas like services and investment than is currently possible through the multilateral system. Concerns that the proliferation of FTAs could undermine the authority and effectiveness of the WTO and potentially divert more trade than they create could be addressed in part by ensuring that WTO principles are used as the 'standard' in FTA negotiations.

The Government's approach of encouraging closer regional engagement, including through the negotiation of FTAs, is in Australia's national interest and is the right approach now and for the foreseeable future. And with Asia likely to emerge from the global economic crisis in a stronger position, both economically and strategically, Australia needs to be 'at the table' when it comes to developing economic frameworks to promote trade and investment in the region and to help ensure Australia is not excluded from preferential trade deals between our trading partners.

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 and Malaysia and is considering FTA feasibility studies for India and Indonesia. ANZ supports each of these and has made submissions to the Department of Foreign Affairs and Trade.

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 law (and enforcement thereof), 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. 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.

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.

ANZ is supportive of Australian Government efforts to work with Pacific Forum Island Countries (FICs) and other developing markets in Asia to build the capacity and infrastructure required to take greater advantage of trade across the region.

While Australia's trade and investment relationship with the Pacific is small, a trade pact in the Pacific (the so-called PACER Plus) would assist countries in the region share in the benefits of increased trade and economic growth. In this context, the Australian Government's intention to take forward negotiations for PACER Plus is a positive step and one which ANZ strongly supports.

Australian Government assistance to help Pacific island nations become more integrated regionally, including through closer cooperation on trade, would help drive increased investment and trade flows while at the same time promoting more stable economic growth for FICs. More transparent and liberalised regulatory processes and rules would also provide increased certainty for investors more broadly. PACER Plus also has the potential to promote private sector growth and investment over the medium-to-long term and allow FICs to share in the benefits of increased trade. Increased private sector activity would help deliver more broad-based economic growth and generate improved employment and income outcomes.

### *Conclusion*

In short, ANZ supports the Government's approach of complementing trade negotiation efforts on the Doha Round with a framework of FTAs with our major trading partners. To support this work, we believe it important that Australian exporters and the Government continue to work together to improve market access for Australian businesses. ANZ would be interested in supporting and/or participating in initiatives aimed at deepening and promoting Australia's trade and investment links in the Asia Pacific region more broadly, including through any joint Government-industry working groups.