Regional Comprehensive Economic Partnership

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ANZ Submission on
Regional Comprehensive Economic
Partnership Negotiations

ANZ is pleased to provide a submission on the upcoming Regional Comprehensive Economic Partnership (RCEP) Negotiations.

The parties to RCEP negotiations are central to the ANZ presence in the Asia-Pacific Region, which dates back more than 40 years. ANZ strongly supports the RCEP parties' approach to bring ASEAN nations and nations with a Free Trade Agreement (FTA) with ASEAN nations under a single Economic Partnership.

ANZ believes that RCEP negotiations not only represent an opportunity to harmonise existing FTAs but is also a landmark opportunity to commit to further liberalisation in the Asia-Pacific region.

In the face of trying economic times across the world, the Asia-Pacific region has the capacity to be a driver to global economic growth. Further liberalisation in both the goods and services sector is central to ensuring that potential growth is realised. ANZ also believes that there is a significant potential for further liberalisation in the services sector, which to date, has remained unrealised.

As negotiations progress, we would be pleased to provide further details on our operations in the region and barriers in specific RCEP countries. Please contact Michael Johnston, Head of Government and Regulatory Affairs on 03 8654 3459 or michael.johnston2@anz.com.

ANZ'S OPERATIONS IN RCEP NATIONS

ANZ has the largest presence of any Australian bank in Asia and is one of the fastest growing corporate banks in the region. ANZ has a heritage spanning more than 176 years, operates in 33 countries worldwide and employs more than 49,000 people, with representation in Australia, New Zealand, Asia Pacific, Europe, America and the Middle East. We are one of the 20 largest listed banks globally by market capitalisation with over 10.6 million customers globally.

ANZ's reach in the Asia Pacific region extends to the key RCEP Party nations of China, New Zealand, India, Japan, Republic of Korea, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

In 2007, ANZ launched its Super Regional Strategy, aimed at expanding ANZ's business into the Asia-Pacific region. In 2012, 21 per cent of ANZ's revenue was sourced from outside Australia and New Zealand, up from 6 per cent in 2008 and on track to meet ANZ's target of 25 per cent by 2017. Our business in Asia focuses on providing customers with seamless cross-border financial services. ANZ's growing footprint in the Asian region has helped Australian business by providing trade finance, cross-border deal negotiation and a domestic presence in key trading partner countries.

ANZ has had a presence in Asia for over 40 years and has grown significantly with 93 branches and 324 automatic teller machines (ATMs) across 13 markets today. To facilitate market entry and to build our capability, ANZ currently has five strategic partnerships in Asia:

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

ANZ also has six specialist hubs situated throughout the Asia-Pacific in Melbourne (Australia), Wellington (NZ), Suva (Fiji), Chengdu (China), Manila (Philippines) and Bangalore (India). These hubs enable us to consolidate our back-office functions and achieve efficiencies. This lowers the costs of delivering services to customers across our network.

ANZ is proud of our growing presence in the Asian region and in the vast majority of nations represented in RCEP negotiations. From our presence we have some insight into the formal and informal barriers to cross-border trade or investment in commercial banking in many of these nations which could be considered as part of the RCEP negotiations.

BENEFITS OF COMMERCIAL BANKING IN RCEP NATIONS

The importance of the services sector to the domestic Australian economy has grown significantly in recent decades. Services now employ three in four Australians. Financial services providers are some of the largest employers in the nation. The commercial banking sector is also growing in importance in developing nations to provide access to finance and financial inclusion which are important factors for continued economic growth.

ANZ considers that, despite the historic focus on liberalisation of trade in goods, the liberalisation of the financial services sector is a key priority for both Australia and developing nations in the RCEP negotiations to leverage greater access to finance, economic growth and a strong commercial banking sector.

Rajan and Sen found that "the liberalisation of the financial services sector ought also to enhance the process of sectoral and intertemporal resource allocation, overall savings, investment and risk sharing. In addition to these direct static gains, as with the trade in goods, there are potential dynamic productivity and growth gains via technology transfer (particularly in cases where services are embodied in foreign direct investment) as well as due to the introduction of market competition".[1] Numerous studies produce evidence "that the greater the degree of financial sector openness … the greater will be average output growth".[2] It has also been found that trade barriers to services can increase their price in developing nations by up to 150 per cent.[3]

For these reasons, ANZ believes that the RCEP negotiations provide the opportunity for mutual gain for developed and developing nation parties from the greater liberalisation of financial services.

REGULATORY BARRIERS TO COMMERCIAL BANKING SERVICES IN RCEP NATIONS

ANZ and other financial services providers face a range of restrictions to entry and growth across RCEP countries. We have outlined the major obstacles in a number of ANZ's priority countries in the region.

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[1] Rajan, R. and Sen, R., (2002) "Liberalisation of International Trade in Financial Services in Southeast Asia: Indonesia, Malaysia, Philippines and Thailand" CIES Discussion Paper 0217

[2] Mattoo, A., R. Rathindran, and A. Subramaniam (2001). "Measuring Services Trade Liberalisation and its Impacts on Economic Growth: An Illustration", Policy Research Working Paper No. 2655, World Bank

[3] McGuire, G (2003). "Measuring Restrictions on Trade in Services: The Short Journey so far and the Issues for the Road Ahead," in *Regulation and Market Access*, edited by A. Sidorenko and C. Findlay, Canberra: Asia Pacific Press, ANU, pp.40-77.

India

A number of market access limitations for foreign banks exist in India, including:

- Foreign equity (by a single entity) is capped at 5 per cent for ownership in Indian banks beyond which prior approval is required.
- There is an increased focus on meeting financial inclusion requirements. New foreign banks without a sizeable geographical presence may find difficult to comply with. However, for allocation of multiple branches, tangible progress in financial inclusion is a key critierion
- All foreign stakes, taken together, cannot exceed 74 per cent of the capital of an Indian private bank and voting rights are limited to 10 per cent per shareholder
- India has only committed to grant at least 12 new foreign branch office licenses per year compared to the unlimited granting of licenses to domestic private banks

The Reserve Bank of India has proposed guidelines on the presence of foreign banks through wholly-owned subsidiaries (WOS). A discussion paper was released in January 2011 but these are not yet finalised. A key advantage of WOS will be similar treatment to domestic banks in terms of branch expansion.

China

The following regulatory and market access barriers are imposed to any foreign bank seeking to enter the People's Republic of China:

- The sole shareholder or the controlling shareholder of a proposed wholly foreign-funded bank are required to have maintained a representative office within the territory of the People's Republic of China for over two years. The sole foreign shareholder or the major foreign shareholder of a proposed Chinese-foreign joint venture bank is also required to have maintained a representative office within the territory of the People's Republic of China
- A foreign bank has limited business scope with new business/product subject to regulatory approval, which is typically a lengthy process
- For locally incorporated foreign-funded banks, the proportion of the balance of loan to the balance of deposit must not exceed 75 per cent and the liquidity coverage ratio must not be lower than 100 per cent
- The Board of Directors of a foreign bank also needs to be approved by the China Banking Regulatory Commission (CBRC); and
- Where the combined equity investment proportion of all overseas financial institutions in a listed Chinese financial institution is equal to or exceeds 25 per cent, the listed Chinese financial institution shall be treated as a Chinese financial institution by the regulatory authority. A 20 per cent ownership limitation applies to a single foreign financial institution that is listed on the Stock Exchange.

Indonesia

By regional standards, the Indonesian banking market is relatively open, however Bank of Indonesia (BI) has recently announced new Bank Ownership regulations which limits ownership of a bank by both foreign and domestic shareholders to 40 per cent except for existing banks which will have to pass certain benchmark set by Bank Indonesia. These new regulations provide BI with more discretionary powers to block large national acquisitions.

Foreign nationals are also subject to licensing criteria which states that they must form a joint venture with local partners. The majority of the Board of Directors must be Indonesian nationals and the acquisition of a state-owned bank requires the approval of the President and House of Representatives.

Banks that have been approved by Bank Indonesia prior to the issuance of this regulation may be permitted to hold more than 40 per cent and up to 99 per cent of an Indonesian bank but are required to meet minimum rating conditions.

Malaysia

Current regulations place the following restrictions on foreign ownership of banks:

- Ownership of more than 20 per cent of a bank by a single shareholder requires Bank Negara approval
- Ownership of more than 30 per cent requires additional approval from Minister of Finance (effectively the Prime Minister); and
- Ownership of greater than 33 per cent by a single shareholder invokes the mandatory takeover provisions by the Securities Exchange Commission - waivers can be obtained but are rare

Malaysia has indicated publicly that the 30 per cent foreign ownership limit may be raised in the near future provided that there is reciprocity from other countries in the region.

Thailand

In Thailand, foreign banks can own up to 25 percent of a Thai bank before seeking approval from the Bank of Thailand (BoT). Owning between 25 and 49 percent requires approval from the BoT and anything beyond that is subject to approval by the Ministry of Finance. In addition:

- A single investor must also receive approval from the Bank of Thailand if their shareholding exceeds 10 percent of a local bank
- Foreign owned subsidiaries are only allowed four branches, while foreign bank branches are limited to three branches; and
- 75 per cent of the Board of Directors must be Thai nationals for banks that are locally incorporated.

OTHER BARRIERS TO SERVICES TRADE IN RCEP NATIONS

In addition to formal barriers to investing in commercial banks in RCEP nations or establishing a domestic presence, there are a number of 'behind-the-border' barriers to trade. These include issues such as lack of data security systems, lack of skilled personnel, lack of cross-cultural knowledge, differing rules of cross-border transfer of people and data or restrictions on cross-border transfers. Where feasible these could be addressed through the RCEP negotiations.

OPPORTUNITIES FOR LIBERALISATION UNDER RCEP

ANZ supports the further liberalisation of services trade across the Asia-Pacific region. While liberalisation in the trade of goods has been the primary focus of most free trade agreement negotiations, there are considerable economic gains to be made through the promotion of liberalisation in services trade.

Reports indicate that by 2030, China and India alone will account for nearly half of the world's middle-income population. These changes are already driving Australian trade – services exports to Asia have grown by 42 per cent since 2000, whereas exports to the rest of the world have remained stagnant.

While trade in services is inherently difficult to measure because of the different modes in which trade occurs, the barriers to services trade can be easily identified. ANZ recognises the steps made by the Australian Government to secure liberalisation in financial services, however there remain significant opportunities for further liberalisation.

ANZ considers that a priority of RCEP negotiations must be to secure parties' support for the progressive lowering of barriers to investment in commercial banking institutions and the cross-border provision of financial services. While ANZ recognises that not all nations are in the position to immediately lower all barriers to foreign commercial banks, RCEP negotiations can focus on, at a minimum, reaffirming and monitoring progress towards commitments made under the General Agreement on Trade in Services. Where possible, countries should commit to new, more liberal targets for the lowering of barriers to foreign commercial banking operations over set timeframes.