

Executive Roundtable and Professional Placements

2 – 10 October 2008 • Melbourne, Canberra and Sydney

Session 8, Part 1

Expanding Banking and Other Financing Opportunities in China and Australia:
China's Banking and Other Financing Interests and Opportunities in Australia

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1. Macro Environment for Chinese Banks Expanding in Australia

When offshore banks, including Chinese banks, make their investment decisions to expand in Australia, they are apparently convinced that they are able to prosper business growth and diversification opportunities in the Australian banking and financial services market, which is one of the highly developed and most mature financial markets in the world. Today we are glad to see total of 44 global banks operating in the local market, either in the form of a branch or subsidiary. Banking and financial services is ranked the third largest sector in Australia's economy, generating 8.4% or \$78 billion of real gross value added in 2007. The sector has benefited from the strength and resilience of the Australian economy which has been underpinned by 16 years of uninterrupted economic expansion at a rate well above the global average. It is the reputation and sophistication of Australia's financial markets that underpin the country's attractiveness as a global financial services centre.

However what I wish to discuss in here is how Chinese banks view the consolidated environment Australia is able to offer to the global financial institutions and how it has impressed those institutions to make it an ideal investment destination, which can be summarized in the following bullet points:

- **Robust and resilient domestic economy:** Australia has been ranked the most resilient economy in the world for five of the past six years. The economy is now in its seventeenth year of uninterrupted growth, the longest boom in its history. Australia's average annual GDP growth rate from 1998 to 2007 was 3.5 per cent, well above the rate of world growth and ahead of other developed economies including the USA, Japan, Germany and the UK. With forecast economic growth of 3.3% in 2007 and 2008, well above the forecast average of OECD growth rate of 2.7% in both years, Australia will continue to expand more rapidly than most other OECD economies. In 2007, the Australian economy was ranked in the top three countries in the Asia

Pacific region for its overall competitiveness. Among countries with a population of 20 million or more, Australia ranks third in the world, behind only the United States and Canada. The elimination of net public debt by the Australian government is an impressive milestone that few countries have been able to achieve.

- **Stable political environment:** Australia has the lowest risk of political instability in the Asia Pacific region and fourth lowest risk in the world. It was ranked the most politically stable in the world in 2006 and over the last five years, it was the only country consistently ranked in the top three. The adaptability of Australian government policy to changes in the economy has been ranked in the top five countries in the region. Ranked in the top six countries in the world for the effective implementation of government decisions, Australia is ahead of most other developed countries. In 2007, an executive opinion survey found that in terms of consistency of government policy direction, Australia ranks fourth in the world and second in the Asia Pacific region.
- **Highly skilled, multilingual and experienced human resources pool:** A comprehensive education and training system has ensured that Australia maintains the leading-edge skills required for international competitiveness. Australia now ranks first in the Asia Pacific region for both labour and industry productivity per person employed (purchasing power parity). International studies confirm the high level of skill, productivity and professionalism of Australia's workforce, particularly in financial services. In many critical categories, such as economic literacy and education in finance, Australia's workforce ranks among the best in the world. With more than 25% of its labour force born overseas, Australia is the most culturally diverse country in the Asia-Pacific. Approximately 3 million Australians speak a language other than English at home. This impressive skills base is underpinned by an exceptional tertiary education system that places Australia in the top nine countries in the world, and second in the region in meeting the needs of a competitive economy.
- **Sophisticated financial services sector and the region's largest mutual funds pool:** Australia's investment funds have grown significantly, recently surging to A\$1.1 trillion in 2007, ranked the 4th largest in the world. The large and rapidly growing pool of assets continues to draw global financial services firms to establish or expand operations in Australia. Australia's stock market is the largest and most liquid (measured by floating stocks) in the Asia-Pacific region behind Japan. In 2006-07, market capitalization of floating stocks in Australia was almost triple that of Hong Kong and five times larger than Singapore. Australia is one of the key centres for capital markets activity in the Asia-Pacific with liquid markets in equities, debt, foreign exchange and derivatives. The sophistication of Australia's financial markets is ranked as the highest in the Asia-Pacific region and among the best in the world.
- **Well developed infrastructure:** Australia ranks fourth in the world for internet users (743 per 1,000 people), behind only Iceland (803), Sweden (764), and Denmark (755). Australia ranks fourth in the world for IT infrastructure and skills, and fifth for IT industry competitiveness and productivity. Australia is in the top 10 e-government

rankings and is first in the Asia-Pacific region and 8th in the world for e-readiness.

- **Innovative culture and excellent research & development base:** The Australian Government is implementing an A\$8.3 billion innovation strategy, including substantial R&D tax concessions of up to 175%. The country boasts 12 home-grown Nobel Laureates. Australia's enviable human development effort is another aspect of generating competitiveness, with its human development index being the third best in the world, behind only Norway and Ireland. Australian Government support for research and development is matched by strong growth in Business Expenditure on Research and Development (BERD). In 2005-06, business expenditure on research and development increased for the 7th consecutive year to a record \$10.1 billion, effectively doubling over the past five years. Australia is ranked one of the top three countries in the region, in generating basic research to ensure long term economic development. Australia has a unique Cooperative Research Centre (CRC) program, which combines the research efforts of the public and private sectors, in more than 70 CRCs operating across a wide range of industry sectors, ensuring widespread collaboration for faster results.
- **Competitive geographical location:** With average business costs around eight to nine per cent below those in the US, Australia is ranked the second most cost competitive country for business operations in the major industrialized world. Property prices are highly competitive, with the cost of prime office space in Sydney around 70% less than in London, 70% less than in Tokyo, 50% less than in Hong Kong and 65% less than in Mumbai India. A three-minute peak-hour telephone call from Australia to the US (US\$0.64) costs less than from the UK (US\$0.65), Japan (US\$1.63), Singapore (US\$0.70), Hong Kong (US\$1.15) and China (US\$2.93). Electricity costs per kilowatt hours for industrial clients (US\$0.060) are cheaper in Australia than in the UK, Singapore, Germany, Hong Kong and Japan. While Australia's workforce is one of the most highly skilled and multilingual in the world, remuneration levels for management staff in Australia are lower than in the US, the UK, Germany, France, Canada and Hong Kong.
- **Transparent and efficient regulatory environment:** In fact, with regulatory procedures taking just two days, Australia has been assessed as the fastest place in the world to start a business. In terms of intellectual property, Australia's patent and copyright enforcement regime is ranked third best in the Asia-Pacific and above major developed countries like the UK, Japan, Ireland, Finland and Hong Kong. Transparency in government policy is considered fourth best in the region, and Australia's legal and regulatory framework has been rated one of the top nine economies in the world for encouraging enterprise competition. Businesses can invest with the confidence that Australia's regulatory systems are more transparent and secure than most other locations in the region. This provides predictability and certainty for business planning.
- **Strategic location:** Australia's cultural affinity with Asia and its American/European business environment make it a perfect business bridge to Asia. Australia is also the

perfect launch pad for Asian companies seeking to enter the European and American markets. Australia's unique time zone advantages have encouraged some service providers to offer 24-hour global customer support from its Australian office. Australia's location allows companies to benefit from 'follow-the-sun' or 'pass-the-book' operations, such as transaction processing in financial markets, help desks, customer service, IT support and other critical services.

- Quality life style and friendly culture: Australia's cost of living is significantly lower than many other developed countries, including the UK, Germany, Japan, Hong Kong, and Singapore. Expatriates and visitors alike find Australia both attractive and affordable, offering high quality housing, education, and health care. Australia has the third lowest cost of living in the major developed world, behind only USA and New Zealand. While the majority of foreign investment in Australia does not require approval, almost all proposals that are subject to approval are approved by the Foreign Investment Review Board.

2. An ICBC Case

ICBC has proudly been approved by the Australian regulators for its proposed operation in Australia. I have a great pleasure in briefly sharing with you some of our experiences in establishing the business in Australia and our outlook of the market development:

Closer Chinese / Australian economic ties

China and Australia have become economic partners with growing importance to each other, as evidenced by the ever closer trade, investment and personnel exchanges.

According to recent statistics, it took 27 years following establishment of diplomatic relations between the two countries for bilateral trade volume to reach \$10 billion (in 1999) but this figure has more than quadrupled in less than seven years since 2000, with the 2007-2008 financial year registering \$57.9 billion. In particular, an annual growth rate above 20 percent has been maintained since 2004, which is well above the overall growth of Australia's trade volume. China is now Australia's largest trading partner, its largest source of imports and second largest export market. For the financial year 2007-2008, export to and import from China accounted for 15.0% and 15.4% respectively of Australia's total export and import. At the same time, Australia has been China's ninth largest trading partner and seventh largest source of import since 2005. It is expected that the free trade agreement currently under negotiation will be a further spur to future growth in bilateral trade.

By the end of 2004, Australian companies had invested in 6809 projects in China with a total amount of USD4.08 billion. Australia ranked 7th in investment destinations by Chinese companies with 256 non-financial Chinese companies having been set up here, many of these representing the largest of Chinese companies. In recent years, Chinese steel and energy corporations have shown great interest in Australia and joint-exploitation or development contracts worth billions of dollars have been signed.

Leveraging the current ICBC customer base

Thanks to its extensive client base, ICBC enjoys existing relationships with a number of clients with operations in Australia including both Chinese corporations investing and successfully operating in Australia, and the Australian-based companies investing and operating in China. Among them are all the 11 Chinese companies from the Top 100 Chinese Enterprises with a business presence in Australia and a large number of Australian-invested companies with operations in China. These companies are currently being serviced in Australia by other rival banks.

Given ICBC's continuous growth both in China and overseas, it is considered a natural progression for ICBC to want to establish an Australian presence to enable the Bank to service these existing clients. Through the Branch, ICBC would offer, in conjunction with its domestic and other overseas branches, financial services to Australian companies with operations in China, and provide to its current Chinese corporate customers corresponding services in Australia. Moreover, the Branch would allow ICBC to better identify and provide services to medium and smaller sized Australian companies with an interest in investing or offering products or services in China.

Competition

ICBC believes that the main competition for its proposed Australian Branch would be from other China focused foreign banks operating in Australia. With its extensive network and client base in China and its expertise in China-related business, ICBC would be very well positioned to compete in these identified niche market sectors.

Strategy

The key strategic objectives for ICBC in establishing a Branch in Australia include:

- Satisfying the demand of existing ICBC Group customers to provide an operational presence in Australia;
- Strengthening the Group's international network and further improving the Bank's profile;
- Achieving a competitive position in the niche markets that the bank will be targeting in Australia by establishing relations with, and provide support for, large companies, owned and operated by Chinese or the Chinese Community as well as Australian companies currently investing in or expanding existing trade relations in China or with operations in China;
- Establishing a reputation for commercial reliability and expertise in Chinese trade and investment matters;
- Promoting further trade and investment between Australia and China through close collaboration with local institutions such as AusTrade, Invest Australia, Australia China Business Council (ACBC) and China Chamber of Commerce in Australia (CCCA); and
- Exploring the possibility of consolidating ICBC's businesses in Asia-Pacific, with Australia as the regional centre for the Pacific region.