

Executive Roundtable and Professional Placements

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

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What has happened in the financial markets?

As we are all aware, there is current great turmoil in global financial markets, sparked off by the 'sub-prime' market in the US and other factors, causing a contraction in funding markets and many financial companies have not been able to continue to access the funds they need to operate.

More extensive problems began to emerge when companies holding these securities needed to write down their value. To date, we have seen over US\$450 billion written off the value of such assets, resulting in a number of global financial institutions being placed under severe pressure. As a result of which, we have seen several high profile collapses and near collapses, not to mention extreme uncertainty on the prospects of other companies. It has also created a crisis of confidence and it may be some time before confidence is returned.

While it is virtually impossible to predict where market prices are going, the Australian financial system stand apart as being generally is in good shape. In particular, the:

- Economy is robust with low unemployment;
- Major banks in Australia are well positioned and while some small write downs have been incurred, the losses are small, particularly by current global standards;
- Australia regulators have responded proactively to the current environment and ensured the financial system is in good shape.

Despite our small population our financial services industry does very well by international standards.

For example, our banks alone, in terms of market capitalization, account for around 25% of the ASX.

And, we have the 4th largest funds management industry in the world, with robust competition in the market ensuring high standards and innovative products

So the options for the financial industry are:

- Stay as we are, bearing in mind that there is limited scope for growth because there is only so much business 21 million people can support in the domestic market, and wear the current crisis in isolation.
- Wait to be taken over by regional and/or global banks when conditions improve;
- Or, seize the opportunity to expand while other banks are more concerned with other matters

China and India will continue to boom, creating huge demand for resources – these are our traditional commodity export markets, and even if growth slows during the current turmoil, both markets will continue to expand rapidly.

Financial services also offer us a real opportunity to be part of the Asian economic story, by providing fully developed, sophisticated products to these developing markets, particularly while the current economic climate precludes many international banks from ambitious expansion in the short term.

Our retirement savings and funds management industries and we could take that expertise and manage the funds of others.

Private banking - the market is growing more sophisticated as personal wealth in China grows along with its booming economy, and the new WTO rules allow foreign banks to work with local retail clients and roll out innovative new products and marketing programs

Credit cards - credit card use still lags behind bank debit cards as customers remain averse to spending on credit, and because of security concerns. However, the increasing acceptance of credit by the young will be important in the change in attitude – the introduction of an effective credit card system may be seen as a first step into China, as an effective brand building exercise, targeting the mid to high end of the market.

Other products - which may also have a good reception include financial leasing, mortgages, and trustee services.

Other Opportunities in China

Financial institutions also have scope to become involved in broader exports to Asia, particularly China, which is the world's third-largest trading nation with exports growing at over 30% per year, China's GDP per capita has nearly doubled in the past five years – this has had both dramatic opportunities, and also creates future concerns about its broader impact on the international economy. As Australia's largest trading partner and

Australia's No 2 export destination after Japan, China offers significant growth opportunities for many businesses, especially the acceptance and value of knowledge based services, such as consulting, training, financial services, or the provision of technical advice. There are about 3,800 Australian companies doing business in China and if Hong Kong is included, the figure goes up to 5,000 companies.

Australia's three major export industries are mining and resources, food and beverage, and services such as finance, education, training, accounting and taxation.

This export trend is linked to the boom in consumer and retail driven by China's internal growth.

Manufacturing - labour costs are still cheap combined with improving quality and standards.

Clean energy - concern about pollution has led the Chinese Government to commit to funding new technologies in clean energy innovation.

Medical/Health sector - growing affluence and increasing concerns about health in China has opened up key opportunities for Australia companies to export both technologies, products and know-how in a market that is looking to import "best practice" from abroad.

Second tier city growth - It's also important to note that growth in China is not limited to cities like Beijing and Shanghai. Second tier cities like Dalian, Xian and Kunming are now centers of growth.

Ongoing Opportunities for Australian Businesses Include:

Supply of energy - as growth continues in China, so will the demand for coal, gas and other energy sources

Resources - the quality of Australian resources is higher and shipping costs are often considerably lower than other exporters, resulting in an increasing demand for Australian resources.

Agriculture - also a growth area particularly in the dairy industry as historically China does not have strong domestic production.

Property - a traditional area of interest for incoming investors in Australia, particularly those who are keen to develop property to sell to other incoming investors.

Education - another key traditional area of opportunity for Australian businesses, particularly with growing affluence and the cultural value of a good education.

Westpac is in Particularly Good Shape

- Our vision is to be the leading financial services organization in Australia and New Zealand. With operations predominately in Australia and New Zealand, we have held true to this strategy and as a result, we do not hold sub prime or related assets and have not incurred the losses experienced by many overseas banks. In addition, we have presences offshore in Beijing, Hong Kong, Shanghai, Singapore, Jakarta and Mumbai. In particular, Our Shanghai branch assists customers who are benefiting from China's demand for Australia's resources and New Zealand's agricultural products. It provides a range of foreign currency and foreign exchange services, as well as some trade finance solutions.
- Westpac's Shanghai branch is an important part of our strategy to be represented in the markets where our customers need us. They've already established some strong partnerships; working with businesses to design and tailor solutions.

Looking Forward

The current turmoil in the financial markets provides immense opportunities for Australian financial institutions to expand into Asia, both because of our stable bases and financial positions, but also because our competition in the global markets is currently occupied with other concerns.