



**ANZ Submission to the Department of Foreign Affairs and Trade
White Paper Public Consultation**

February 2017

A. INTRODUCTION

1. ANZ welcomes the opportunity to contribute to the Department of Foreign Affairs and Trade's Foreign Policy White Paper Public Consultation.
2. ANZ is the largest Australian bank operating in Asia Pacific. It is an Asia-focussed bank with a presence in North America, UK and Europe, and operates in 34 markets. ANZ has announced that it is focusing its activities in Asia on corporate and institutional clients driven by trade and capital flows, particularly connecting those flows with Australia and New Zealand businesses.¹
3. ANZ seeks to assist our customers to realise trade and investment opportunities from growth in the Asia Pacific region. We have provided specialised trade and investment finance services for over 170 years. We aim to understand the needs and experience of businesses expanding offshore, take a wide view of supporting the communities in which we operate, and contribute to policy development. Examples of this activity include:
 - a. Advocating greater business engagement in the region: ANZ's 'Asia Opportunity' reports (2015 and 2016) advocate for and aim to assist Australian businesses to engage more closely with Asia.
 - b. Contributing to the public policy debate: ANZ's joint work with the Australia-Indonesia Centre and PWC, 'Succeeding Together', assessed synergies between the Australian and Indonesian economies. Our joint project with Asialink and PWC, 'Australia's Jobs Future', estimated the contribution of the services sector to Australian exports.
4. Australian business and communities benefit from policies that promote free flows of trade and investment, and community goals such as sustainable development and human rights. We support:
 - a. International trade agreements that give goods and services exporters and investors greater market access.
 - b. Policy settings that help make Australian businesses globally competitive and make Australia an attractive base for investment.
 - c. Responsible and ethical corporate practices and related policies and regulation.

B. MAXIMISING AUSTRALIAN TRADE AND INVESTMENT

5. Open markets and free trade underpin bilateral relations, economic security, social and community development - and therefore regional security. Communities and nations prosper by taking advantage of their skills and

¹ On 31 October 2016, ANZ announced an agreement to sell its Retail and Wealth business in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank.

resources to produce the best services and goods they can, and engaging with others in trade and investment.

6. The International Monetary Fund (IMF) forecasts the global economy will grow by 3.1% in 2017. Growth rates for Australia's two major trading partners, the US and China, are projected at 2.3% and 6.5% respectively.² The RBA outlook for the domestic Australian economy is a growth rate of between 2.5 and 3.5% in 2017.³ It is concerning that, despite these positive economic forecasts, the IMF has highlighted a fraying consensus on the benefits of cross-border economic integration.

International investment

7. Foreign investment in Australia, and investment by Australian businesses in other nations, is critical to our future growth and prosperity. Australia is a resource rich and highly skilled nation. As has been the case for more than a century, Australia needs international capital to supplement our domestic investment needs for financing new, and enhancing existing, industries.
8. Foreign investment rules for inward Australian investment should be transparent, predictable and rules based. The powers currently granted to the Treasurer provide a wide scope for review and oversight of asset and lease sales. The current legislative framework strikes an appropriate balance between realising the benefits of foreign investment and protecting national interests.
9. Outward foreign investment is also vital to the Australian economy and jobs growth:
 - a. Australian technology and innovation businesses are likely to have to operate globally in order to achieve competitive scale. This likely involves owning offshore assets or operating in partnership with foreign manufacturers, distributors, suppliers and other businesses.
 - b. Advanced manufacturing businesses must be part of a global value chain (GVC), often involving the sourcing of components from many nations and establishing offshore sales and distribution centres.
 - c. Many services exporters, in order to have a presence in offshore markets, must establish a subsidiary or work together with an affiliate. Business customers trading internationally benefit from a bank that can operate effectively and seamlessly across borders.
10. ANZ has argued that the important role of offshore businesses has not received sufficient attention:

² <http://www.imf.org/external/pubs/ft/weo/2017/update/01/>

³ <http://www.rba.gov.au/publications/smp/2016/nov/>

- a. Revenue derived from an offshore investment or presence (as is often the case for services exports such as financial services) is not included in Australian export statistics.⁴
 - b. Australia's outward direct investment as a proportion of GDP - compared to other developed economies - has fallen steadily over the last decade. Currently the stock of Australian outward investment as a percentage of GDP is around 32%; the average for developed economies is closer to 45%.⁵
 - c. The major destinations for Australian investments are the traditional destinations of the United States (19%), the United Kingdom (15%) and New Zealand (11%). The proportion of investments in the remaining countries are all less than 4%. Collectively ASEAN is a destination for 6.9% of outward investment.⁶
11. ANZ believes that outward Australian investment, particularly into the growing Asia-Pacific region, should receive greater policy focus given its importance to the diversification and growth of our economy.

Trade liberalisation

12. ANZ supports the multilateral trading system of the World Trade Organization (WTO). The rules-based nature of the WTO system remains the foundation of the global economy.
13. ANZ has expressed its support for recent bilateral trade deals such as the China-Australia Free Trade Agreement (ChAFTA), the Japan Australia Economic Partnership Agreement (JAEPA) and the Korea Australia Free Trade Agreement (KAFTA).
14. ANZ supports the commitment of the Australian and Indonesia governments to achieve a high-quality Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) this year. Changes announced this year, to reduce tariffs on Australian sugar and broaden beef export permits, will help our agricultural sector.
15. The Australian and Singapore governments recently agreed to deepen and upgrade the Singapore Australia Free Trade Agreement. This includes elimination of all tariffs from the entry into force of the amended agreement, and easing restrictions on wholesale banking licenses. ANZ would welcome a revisiting of trade agreements with other trading partners, including Thailand, Malaysia and Chile.

⁴ See discussion at page 68 in Productivity Commission (2015), *Barriers to Growth in Service Exports, Research Report*, Canberra. Accessed at www.pc.gov.au/inquiries/completed/service-exports/report/service-exports.pdf.

⁵ The ANZ report 'Winning the Away Game' (accessed at <http://www.media.anz.com/phoenix.zhtml?c=248677&p=irol-insight>) argues that there is structural bias in Australian tax system against offshore investment.

⁶ <http://www.austrade.gov.au/news/economic-analysis/australias-outward-direct-investment>

16. ANZ has publicly expressed its support for the Trans Pacific Partnership Agreement, and is disappointed at the prospect of the agreement not coming into effect. In light of this, future multilateral and bilateral agreements take on greater significance:
- a. TISA - the Trade in Services Agreement (TISA) among the "Really Good Friends" group, which aims to bring TISA under the WTO or expand its membership. Services liberalisation may deliver the next boost to global trade, particularly in light of setbacks to more comprehensive agreements.
 - b. RCEP - The Regional Comprehensive Partnership Agreement (RCEP) is less ambitious than TPP but will deliver outcomes for the Asia-Pacific region. With the exception of India, all RCEP parties have bilateral or multilateral trade agreements with Australia. RCEP can be used as an opportunity to create greater commitment to services liberalisation.
 - c. PACER Plus - The Pacific Agreement on Closer Economics Relations Plus (between the Pacific Island Nations, Australia and New Zealand) is significant to the economic and social development of the Pacific region.
 - d. New bilateral agreements - ANZ supports the Australian Government's intention to enter into negotiations with both the European Union and the United Kingdom, the commencement of negotiations with India, and the resumption of negotiations with the Gulf Cooperation Council (GCC).

Services exports

17. Services are a critical part of the Australian economy, contributing around 60% of GDP.⁷ Services exports are generally unrecognised as a major contributor to export revenue. Services account for 41 per cent of Australia's export earnings when measured in terms of total value-added, compared to 37 per cent for mining, and 23 per cent collectively for agriculture and manufacturing.⁸
18. The largest markets for Australian services exports are China (\$7.5 billion in 2014), the United States (\$6.4 billion) and the United Kingdom (\$4.2 billion).⁹ Services exports to China are dominated by travel and tourism. Major business services exports destinations are the United States (\$3.5 billion in 2014), followed by Singapore (valued \$1.7 billion), the United Kingdom (valued at \$1.3 billion) and New Zealand (valued at \$1.2 billion).
19. As noted above, outward investment is critical to services exports. Delivering services offshore requires a presence and investment in overseas markets in the form of affiliates and subsidiaries. Australia's largest business services markets are also its largest investment destinations. Services and investment liberalisation in the region should be a priority in Australia's trade negotiations.

⁷ <http://www.rba.gov.au/snapshots/economy-snapshot/>

⁸ Australia's Jobs Future. <https://www.pwc.com.au/asia-practice/assets/anz-pwc-asialink-apr15.pdf>

⁹ Productivity Commission Study into Barriers to Growth in Australian Services Exports. Submission by Department of Foreign Affairs and Trade (DFAT), Australian Trade Commission (Austrade), Export Finance and Insurance Corporation (Efic). July 2015

Financial Services exports

20. Financial services generate significant services export revenue although, as noted above, this is often not apparent because revenue from offshore investments is excluded from export statistics. According to ATO figures from 2011-12, Australian services companies generated net income of \$7.1 billion from overseas operations, from a total of \$8.9 billion across all industries. Financial and insurance services accounted for \$4.8 billion of this total.¹⁰
21. However, financial services markets in the Asia-Pacific region remain relatively closed. Indonesia and India are considered the most closed markets for financial services on the OECD Services Trade Restrictiveness Index. The Australian financial services sector will gain considerably from more liberalised access to these markets and others in the region.
22. The ability of Australian financial institutions to expand their businesses offshore has been impacted by these market access restrictions. Examples include controls on the movement of skilled staff or executives, equity limits on foreign investment and limits on the number of branches a foreign bank can own.

Agricultural exports

23. Greater access to offshore markets for agricultural commodities will support continued growth in the Australian economy. This is evident from the benefits to the agricultural sector of the recent North Asian trade agreements. Australia's agricultural producers are among the most productive in the world. There are significant opportunities for Australian agricultural exporters in markets such as Indonesia, India, the European Union and the United Kingdom.

C. ENSURING AUSTRALIA IS POSITIONED TO TAKE ADVANTAGE OF OPPORTUNITIES IN THE GLOBAL ECONOMY

Competitiveness of the business environment

24. Australian markets are generally open to all competitors, subject to the regulatory requirements in the particular sector (for example, prudential and consumer protection regulation will impact the ease of entry for foreign financial services providers). Policies to promote open, competitive markets help boost Australian growth and incomes.
25. The competitiveness of the Australian business environment should be an important focus of policy makers, particularly in relation to trade policy and international regulation:
 - a. Digital technologies lower barriers to trade across borders, particularly in services sectors such as financial and business services, but also in trade

¹⁰ Australia's Jobs Future. <https://www.pwc.com/au/asia-practice/assets/anz-pwc-asialink-apr15.pdf>

in goods. Regulation of these technologies will assume greater importance in the future.

- b. Australia is competing with other jurisdictions for high value, globally mobile businesses and investments. Regional business and finance hubs such as Singapore and Hong Kong have been particularly successful in attracting such businesses to their jurisdictions.
 - c. The Trump Administration has focused on the competitiveness of US businesses. The US is currently a leading destination for global investment however change to US corporate taxation structures will have an impact on global investment decisions.
26. The Financial Services Inquiry noted that better agency coordination and stakeholder consultation on the implementation of international financial rules could improve the competitiveness of the Australian banking sector. It stated that "Government and regulators should develop and implement regulatory frameworks in ways that do not impose unnecessary costs on Australian firms operating offshore but support improved access to offshore markets."¹¹

The role of the private sector

27. The financial services sector can play a significant role in ensuring that Australian businesses are able to maximise opportunities in the global economy. ANZ helps our customers to realise opportunities across the region by providing cross border banking services. In addition, we seek to promote business relationships and contribute to community development.
28. ANZ's MoneyMinded financial literacy program is our flagship program for contributing to community development. Financial inclusion and stronger financial literacy support both economic development and improved community outcomes.
29. The MoneyMinded program in Asia and the Pacific reached 16,708 participants in 2016. We regularly undertaken evaluations that show positive outcomes such as increased financial capability saving and long-term budgeting.¹²
30. The establishment of good economic governance and strong institutions in developing countries is an important way to maximise opportunities for trade and investment. It increases economic growth and demand for goods and services. Improved economic governance reduces risk and provides a stronger foundation for offshore investment.

D. KEY RISKS TO AUSTRALIA'S FUTURE PROSPERITY AND THE APPROPRIATE RESPONSE

31. There is wide discussion of risks to the Australian economy and future prosperity. These risks include, for example, weaker demand for Australia's commodity

¹¹ http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf

¹² <http://www.anz.com/about-us/corporate-sustainability/community/investing/moneyminded/>

exports, political and strategic instability, a global downturn affecting flows of investment into Australia, and increasing restrictions of trade and investment flows.

32. In general, we suggest that the Australian Government should:
 - a. Promote domestic policy settings that are conducive to increased investment flows and create a competitive environment for Australian businesses to operate.
 - b. Negotiate international trade agreements that give Australian goods and services exporters maximum access to foreign markets, with a view to increasing this access over time.
 - c. Continue to build strong relationships with our traditional allies and with key trading partners.

E. ASSETS FOR ADVANCING AUSTRALIA'S ECONOMIC INTERESTS

33. The development of trading and investment relationships between Australian and offshore businesses is central to achieving growth and better community outcomes. As noted earlier, ANZ seeks to promote this development directly with our customer base and through initiatives such as the 'Opportunity Asia' reports.
34. ANZ greatly values its working relationships with DFAT in Canberra and its embassies in the region and around the globe. These relationships have been invaluable as ANZ has sought to increase its operations offshore and assisted Australian businesses to do the same.
35. Strengthening the relationships between Australian businesses operating overseas and DFAT consular services is vital. Programs to support Australian business networks will always be welcome among the business community.
36. ANZ understands that it can make a contribution to community development in the region through its financial inclusion programs. The programs offer a comprehensive suite of financial literacy and education programs for people in developing and emerging economies.
37. Promoting infrastructure development is important. As DFAT has noted, "infrastructure helps to create economic linkages between countries, it helps to integrate countries in a way that encourages and rewards peace and cooperation. Australia's interest in the long-term stability and prosperity of our region requires broad access to economic opportunities and social services."¹³
38. ANZ supports a continued focus on aid to promote good economic governance and strong institutions. This will boost trade and investment, while contributing to better community outcomes and poverty alleviation in developing nations.

¹³ Commonwealth of Australia, DFAT, *Strategy for Australia's aid investments in economic infrastructure*, June 2015, p.3.

F. SUMMARY

39. Australia has an important role to play in the Asia-Pacific region. Broader objectives such as regional stability, sustainable development and poverty alleviation can be underpinned by open trade and investment, through:
 - a. International trade agreements that promote open investment and trade will benefit Australia and neighbouring countries.
 - b. A focus on policies that promote the competitiveness of Australian markets and business.
 - c. Responsible and ethical business practices and related policies that improve stability and community outcomes in the region.