

## AFR – OPED – EXPORTS OF FINANCIAL SERVICES TO ASIA

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At a private dinner in Tokyo last April, Tony Abbott gave Shinzo Abe an album of photographs documenting the Japanese Prime Minister's grandfather, Nobusuke Kishi and Sir Robert Menzies signing, in 1957, the first ever trade treaty between our two nations.

The night in Tokyo was, according to media reports, a warm occasion enjoyed by Prime Ministers Abe and Abbott, who are friends. PM Abe was touched by pictures of his famous grandfather, some of him patting a kangaroo.

Back then, our young nation was riding high on the sheep's back, made newly prosperous by exports of the Golden Fleece and minerals. That a Japanese PM, who was also a wartime Cabinet minister would travel here – six years after the two countries signed the post-War Treaty of Peace – to forge an historic deal for trade in coal and iron ore that would result in trading bonds that enabled Japan to remain our second largest trading partner today, 58 years later, is remarkable, little-known history.

It was a time when governments provided industry assistance through subsidised farming and manufacturing. Picking winners was a bipartisan feature of the pre-Keating Australian economy.

The Abe-Abbott dinner marked the signing of the first Free Trade Agreement between Australia and Japan, presenting another historic opportunity to unlock even more areas of trade between our nations beyond the hard and soft commodities.

The exports we need in this Asian Century will be services, and financial services should be at the top of this list.

As the mining boom wanes, the export and trade of Australia's global expertise in financial services, and particularly in funds management, is an opportunity whose time has come. In a post-Budget speech in Sydney, Treasurer Joe Hockey singled out financial services branded "Made in Australia" as a "massive opportunity" for Australia and indicated we have the "greatest era of all" ahead in this sector, with the middle class in Asia growing to 3.2 billion by 2030.

This week Assistant Treasurer Josh Frydenberg will accompany a group of Australian fund manager CEOs to Japan and Korea for talks with high-level counterparts to discuss how to make the most of the new north Asian free trade deals signed last year.

There is much to win if we can get this right.

While Australia's financial services sector is large – at \$2.5 trillion, the world's fourth largest pool of funds under management – less than five per cent of these funds are sourced from overseas investors. And while this has been growing and delivering significant benefits to the economy, there is the potential for an exponential increase in foreign sourced funds if the right policy settings are implemented.

The Johnson Report of 2009 identified Australia's comparative advantage in funds management: our proximity to Asia; a highly skilled funds management workforce and our first mover advantage in establishing superannuation. Johnson also noted we have arguably the most sophisticated and advanced financial sector in the region.

Mark Johnson recommended several reforms, including enabling competitive tax settings and removing tax uncertainty. His key elements included: installing an investment manager regime to provide certainty of tax treatment for foreign investors using Australians to manage their funds and broadening the range of allowable collective investment vehicles so there is greater choice in the kinds of investment products we can offer investors in the Asian region.

The other crucial piece to his recommendations matrix is to enable the right regulatory architecture for exporting financial services, which can be through the Asia Region Funds Passport, FTAs or mutual recognition. The Asia Region Funds Passport is set to pilot in January 2016, and will provide a regulatory framework for mutual recognition of fund operators and investment funds.

As part of Asia, Australia must realise and act on the opportunity before us.

On current trends, Asia is forecast to become the leading region for consuming goods and services and to be home to the majority of the world's middle class. But with 60 per cent of the world's population, Asia still has only 12 per cent of global funds under management.

An ageing population in Asia, and particularly in Japan, also creates new opportunities for Australia's financial services sector. Currently, our exports of insurance and pension products to Asia is estimated at approximately \$174 million, or around two per cent of total exports.

While we no longer pick winners and seek subsidies to favour particular industries, we do need governments to remove trade barriers and build links.

As the iron ore trucks slow, the blue sky to be mined is financial services, the next largest sector of the Australian economy.

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