

Globalisation of Financial Markets: The Australian Experience

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Some historical context ...

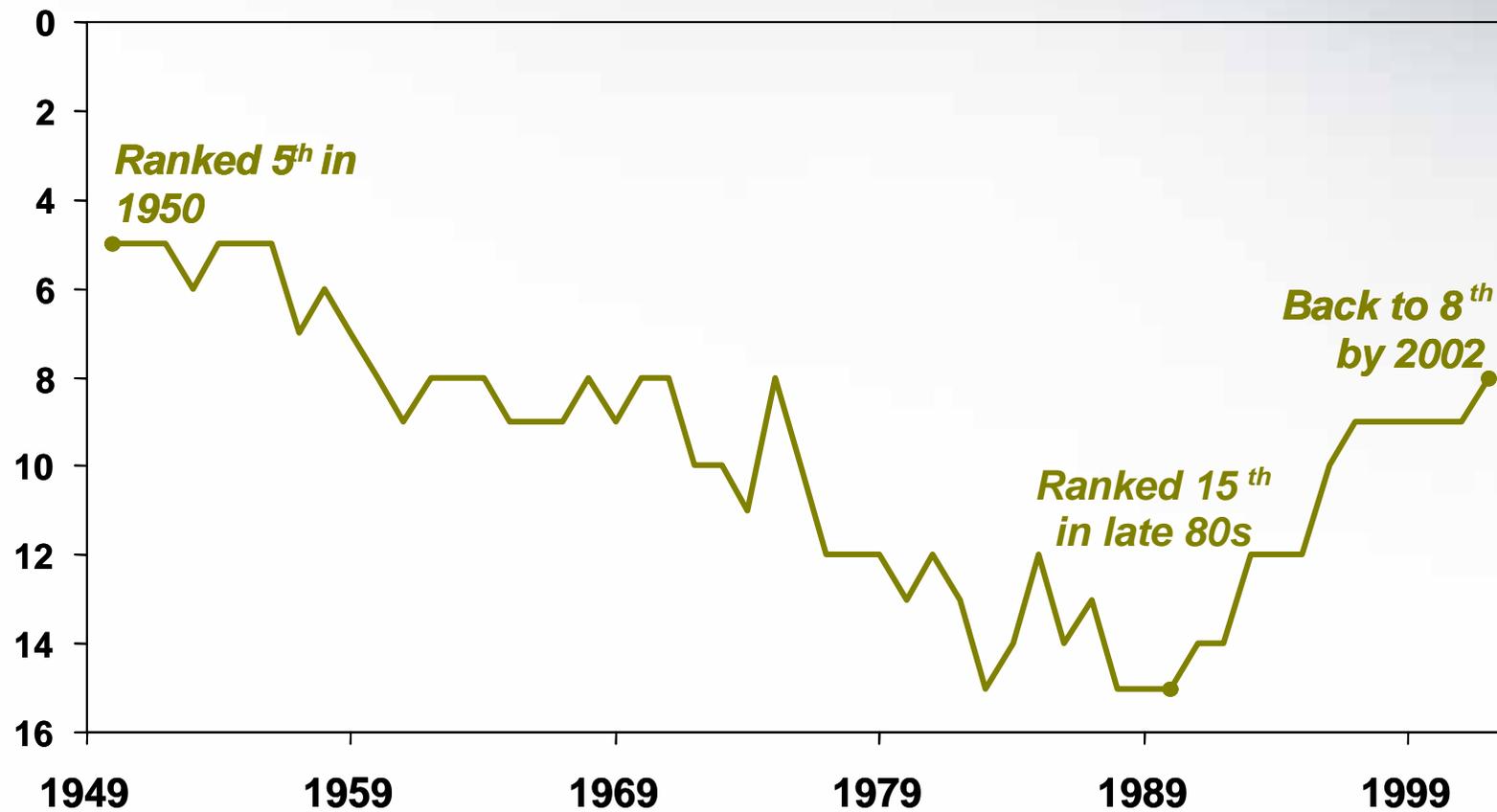


- The ‘first wave’ of globalisation in the late 19th century saw Australia with the highest per capita income in the world!
- A home-grown desire to promote employment and sustain wages in manufacturing resulted in 70 years of tariff protection
- Australia caught the ‘second wave’ of globalisation only after liberalising in the 1980s

Benefits of liberalisation



Australia's per capita GDP ranking



Sequence of liberalisation



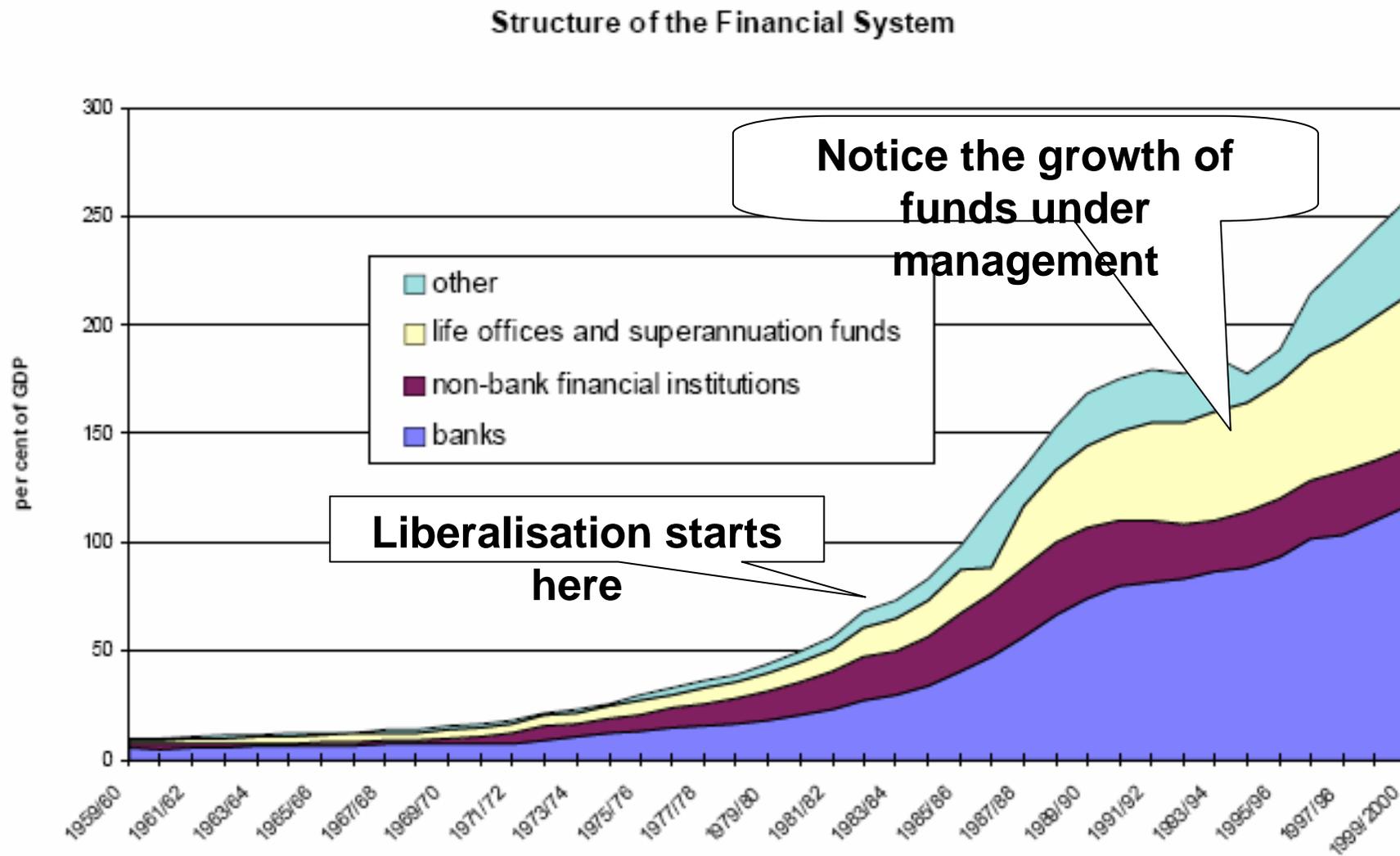
- Most countries free up domestic markets *before* liberalising foreign trade and investment flows
- Australia did the opposite ...
 - we began with tariff reform
 - then added financial deregulation – beginning with the float of the AUD and abolition of exchange controls
 - and only then began liberalising domestic product and labour markets
- This reverse sequence helped to create and then sustain reform momentum

Liberalisation globalisation



- Globalisation of Australia's financial system began with
 - floating the \$A in 1983 and abolishing exchange controls
 - granting 16 new licences to foreign banks in 1985
- More recent impetus has come from
 - compulsory superannuation contributions from 1992
 - lifting all restrictions on foreign bank entry
 - easing restrictions on inward FDI, including the ban of foreign takeovers of major Australian banks and insurers

Results speak for themselves



Source: Reserve Bank of Australia Bulletin Table B.1

Other effects have included ...



- *Convergence* of banking, insurance and funds management
- *Consolidation* through M&A both within and across markets
- *Connectedness* through increasing presence of on-line product offerings
- *Co-ordination* of regulatory practice both nationally and internationally

Global vs Local



- Globalisation of Australia's financial system has affected wholesale banking far more than retail
 - only 2 of the original 15 foreign entrants have any retail presence (Citibank and HSBC)
 - most significant Australian presence offshore is wholesale – Macquarie Bank
- Retail banking remains almost exclusively a domestic preserve
 - on-line offers from ING and HBOS are challenging in deposit-taking locally
 - Australian majors are venturing back into Asia

What might the future hold?



- Technology is relentlessly pushing the convergence of banking and funds management
 - traditional intermediation being displaced by the market
- Scale is increasingly important in wholesale banks
 - “Four Pillars” policy blocks Australia’s majors
- Australia’s banks risk being left to serve an increasingly crowded domestic retail market
- They must seek growth opportunities in Asia – especially in retail banking
- *Expect to see more of us in Asia!*