Beyond the global economic crisis – Australia's opportunity in Asia.

Address to the Australia-Israel Chamber of Commerce
Adelaide, 2 September 2009

Mike Smith, Chief Executive Officer, ANZ

Many thanks James. Good afternoon and thank you for the warm welcome.

Let me also thank the Australia-Israel Chamber of Commerce for giving me the opportunity to talk to you today.

This is the second time I've had the privilege of speaking to the Chamber in recent months – the last being in Melbourne in May.

Of course, since I arrived back in Australia almost two years ago, I've been doing my part to contribute to South Australia's economic prosperity – or at least the prosperity of the state's wonderful wine producers in the Barossa and the Clare Valleys, and the Adelaide Hills.

So it's great to see something of the state first hand and to see what makes it one of Australia's most progressive states.

While we are in challenging times, Adelaide remains the least costly city to set up and do business in Australia; and in recent years we've also seen South Australia joining the club of resource rich states that are benefiting from Asia's demand for hard and soft commodities.

What I want to do this afternoon is to share my views on the current state of the global economy and talk about why I believe greater engagement with Asia is the key to our continued national and individual prosperity.

As the global financial crisis played out in 2008, I talked at length about the need to face up to what I called the ‘new reality’.

This new reality includes far reaching geopolitical consequences, with the decline in the economic influence of the US and Europe and the continued rise of China.

Today, it’s now obvious that the United States is going to be much more inwardly focussed, constrained by unemployment and fiscal pressures.

The crisis has also exposed weaknesses within the European Union.

Economic divergence is rising with the three strongest EU economies – France, Germany and the UK – having disagreed on a response to the crisis and stepped away from pleas for emergency assistance from Eastern Europe.

At the same time, the long period of market liberalisation that acted as a catalyst for innovation and economic growth, has come to an end.

Today, we have unfortunately entered a new period of government intervention around the world through re-regulation and creeping protectionism.

The financial crisis of course has now evolved into an economic downturn with global economic activity expected to fall by 1.3% this year - its first fall in 60 years.

And despite the recent rally in global equity markets, the reality is there’s little real evidence that the world economy has bottomed out.

This all sounds a little unreal here in Australia where we’ve avoided the worst of the downturn. And if you haven’t been to New York or London in the past year I think it is nearly impossible to understand exactly how difficult things are.

It's worth remembering that it was only a year ago, in mid-September 2008, that the world's biggest bankruptcy plunged markets into turmoil.

Lehman Brothers failed and Merrill Lynch was swallowed by Bank of America in a $50 billion takeover to save it from collapse.

Then, we faced the very real danger of not just a financial crisis but of outright financial armageddon.

Of course, in global banking while it hasn't been Armageddon, it really has been a bloodbath.

There have been close to US$1.5 trillion in losses since the start of 2008, over 75 bank failures and over half a million jobs lost in financial services worldwide.

The IMF suggested that write-offs by financial institutions globally could reach US$4 trillion. To pout this into perspective, US$4 trillion is only slightly less than the annual GDP of Japan or four times that of Australia.

Today however, we're beginning to see some early positive signs that the global financial system is starting to stabilise.

Nevertheless the era in which money became the cheapest commodity in the world is over.

As money is repriced for the risks that were ignored during the economic bubble, the cost of borrowing, even for AA-rated banks like ANZ, is now permanently higher and very different to the overnight cash rate set by the RBA.

Despite all this, in Australia the economy is showing early positive signs of recovery and, although the cycle is still playing out, there are clear reasons for optimism.

I think its worth reflecting on why, in this cycle, we really have been the lucky country and how is it that we are in a position which is just about unique in the OECD.

First, our banking system has remained strong with the four major Australian banks now among just 11 AA-rated banks left in the world.

The result is there's been no need for government bailouts and not one cent of taxpayer money has been expended in supporting banks.

The significance of this can't be ignored. Lending – which is the life blood of the economy - has been maintained, and that's allowed the government to use its resources on other measures to stimulate the economy.

While there has been some debate over the size and targeting of the stimulus packages, there's no question that these actions have been necessary to minimise the depth and extent of the downturn.

Of equal significance is the fact that Australia's key trading partners in Asia have rebounded to record strong growth in recent months.

My experience is it never pays to under-estimate the ability of Asia's emerging economies to recover from difficult times.

After the region's financial crisis of 1998 and again after the dot com bust in 2001, outsiders predicted a lengthy period of economic recovery – only for Asia to bounce back rapidly.

Earlier this year, it was also argued that Asia's export dependant economies could not rebound until the US and Europe did.

Today, the US and Europe still look weak. The US economy is expected to contract by 2.9 per cent in 2009 and the Euro-zone by 3.5 per cent.

But the four Asian economies which have reported GDP figures for the second quarter – China, Indonesia, South Korea and Singapore – grew by an average annualised rate of more than 10 per cent.

What's now very clear is that increasingly Asia – our region – is decoupling from the US and Europe.

As the geopolitical consequences of the global financial crisis play out, the clear winner is Asia - lead by China whose unique political-economic model has come through largely unscathed.

Over the past two decades, emerging Asia has been growing at almost 8% – three times the rate of the OECD – and its ability to bounce back from crises has bought huge benefits to us here in Australia.

My view is that Asia will be an engine for global growth – and for growth in Australia - for many decades to come.

And given the trade and investment flows between Australia and New Zealand and Asia, greater engagement with Asia is an essential part of Australia's long-term growth and for the growth of Australian businesses.

To bring this alive though, remember that in 10 years' time, China will have 15 cities each with more people than live in Australia, and a further 22 cities with more than 10 million people each.

This enormous growth has seen GDP grow at a compound annual rate of over 9 per cent for 30 years and given that China is resource poor apart from coal, it means that Chinese growth is driving world resources demand.

Although there is a slowdown occurring in China, particularly in areas such as the Pearl River Delta, the Chinese Government is demonstrating it has both the political will and the financial resources to manage its impact.

And measured by its $2.8 trillion in foreign exchange reserves, no nation is wealthier than China.

All of this is enhancing China's political standing and its economic significance. The Chinese leadership is well aware of this relative advantage, even though its priorities are always domestic.

So far, it's pleasing to see the Australian Government understands China's importance and is seeking a balanced pathway to engagement.

This approach to engagement is clearly in the national interest and is the right approach now and for the future.

The bottom line is that Australia, because of the good fortune of its geographic position, is part of Asia's growth.

But to remain the lucky country we need to embrace Asia and pursue open engagement with the region if we wish to benefit from its growth and the prosperity that it brings.

That's why it is so critically important that we position ourselves now as a nation, and as business people, to be able to capitalise on the opportunities in Asia - to deal with the challenges that have emerged after 15 years of uninterrupted economic growth, while also setting out the long-term architecture for the future.

For Australia to succeed in the new economic reality our nation and our businesses have to continue to build their involvement and engagement with Asia.

There are always moments in history when the door opens to let the future in. This is such a moment for Australia to continue to build its engagement with Asia. We must not let it slip past.

Many thanks for listening to me this afternoon and I'm happy to take some questions.