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Address to British Chamber of Commerce
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Speaking Notes

Well good afternoon to you all. Or "*g'day*" as I say these days.

Although I am working hard on my accent to qualify as an honorary Australian, and I've worked and lived in 10 countries on 5 continents in my 30-year career in banking, I probably feel most at home here among my friends and colleagues in Hong Kong and it's always a great pleasure to be back with you.

And of course, it's a great time of year to be back. I've been able to attend the Sevens and to see Samoa win the title again. We won't speak about the England-Australia game.

Now the formal title of my address is 'The global financial crisis and new opportunities for regional growth'.

But really what I wanted to do in my address today is share my perspective on the global economic recovery and give you my views on what it means for our region and perhaps some implications for banks in the region.

Well, the good news is that we have avoided the Armageddon scenario that many of us feared after the collapse of Lehman Brothers some 18 months ago.

The world economy is recovering and global economic growth is expected to be about 3.5% this year, while in the most advanced economies, it's expected to be just under 2% - the weakest level of growth of the modern era.

The recovery remains fragile however, having been largely driven by Government fiscal stimulus packages which now total US$1.7 trillion; and by central bankers who have had monetary policy on emergency settings.

What we are seeing is an increasingly multi-speed recovery around the world. We have, in a way, moved from a highly synchronised global downturn to a much more differentiated global recovery.

First, there are a group of countries emerging from the recovery in first gear with the engine spluttering. This group is mainly made up of major advanced economies like the United States where the recovery is underway but growth remains sluggish by past standards.

In the US for example economic growth is expected to be just over 2% in 2010.

And despite the fact we have had a financial crisis that clearly had a 'Made in America' stamp on it, there's another group of countries that in some ways, are now paying for past excesses and struggling to get out of reverse.

In this group, European countries such as Greece, Ireland, Portugal, Spain and Italy spring to mind.

These countries are expected to have another year of no growth or negative growth in 2010.

Now if you think about the US, some argue that in the seven years that followed the dot com crash until the global financial crisis, American consumers and businesses had the benefit of tax cuts, expanding credit, low interest rates, low inflation and massive government spending.

There's now evidence in the US and in other counties that a deleveraging process is getting underway that's going to exert a significant drag on economic growth for many years.

So while these two groups may have avoided Armageddon, the biblical standard for booms and busts is that seven fat years are followed by seven lean years. This may very well be the case now for the US and much of Europe.

Finally in our multi-speed recovery, there are the major emerging market countries that have quickly shifted gears and are growing strongly again.

This includes most of Asia - notably China and India - which are expected to achieve high growth rates, broadly in line with their potential.

While economic growth among this group of countries was kick started by large fiscal stimulus packages and credit easing, the prospects for growth in private demand appears good.

Here, despite recent steps to temper growth in China, Asia is expected to remain the world's best performing region with growth of almost 8% excluding Japan – more than twice the global average.

In this group there are other economies, such as Australia, that have strong trade links with China and are also directly benefiting from its growth.

In the market rally of 2009, countries and markets that were the best performers are almost directly correlated with their exposure to China, for example countries in Asia that export goods to China or commodity exporters such as Australia.

Those with little exposure or in direct competition with China have seen the least impressive rebounds.

However, a note of caution. Because US interest rates are effectively at zero – economies that have started the upward rate adjustment are effectively becoming a carry trade and will therefore attract hot money, which is never stable.

With the recovery looking like it will be sustained however, there's a gradual tightening of monetary and fiscal policy beginning.

And of course, the concern here is whether China can gently exit stimulus driven growth without taking action too early - which would result in stalling the economy - or too late which could result in inflation.

Already we have seen China slowly put on the brakes with technical measures such as adjusting the reserves banks are required to hold and my sense is the government is preparing to let the currency appreciate a little, although this will depend on the behaviour of the US Congress.

Certainly the latest numbers from China suggest neither an acceleration or an abrupt downturn.

And despite the challenges acknowledged by Premier Wen Jiabao in creating a more balanced economy by giving greater emphasis to domestic consumption; and in continuing to develop greater internal coordination within the Chinese economic system, I'm optimistic about China's ability to manage this.

While Asia's resilience came as a surprise to some observers who over-estimated the importance of exports to Asia's largest economies and didn't appreciate the reforms undertaken by governments following the crisis of the late 90s, it's been less of a surprise to us here in Hong Kong.

And although there is still much to do to realise the aspiration of the Asian Century, with the significance of problems in the US and Europe very clear, the importance of China and the rest of Asia, is now well understood.

And it's resulting in what I think of as a fundamental shift in the world's economic and political tectonic plates.

By this I mean that the status of Asia - particularly China and India – has been permanently elevated by the events of the past two years and the region is now going to be the engine for global growth for many years to come.

Still, this isn't new.

For hundreds of years prior to the Industrial Revolution, China and India together accounted for about half the world's economic activity. Then, as Western economies industrialised, China and India fell behind – down to only 8% in 1970.

This trend began to reverse about 30 years ago and today, China and India alone account for approximately 18% of global economic activity.

Here in Hong Kong, this isn't news - China represents 25% of world population and over 10% of world GDP. It's completely obvious that these proportions aren't going to remain constant.

I think we also need to understand though that the Asia story is not just a China story - over time the emerging nations in the "VIP suite" – that is Vietnam, Indonesia and the Philippines – are going to play an increasingly important role in the region's economic growth.

Their economies may be smaller and at an early stage of development but these countries also have large, rapidly urbanising populations and they are rich in natural resources.

And as for Australia - because of its linkages to Asia and the size of its resources and agricultural sectors; because of the prompt action by the Government and Reserve Bank to stimulate the economy; and because of the strength of the Australian banking sector - the downturn has also been shorter than originally anticipated with growth of almost 3.5% expected in 2010.

Much of this growth is being fuelled by Australia's "rocks and crops" exports to Asia.

This linkage between Australia and Asia is actually one of the reason's I left Hong Kong, because I saw a unique opportunity at ANZ to build on its history in Asia and create what I call a super regional bank focussed on Australia, New Zealand and Asia Pacific.

The logic here is obvious.

- Growth in trade and capital flows between Asia and Australia is tracking at over 20% per annum.

- There is approximately $60 billion in direct foreign investment into Australia from the Asian region.

- More than 50% of our domestic Corporate and Institutional banking clients depend on Asia for more than 25% of their business and 80% have some connection with the region.

And as one of the few banks in the world to have come out of the financial crisis stronger than when we went in, we are perfectly positioned to take advantage of this opportunity.

Today, we are one of the best capitalised banks in the world with a once in a life time opportunity to expand our presence in the region through both organic growth and through acquisition as some US and some European banks retreat from Asia to focus on their domestic markets.

Our acquisition of the Royal Bank of Scotland's retail, wealth and commercial businesses in six Asian counties last year was a great example of this.

And I was very pleased to have completed the acquisition of the RBS retail, wealth and commercial businesses in Hong Kong just last week building ANZ's presence here to seven branches, over 700 staff and 45,000 clients.

Of course ANZ's super regional strategy is a reflection of our optimism about our region – Asia – because this century is going to be Asia's century.

But I'm also a realist and it's not my style as a banker to be exuberant – and right now there are also good reasons for caution about the outlook and for being careful, and deliberate in management.

My own view is that, having experienced what I think of as a major financial earthquake triggered by the collapse of Lehman Brothers, we are going to see further aftershocks – or volatility – this year as the global financial crisis works its way through the system.

For example, we've already seen how nervous markets are about the very significant amounts of debt that are outstanding with implicit or explicit sovereign guarantees.

That includes, the recent problems with Dubai World's default, the Greek fiscal crisis, the crisis in Iceland and the uncertainties surrounding countries like Spain.

In global banking too, where we have seen chaos, blood-letting and destruction since late 2007, some fundamentals like the role that banks play in supporting their customers have not changed, but the after shocks of the crisis seem set to fundamentally change the environment in which banks operate and compete.

The question here is will there be further regulation in response to the crisis – the answer is yes.

But my concern is two-fold.

First, I'm concerned that we are going to end up with an over reaction. The consensus is that the crisis came about because of deregulation in the US and what we need now is more regulation.

While I believe a sound banking sector needs good regulation, I struggle with the notion that this crisis was caused by financial deregulation.

Most financial deregulation occurred in the 1980s and this can't have been all bad because we have seen plenty of good things happen in the world economy over the past 30 years.

That includes a very sound performance by banks in Asia and in Australia during the financial crisis which was partly due to good regulation and, more importantly, due to good supervision.

I believe rather than more regulation, the real challenge is better supervision and enforcement particularly in the US and Europe.

My real concern however is regulatory escalation as politicians in the US and Europe take the lead in increasingly populist bank bashing.

For example, the US banking reforms announced in January - which where greeted around the world with a mixture of confusion and frustration – seem to have been directed at an entirely domestic political audience …. although the themes they attempted to address were common sense.

This populism however risks undermining the careful efforts by international regulators to strike a balance between making the global financial architecture robust again – including issues in the shadow banking system - and the need to maintain the flow of credit to the economy and the life-blood of economic growth.

I think in this context countries in Asia Pacific – including Australia – need to decide if they want to forge a new international leadership role which recognises that our region not only survived the crisis but is increasingly the new centre of economic gravity in the world rather than simply a follower of the US and of Europe.

Many thanks for the opportunity to speak to you today – and I hope there'll be some time now for questions.