

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (b)

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- 3 OCT 2000

Senator John Watson
Committee Chair
Senate Select Committee on Superannuation
and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Senator Watson

Thank you for your letter of 8 August 2000 inviting comment on the Inquiry conducted by the Select Committee on Superannuation and Financial Services into the opportunities and constraints for Australia to become a centre for the provision of global financial services. I welcome the opportunity to comment on a number of issues relevant to the Foreign Affairs and Trade portfolio.

You note in your letter the linkage between Australia's engagement with the East Asian region and efforts to promote Australia as a global financial centre. Close engagement with East Asia is a continuing priority in Australian foreign and trade policy. Australia has fundamental interests at stake, and is committed to continuing to develop further the already strong relations with the region. Australia has actively supported and will continue to provide significant support to the region.

Australia's bilateral relations with countries in the region are strong, with Australia being well regarded across the region. For example, at the recent ASEAN Post Ministerial Conference (PMC) in Bangkok, attended by the Foreign Minister, Mr Downer, ASEAN Foreign Ministers were very supportive of the constructive role Australia has played in the region. They specifically thanked Australia for the substantial and practical contribution it has made to assist the region's efforts to integrate the newer ASEAN members and to promote economic recovery and long term prosperity. Australia's contribution and intellectual input to regional bodies, such as APEC, the ASEAN PMC, the ASEAN Regional Forum, the Executives of East Asia-Pacific Central Banks meeting, and a host of other specialist and second track linkages, is widely recognised and appreciated by our regional partners.

The Government, in an attempt to increase public awareness of Australia's significant engagement in the region, has taken an active part in the ongoing debate over Australia's role in East Asia. Both Mr Downer and I, in recent public speeches and media articles, have stressed the importance the Government attaches to its relations with regional countries, and have used these occasions to demonstrate the practical and substantial ways in which Australia supports, and is engaged with, the region.

The economic and trade linkages between Australia and the Asia Pacific region are such that a return to strong growth in the region will boost Australia's own growth prospects and increase export opportunities. Despite our extensive trade linkages with the region, Australia performed strongly during the financial crisis in East Asia. Our strength during the crisis owed much to our world's best practice regulatory framework and first class financial institutions, as well as sound economic management.

In helping to ensure the integrity and stability of the region's financial institutions, our efforts are promoting business confidence in the region. If regional governments continue the reform momentum, their effective responses eventually should underpin stronger, more stable economic growth. Reforms and market opening, as well as global technical developments, will provide opportunities for Australian financial institutions and service providers. Australia's demonstrated capacity in this area has increased the profile of our Government, our regulators and our financial business community, enabling Australia to enhance its profile as a global financial centre.

APEC has also worked to improve financial sector regulation in the region, and sees this as important in ensuring growth in the region's financial markets. APEC Finance Ministers have undertaken a wide range of initiatives to promote financial market development. Australia is collaborating closely with governments to strengthen regulatory frameworks in the region and is leading APEC work on training in the management of regulatory change in life insurance and pensions and in an APEC taskforce to promote high quality internationally acceptable standards of accounting, disclosure and auditing practices by business enterprises. Our involvement in helping to build a stronger and more transparent regional financial system contributes to a more stable environment for all businesses in the region.

Steps taken by APEC Finance Ministers to strengthen the foundations for business include:

- strengthening financial market supervision through improved domestic training of banking supervisors and securities regulators;
- modernising life insurance regulation and training for insurance regulators;
- improving corporate governance in APEC economies
- discussions and recommendations to improve insolvency laws
- strengthening financial markets by encouraging the application of international financial codes and standards.

To encourage the adoption and acceptance of international standards for financial architecture and the financial system, a Financial Architecture Task Force has also been established within the APEC Business Advisory Council (ABAC).

While the work of APEC is directed towards the provision of advice and expertise, education and training becomes imperative to ensure that government and business have the necessary skills to effectively manage, supervise and develop a world's best practice financial regime. Australia has taken a prominent role in international efforts to strengthen economic and financial systems, notably through the Economic and Financial Management Initiative, announced by the Prime Minister at the APEC Leaders Meeting in Kuala Lumpur in November 1998. This major development cooperation initiative is training regional government officials and providing technical assistance to support reforms in areas such as fiscal management, public policy formulation, prudential control, central bank and state owned enterprise reform, and legal framework development.

Australia allocated around \$50 million towards the initiative over three years, of which over \$42 million had been spent or committed by AusAID by mid 2000.

More generally, efforts to enhance economic governance in the Asia-Pacific region are an increasing priority for Australia's overseas aid program. This focus provides significant scope for Australia to contribute towards promoting financial sector reforms. In addition to the Economic and Financial Management Initiative, other substantial allocations include a three-year program of economic governance assistance for Indonesia totalling \$70 million, announced by Mr Downer in 1998, and major economic governance programs in China, the Philippines and Thailand. A substantial program in this area is also planned for Vietnam. Examples of aid-funded activities that utilise Australian economic and financial expertise include training in administration of government bonds in Indonesia; bank supervision assistance in Thailand; audit and taxation management assistance in the Philippines; and region-wide seminars on corporate governance and financial market regulation.

The region's financial sector performance can only improve through its continued commitment towards economic and financial reform and its willingness to enforce a new regulatory structure. It will be important for regional governments to continue to allocate resources towards improving their financial architecture and skills once the existing level of assistance for economic and corporate governance reform is drawn down. The inter-government relationships established during the reform process, and Australia's ongoing development cooperation programs in these areas, will play a vital role in encouraging their continued commitment to reform.

This commitment will play an important part in our bilateral and multilateral negotiations on financial services and in securing better market access for our financial service providers. In the Uruguay Round of world trade negotiations, and in the subsequent World Trade Organisation (WTO) negotiations, which resulted in the Financial Services Agreement, Australia negotiated intensively with WTO members, with a view to securing better schedules of commitments in key service sectors from countries in the Asia-Pacific region.

Australia is also taking an active role in the Committee on Trade and Financial Services within the WTO services negotiations, which commenced earlier this year. We will use the negotiations, which are currently in a preliminary stage, to gain access to new markets for Australian exporters. Asia-Pacific countries provide some of the fastest growing services markets, with some reaching annual growth rates of around 30 per cent.

Australia's bilateral trade negotiations strategy also supports the development of new financial market relationships in Asia. In consultation with industry and peak bodies, we have identified specific barriers to trade in financial services and are actively working on a bilateral basis to break down these barriers. These involve a strong focus on liberalising the conditions under which Australian financial institutions can establish a commercial presence overseas.

Australia possesses a highly educated and multilingual workforce and a world class research capacity including in the area of financial services. To build on these strengths, there are arrangements for university scholarships that will provide opportunities for promising Australian students to develop skills in the development of regulatory policy and understanding of the way that policy impacts on the financial services sector. There are also a number of other initiatives being progressed by the private sector to enhance skills in the Australian financial services industry.

Australia's involvement internationally in business administration and economics education contributes significantly to the development of a sophisticated skills base for business and financial dealings within the region. It also serves to familiarise potential future Asian leaders with Australia's capabilities as a financial service centre and with the general business environment in Australia. In 1999, study in the fields of business, administration and economics accounted for 52% (55,600 students) of Asian higher education and vocational education and training enrolments in Australian institutions. These students were drawn from all Asian countries, with the greatest number coming from Singapore, Malaysia, Hong Kong and Indonesia.

The use of Asian studies is clearly a very important resource that will assist Australia to become a significant financial centre. I understand that the Minister for Education, Training and Youth Affairs, Dr David Kemp, will be addressing the issue of Asian studies in Australia in his response. With specific regard to the acquisition of Asian language skills, the capacity of the Department of Foreign Affairs and Trade staff to speak the languages of our key trading and strategic partners has been critical to our success in pursuing the national interest in the international arena. This is not just because it enhances communication, but also because it provides an underpinning for policy analysis and our understanding of other cultures. It also sends a signal to our key partners that we are serious about our relationship with them.

Yours sincerely



MARK VAILE