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The importance of Asian trade agreements

Each of the recent trade agreement presents a significant opportunity for Australian fund managers to either expand their current Asian footprint or to commence one. These agreements open up such markets to further contestability. However, the rest is up to individual Australian businesses to commit time and capital developing these markets as we do in our home markets. To this end the upside and downsides are potentially amplified because of the sheer scale of these prospective markets.

Taken as a whole, the quadrella of agreements will ultimately lead to a reduction in current regulatory hurdles for Australian fund managers when attempting to operate in different jurisdictions throughout the region – which is a huge positive.

The trade agreements now firmly open the door to markets that individual business may wish to take positions in, and whilst there is always more work to be done, it really is an important step in a long process of achieving mutual recognition for regional licensing and regulatory standards.

Australia, as a small nation of 23.8 million people, has over the past two decades continued to benefit from our twin gifts of geography and a shared time zone with the fastest growing region in the world. We are the ninth largest private wealth management market in the world and the third largest in ASIA, according to the Capgemini World Wealth Report 2015. Our high ranking on this indicator - compared to our population ranking or GDP ranking (52nd and 12th respectively) - provides further evidence supporting Australia's position as a competent manager of wealth and a safe destination for financial service businesses and foreign investment from across Asia-Pacific.

The reverse is also true, given the size and sophistication of Australia's funds management sector and related ancillary services such as custody, private wealth management and others. There is considerable scope for further business-to-business development by Australian firms expanding into Asia in exporting skills via education and training on matters such as regulation, risk management and compliance. Services constitute a very large part of our national GDP but only a small part of what we export; this is what the Federal Government rightly wants individual businesses to respond to, and invest our talent and knowledge overseas to generate export dollar revenue.

The trade agreements

The quadrella of new agreements combines:

- CHAFTA – An agreement including a "most favoured nation" clause of trade with the world's second largest economy covering 1.4 billion people. The China Agreement will create more jobs for Australia, stimulate growth and develop stronger business and cultural ties estimated to be worth $710 billion of additional services and value. The wealth management sector alone for Chinese banks could reach $26 trillion in the next 10 years. Currently they hold $3.9 trillion in AUM increasing at compound growth rates of 30-40% since 2005.
- JAEPA – Japan, with 128 million people, has one of the largest investable wealth industries ranked as second in the world with $17 trillion of investor wealth and with Prime Minister Abe's modernisation drive, is continuing to open the economy up to greater contestability from the outside. The Government Pension Investment Fund with $1.3 trillion of AUM last year alone commenced this process with an adjustment away from the traditional Japan Government bonds and increased its exposure to buying more overseas equities and utilising external managers in the process.
- KAFTA – Korea, with 51 million people and a large investment pool of wealth, is now looking to invest outside of its borders because it has seen the great investment performance success Australia's Superannuation system has had by investing globally. Korea's two large pension fund players, the NPS and the Korean Investment Corporation (KIC), have already positioned themselves. Korea's asset management market is expected to grow at more than a 20% annually to 2020. This will make the asset management industry even more important in the national economy. The industry accounted for 47% of GDP in 2012, but this figure is expected to exceed 80% in 2020.
- TPP - The Transpacific Partnership recently executed but subject to ratification of a hostile US Senate will potentially further open up markets for Australian Fund managers. As well as accounting for 40% of global GDP, the TPP countries represent 24% of the world's trade in services. Australia's services exports to TPP countries already reached the $20 billion mark last year which was almost 35% of the country's total services exports. According to government figures, Australian investment in TPP countries has more than doubled in the last decade to reach $868 billion in 2014. This was a rise of 16% over the previous year's figure, and represented 45% of all outward investment.

The quote

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The view from the ground

As part of the 10 person FSC delegation accompanying the then Assistant Treasurer Josh Frydenberg to both Japan and Korea, I provided on the ground business support and liaison to the trade mission and gave local fund managers first-hand knowledge of how Australia works, its successful economy and what benefits they would obtain by trade and business arrangements with Australian Fund Managers. Overwhelmingly the mission was a clear success.

We were surprised that some peers in Japan, China, and Korea had no idea that services constitute over 18% of our GDP and our financial sector is the largest contributor to Australia's national output, directly generating 8.8% or $129 billion of real gross value added; most of them thought the Australian economy was mining dependent.

Having recently attended the ChAFTA Dinner with the Chinese Ambassador in Melbourne we hold a very firm view that Australia is now being asked by our neighbours to embrace being part of the Asian neighbourhood and we have to do everything possible to ensure our future economic success in the region through these Agreements.

Remaining hurdles

History tells us that opening the markets through trade agreements is simply not enough and that business to business agreements are required to promulgate the economic flows. Many have tried and failed to enter different markets in the region and failed simply because of passive resistance by local incumbents resulting in indifferent access to distribution for the new entrant's products or services.

Eight of the 22 foreign asset managers active in South Korea suffered losses in the final quarter of last year. There is fierce competition over fees, with 84 fund management companies jostling for a bigger share of Asia's third-largest funds market – a market dominated by local heavyweights that include Samsung Asset Management and Mirae Asset.

But while foreign managers have suffered, the large domestic players, which also include KB Asset Management and Korea Investment Management, made millions of dollars in profits during the final three months of last year, despite challenging market conditions.

Most foreign asset managers do not have the domestic investment platforms needed and just focus on selling their offshore products. They have failed to cope with changing market conditions because of a limited product line-up, while domestic players sell various funds.

Final word

We maintain that Asian markets retain an attractive proposition for Australian asset managers, given each Asian country's increasing wealth, rapidly ageing population and ever-growing pension market.

All reports continue to show that the financial assets of Asian households will continue to grow. Moreover direct investment in funds is also expected to increase as they prepare for life after retirement and this is the intergenerational opportunity all Australian fund management businesses should be examining. FS