

ASIA: COMING FINANCIAL TRANSFORMATION

Asian Finance Forum

Dr. Nasser Saidi
Seoul, 27 May 2013

NASSER SAIDI

— & ASSOCIATES —

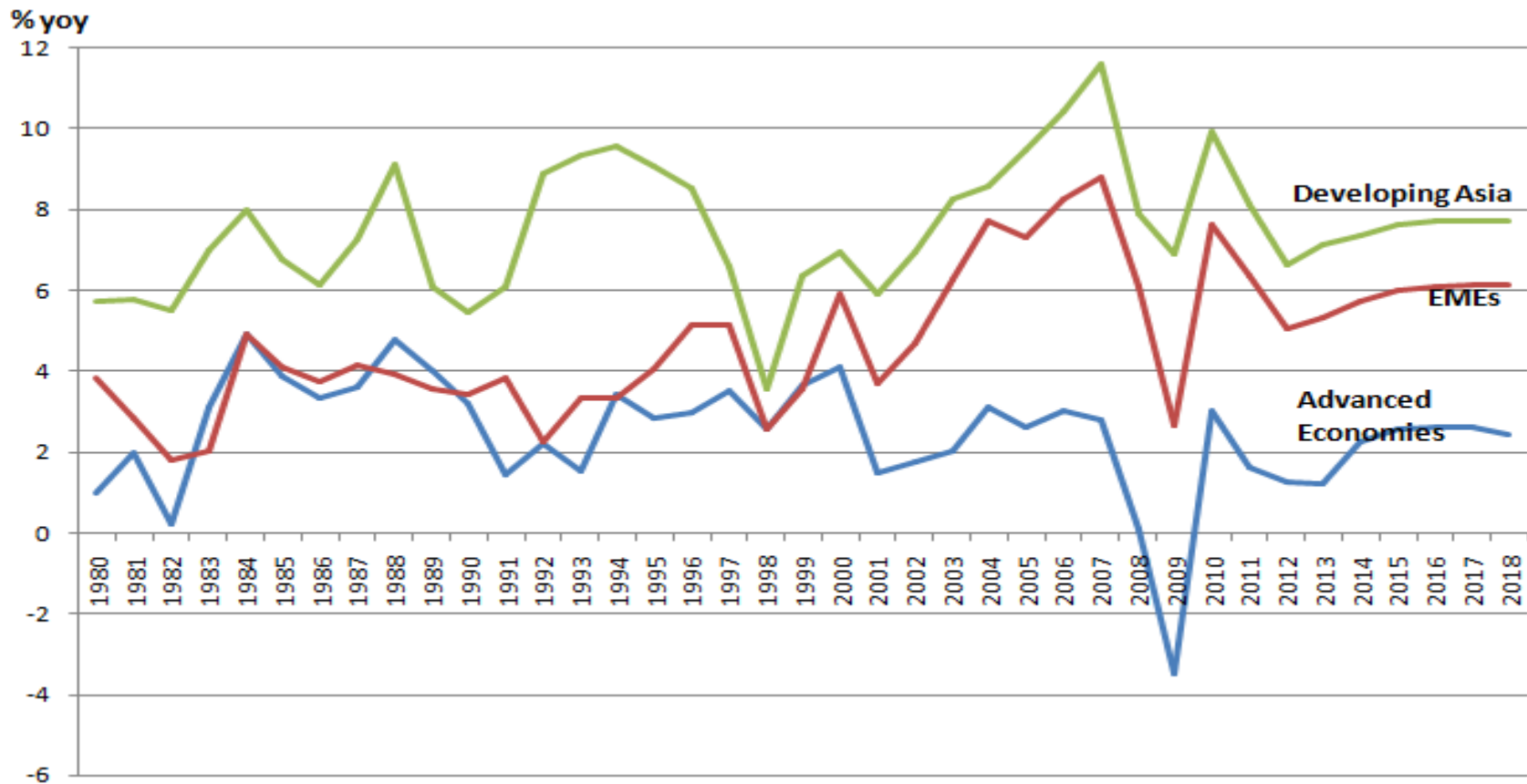
Agenda

- ✓ **Changing Global Economic Geography & Lessons from the Great Financial Crisis**
- ✓ **Imperative of Developing Asian Banking & Financial Markets**
- ✓ **An RMB Zone and Redback Market as an anchor for Asian financial markets**
- ✓ **Takeaways**

Tectonic Shift in Global Economic Geography

- **Divergent patterns of growth between Advanced Economies and Emerging Market Economies (EMEs)**
- **Dominance of politics (US, EU) generating economic policy uncertainty (fiscal, monetary, regulatory), while structural problems have not been addressed**
- **Contrast with EMEs: + demography/saving, urbanization, ↑ dd commodities & natural resources, sound macro-policies,**
- **Global Economic & Financial Geography is shifting to EMEs: output, trade, labour, capital flows, investment-saving nexus, equity markets, bond markets**
- **Need New Global Financial Architecture, Regulatory Framework & Governance to Serve a Multi-Polar World**

Global Growth, Thanks to EMEs & Developing Asia



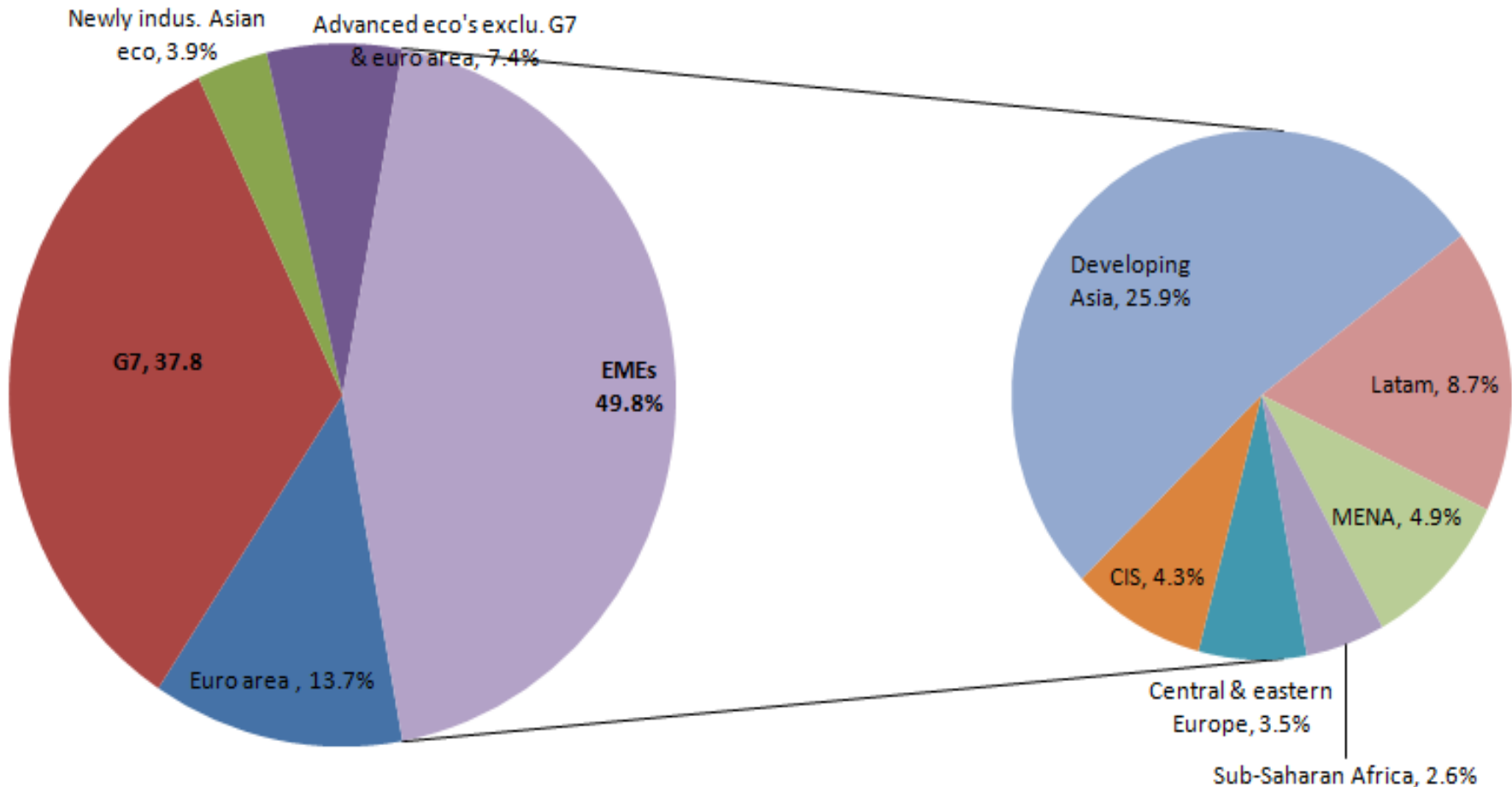
1990-1994 1995-1999 2000-2004 2005-2009 2010-12 2010-2014

Advanced nations	2.4	3.1	2.5	1.0	2.0	1.9
Emerging markets	3.2	4.1	5.7	6.6	6.3	6.0
Developing Asia	7.9	6.8	7.3	9.3	8.2	7.8

NS

Shifting Economic Geography: EMEs Account for ~50% of Global Output

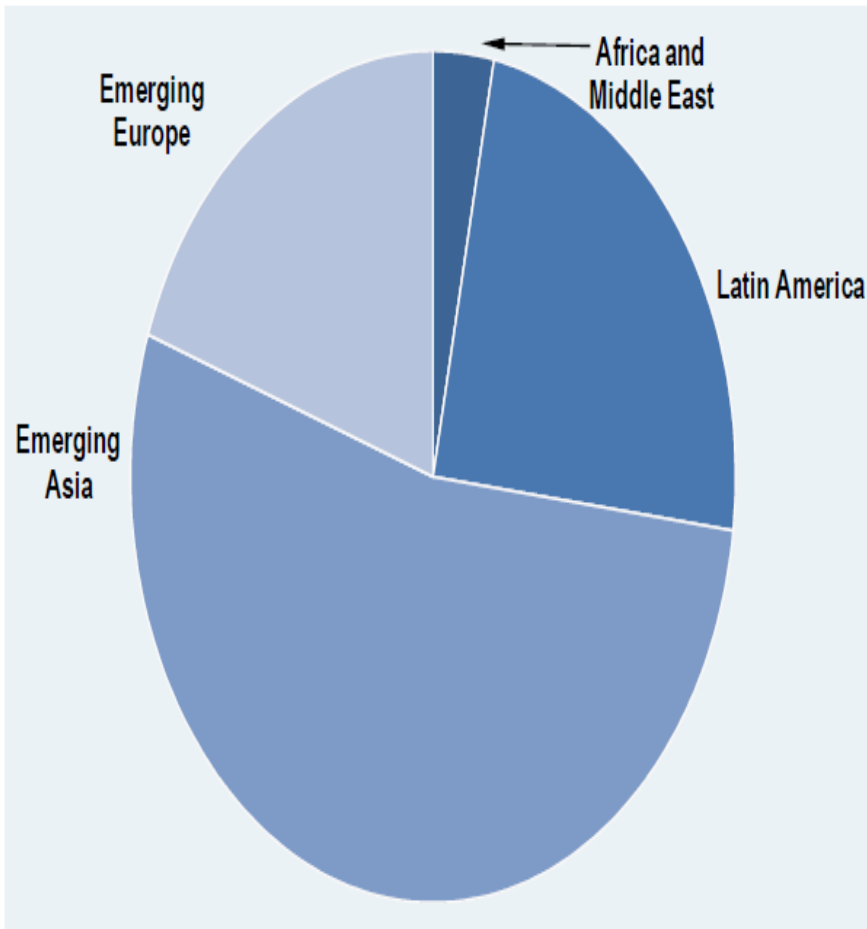
Growing Share of World Output – GDP 2012



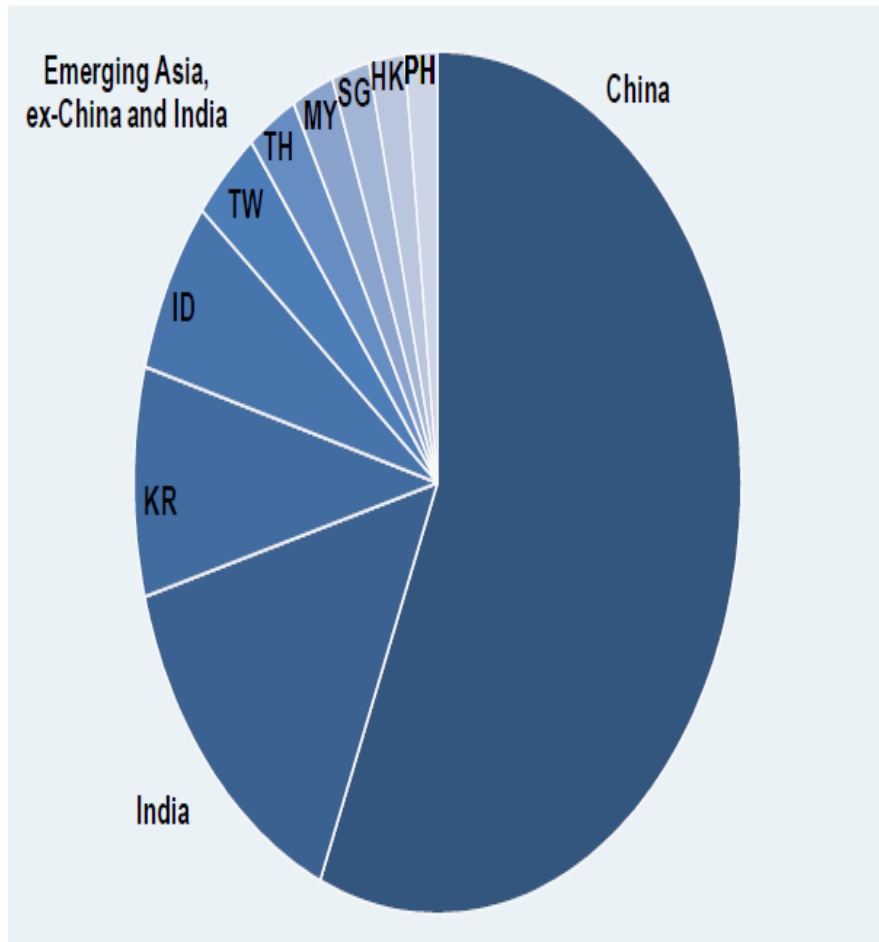
Source: IMF World Economic Outlook, 2013.

Within EMEs, Asia dominates and China dominates within Asia

Global GDP (Emerging Markets)



EM Asia GDP



Shift Towards Emerging Market Economies: Trade

Growing Share of World Trade (Bilateral trade: 2012 vs. 2005)



Shift Towards Emerging Market Economies: Equity Markets

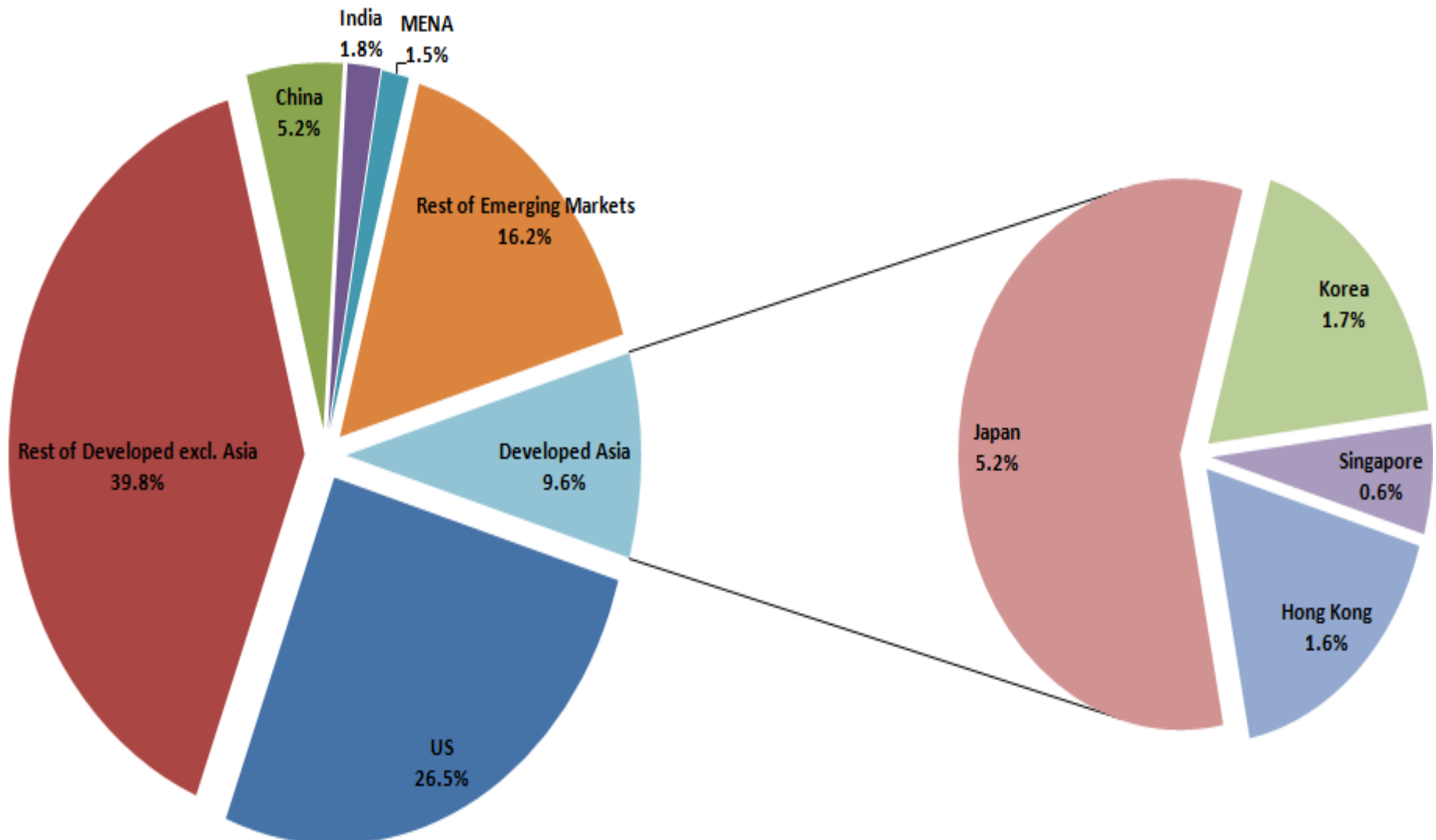
Growing Share of World Equity Market Wealth

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
World Market Cap	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
United States	46%	47%	50%	47%	45%	43%	39%	36%	31%	34%	32%	31%	33%	35%
Rest of Developed	46%	45%	41%	42%	44%	44%	44%	44%	41%	42%	39%	41%	41%	40%
Emerging Markets	8%	8%	9%	11%	12%	13%	16%	20%	28%	24%	29%	28%	25%	25%
BRIC	2%	3%	3%	3%	4%	4%	6%	9%	17%	13%	17%	16%	14%	13%
Rest of Emerging	6%	5%	6%	7%	7%	9%	11%	10%	11%	11%	12%	12%	12%	11%
of which MENA	0.5%	0.5%	0.6%	0.8%	1.2%	1.8%	3.0%	1.7%	2.2%	2.3%	1.9%	1.9%	2.1%	2.0%

Source: Standard & Poors, March 2012.

NS

Shift Towards Emerging Market Economies: Equity Markets

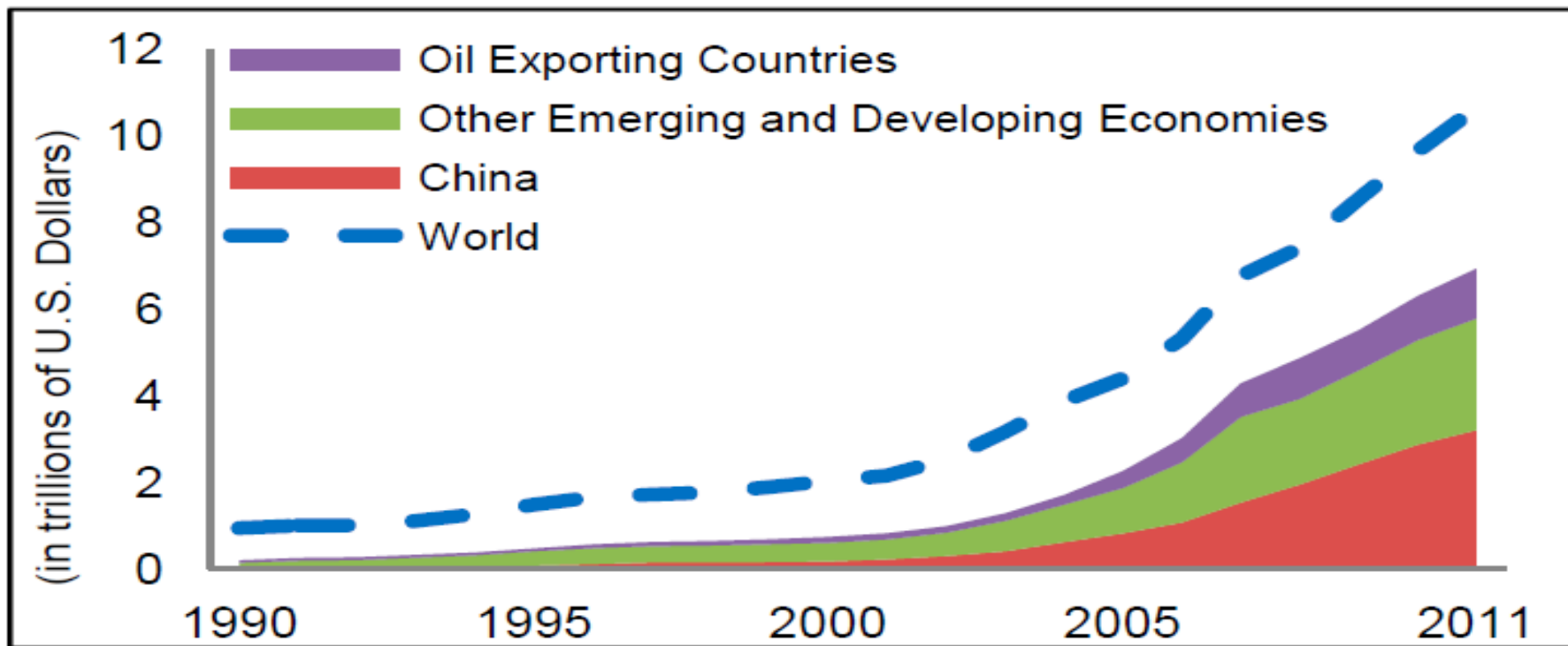


Source: Standard & Poors, Dec 2012.

Shift Towards Emerging Market Economies: Assets

Growing Share of International Reserves & Financial Wealth

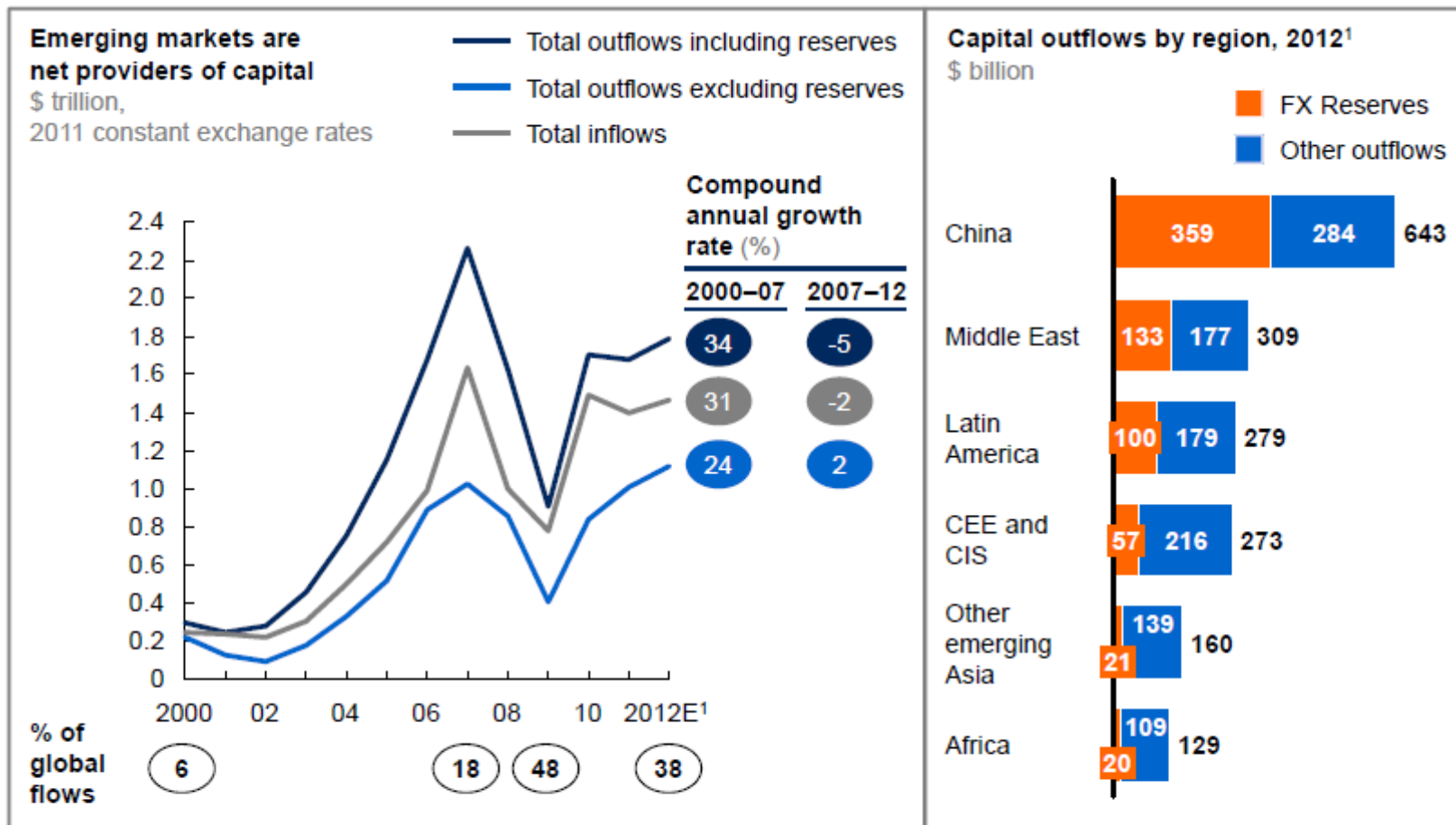
Figure 1. Global Reserves¹



Source: IMF *International Financial Statistics*.

¹Total reserves minus gold.

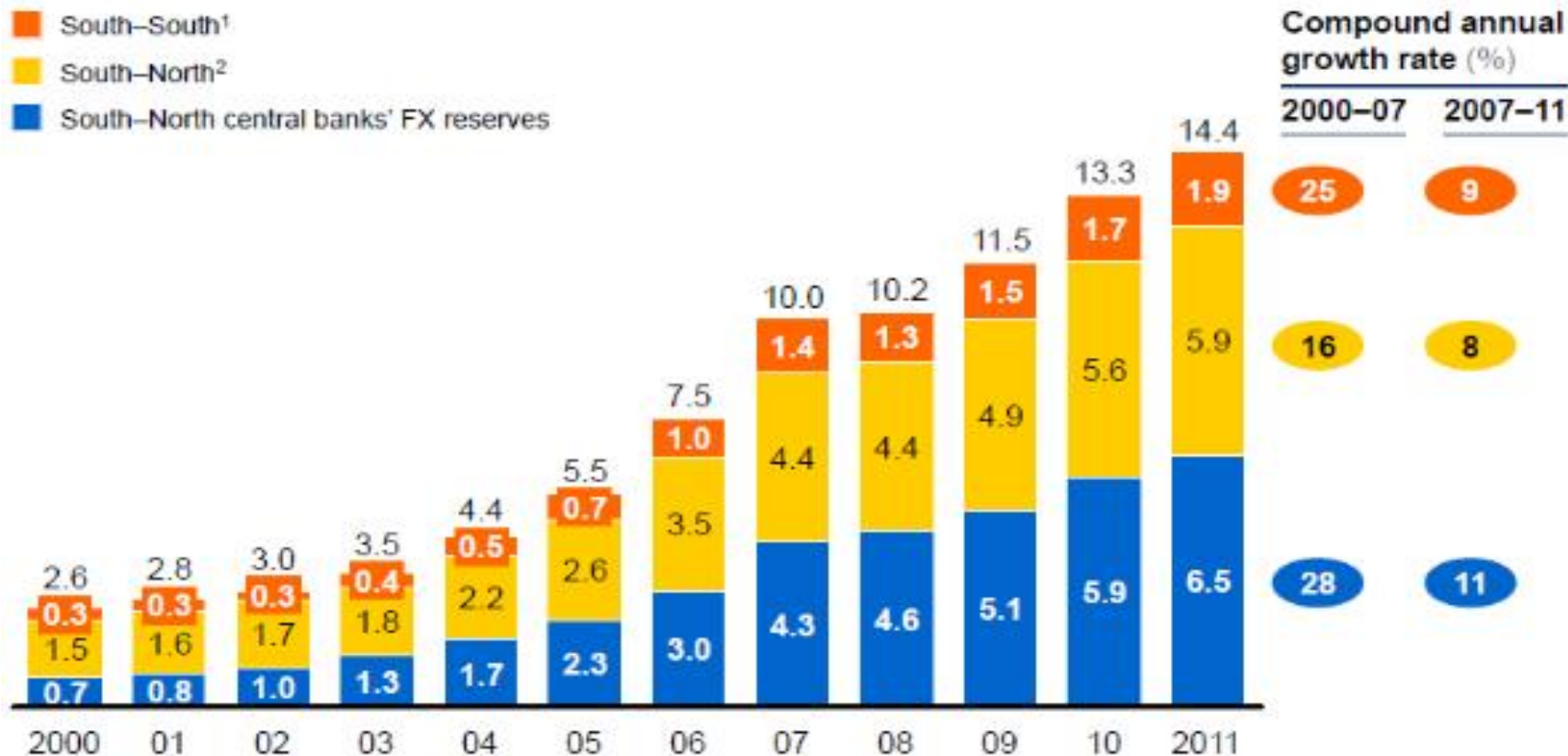
EME Capital Outflows Are Larger than Inflows & Go To Advanced Economies



¹ Estimated based on data through Q2 2012. For countries without quarterly data, we use trends from the Institute of International Finance.

SOURCE: IMF Balance of Payments; Institute of International Finance; McKinsey Global Institute analysis

Foreign Investment Assets of EMEs mainly invested in Advanced Economies



1 Foreign investment assets of developing countries in other developing countries.

2 Foreign investment assets of developing countries in advanced economies.

SOURCE: McKinsey Global Institute Bilateral Foreign Investment database; McKinsey Global Institute analysis

Major Lessons from the GFC for EMEs

- 1. Avoid Growth in Financial Sector Unrelated to Real Economy**
- 2. Establish safeguards & buffers against spillover & contagion channels & risks; Financial Safety Nets**
- 3. Ensure good Governance of Banking & Financial Sector & its Regulators**
- 4. Control Systemic Risk Arising from TBTF TITF**
- 5. Develop Local Currency Financial Markets**

Agenda

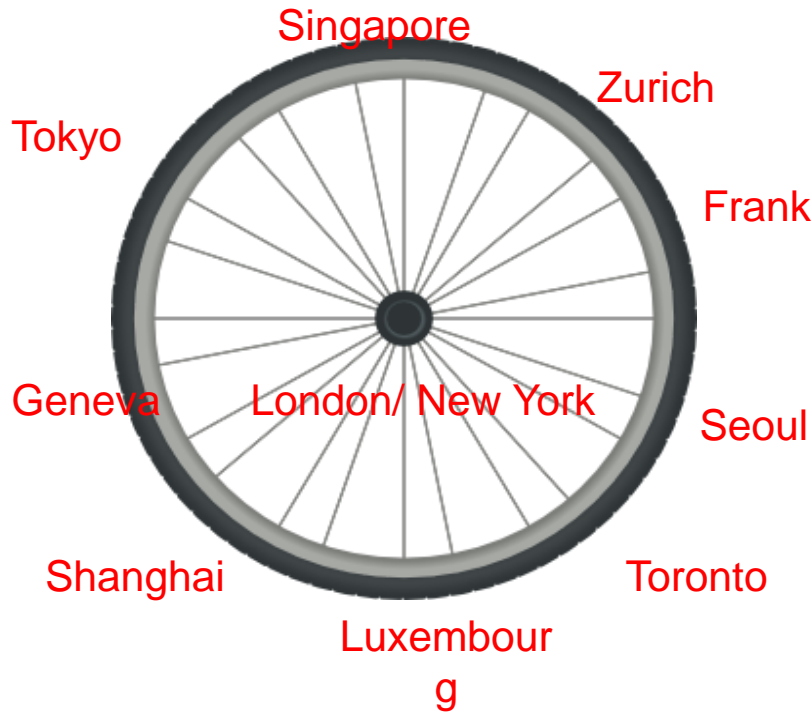
- ✓ Changing Global Economic Geography & Lessons from the Great Financial Crisis
- ✓ **Imperative of Developing Asian Banking & Financial Markets**
- ✓ An RMB Zone and Redback Market as an anchor for Asian financial markets
- ✓ **Takeaways**

A Time For Transformation & “Change”

- Traditional financial centres have become - like their dominant banks and financial institutions - TBTF and TITF posing systemic risk for global international financial system
- National Capital Markets face growing Globalisation, Decentralisation and Networking
- Imperative to build **Regional Financial Centres** (RFCs) to serve new multi-polar economic geography
- Governments and regulators have supported their TBTF and TITF institutions but the latter cannot serve the EMEs and Asia.

A New Decentralised Global Financial Architecture is Emerging

Moving away from a hub-spoke model



to a spider-web model



Global Financial Centre Index 2013: Growing Importance of EME Centres

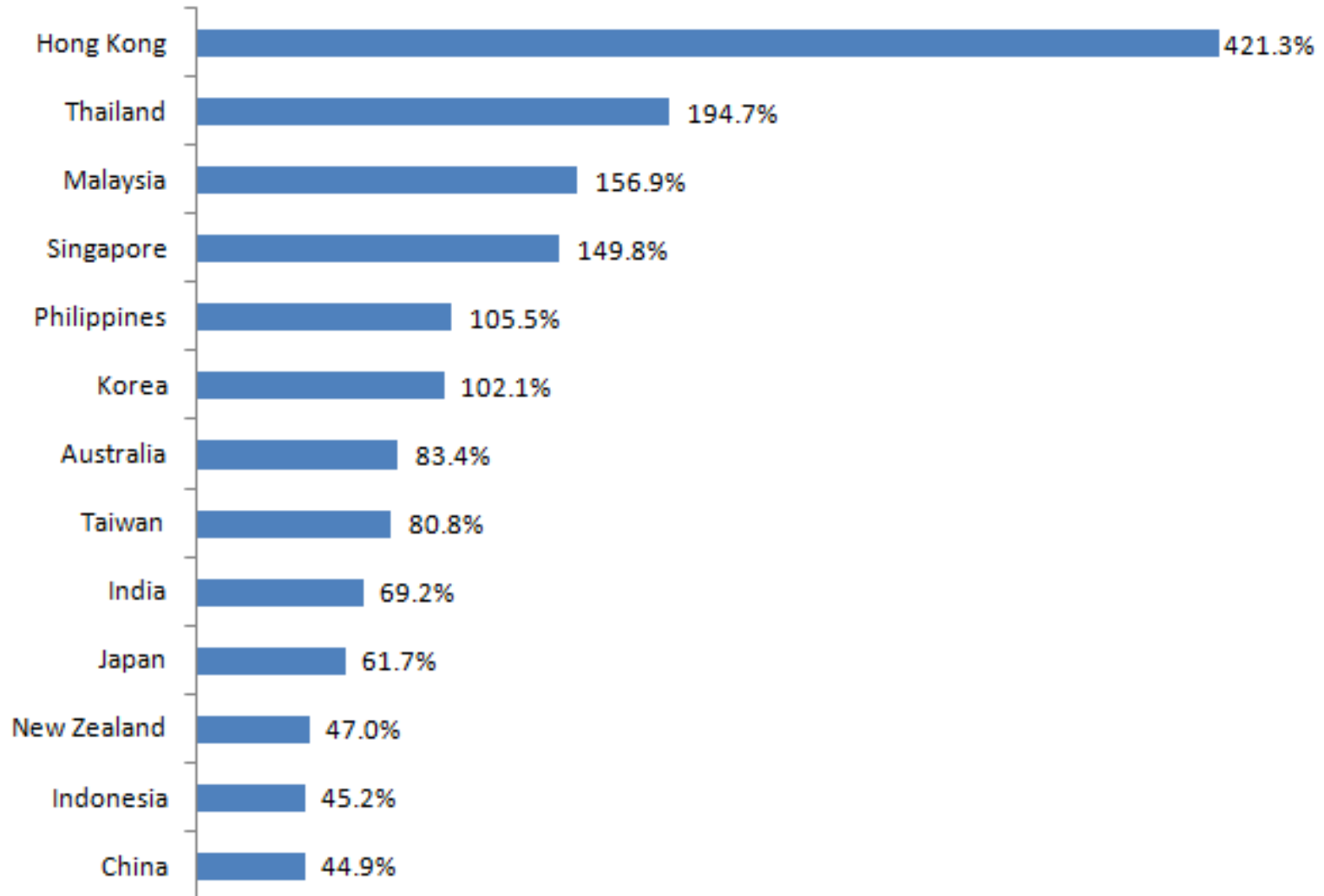
Centre	GFCI 13		GFCI 12		CHANGES		Centres likely to become more significant	Number of mentions
	Rank	Rating	Rank	Rating	Rank	Rating		
London	1	807	1	785	-	▲ 22	Singapore	99
New York	2	787	2	765	-	▲ 22	Shanghai	85
Hong Kong	3	761	3	733	-	▲ 28	Hong Kong	68
Singapore	4	759	4	725	-	▲ 34	Seoul	66
Zurich	5	723	5	691	-	▲ 32	Toronto	45
Tokyo	6	718	7	684	▲ 1	▲ 34	Sao Paulo	32
Geneva	7	712	9	682	▲ 2	▲ 30	Luxembourg	31
Boston	8	711	11	680	▲ 3	▲ 31	Istanbul	30
Seoul	9	710	6	685	? -3	▲ 25	Beijing	27
Frankfurt	10	703	13	677	▲ 3	▲ 26	Moscow	19
Chicago	11	698	8	683	? -3	▲ 15		
Toronto	12	696	10	681	? -2	▲ 15		
San Francisco	13	695	12	678	? -1	▲ 17		
Washington D.C.	14	692	14	672	-	▲ 20		
Vancouver	15	690	16	668	▲ 1	▲ 22		
Montreal	16	689	17	667	▲ 1	▲ 22		
Calgary	17	688	23	647	▲ 6	▲ 41		
Luxembourg	18	687	24	646	▲ 6	▲ 41		
Sydney	19	686	15	670	? -4	▲ 16		
Vienna	20	685	36	633	▲ 16	▲ 52		

Source: Global Financial Centres Index, March 2013

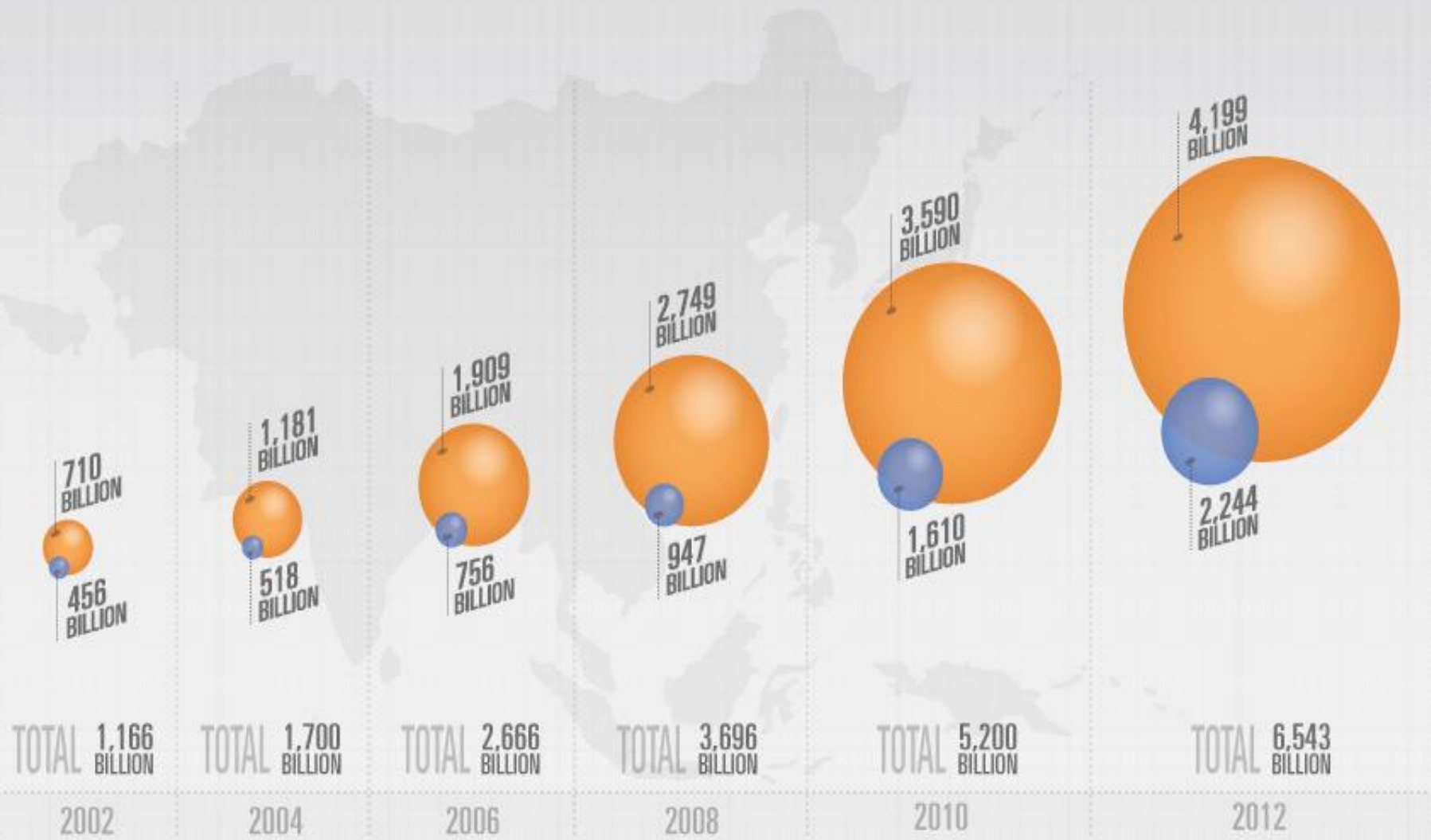
Imperative to Develop Asia's Banking & Financial Markets



- Manage and Control region's rapidly growing financial wealth
- Protect & secure national financial wealth & investments
- Finance Economic Development & Infrastructure
- Support Regional Economic Integration
- Invest & Deploy financial wealth regionally & internationally
- Enable & support economic and financial reforms
- Support privatisation and private sector participation in infrastructure

Asian Equity Capitalisation % of GDP



GROWTH OF EMERGING EAST ASIA'S LOCAL CURRENCY BOND MARKETS



 Government bonds  Corporate bonds

Figures are in US dollars.

Emerging East Asia is: People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; Viet Nam

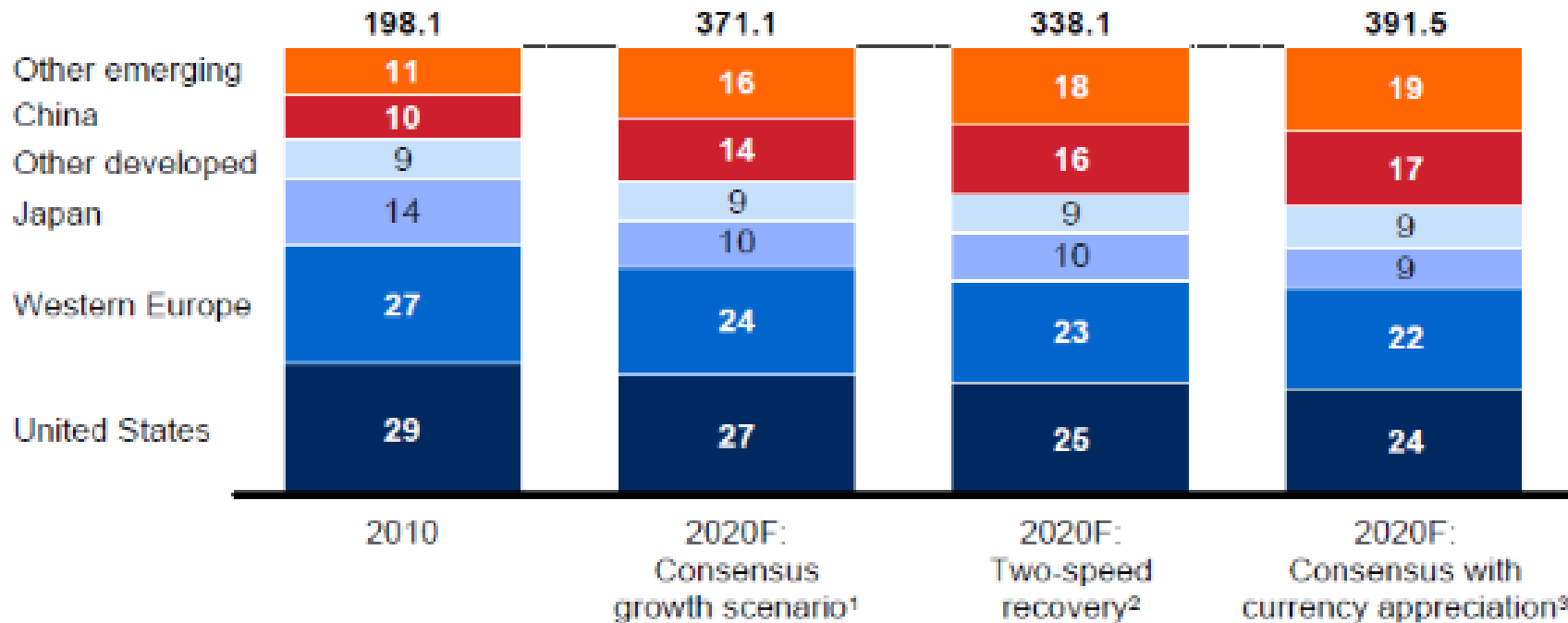
7 SWFs from Asia are among Top 20 Ranked by Total Assets

Rank	Country	Sovereign Wealth Fund Name	Assets \$Billion	Inception
1	Norway	Government Pension Fund – Global	715.9	1990
2	UAE – Abu Dhabi	Abu Dhabi Investment Authority	627.0	1976
3	China	SAFE Investment Company	567.9	1997
4	Saudi Arabia	SAMA Foreign Holdings	532.8	n/a
5	China	China Investment Corporation	482.0	2007
6	Kuwait	Kuwait Investment Authority	342.0	1953
7	China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	298.7	1993
8	Singapore	Government of Singapore Investment Corporation	247.5	1981
9	Russia	National Welfare Fund	175.5	2008
10	China	National Social Security Fund	160.6	2000
11	Singapore	Temasek Holdings	157.5	1974
12	Qatar	Qatar Investment Authority	115.0	2005
13	Australia	Australian Future Fund	88.7	2006
14	Algeria	Revenue Regulation Fund	77.2	2000
15	UAE – Dubai	Investment Corporation of Dubai	70.0	2006
16	UAE – Abu Dhabi	International Petroleum Investment Company	65.3	1984
17	Libya	Libyan Investment Authority	65.0	2006
18	Kazakhstan	Kazakhstan National Fund	61.8	2000
19	South Korea	Korea Investment Corporation	56.6	2005
20	UAE – Abu Dhabi	Mubadala Development Company	53.1	2002

Growing Share of Global Financial Assets Held in EMEs in All Economic Scenarios

Total financial assets, 2010–20F

%; \$ trillion



Emerging markets' financial assets

\$ trillion



1 Measured in 2010 exchange rates.

2 Rapid growth in emerging markets but low growth through 2015 in mature economies.

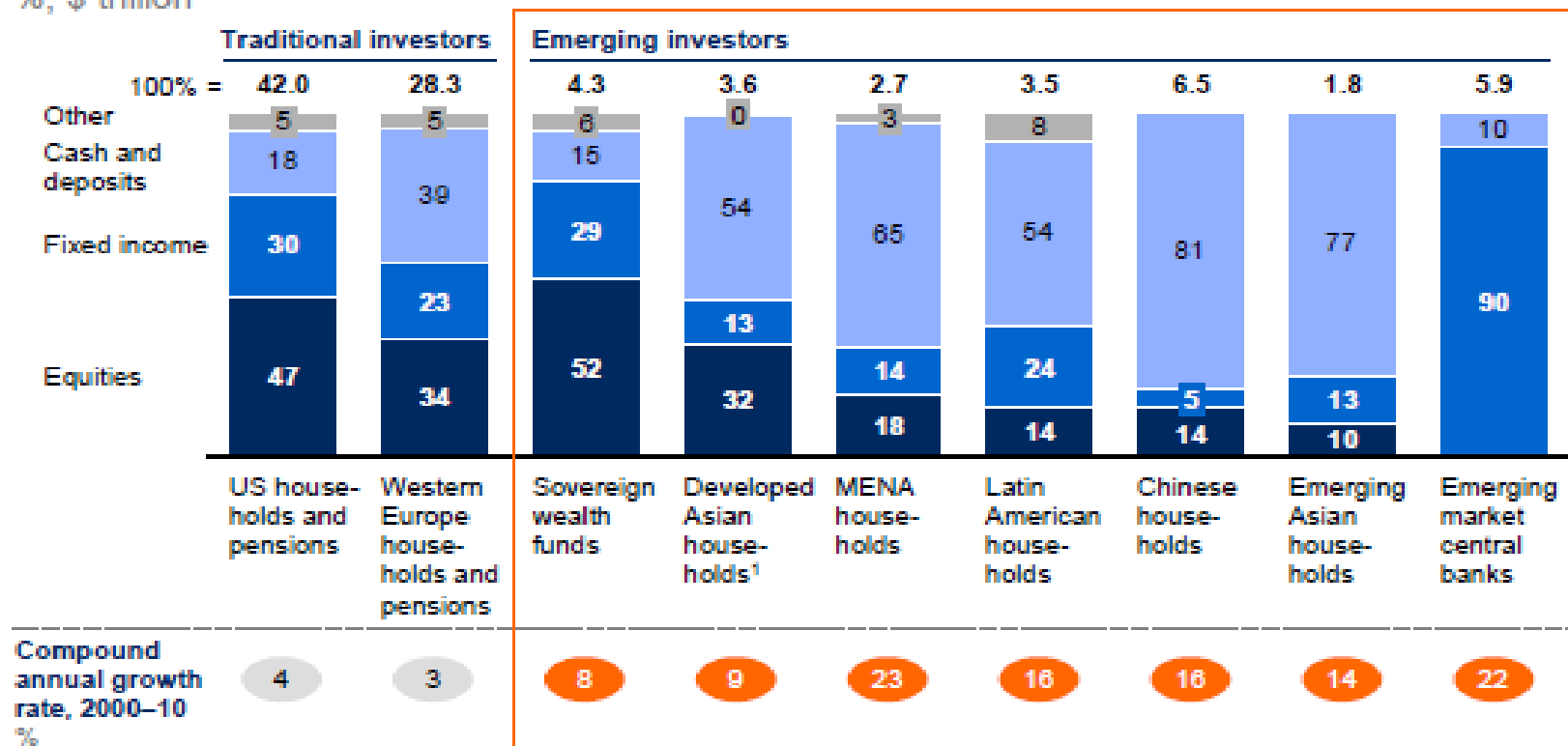
3 Emerging markets' currencies appreciate vis-à-vis the US dollar.

Asia Needs to Develop its Equity & Debt Markets to Serve its Investors

Today, most investors in emerging markets have very low allocations to equities

Asset allocation by investor, 2010

%; \$ trillion



¹ Includes Singapore, Hong Kong, Korea, and Taiwan. Excludes Japan, where households allocate 10% of their portfolio to equities.

SOURCE: National sources; McKinsey Global Institute

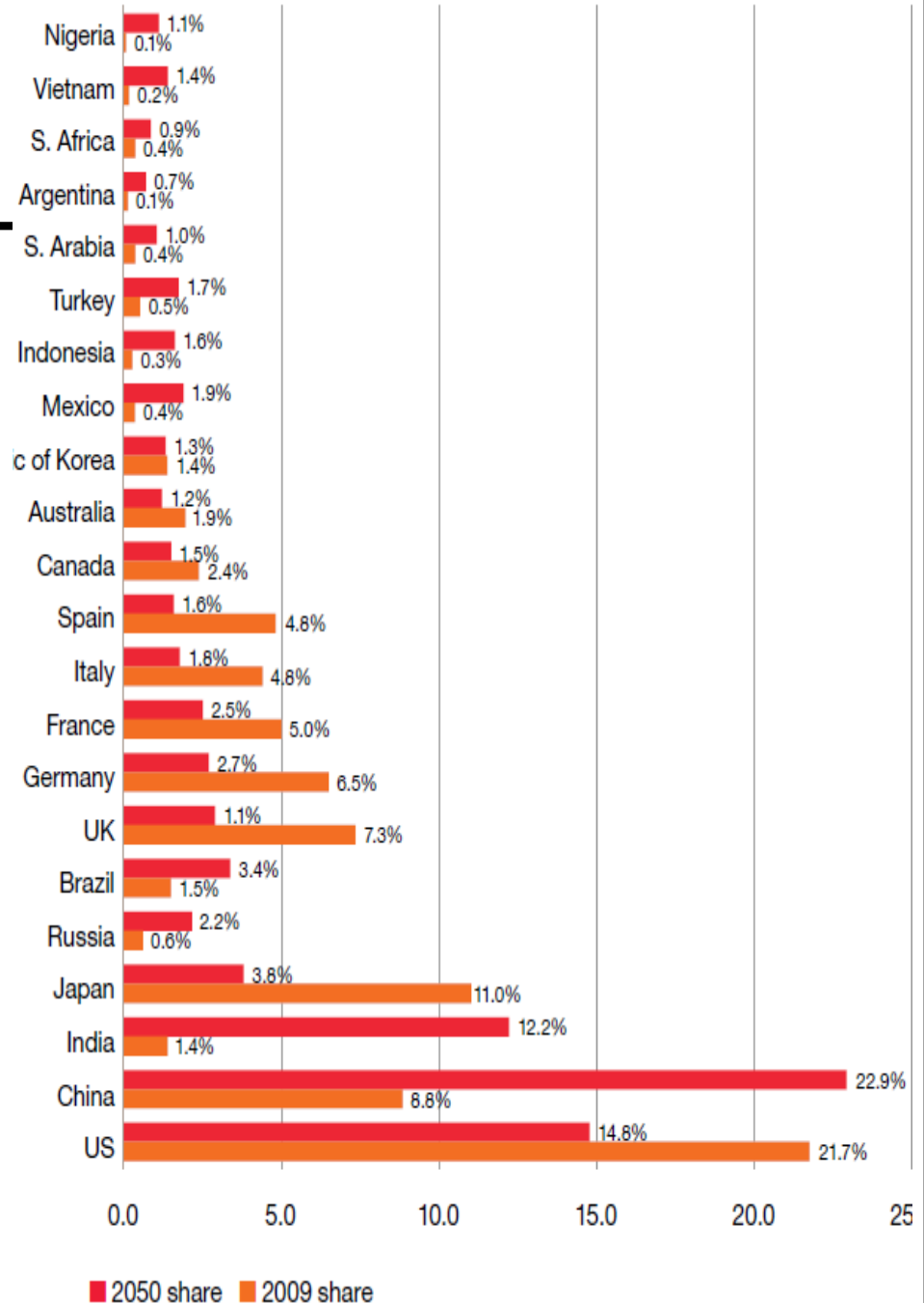
Structural Transformation of global banking system

- Global Banking system remains dominated by advanced economies: 77% of global bank assets in 2013, 85% of insurance premiums and hold over 90% of investible assets.
- This will have to change: **Asian banks will have to grow domestically & internationally.**
- Sound expansion requires cooperation between Asian regulators to facilitate cross-border expansion & investment.
- Sound risk management requires **alternative to the US\$ and Euro**: EU, US monetary & exchange rate policies geared to dealing with their business cycles and banking/financial sector re-structuring and not suited for Asia's economic and financial development requirements.

Global banking assets 2050 vs 2009

Dates At Which Banking in the E7 economies overtake the G7

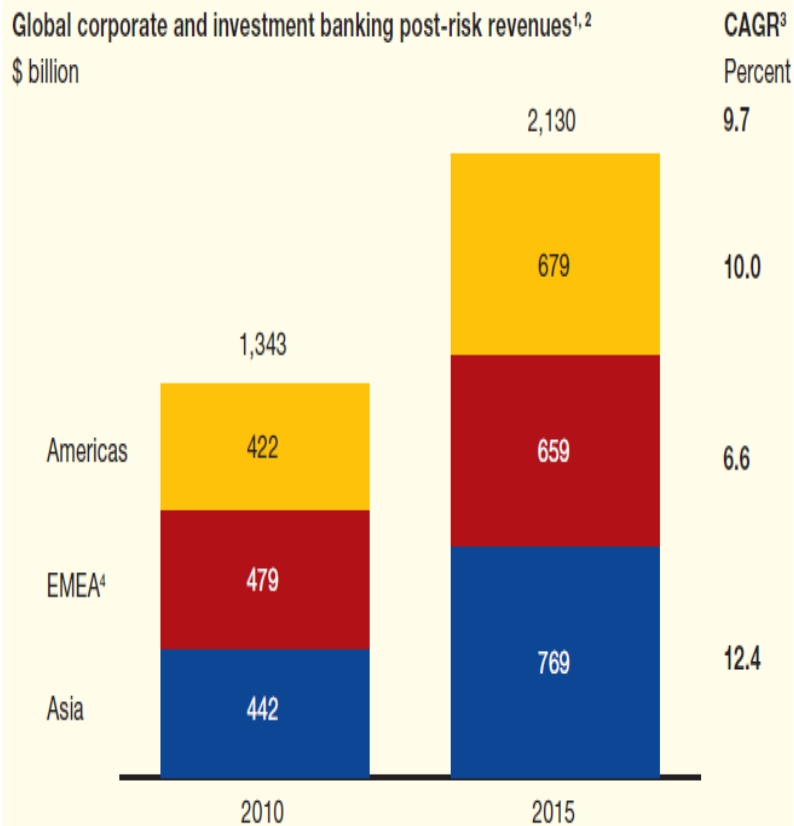
Country pairs	Overtaking year (2011 analysis)	Overtaking year (2007 analysis)
E7 overtakes G7	2036	2046
China overtakes US	2023	2043
India overtakes Japan	2033	2041
Brazil overtakes UK	2045	-
Russia overtakes Italy	2039	2047
Mexico overtakes Italy	2048	2038
Turkey overtakes Canada	2045	-



Source: PWC (2011): Banking in 2050

Asia is the Future for Corporate & Investment Banking

- Global corporate & investment banks will derive almost 50% of revenues from Asia by 2015.
- By 2015, the share of Asian markets in these banks' overall revenues will be as much as 45%, or about \$790bn, compared to about 33%, or \$442bn in 2010



Source: McKinsey & Co, Oct 2011

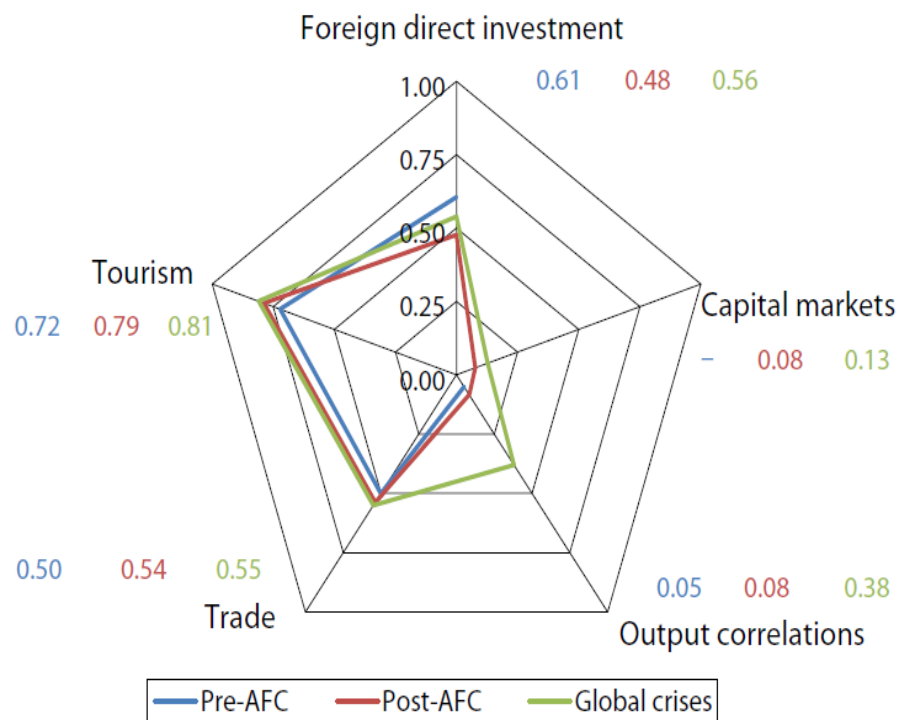
Share of local players 2010
Percent

Legend: ● ≥ 50% share, ● < 50% share

Region	Country	CMIB ¹			Corporate Banking		
		Investment banking	Equities	FICC ²	Syndicate lending	Corporate loans	Corporate deposits
Developed Asia	Japan	65	50	75	95	98	99
	Australia	35	25	45	50	80	90
Financial hubs	Singapore	35	10	30	30	50	n/a
	Hong Kong ³	60	15	35	20	70	60
Growing giants	China	90	99	85	75	98	98
	India	40	25	60	70	95	95
Rest of Asia	Malaysia	35	40	75	40	80	80
	Korea	55	60	65	50	98	95

Greater Asian Regional Integration except for Capital Markets

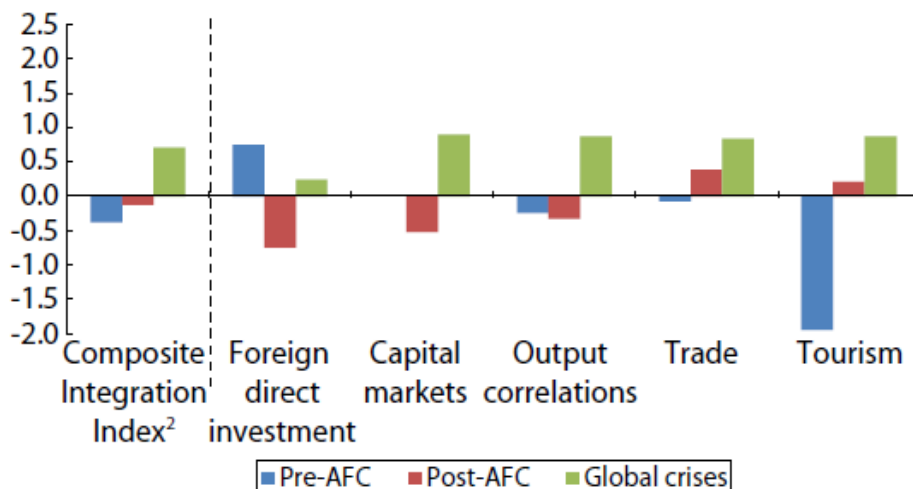
(Pre-AFC, post-AFC, and global crises)



AFC = Asian financial crisis. Unless otherwise stated, pre-AFC = 1990–1997, post-AFC = 1998–2007, and global crises = 2008–2011 (covering 2008/09 global financial and eurozone debt crises).

Progress of Integration in Asia

(Pre-AFC, post-AFC, and global crises)

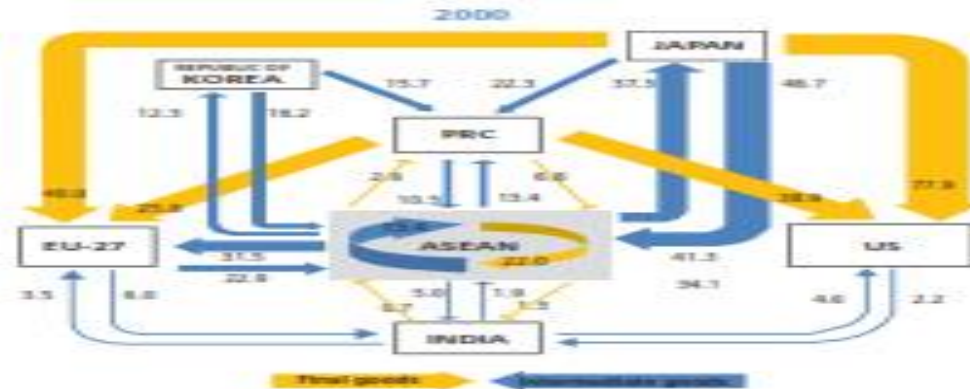


- Progress of integration is most evident in trade, tourism, and macroeconomic links. Output correlations during the global crises reflecting the impact of common global shocks affecting region.
- But intraregional FDI flows have remained below pre-Asian financial crisis share

Growing Asian Supply Chain, 2000 vs. 2010 despite barriers; need to liberalise services

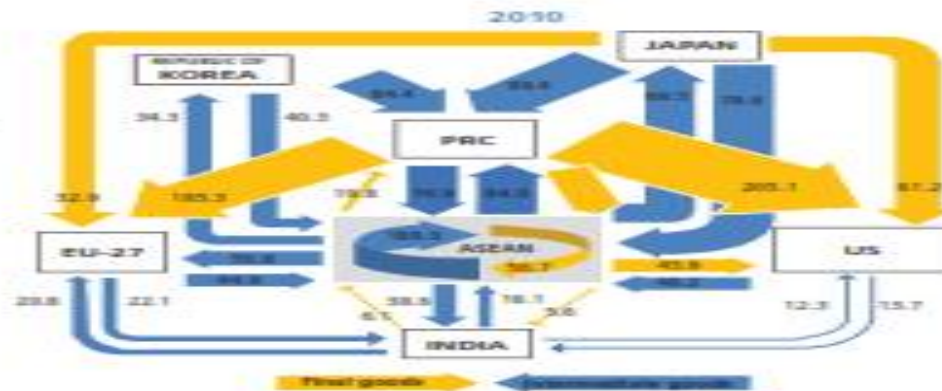
Destination of ASEAN's Exports (all goods, 2000, \$ billion)

ASEAN	96.3
PRC	18.1
India	6.4
Japan	35.7
Korea, Republic of	13.2
EU-27	38.1
US	79.9



Destination of ASEAN's Exports (all goods, 2010, \$ billion)

ASEAN	247.1
PRC	104.4
India	34.5
Japan	97.1
Korea, Republic of	40.3
EU-27	93.9
US	85.9



PRC = People's Republic of China, EU = European Union (27), RPN = regional production networks, US = United States.
 Note: Final goods comprise capital goods and consumption goods, while intermediate goods comprise primary goods, parts and components, and processed goods for industry. Data are based on the Broad Economic Categories classification.
 Source: Calculated from UN Comtrade database.

Building Blocks of Regional Bond Market

- Sustain Macroeconomic Stability
- Build Depth, Breadth & Liquidity
- Gradual liberalisation of entry barriers for non-resident investors
- Enhance & Integrate Financial & Payments Infrastructure & payments linkages
- Improve corporate governance, disclosure and transparency
- Harmonisation & standardisation of legal & regulatory frameworks

Four Building Blocks

- Focus on financing infrastructure as a building block for capital markets and Asian Bond Market.
 - ADB: US\$8.3 trillion in overall infrastructure investment between 2010 and 2020, with an average of US\$750 billion in annual infrastructure spending. Of this total, about half is needed for regional transport and logistics, while the rest covers cross-border infrastructure that moves power from surplus to deficit economies.
- **Chiang Mai Agreement** to be extended and used as platform
- Focus on developing **Domestic Capital Markets** with regional cooperation
- Use **local currencies and bilateral swap agreements**

Agenda

- ✓ **Lessons from the Great Financial Crisis**
- ✓ **Supporting the Growing Asian Economic Integration**
- ✓ **Development of a RMB Zone and of Redback market as an anchor**
- ✓ **Issues and Risks**

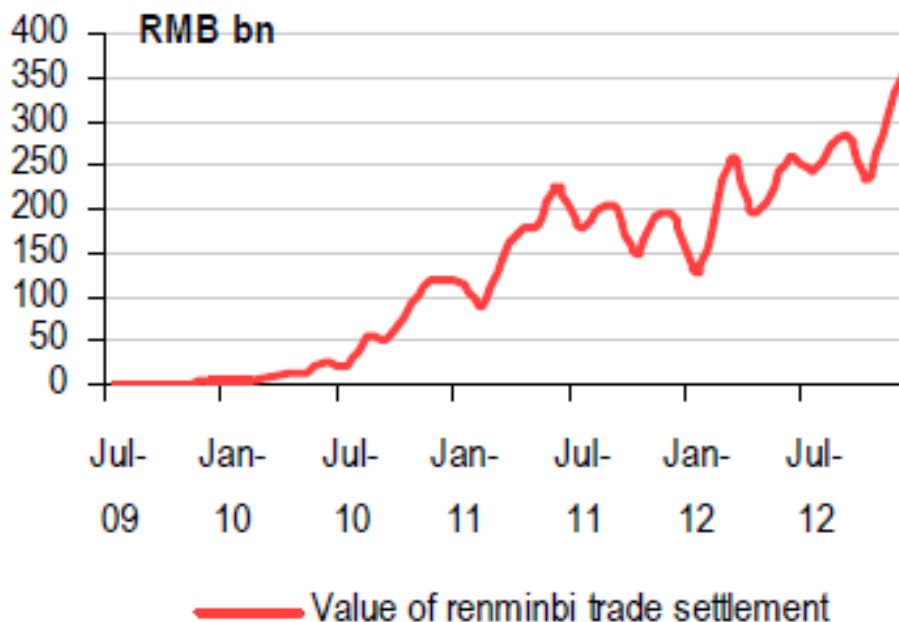
RMB Zone and “Redback” Market

- 4 characteristics:
 - Economic weight and trade centrality
 - Currency Convertibility & onshore financial market depth and liquidity
 - Intermediation among non-residents
 - Global hubs and linkages
- In three years since policy liberalisation, 10% of Mainland China’s total trade, 2% of FDI investment into China and about 4% of outward direct investment from China are settled in RMB

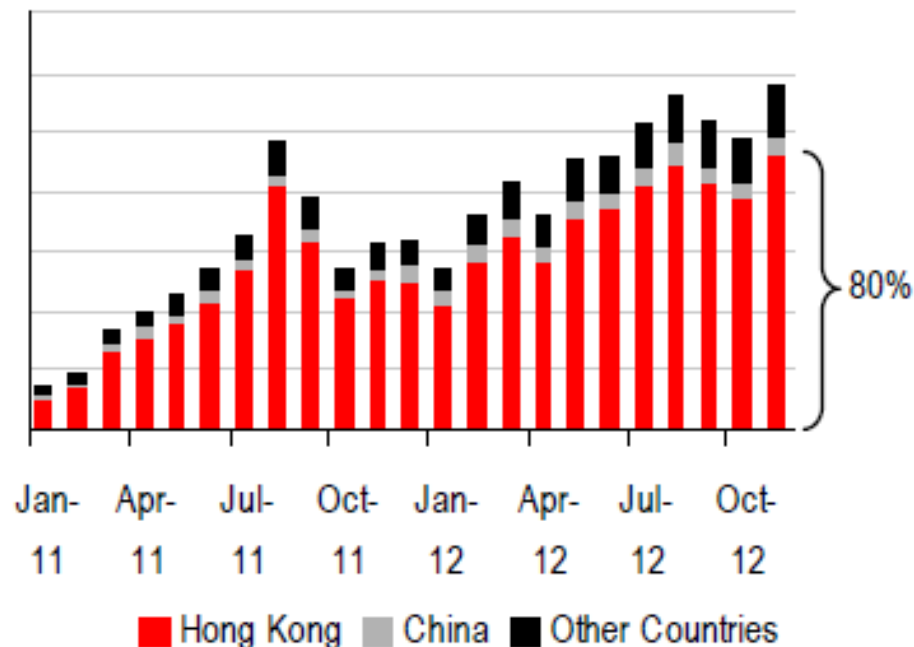
Internationalization of the RMB: Trade

- Pace of RMB internationalisation has been much faster than expected, with growing demand for RMB as a trade settlement currency & inbound/ outbound direct investment
- 50% of China-emerging market trade, or over 30% of China's total trade could be settled in RMB by 2015

RMB trade settlement is growing rapidly



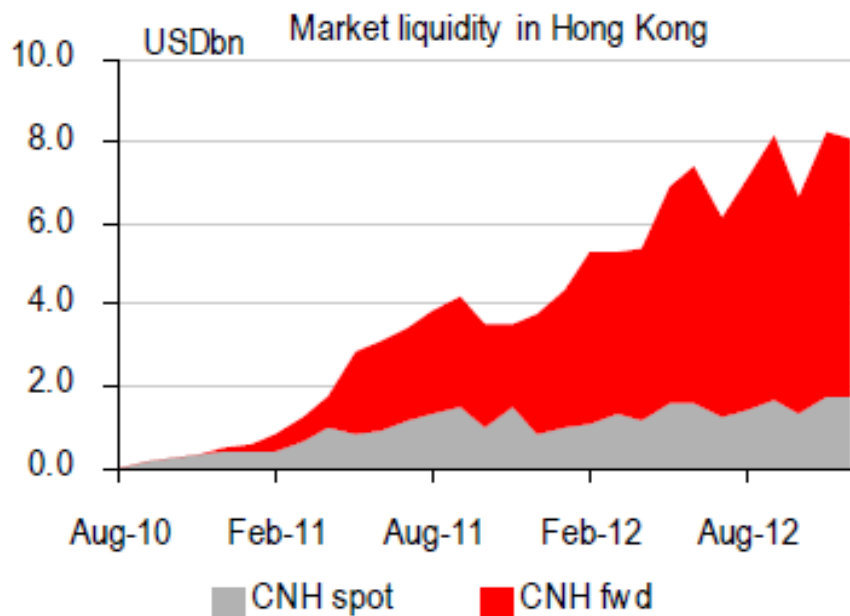
Hong Kong responsible for 80% of all cross-border RMB trade settlement



Internationalization of the RMB: Payments

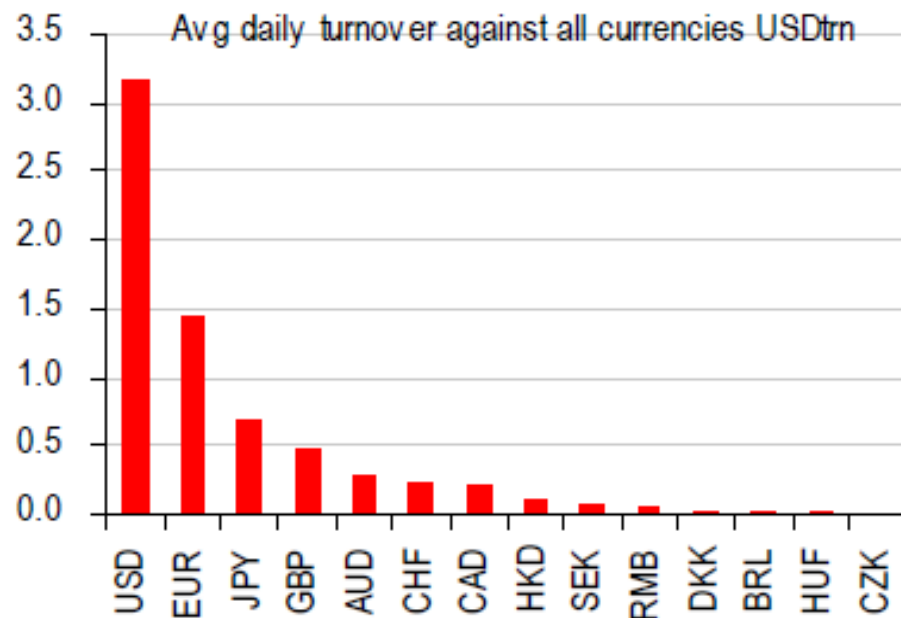
- Introduced in 2010, offshore RMB is one of the fastest growing currency markets
- This has significant implications for market participants with hedging, financing & investing needs
- But the potential for further growth is great, underlined by China's drive to have a convertible currency.

CNH daily turnover has exploded since initiation



Source: HSBC, various reports

but the RMB market remains significantly underdeveloped from a global perspective



The PBoC & HKMA Play their Roles

Policy Deregulation to support offshore RMB business

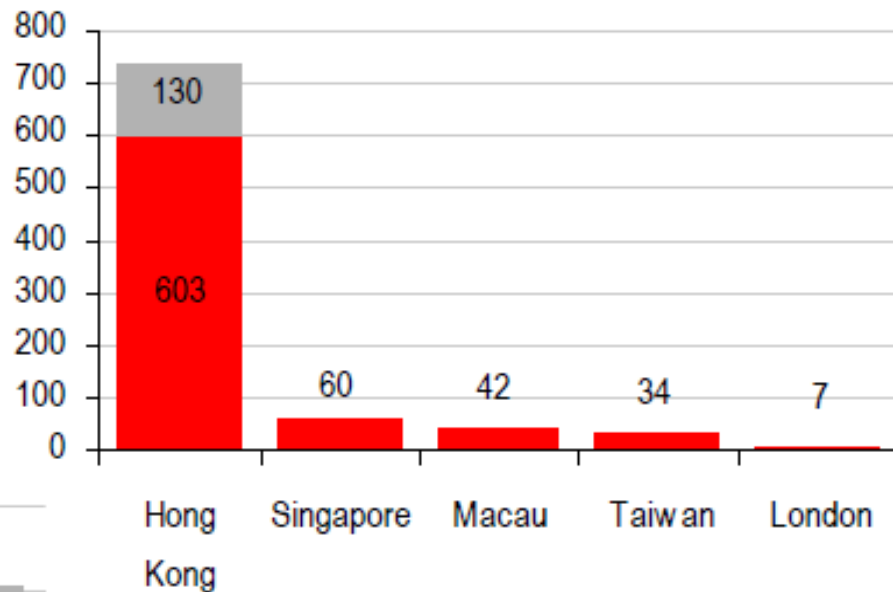
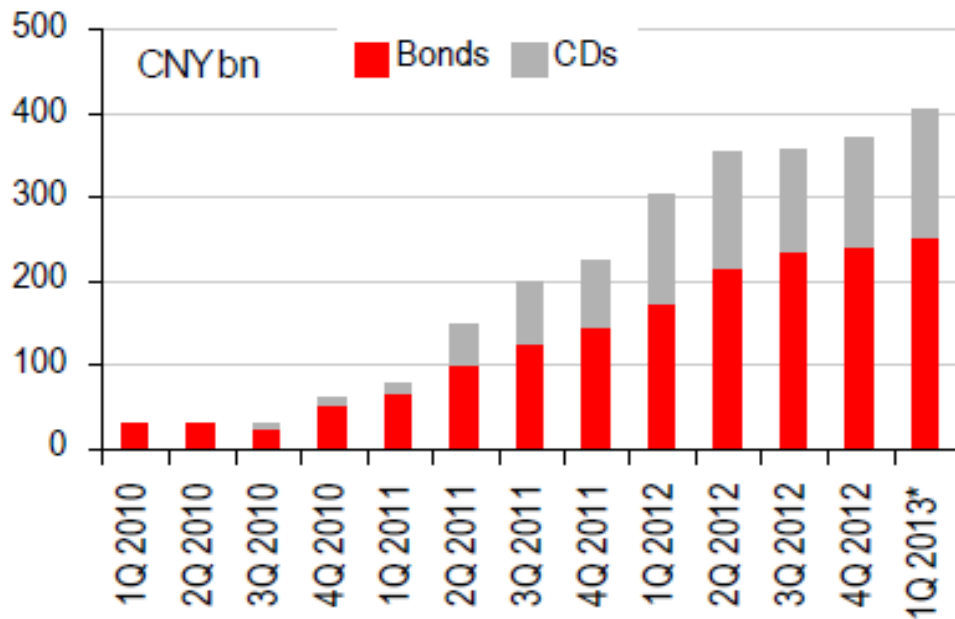
2009	RMB trade settlement pilot scheme kicks off in five mainland cities
2010	Offshore RMB products platform launched in Hong Kong
2010	RMB trade settlement rolled out globally
2011	RMB ODI and FDI started
2011	Official launch of R-QFII scheme
2012	PBoC widened the daily USD-CNY band from +/-0.5% to +/-1%
2012	HKMA loosens NOP & liquidity risk management rule; RMB lending facility introduced
2012	R-QFII, QFII schemes expanded significantly
2012	PBoC approved cross-border RMB loan business
2013	RMB business started in Taiwan
2013	ICBC nominated as the RMB clearance bank for Singapore
2013	BoE and PBoC agreed to sign bilateral FX swap

PBoC's bilateral swap agreements

Expiry	Date entered	Country / Region	Period	Amount (RMBbn)
10-Mar-12	11-Mar-09	Belarus	3 years	20
22-Mar-12	23-Mar-09	Indonesia	3 years	100
1-Apr-12	2-Apr-09	Argentina	3 years	70
9-Jun-13	10-Jun-10	Iceland	3 years	3.5
17-Apr-14	18-Apr-11	New Zealand	3 years	25
18-Apr-14	19-Apr-11	Uzbekistan	3 years	0.7
12-Jun-14	13-Jun-11	Kazakhstan	3 years	7
22-Jun-14	23-Jun-11	Russia	3 years	20
25-Oct-14	26-Oct-11	South Korea	3 years	360
21-Nov-14	22-Nov-11	Hong Kong	3 years	400
21-Dec-14	22-Dec-11	Thailand	3 years	70
22-Dec-14	23-Dec-11	Pakistan	3 years	10
16-Jan-15	17-Jan-12	UAE	3 years	35
7-Feb-15	8-Feb-12	Malaysia	3 years	180
20-Feb-15	21-Feb-12	Turkey	3 years	10
21-Mar-15	21-Mar-12	Mongolia	3 years	10
22-Mar-15	22-Mar-12	Australia	3 years	200
26-Jun-15	26-Jun-12	Ukraine	3 years	15
22-Jun-15	22-Jun-12	Brazil	3 years	190
6-Mar-15	7-Mar-13	Singapore	3 years	300

Development of Redback debt & securities market

Global offshore RMB pool is rising through the introduction of more RMB centres



The CNH bond market has grown substantially

Source: HSBC, various reports

Agenda

- ✓ Changing Global Economic Geography & Lessons from the Great Financial Crisis
- ✓ Imperative of Developing Asian Banking & Financial Markets
- ✓ An RMB Zone and Redback Market as an anchor for Asian financial markets
- ✓ **Takeaways**

Takeaways

- **Global Economic Geography has shifted towards EMEs and Asia**
- **A New Global Financial Architecture is required to serve a multi-polar world with several Regional Financial Centres**
- **It is imperative that Asia develop its banking & financial markets to finance its economic development & infrastructure investments; manage, protect, deploy & control its financial wealth**
- **An emerging RMB Zone and 'Redback' Market can form the anchor of an Asian Bond & Money Market**

Thank you

Dr. Nasser Saidi
nsaidi@nassersaidi.com

NASSER SAIDI

— & ASSOCIATES —