



## Media Release

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### **ANZ report predicts Asian financial system to dominate international markets by 2030**

ANZ today released a major research report examining the future development of the Asian financial system, projecting it will be larger than the US and Europe combined by 2030 based on continuing reform and deregulation.

The ANZ *insight* report '*Caged Tiger: The Transformation of the Asian Financial System*' argues the rapid development of financial markets in Asia will become increasingly critical to support high levels of economic growth in the region and to fulfil the potential of the Asian Century.

#### **'Caged Tiger' Key Findings**

- The Asian financial system is on track to be bigger than the US and Europe combined by 2030.
- Asian (excluding Japan) bond markets are projected to grow by six times their current size over the next 15 years to match the size of US debt markets.
- Equity market capitalisation across Asia (excluding Japan) is also expected to rise dramatically, from US\$9 trillion to almost US\$55 trillion by 2030.
- China will account for around half of Asia's financial assets by 2050.
- The RMB will dominate in Asia and become a genuine rival to the US dollar as a global reserve currency.
- Financial liberalisation in China will see a significant increase in capital flows with Chinese outbound foreign direct investment rising to as much as US\$9.5 trillion by 2030.

ANZ Chief Executive Officer Mike Smith said: "This report makes it clear that Asia now requires a financial revolution to accompany the economic revolution that has occurred in recent decades.

"Continued progress in financial reform, deregulation and opening up to global markets in Asia will be essential to support high levels of economic growth in the region. China is central to this Asian Century scenario. The direction and sequencing of reform envisaged following the Third Plenum will significantly influence the direction and growth of its financial system.

"The opportunities this will create across the region are enormous. Asia's financial institutions will become increasingly important in global finance and Asia will become home to many of the world's largest financial centres. Shanghai will grow to rival New York as a financial centre. Singapore will increase its importance as a south-east Asian hub. Hong Kong and Tokyo will remain large centres while Seoul, Mumbai and Sydney will all grow strongly," Mr Smith said.

Speaking at the launch of the '*Caged Tiger*' report in Hong Kong, ANZ Chief Economist Warren Hogan said: "Following the Asian Financial Crisis, the region's rapid industrialisation had not been matched by an equivalent development of its financial system.

"Many Asian governments have now recognised the importance of reform to their economies. For example, China is now fast-tracking financial liberalisation and the opening up of its domestic financial system to international capital markets.

"The interaction of Asian capital with the rest of the global financial system will result in Asia's private sector playing a far greater role in allocating Asian savings and large increases in investment flows within Asia.

"We expect that Chinese foreign direct investment could rise from around US\$500 billion in 2012 to around US\$9.5 trillion by 2030. The US and Europe will receive less of China's outward investment with Chinese FDI increasingly favouring Asia Pacific markets.

"For example, in 2010 around 2.5% of the value of China's FDI was invested in Australia. Even if that percentage remains unchanged, the stock of Chinese FDI into Australia could be worth up to A\$200 billion by 2030. This would represent a ten-fold increase on current levels, making China Australia's largest source of FDI," he said.

Mr Hogan cautioned that while the opportunities associated with Asia's financial revolution are large, so are the risks.

"There are many examples of capital flow surges creating wide current account deficits, asset price bubbles and large banking system losses.

"Sound government policy should be focused on developing strong institutions, strong regulatory and supervisory systems, as well as the wider legal and cultural changes needed for a modern, open financial system," he said.

*Caged Tiger: The Transformation of the Asian Financial System* is the work of ANZ Research led by Mr Hogan along with Glenn Maguire Chief Economist Asia Pacific and Dr Liu Li-Gang Chief Economist Greater China.

The report and a video interview with Mr Hogan are available at [www.anz.com/insight](http://www.anz.com/insight).

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