

The rise of Asian banks

The dramatic events in the global financial markets of 2008 and the severity of the ensuing global economic contraction have shaken the very core of free market capitalism. Although a sense of relief has arrived, one would be an extreme optimist to think our troubles are behind us and naïve to yearn for a return to “business as usual” — the balances and imbalances that brought the financial system to the brink of collapse in September last year. And most unnerving is the diverse range of forecasts for the near future — are we going into recession, depression or recovery? Should we worry about inflation or deflation? Will there be too little or too much dollars in the system?

A much clearer picture, though, emerges when we focus on the impact of the global crisis on Asian banks. From the long-term perspective, there is no doubt that the crisis will accelerate the rise of Asian economic power and with it, Asian banks. I highly recommend anyone to read Kishore Mahbubani’s book entitled *The New Asian Hemisphere — The Irresistible Shift of Global Power to the East*, where he reminds us that it was only 200 years ago that the West, powered by the industrial revolution, dethroned Asia economically and that by embracing the key pillars of western wisdom — free market economics, science and technology, meritocracy, pragmatism, culture of peace, rule of law and education — Asia, with the largest share of the world’s population, will soon return to have the largest share of the world economy. But, how soon? To me, the actual pace of Asia’s ascension will depend on how we collectively respond to this crisis.

The Mandarin equivalent of the word “crisis”, *weiji*, can be literally translated as both “challenge and opportunity”. Indeed, this is a unique window of opportunity for Asian banks to decisively alter the share of global banking in their favour. Balance sheet troubles have caused massive shrinkage in the value of Western banks whereas at the beginning of 2007, the combined market capitalisation of US banks was three times bigger than the Chinese banks; as at March 2009, they are only three fourths. And the need to deleverage their balance sheets has seen an unprecedented retreat of US and European banks in lending and risk-taking in the region. Nevertheless, they will regroup and they will relaunch into high-growth Asia as soon as they can. Therefore, this is literally a window of opportunity that Asian banks must seize.

Although colonialism ended some 50 years ago, Asians still maintain a tendency to be over-awed by Western banks and bankers. Perhaps the global financial crisis will finally put an end to our colonial mentality. Why shouldn’t it? Asia has long produced many great economists. In economic policy-making, it was Malaysia that stood up against the International Monetary Fund (IMF) and conventional western economic wisdom to successfully combat the Asian financial crisis with lower interest rates, a ban on short selling, government-led bank recapitalisation and bailouts of strategic companies — policies that are all being pursued in the West today — and pursued without even a whimper of protest from the IMF.

And furthermore, despite the ferocity of the global financial crisis and the massive repatriation of capital out of Asian capital markets, our Asian banking system remains resilient and Asian bank balance sheets remain robust. There is absolutely no reason for us to lack belief in our ability to compete on the highest plains of global finance.

There is also no reason to be apologetic about the Asian way of banking. The global financial crisis has dramatically brought to light the vulnerabilities of the world financial

system. But it is a system that has brought huge benefits to the world and Asia, so in the search for a more robust financial system, we must not “throw the baby out with the bath water”, but consider all options, be it derived from western textbooks, eastern practices or indeed Islamic finance.

For instance, is there anything wrong with banking systems dominated by government-controlled banks as is prevalent in many Asian markets? Certainly, the presence of the government as a shareholder does lead to a more balanced approach in arbitrating the interests of stakeholders that include shareholders, customers, employees and management. Perhaps the US government may prefer to remain a permanent rather than a transitory shareholder of its bailed-out banks.

There is also a need to look critically at how years of western domination of finance has created an inherent systemic bias that has impeded the progress of Asian banks. It seems that even when Asians look at one another, we tend to use western spectacles. The clearest evidence is our reliance on global credit rating agencies. I cannot, for instance, understand the basis of China, the world’s biggest lender, being accredited A1 by Moody’s compared to AAA for the UK and AA2 for Italy. Fitch is no different — China at A+, UK at AAA and Italy AA.

The story is not too different for bank ratings — Asia’s lowly leveraged banks versus US and European banks with “intoxicated” balance sheets. Ratings, of course, affect how banks allocate capital and influence the level of transactions conducted between banks. Sovereign ratings also define the ceiling for national bank and corporate ratings, amplifying ramifications of the problem.

As if that isn’t enough, the introduction of Basle II will compound the problem as loans will also be subjected to ratings, trapping the entire credit system in this biased web. Is it not time for Asia to establish an Asian-owned and managed rating agency? Especially since Asia is the main supplier of investment funds. It is also apt here to record my applause for the recent statements by the Bank of Thailand and Bank Negara Malaysia, criticising the recent decision by Moody’s to review the ratings of our local banks.

The future will also be determined by the extent of collaboration between Asian banks,



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my say

not only in facilitating customer transactions but also cross-border mergers, joint ventures and partnerships. Asians must challenge our old instincts to just look to ourselves to provide market access and customer networks while looking West for product knowledge and skills. Indeed, as partners, it is other Asian banks that are more likely to possess relevant and recent experience.

I would also urge governments and corporates to give greater consideration to Asian lenders and intermediaries. I am often left frustrated when arguing for the value proposition of an Asian service provider compared to global banks. Maybe there is also a tendency for our national competitiveness to be biased against banks from another Asian country but we can surely call time-out to such useless prejudices. Asian banks depend on Asian customers in the same way that Microsoft, General Electric or the UK government will not be hiring Bangkok Bank, CIMB or DBS any time soon.

Asian banks should look beyond their present aspirations to ask if they are setting themselves ambitions that reflect their true potential. Although the Japanese global conquest of the early 1990s proved too ambitious ultimately, we should analyse why and avoid the same mistakes. Of course, the Japanese, notably Nomura and MUFG, have made another round of interesting moves.

More curiously though, when I recently asked the CEO of one of China’s big four banks about their global ambitions, his response was disarmingly humble, highlighting the current lack of management depth and reservations about valuations of assets in the present environment. I hope that I am right to believe that his plan is to under-promise and over-deliver and that, instead, he will take advantage of the present window of opportunity and his huge financial resources to create a truly sustainable Asian global banking giant and decisively transform the competitive landscape.

On a much smaller scale, there is a cadre of regional banks emerging from Southeast Asia, including my own firm, CIMB Group, which now has Asean’s largest bank branch network and capital markets franchise. The discernible retreat of global banks from the region is creating a vacuum for us to fill or that they will refill in the not too distant future.

The rise of Asian banks must also be seen as a necessity for promoting greater flows

of trade and investments within Asia as we work ourselves toward greater self-reliance and, more importantly, less dependence on the West. China is not shy about articulating its “dollar trap” dilemma and yet other Asian countries are hungry for development capital — for instance, the Asian Development Bank estimates that Asia requires some US\$8 trillion (RM28 trillion) over the next decade to fund planned infrastructure.

Asia needs to focus on developing its domestic currency capital markets and Asian governments should step forward to invest their huge reserves in other Asian countries.

Asia, so good at manufacturing and saving, takes the easy route of investing in low-yielding US treasuries. Governments will need to collaborate to improve Asia’s collective credit standing and minimising currency risk for intra-Asian capital flows. The development of the domestic currency bond market has been very successful in Malaysia, which has enabled corporates to borrow in local currency at fixed rates, in large amounts, even up to 25 years.

Consequently, Malaysian companies have been largely unscathed by the recent crisis despite massive private sector involvement in infrastructure building in the country. The ringgit bond market growth has been underpinned by strong joint development efforts by the Malaysian government, regulators and banks. To replicate such growth on an Asian scale, there has to be cooperation among Asian governments that would include efforts to help stabilise each other’s currencies, collective action to enhance national credit ratings, consensus on withholding tax frameworks right through to custodian and settlement details.

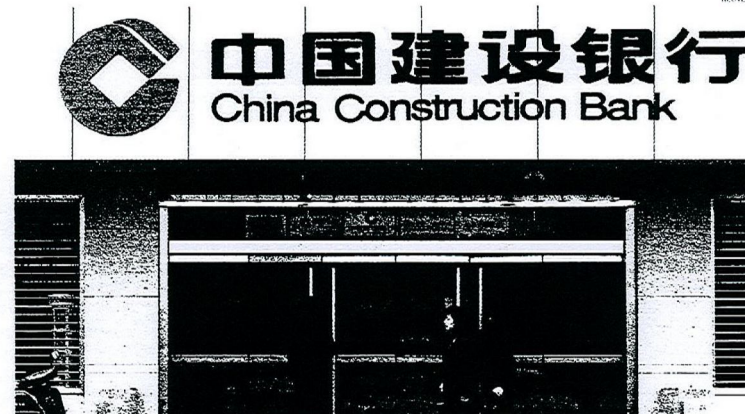
On the equity front, I would also like to believe that the time has come for cross-border consolidation of exchanges to create large, liquid and Asian markets. The most obvious potential merger is, of course, among the four key Asean exchanges — Bangkok, Jakarta, Kuala Lumpur and Singapore. If Asian nations are able to overcome the many difficult hurdles to enhance intra-Asian capital flows, Asia’s economic rise will accelerate and the prospects of Asian banks will improve dramatically.

The most important time in CIMB Group’s history was the Asian financial crisis — we capitalised on the enormous dislocations it brought to the operating environment and competitive landscape. We made strategic decisions to further invest and transform our business model and emerged from the crisis way ahead of the competition and then grew rapidly into the regional franchise that we are today.

In this era, I see great opportunities for Asian banks as a whole to transform our relative position, and some or many of our own to emerge decisively as global forces. But we need to believe in ourselves, we need to collaborate, we need to lose our western spectacles and we need the support of our Asian customers.

Once Asians have a greater share of global finance, I think that we will also see a more balanced and equitable world where western perspectives give way to global perspectives, where a new financial architecture is designed without prejudices and where intra-Asian trade and investment flows grow exponentially. Kishore would see this as yet another step in the “de-westernisation” of Asia. To me, it’s just good business to seize the current window of opportunity.

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China Construction Bank in Zhengzhou in central China’s Henan province. There is no doubt that the global financial crisis will accelerate the rise of Asian economic power and with it, Asian banks.