

ADDRESS TO THE TRANS TASMAN BUSINESS CIRCLE

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Asia: Through the hype

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INTRODUCTION

Ride the Dragon.

Powering the Asian Century.

Is Asia the next Silicon Valley for start ups?

Asia - the place to open up a small business.

Good afternoon ladies and gentlemen, and thank you for inviting me to speak to you on one of my favourite topics: Asia.

I've started with these statements to give you a quick sense of some of the many thousands of newspaper headlines from Australia trumpeting the rise of Asia and the resulting opportunity for our country.

Day to day commentary on the Asian Century weaves a tantalising tale of growth - a once-in-a-lifetime opportunity.

The average Australian could be forgiven for thinking that as a nation we are incredibly engaged with Asia; all we need to do is climb on board the

gravy train and wait to cash the cheque from its newfound and insatiable demand for goods and services.

As CEO of a company that has been in Asia for 15 years, I can assure everyone it is somewhat more complex than that.

I am not going to extol the virtues of business looking to Asia; these are well known and understood. IAG remains excited by - and committed to - its Asian strategy and operations which now see us in five Asian markets - Thailand, India, Malaysia, China and Vietnam.

Briefly, we have \$750 million invested in Asia, have more than 8000 people working in our joint ventures and Asian division and are committed to Asia being 10% of our business by 2016.

Today, I am going to spend some time looking at the reality of what Asia means, and what I believe are the next steps for us a country.

- First, I'm going to ask the question: Are we as engaged with Asia as we would like to believe?
- Second, I will outline what I think we need to focus on to ensure we maximise the Asian opportunity
- Last, I will discuss what we have learned as an organisation that, I am proud to say, has become something of a case study for Australian business success in Asia.

I also want to issue a challenge. All of us in this room are also mums and dads, uncles or aunties – individuals who have lives and roles other than as the professionals you came as today. It is to that person I say:

you will be the key to Australia's success or otherwise in the Asian Century, and it is you who needs to act.

AUSTRALIA'S ASIAN ENGAGEMENT

With it impossible to open a newspaper without reference to the new Asian powerhouse economies, one would assume Australian business has heeded the call from the Asian Century White Paper that they must become fully part of the region.

Indeed, with The Asian Development Bank estimating that by 2030 Asia's annual consumption will reach \$32 trillion – almost half of all global consumption - it is difficult to see business doing otherwise.

But the reality doesn't match the hype.

Australian companies poured more money into Britain alone last year than they did across the whole of Asia.

Almost \$8 billion was invested in Britain while the combined total across Asia was a little over \$6 billion.

If you look at it country by country the results are similarly surprising. If we highlight China new Australian investment totalled \$780 million – Aussie spending was higher in Finland, Norway, Mexico and Luxemburg. India received less again – around \$450 million.

The same holds true if we look at investment into Australia. US companies sent in around \$13 billion and British \$10.5 billion. China totalled almost \$4 billion – considerably down from its 2009 peak.

It is also worth looking at the types of companies that are making Asia fundamental to their operations, and how they are doing it.

If you look at the top 50 Australian companies by Asian revenue, unsurprisingly they are dominated by resources and steel companies.

Nineteen are in resources a further eight are in construction. Of the 50, just 15 are service providers.

So what does that mean?

It means that after the roads, railways, housing, airports and everything else that comes with a rapidly expanding economy are built, we have yet to cultivate meaningful across economy engagement in a sustainable way that drives long-term value for both parties.

Drilling, mining and resources require getting the asset out of the ground here and shipping it away. Unlike other industries - such as financial services – they don't require a large on-the-ground presence, local management, distribution footprint and, most importantly, the large scale employment of a local workforce.

This is certainly not an attempt to criticise the good work of Australian mining and resources companies that are helping to build the necessary infrastructure to underpin our Asian neighbour's new economic status. This is an essential role and it is being performed well.

But it does mean that real relationship building that comes from being integrated in the community is not taking place in the way newspaper headlines imply.

Often, our conversations are around what we are going to sell and how much of it we are going to sell. That won't work over the longer term.

The time to get in and build relationships and networks is now – or more realistically yesterday. The window won't be open forever. We have to remember that yes, geographically we have a natural advantage but when the prize is this big it is worth fighting for and countries around the world have the same idea as us.

Unfortunately, I think the work that we still have to do in shifting a mindset was demonstrated most obviously when fewer than 10 Australian businesses made a submission on to the government's Asian Century White Paper; an unfortunate response.

It is not just Australian business that has work to do if it is to truly engage with Asia.

Similarly, if we look at the education sector, the relationships are imbalanced. Take Indonesia, a country whose economy will shadow our own within 20 years: there are only around 500 Australians studying in Indonesia today, compared with 20000 Indonesians studying here.

Fewer students study the Indonesian language today than in the 70s as successive governments have found Asian languages a vexed and costly issue for our educators. And this is not something you can flick a switch to fix. Finding and funding teachers and putting a generation of

Australians through an Asian focused curriculum is a twenty year prospect, and by then the realities of both our countries will have irrevocably changed.

So, based on where we are today, if you were to ask me how truly engaged I think Australia is in Asia, I would say nowhere near enough.

WHAT WE NEED TO DO - A NATIONAL VISION

But I have not come today with only bad news.

Again, I reiterate that I remain incredibly optimistic about the potential of the Asian Century for both IAG and Australia generally.

I believe Australia needs a national vision for Asia.

We need to be able to clearly articulate what our future looks like and what we will do to achieve it.

My fear is that right now Asia is seen by many as a convenient buffer for Australia against the global financial issues affecting many other countries - a fortunate coincidence.

I think the average Australian would regard the current focus on the Asian Century as probably something for governments or big business to focus on, with little real implication for themselves or their families.

At best there is a growing sense in the community that something is happening, but we are not quite sure what.

A national vision would help us advance our view that Australia's success or otherwise in seizing this opportunity is about the value of the goods we sell to Asia.

My hope is it would galvanise people and ensure that they really understand what it is that lies before them.

Success would be a widespread understanding and acceptance that our future is inextricably linked to Asia.

It will be when parents understand that what we are talking about today influences how employable their children will be tomorrow.

It will be when employees demand their employers are taking serious steps to create an Asia capable workforce.

It will be when students leave our educational institutions with knowledge on the broader political, regulatory, historical, religious, economic and cultural contexts of Asia.

It will be when the groundswell of support for engagement with Asia starts at the bottom and works up – not vice versa.

My Chief Executive Officer for Asia tells a story about speaking to a local educator who had lobbied for many years to have a compulsory Asian language taught at his school, and then not long after having to remove it after complaints from parents that a more relevant subject should be offered. To me, this is the equivalent of a parent 20 years ago saying that computer studies were a waste of time and they didn't want their child to take part.

On the basis of that anecdote alone I think we have some way to go!

Just as in business we need to rally our own people around our vision, strategy, goals and measures of success - the same is true for where we want to see our country head.

BUILDING ON THE MOMENTUM

This doesn't mean that there isn't a lot of good work going on – there is. To me it is about building on that momentum and ensuring that we are all pulling in the same direction.

The most visible of this activity is of course the government's White Paper on the Asian Century – it was a laudable piece of work.

It signals intent, demonstrates seriousness, and raises a number of matters that Australia must come to terms with if we are to fully embrace Asia.

In the long run the fact that it was so widely anticipated probably worked against it with criticism that it delivered the “what”, but was light on in the “how” – particularly around relationship building.

As a piece of advice, “to build relationships” sounds a little trite, but this is the single most important thing I can leave you with, based on the 15 years IAG has been on the ground in Asia.

Any relationship building takes time, developing the personal relationships that will really enable you to understand your potential

partners, their aspirations, their vision for the business, all while navigating one another's culture is a massive task.

For example, IAG was in China eight years before we made an investment there.

You will often hear many of the – some will say older – I will say wiser Asian business heads talk about the need for Australia to develop a new Columbo plan.

Set up in the 50s, the Columbo plan is widely acknowledged as a major success for Australia. It was centred around building lasting relationships between Australians and Asians with a comprehensive education plan based on student exchanges. It understood that forging links early on would reap rewards when students returned to their own countries and rose through the ranks of their own organisations having built trust and respect with their foreign peers.

Tan Sri Azman Hashim is the Chairman of AMMB Holdings, one of the largest financial services providers in Malaysia, Singapore and Indonesia running 190 commercial bank branches, 14 investment bank offices and 42 insurance offices. As a young man he studied in Australia for many years and developed an affinity for our country. While you could put it down to co-incidence - and no doubt other factors were involved - but I find it interesting that AMMB's foreign partners in banking and insurance just happen to be ANZ and IAG – Australian companies.

I am excited to see a renewed interest in this kind of thinking and note recent announcements promising to increase student funding to study in Asia. I hope is that it is implemented quickly and widely embraced.

I also acknowledge activity with trade assistance programs, concerted international diplomacy efforts and business outreach – all worthwhile endeavours.

I have some personal experience of one particular initiative, having travelled with the Prime Minister and a small number of other business leaders as part of the Australia-India CEO Forum. We focused on specific issues where business to business engagement could make a direct and substantive contribution to expanding trade and investment between our countries. I look forward to an ongoing association in this work which is a practical example that demonstrates the importance of relationships in delivering an outcome.

So while noting that there are still significant steps to take I applaud the will that has driven activity to date.

BEING SUCCESSFUL IN ASIA

I've already talked to the value of relationships – so what else has IAG learnt since first entering Asia in 1998?

The first thing is that just like entering any new market you need to have a well thought out strategy and ask yourself why you are there.

I recently heard an advertisement from a bank (that I won't name) encouraging local businesses to think about the billions of people in Asia and what a slice of that market could do for their business.

It is naive for Australian businesses to think that they can just show up and find masses of people clambering for their particular widget.

Quite the opposite is more than likely true. IAG had had a very slow and deliberate strategy with a view to driving long term value – success is built around patience and realistic expectations.

Next, you need to do some honest self-assessment – what are your existing Asia capabilities, what are your gaps and how do you fill them? Are your employees “Asia capable” - sophisticated in cross-cultural communication skills, comfortable with new ways of working and with a mindset that is open and empathetic?

You and your employees will need to go in with an open mind and leave at home your pre-conceived ideas about the way things be done. I often use the line that difference is just difference - it is not better and it is not worse – and it aptly applies to Asia.

For a number of reasons – including foreign ownership restrictions and wanting to take advantage of local knowledge and established distribution networks – we have largely established our presence in Asia through joint ventures. For Australian businesses considering a similar path it is important to agree on a shared vision up front and be respectful by not pushing or forcing your solution your partner – let them pull what they need from you. Capabilities are best leveraged when shared.

IAG has learnt a lot about Asia and our Asia division is producing solid results.

Based on our experience, we will continue to work with government, other businesses and organisations to help ensure Australia's success in Asia.

CONCLUSION

In conclusion, I believe that as a country we are not as engaged as we could be – or probably should be - in the Asian century.

That doesn't mean the opportunity is lost – it is still there for the taking. I remain incredibly positive about it can mean for our business and even more so for what it can mean for all Australians.

Business must act now but be patient and recognise that the pay back is over the long term, probably much longer than they are used to from a western perspective.

I applaud the initiatives that have taken place to date and believe there is an opportunity for broader national discussion inspired by a national vision to guide our path and drive maximum benefit.

But most of all, I would like to challenge you.

Our country's future success in Asia requires relationships at every level. All groups should be engaging - business, governments, educational institutions, cultural organisations, tourism bodies, sporting groups and even social groups.

What are you are personally doing to help drive this change?

If you are in business, what are you doing to develop your workforce, or as an employee what are you doing to take advantage of that? What are you doing to develop yourself?

As a parent, how interested are you in what your child is learning about our neighbours? What biases do you hold and how do those influence your views?

Are you talking up this opportunity?

At its simplest, the Asian Century is about setting up our young people for their best possible life - and we all have a role to play in making that a reality.