



# The keys to succeeding in ASEAN

In this interview, Michael Zink, Citi's head of ASEAN and country officer for Singapore, says financial institutions will succeed by focusing on what's practical and achievable.

**As the first head** of Citi's regional office for the Association of Southeast Asian Nations (ASEAN), Michael Zink leads the global banking giant's effort to expand in one of the world's most dynamic and diverse markets. He sees enormous opportunities for companies such as Citi that learn to see ASEAN's collective potential as larger than the sum of its parts. In an interview with Clay Chandler, Zink argues that ASEAN has demonstrated remarkable financial resilience since the Asian financial crisis of the 1990s and explains why Citi expects the region to play an increasingly prominent role in its own growth and that of the world economy.

**McKinsey:** *Do you plan strategy for ASEAN as a single regional entity, or is it more practical for multinationals to see ASEAN as a collection of separate and very different markets?*

**Michael Zink:** ASEAN is not an artificial thing. It's not something that was created in the imagination of an executive at some multinational company. ASEAN is real. It's 50 years old. It's a willing gathering of ten nation-states—not just for economics but for security and for other exchanges [and] political consultation.

It's been intensified recently in the minds of business executives because the ASEAN Economic Community has been articulated very clearly, and it's about to come into focus by 2015. Now, mind you, those ten countries remain nation-states, and they each have their distinct nature. We have to acknowledge that and treat them as different countries. But ASEAN is a real thing.

Increasingly, we find the companies that are most successful [here] are thinking about connectivity across the ASEAN community. Tariffs have come down. The economic community is coming into place. Companies that have worked out the logistics, that have thought through their distribution channels, have been able to take advantage of it.

**McKinsey:** *Can ASEAN compete with China in manufacturing?*

**Michael Zink:** China is no longer an inexpensive place to manufacture, with the cost of labor, the cost of water, the cost of operation. It's much more expensive than it was a generation ago. Southeast Asia still has some cost benefits. And there's some serious manufacturing under way here. Thailand is the automobile-manufacturing center of the region. And Indonesia increasingly manufactures. So it's a rising sector, manufacturing. But it's the services sector that looks like the real driver moving forward.

**McKinsey:** *What are the key drivers of growth in the region?*

**Michael Zink:** One thing we talk about a lot is urbanization. Half the human population lives in a city today. By 2050, it's probably going to be 75 percent. But in Southeast Asia, it's still only a quarter of the population. So this trend toward urbanization—people moving into cities, something we watched happen in China for the past 20 or 30 years—it's going to accelerate here.

What's the impact and what's the opportunity? Affluence is rising and being concentrated in urban centers. Anybody who's figured this out—that it's about cities, urban centers, and concentrating your distribution and your outreach to your clients in the urban centers—is going to win.

If you look around the rest of the world, Europe's aging, Japan's aging, and China's aging more than people realize. Not Southeast Asia. Half the people in Indonesia—half the 200-plus million—are under 30. This is a very young place. It's dynamic, it's vibrant, and there's a lot of enthusiasm. [Indonesia is] growing at 6 percent a year, every year. They're winning and they feel good about it.

**McKinsey:** *What opportunities do you see in ASEAN financial markets?*

**Michael Zink:** There's a question of whether we can develop the capital markets across ASEAN and do it regionally. It's posed in a way to suggest that we haven't done so. But that's not true. The capital markets here are evolving very quickly. The ASEAN-5, they have big stock exchanges: Singapore, Kuala Lumpur, Jakarta, Bangkok, and Manila. The market capitalization of those exchanges has quintupled between 2000 and 2014. [The year] 2000, that's the benchmark. The 1997–98 crisis, we came out of that. New benchmark: a fivefold increase to \$2.5 trillion. That's about 100 percent of GDP—a huge number. But compared with what? Bank lending in the same region is \$2 trillion.

Equity markets [are] now larger than the total stock of bank lending. The access to capital, the accumulation of wealth, that's moved into equities. And these are companies that are floated on those exchanges. Terrific.

The debt capital markets have seen a similar expansion, [growing] fivefold from \$200 billion to \$1 trillion. So the capital markets in ASEAN have critical mass. They're giving companies currencies to buy other companies. That's a very, very, very good evolution.

If you look at the chart of the rising markets across that 2014–15 period, it's as if the global financial crisis of 2008–09 never occurred. It's a straight line up.

There are efforts to link the exchanges. Today, they operate very distinctly. There are efforts for trading links so that brokers can buy and sell stocks across them in an attempt to accumulate those pools of liquidity so that they aren't fragmented, as they are today. That will take awhile.

**McKinsey:** *And on the fixed-income side?*

**Michael Zink:** When we look at debt capital markets, we've already done some very specific mechanical, unglamorous things to have standards that are harmonized across the ten countries of ASEAN. Under the ASEAN Disclosure Standards Scheme, if you issue debt in one country, it has now been agreed that the issuer needs to provide only a single set of disclosure documents that comply with the ASEAN Disclosure Standards to investors in each jurisdiction. This increases efficiency and reduces costs. Suddenly, an issuer of a bond in one country has access not just to the people inside of his own nation-state but also to the whole 600 million population across ASEAN.

**McKinsey:** *What are prospects for further integration in commercial and retail banking?*

**Michael Zink:** Banking liberalization will take time because prudential regulators are still defined by countries. So you still need permission to enter Singapore or Thailand or Malaysia or Indonesia. We have a lot of work to do before there is such a thing as a unified ASEAN banking market. That said, the banks in each of these countries are increasingly strong, and you have national champions [such as] CIMB Bank and Maybank in Malaysia. And, of course, the Big Three [in Singapore]—DBS Bank, United Overseas Bank, and OCBC Bank—are expanding across ASEAN and across Asia. Indonesia's banks are very strong and very large.

**McKinsey:** *Are there unique opportunities in ASEAN for multinational banks?*

**Michael Zink:** The biggest issue that's emerged today is cybersecurity. We've seen it all around the world. [These days] bank robbers don't use guns, they use laptops. They try to hack into our systems. Keeping these data secure is one of our biggest challenges and most important priorities.

## Michael Zink



### Vital statistics

Born 1958, in the United States

Married, with 4 children

### Education

Graduated from Case Western Reserve University in 1981 with a BSc in chemical engineering

Obtained an MBA from Kellogg School of Management at Northwestern University in 1988

### Career highlights

#### Citi

Head of Citi's businesses in the Association of Southeast Asian Nations (ASEAN), as well as Bangladesh, Guam, and Sri Lanka (2012–present)

Country head and Singapore country officer at Citi (2010–present)

Head of corporate and investment banking, Citi Korea (2004–06)

### Guangdong

#### Development Bank

President and executive director (2006–10)

### Fast facts

In his 26 years with Citi, has managed businesses in 9 countries, including Australia, China, Indonesia, Russia, and South Korea

Cochairs the financial-services committee and is a member of the board of the US-ASEAN Business Council

Serves on the board of governors for the American Chamber of Commerce in Singapore

Serves as vice chairman of the Association of Banks in Singapore

### About Citi in ASEAN

Citi has been in the region since 1902 and is committed to the growth and development of the business there.

As one of the oldest financial institutions in the ASEAN region, Citi is deeply embedded in its financial-services sector, with representation in nearly every business and asset class, including corporate and investment banking, transaction services, markets and securities services, commercial banking, private banking, and consumer banking. ASEAN is an important growth area for Citi, with more than 4 million customers and approximately 30% of Citi's staff in the Asia-Pacific region. The ASEAN region also houses a number of strategically important hubs for multiple Citi businesses, as well a number of Citi's state-of-the-art processing and data centers in Malaysia, the Philippines, and Singapore, serving more than 60 countries.

If we can build these big data networks, we can make them more secure. Scale plays to our strengths. What do we need for that? We need the free flow of data across borders in a secure fashion. And that's what we need when it comes to liberalization, not just for financial services but for any company in services or logistics: the free flow of data across borders, with strong cybersecurity around it.

Technology is a great opportunity. The devices in our hands—we sometimes take them for granted. But they're breathtakingly powerful, these smartphones and tablets that we all carry around. In these

big megacities that are now gumming up, it's hard to move. In Jakarta, Bangkok, or any big city today, traffic's a challenge. So if you don't have to move the people from where they are to your bank branch and you can deal with them where they live, work, and play, you've won the battle.


Can we do it? Of course. Because the devices people hold in their hands are a mini bank branch. We have to build the data systems that can reach them and give them what they need. Let them transact, let them get the information, and let them feel secure about it—and so we come back to cybersecurity.

On the other hand, people think, well, because I can do it on my device and I don't need a branch anymore, it is less expensive. That's flawed. These systems are breathtakingly expensive to build: data centers, keeping the systems up 24/7. People are now very intolerant of systems going down. They want them up all the time, every day, no excuses.

A system that's available 24 hours a day with lots of bandwidth that's totally secure is a very expensive system to build. You need scale. That will be the defining competitive advantage in our business going forward. The ability to finance, design, build, and implement those big tech systems—that's going to separate the winners from losers.

**McKinsey:** *What about the prospect of a common currency for ASEAN? Is monetary union completely off the table?*

**Michael Zink:** Nobody is dreaming beyond their scope right now. We're not talking about political union or monetary union or a single currency for ASEAN. It's simply not at that stage of evolution. It's very focused today on the commercial aspects of helping all the countries grow. Grow the economies, help small businesses develop, create jobs for young people coming out of university: [the discussions are] very, very practical. And that's why ASEAN has been successful. It's not only dealing with the practical but also dealing with the achievable.

Country by country, each of these societies has its own way of making decisions. Our approach is to understand how it's done. It's most important for us to understand how those decisions were made and appreciate that things are all moving forward. 

This interview was conducted by **Clay Chandler**, who is a senior adviser to McKinsey.

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