# Chapter 2

# The delegation's discussions on financial sector reform and market access

2.1 This chapter outlines the main themes and issues raised during the delegation's meetings in China. The delegation has been mindful not to breach confidences in recalling the evidence of these meetings. Although not stated, it is understood that Chatham House rules applied. Accordingly, while this chapter recalls the main themes and points of discussion, it avoids direct quotations or attributions.

## Key areas of interest

2.2 The delegation's visit to China provided an opportunity to discuss the following areas of mutual interest for Australia and China:

- Australia's experience of economic reform, particularly its reform of the capital account and the development of a world-class superannuation system;
- China's approach to economic and financial system reform, including:
  - (i) liberalising interest rates;
  - (ii) liberalising the exchange rate;
  - (iii) internationalising the renminbi (RMB); and
  - (iv) standards of corporate governance;
- the regulatory barriers facing Australian corporations and financial service providers in gaining a foothold in the rapidly developing Chinese financial services market, including:
  - (i) the process for obtaining bank branch licences; and
  - (ii) the quota on domestic securities investments by qualified foreign institutional investors;
- Chinese investment in Australia and in particular:
  - (i) the role of the 'policy banks'; and
  - (ii) concerns that the 'national interest test' as applied by Australia's Foreign Investment Review Board (FIRB) is not discriminatory; and
- what Australia can offer China by way of developing China's financial services sector and deepening bond, equity and money markets.

2.3 The following sections give an overview of the delegation's discussions on these issues.

## China's interest in Australia's experience of economic and financial reform

2.4 The delegation raised the issue of Australia's experience with economic and financial sector reform with its hosts on several occasions. It emphasised that the floating of the Australian dollar in 1983, the removal of barriers to the entry of foreign banks the following year and establishing the independence of the Reserve Bank of Australia (RBA) in 1996 were key reforms that have served the Australian economy particularly well.

2.5 The delegation told its hosts that the capital account and financial reform era in Australia was marked by significant and decisive actions to open up the economy. Prior to the mid-1980s, the Australian economy and the financial system were insular, heavily regulated and uncompetitive. In the years since, the reforms continue to reap benefits. For instance, the delegation explained that a floating Australian dollar has enabled Australia to cash in (on a high dollar) when international demand for raw materials was booming, and when demand fell in 2008, the dollar fell, cushioning the impact of the global financial crisis (GFC) for Australia's export industries.

2.6 The delegation observed that while the 'big four' Australian banks still dominate the Australian banking sector, allowing foreign entrants into the market improved the competitiveness of the domestic banking system.[1] It noted that in the 1980s, the issue of allowing foreign banks into a small domestic market was a cause of some concern. Would Australia's banks be able to match foreign competitors with the foreign banks' economies of scale?

2.7 In 1994, a decade after the reforms, the then Governor of the RBA, Mr Bernie Fraser, gave the following answer:

> In the event, the major Australian banks had to work hard but they successfully defended their retail businesses. The experience of the past decade confirms that winning over a critical mass of retail customers in a foreign country is an extraordinarily difficult – if not impossible – task. For most banks, the only real prospect would be to buy that critical mass, through the purchase of a significant Australian retail bank.[2]

2.8 This observation of the challenges facing foreign banks is raised later in the chapter.

### *Australia's superannuation system*

2.9 Australia's superannuation system was also discussed during the visit, particularly with the Financial and Economic Committee of the National People's Congress in Beijing. The delegation emphasised the following points:

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1 Discussion with Financial and Economic Committee of the National People's Congress, Beijing, 6 May 2013.

2 Mr Bernie Fraser, 'Foreign banks in Australia', *Reserve Bank Bulletin*, September 1994, p. 17.

- Australia has a means-tested old-age pension system, with the eligible age to increase from 65 to 67 between 2017 and 2023;
- Australia has had a compulsory system of superannuation savings since 1992;
- employers are currently required to pay nine per cent of an employee's salary and wage into a superannuation fund, with encouragement for people to put aside additional funds. This employer contribution will increase to 12 per cent in future years;
- Australia has approximately A$1.5 trillion in superannuation savings invested, making it one of the largest pools of retirement savings in the world;
- these savings have been a significant source of investment for, and impetus for the development of, Australia's managed funds sector; and
- the delegation foresees significant opportunities for Australian superannuation funds and managed investment schemes to invest in the Chinese financial markets.[3]

## China's approach to economic reform

2.10 While expressing interest in these reforms, several of the organisations with which the delegation met emphasised the need for China to manage its process of economic reform cautiously and prudently. Further, they argued that the sequence of the reforms is important.

2.11 In discussions with Chinese academic economists, there was a general view that China's priority must be to focus on interest rate and exchange rate reform: the internationalisation of the renminbi (RMB) was seen as a second-order issue.[4] They did recognise that given the gradual pace of reform on interest and exchange rates, RMB internationalisation should proceed concurrently. The Secretary of the Australian Treasury, Dr Martin Parkinson, recently observed:

> Conventional wisdom around reform paths has been that full internationalisation of the RMB cannot happen without greater flexibility and convertibility in the currency, and that fundamental reforms to exchange rate and interest rate formulation must come before loosening of capital account controls. While this approach is grounded in past experience, we need to put it in the context of the size of China's reform task and the reasons for China's more gradual and multi-track approach to reform to date.[5]

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3 Discussion with members of the Financial and Economic Committee of the National People's Congress, Beijing, 6 May 2013.

4 Discussion with Chinese academic economists, Shanghai, 10 May 2013.

5 Dr Martin Parkinson, *Address to Australia–Hong Kong Renminbi Trade and Investment Dialogue,* 12 April 2013, http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2013/Australias-place-in-the-new-global-economy (accessed 24 May 2013).

2.12 The delegation recognises that the bold and sweeping reforms made by Australian governments to liberalise the economy in the 1980s and 1990s may not be appropriate for China at this stage of its reforms. Nonetheless, the delegation had the sense from those with whom it met that there is a need to progress the economic reforms that have commenced in China.[6] There was general agreement that having taken steps to liberalise its economy, the Chinese leadership will be keen to continue down this path. Indeed, since the delegation's visit, the Chinese Government has issued a directive with a set of proposals that include taking gradual steps to allow market forces to determine bank interest rates and more opportunities for foreign investors to invest in finance.[7] The same day, the People's Bank of China (PBOC) released a statement promising to loosen foreign exchange controls.[8]

### *Liberalising interest rates*

2.13 As chapter 1 noted, in June last year the PBOC gave China's banks greater freedom to set their own lending and deposit rates. To encourage competition, lenders could set their rates 30 per cent below the benchmark rate while the banks could offer depositors a rate 20 per cent above the benchmark.

2.14 There was some discussion during the visit on the effect that the interest rate restrictions have had, and continue to have, on China's economy. Australian bank representatives told the delegation that these restrictions mean that investment risk is not being priced appropriately. Accordingly, the banks tend to lend principally to the large and inefficient state-owned enterprises (SOEs) on generous terms, leaving the lending market for small- and medium-sized enterprises (SMEs) undeveloped.[9] Several Australian bank representatives made the comment that the banking system in China has essentially served the state and the SOEs.[10]

2.15 Several people with whom the delegation met identified liberalising interest rates as a key area of reform.[11] They argued that deregulating interest rate movements is

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6 Discussion with the China Securities Regulatory Commission, Beijing, 7 May 2013; Discussion with the China Banking Regulatory Commission, Shanghai, 10 May 2013.

7 David Barboza and Chris Buckley, 'China Plans to reduce state's role in economy', *New York Times*, 24 May 2013. A copy of the directive from the Chinese Government (in Mandarin) can be found at the following site: http://www.gov.cn/zwgk/2013-05/24/content_2410444.htm (accessed 29 May 2013).

8 David Barboza and Chris Buckley, 'China Plans to reduce state's role in economy', *New York Times*, 24 May 2013.

9 Discussion with Australian banks and Macquarie Wealth at the Australian Consulate in Shanghai, 9 May 2013.

10 Discussions with Australian bank representatives in Beijing on 6 May 2013 and in Shanghai on 9 May 2013.

11 Discussions with academic economists, Shanghai, 10 May 2013; discussions with Australian bank representatives in Beijing on 6 May and in Shanghai on 9 May 2013; discussions with Australian banks and Macquarie Wealth at the Australian Consulate in Shanghai, 9 May 2013.

necessary if China is to liberalise its capital account and have a fully convertible currency. They were encouraged that the Governor of the PBOC, Mr Zhou Xiaochuan, had recently been reappointed given the progress he has made to date on interest rate liberalisation.

***Liberalising the exchange rate***

2.16 The delegation also discussed the issue of China's regulation of the exchange rate. Currently, the PBOC sets a daily fixing rate that is based on an average of market-makers' quotes to the central bank. This is the starting point for each day's trading. The exchange rate is allowed to move within a band around the daily fixing rate. Chapter 1 noted that in June 2012, this band was broadened from 0.5 per cent to 1 per cent of the US/RMB midrate.

2.17 The delegation heard that the trading band may be further widened later this year, possibly to two per cent of the US/RMB midrate. This is consistent with comments made by the Deputy Governor of the PBOC at the International Monetary Fund Annual Meetings in April this year.[12]

2.18 The delegation encourages moves to continue liberalising the exchange rate regime. If China's foreign exchange market is to develop, it is important that exchange rate movements are allowed to reflect market movements, rather than be constrained by the central bank's trading band.

2.19 The delegation notes the proposal of Mr He Fan, the Deputy Director of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences. His suggestion was that the PBOC should not intervene in the market unless the RMB exchange rate moves up or down by more than 7.5 per cent annually. The figure of 7.5 per cent is chosen on the basis that 'it should be large enough to convince the investors, but not too large to scare the market'.[13]

***Internationalisation of the RMB—pilots and opportunities for Australia***

2.20 The delegation notes that in its 2012 White Paper, the AustCham Beijing and Shanghai Financial Services Working Group commended 'the ongoing and dynamic progress being achieved on the internationalisation of the RMB'.[14] In its discussions, the delegation was told of China's liking for test cases or 'pilots' in pursuing its reforms.[15] There have been some important pilot programs designed to internationalise the use of the RMB.

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12 Mr Yi Gang, Deputy Governor, People's Bank of China, *IMF Annual Meetings*, 17 April 2013.

13 'China must push ahead with exchange rate reforms', *East Asia Forum*, 29 April 2013.

14 Australian Chamber of Commerce Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, p. 7.

15 Discussion with the Australian Consul-General and Consulate staff in Shanghai, 9 May 2013.

2.21 In 2012, China announced a pilot program called the Qinghai–Shenzhen–Hong Kong Modern Service Industry Cooperation Zone, whereby RMB funds from Hong Kong banks finance construction projects in Qinghai. Significantly, interest rates on these RMB-denominated loans will be set independently (rather than on the PBOC's benchmark).[16]

2.22 In August 2012, the PBOC and the Central Bank of Taiwan (CBC) signed a Memorandum of Understanding on cross-strait currency clearing. This agreement enables Taiwanese banks to take RMB-denominated deposits, as well as to engage in trade, corporate and customer finance in RMB. Taiwan was the third jurisdiction, after Hong Kong and Macau, to be able to clear RMB-denominated transactions outside mainland China.[17] In March 2013, Singapore was accorded the same status as an RMB clearing centre, with the Industrial and Commercial Bank of China appointed as Singapore's official RMB clearing bank.

2.23 The delegation draws attention to the need for Australian firms to be aware of business opportunities to use RMB and to be aware of the RMB-denominated trade settlement process. It understands that a working group has been established from the banking, business and government sectors in Australia to investigate the benefits of RMB use.

### *Corporate governance in China*

2.24 The delegation did not focus on matters of corporate governance in any great detail during its meetings. It did hear that China has broadly similar principles of corporate governance to those that operate in Australia. These include defining the rights of shareholders and the role and responsibilities of directors and boards, timely and accurate disclosure of information to the market, and requiring companies to implement effective systems of risk management and performance evaluation of senior management.

2.25 In 2006, China introduced the *Company Law* and the revised *Securities Law*, which together established the modern corporate governance framework. The *Company Law*:

- improved companies' governance structure and mechanisms to protect shareholders;
- highlighted the legal obligations and responsibilities of those in actual control of the company;
- improved companies' financing and financial accounting systems; and

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16 Confidential document provided to the committee, Australian Treasury, February 2013.

17 Confidential document provided to the committee, Australian Treasury, February 2013.

- improved the framework governing corporate mergers and liquidations.[18]

2.26 The revised *Securities Law*:

- improved the supervision of listed companies;
- enhanced the transparency of the issuance process;
- established a mechanism of introducing a system for recommending/sponsoring listing;
- increased the legal responsibilities of directors, supervisors and senior management of listed companies;
- strengthened investor protection, especially for minority investors; and
- established a securities investor protection fund, and defined the system of civil responsibility to compensate for damages to investors.[19]

2.27 The delegation notes that there is a marked contrast between the application and the enforcement of corporate governance principles between Australia and China. This is an area of ongoing focus for the regulatory bodies. Ensuring that corporate governance principles are rigorously enforced is a challenge for any corporate regulator, but it presents particular hurdles in China given the relative newness of its financial system and the dominance of the SOEs. As the Organisation for Economic Cooperation and Development observed in 2011:

> China – like all other countries around the world – faces the continuous challenge of ensuring that its corporate governance laws and regulations are translated into good corporate practice. Ultimately, the rules and laws on paper must be effectively implemented in order to make a difference. This is a long-term commitment that will benefit from constant attention to the quality of the legal system; the presence of self regulatory organizations and cooperation with international institutions. For China, priority areas for attention may include: curbing abusive related party transactions, enhancing the quality of boards, improving shareholder protection and curbing market abuse. It may also be useful to devote special attention to the all-important issue of how to improve effective implementation and enforcement.[20]

18 Organisation for Economic Cooperation and Development, *Corporate Governance of Listed Companies in China*, 2011, p. 16.

19 Organisation for Economic Cooperation and Development, *Corporate Governance of Listed Companies in China*, 2011, p. 16.

20 Organisation for Economic Cooperation and Development, *Corporate Governance of Listed Companies in China*, 2011, p. 16.

*Australia's corporate governance reforms*

2.28 The delegation told its hosts that Australia has implemented a series of corporate governance reforms over the past 15 years, beginning with the Corporate Law Economic Reform Program, or CLERP (1998–2004). The CLERP reforms:

- strengthened the continuous disclosure regime to ensure that investors have timely and equal access to materially price-sensitive information in trading securities on secondary markets;
- made access to capital easier for SMEs;
- provided greater commercial and international focus to the making of accounting standards;
- improved takeovers regulation to promote a more competitive market for corporate control; and
- facilitated the more widespread use of electronic commerce.[21]

*Change of leadership at CSRC*

2.29 The delegation was informed that the CSRC changed leadership in March 2013. The previous Chairman, Mr Guo Shuqing, was appointed as the new Governor of Shandong. Mr Guo was replaced by Mr Xiao Gang. The delegation understands that Mr Xiao is particularly well credentialed for the role, having had senior roles with the PBOC and the BOC.[22] It hopes that Mr Xiao continues the measures initiated by his predecessor, particularly in promoting the use of stocks and bonds as an alternative to bank credit.

2.30 During Mr Guo's 18-month tenure as Chairman of the CSRC, there was a focus on addressing insider trading and reforming the initial public offering (IPO) process. The CSRC told the delegation that there had also been a high-profile prosecution of a family for insider trading.[23]

2.31 In December last year, the CSRC issued an order requiring IPO intermediaries to carry out self-reviews to improve underwriting quality and ensure accurate disclosure of information to the market.[24] Brokerage firms were required to file self-review reports to

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21 Australian Securities and Investments Commission, *Corporate Law Economic Reform Program*, http://www.asic.gov.au/asic/ASIC.NSF/byHeadline/CLERP (accessed 24 June 2013).

22 China Securities Regulatory Commission, Mr Xiao Gang, Biography, http://www.csrc.gov.cn/pub/csrc_en/about/who/xiaogang/ (accessed 24 June 2013).

23 Meeting with Mr Zeng Jifeng and Mr Wu Meng, China Securities Regulatory Commission, Shanghai Bureau, 9 May 2013.

24 China Securities Regulatory Commission, 'CSRC issues the notice on conducting a special inspection of IPO companies' 2012 reports', 28 December 2012 http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201301/t20130109_220240.htm (accessed 25 June 2013).

the CSRC by 31 March 2013.[25] On 24 May 2013, the CSRC announced that since launching an overall investigation into the financial conditions of A-share listing applicants, it has terminated the review of applications from 200 companies.[26] As of June 2013, the IPO reform process was ongoing, with the CSRC seeking feedback from stakeholders on proposals to restrict share issuers from selling stock at below the IPO price.[27]

## Regulatory barriers facing Australian banks and fund managers in China

### *The concerns of Australian banks operating in China*

2.32 An area of significant discussion during the delegation's visit related to the requirements for Australian banks to gain a licence in China. The representatives of the major Australian banks, some of whom are closely involved with the Financial Services Working Group, put a strong view that the process for gaining a branch licence in China is unduly lengthy and onerous. They made the following points:

- banks need to apply for licences for each branch;
- the waiting time for these licences can be lengthy;
- there is a policy of 'one licence at a time', meaning multiple branches cannot be applied for at the same time;
- there is a 6 to 12 month observation period following the granting of a licence; and
- for some licences, such as a derivative licence, there is a separate approval process involving both the CBRC and the State Administration of Foreign Exchange (SAFE).[28]

2.33 The 2012 Australian Financial Services Business in China White Paper made several recommendations to simplify the operating environment for foreign banks. Some of these recommendations related to improving market access for foreign banks, such as:

- removing the 'one licence at a time' and 'observation period' restrictions on foreign banks;
- amending the time limit on obtaining RMB licences, so that those foreign banks that meet the regulatory criteria and perform above industry average have priority;

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25 Cong Mu, 'New IPO experts better than nothing: expert', *Global Times*, 4 February 2013.

26 'CSRC terminates review of 200 listing application', *ChinaScope Financial*, 24 May 2013, http://www.chinascopefinancial.com/en/news/post/26405.html (accessed 25 June 2013).

27 See 'CSRC releases stringent IPO rules as Xiao tackles fraud', Bloomberg, 8 June 2013, http://www.bloomberg.com/news/2013-06-07/csrc-releases-stringent-ipo-rules-as-xiao-tackles-fraud.html (accessed 25 June 2013).

28 Discussion with Australian bank representatives, Australian Consulate in Shanghai, 9 May 2013.

- lifting the investment ceiling on foreign banks from two to three;
- increasing the cap on equity investment from 20 per cent to a more reasonable level (e.g. 49 per cent) to increase investment and benefits for less-developed regions of China;
- for foreign-funded branches where a banking licence is held, allowing an expansion of Representative Office activities to include basic banking services to customers; and
- allowing all banks to access the PBOC Credit System to ensure all available information is used in making credit risk decisions.[29]

2.34 Other recommendations in the White Paper were focused on improving the transparency of existing processes within which the foreign banks operate. This included proposals to:

- establish greater uniformity in China's tax regimes;
- introduce a more consistent and transparent methodology for the allocation of foreign debt ratios;
- allow statutory deposits to be treated as current assets regardless of the term of deposit;
- establish regular communication and engagement between the Chinese Government and domestic and foreign-funded banks with the aim of working through the operational impacts of proposed and draft regulations;
- establish clear guidelines for allowing capital injections, including limits and process, which would be applicable to any foreign entity such as a bank or wholly owned foreign enterprise; and
- review the volume and frequency of regulatory reporting, especially the need to submit reports for products/services not included in the bank's Banking Licence.[30]

2.35 The Working Group also emphasised the need for China to liberalise both its capital account and its interest rate regime. It noted that further liberalising the capital account would provide greater funding options for all banks operating in China. Liberalising the interest rate regime would create a more level playing field between domestic and foreign banks. Currently, the domestic banks attract large deposits and are able to apply a fixed margin on deposits and loans.[31]

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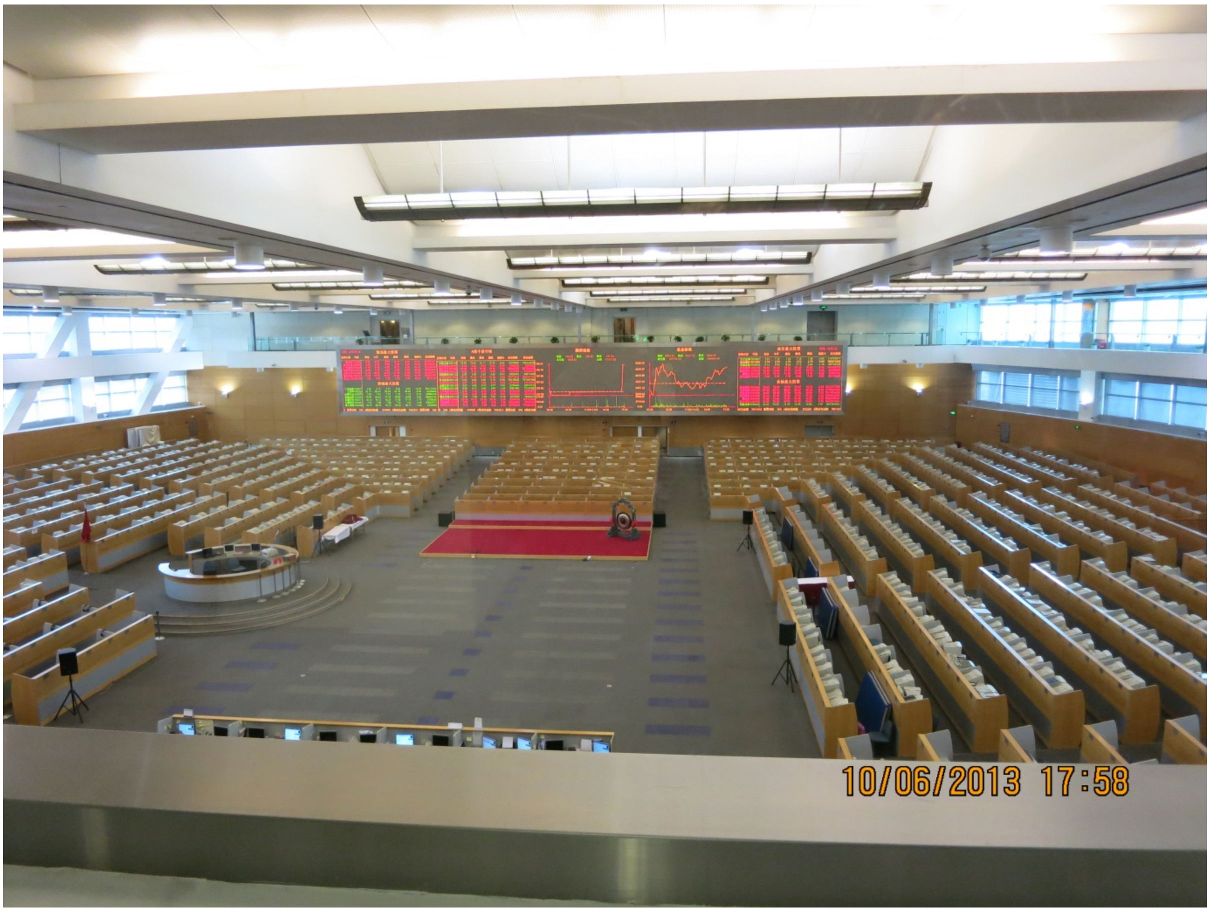
29 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, pp 7–11.

30 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, pp 7–11.

31 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, pp 7–11.

### *The concerns of Australian fund managers operating in China*

2.36 Another area of discussion during the visit related to foreign financial services companies gaining access to China's growing asset and funds management market. As noted earlier, the delegation had the opportunity during its visit to talk to senior representatives from AMP Capital and Macquarie Capital. During the discussions, these representatives noted the opportunities for Australian fund managers to invest in public-private partnerships in China and in real estate investment trusts (REITs). However, they shared the Australian banks' concerns with the complexity and lack of transparency and consistency in the regulatory environment in China.




The delegation visited the trading floor of the Shanghai Stock Exchange on 10 May 2013. Red numbers on the board signify trading gains; green numbers signify trading losses. The Exchange was established in 1990. All trading is now done electronically and it is proposed that the floor be set up as a museum.

2.37 In 2002, the Qualified Foreign Institutional Investor (QFII) program was introduced to allow foreign investors, approved by the CSRC, to buy and sell RMB-denominated shares in China's mainland stock exchanges. SAFE decides the size of each investment quota. A QFII applying for an investment quota must supply SAFE with various documents, including a written application that sets out the source of funds, an investment plan and a commitment of no repatriation of investment during the 'lock-up' period.[32] The regulations also require that an application for a single QFII investment quota 'shall not be less than an amount equivalent to USD 50 million', 'but not more than an amount equivalent to a total of USD 1 billion'. Further, a QFII is not allowed to increase this investment quota within a year of the approval of the previous investment quota.[33]

2.38 There are also experience and liquidity requirements governing QFIIs, although these were relaxed by the CSRC in July 2012. For fund management firms, there is a requirement of more than two years' experience and assets under management of more than US$500 million. Previously (2006–2012), the threshold was for more than five years' experience and more than US$5 billion in securities assets under management. In July 2012, there was also some relaxation of restrictions on investment options for QFIIs, with domestic fund management companies allowed to provide specific asset management services for QFIIs.[34] QFIIs were also allowed to expand their investment vehicles to include stock-index futures and bonds traded on the interbank bond market.

2.39 The delegation notes that the regulations governing the conduct of QFIIs remain highly restrictive. It agrees with the observation in the AustCham Beijing and Shanghai Financial Services Working Group's White Paper that:

> Opening up the funds management sector to an equal level participation by Chinese state-owned institutions and other Qualified Foreign Institutional Investors (QFIIs) and Qualified Domestic Institutional Investors (QDIIs) will result in a more competitive, liquid and high growth sector, with the added benefit of flow-on impact to the overall Chinese financial sector.[35]

2.40 The complementarity of Australian and Chinese interests in a more open and efficient financial services regulatory framework is a theme developed in chapter 3.

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32 Article 6(1), *Provisions of the Administration of Foreign Exchange in Domestic Securities Investments of Qualified Foreign Institutional Investors*. Article 9 sets the 'lock-up' period for pension funds, insurance funds, common funds, donation funds, and government and currency administration at three months. For other types of QFII, the lock-up period is one year.

33 Article 7, *Provisions of the Administration of Foreign Exchange in Domestic Securities Investments of Qualified Foreign Institutional Investors*.

34 Keith Robinson, Karl Egbert, Jingzhou Tao and Gregory Louvel, 'The Qualified Foreign Institutional Investor Program in China – Recent Developments, New Opportunities and Ongoing Challenges', *The Investment Lawyer*, February 2013, p. 4, http://www.dechert.com/files/Publication/a07259f1-1fd6-4283-8ad2-858483a5b595/Presentation/PublicationAttachment/fdf9e573-daa7-49b7-9a4d-793810efe4e9/IL%20Feb%202013%20Robinson%20article.pdf (accessed 25 June 2013).

35 Australian Chamber of Commerce, Beijing and Shanghai, Financial Services Working Group, *Australian Financial Services Business in China*, 2012 White Paper, p. 12.

## Chinese investment in Australia

2.41 The issue of Chinese investment in Australia was not discussed in great detail during the delegation's visit. However, the delegation did hear from the Shanghai branch of the China Development Bank (CDB) of the significant investment that the 'policy bank' was making in Australia. The President of the Branch told the delegation that there is currently eight staff representing the CDB's interests in Australia. He noted that the Bank has provided commitment for 39 projects in Australia, with a value of US$35 billion.[36] The CDB has a number of clients in Australia including:

- Chalco;
- Boasteel;
- Hunan Nonferrous Metals Holding Group;
- Minmetals;
- Meridan Minerals Limited;
- Citic Pacific; and
- Yanzhou Coal Mining Company Limited.[37]

2.42 The CDB is the largest of China's three policy banks. The delegation heard that as of December 2012, the Bank had RMB 7520 billion in assets and made profits in 2012 totalling RMB 63.1 billion.[38] This asset base is more than three times that of the other two policy banks. In 2012, the profits of the Agricultural Development Bank of China and the Export–Import Bank of China were RMB 7.8 billion and RMB 14.3 billion respectively.[39]

2.43 The CDB was the only institution to raise with the delegation the matter of FIRB processes. While the delegation understands there is some concern within China about the nature of FIRB's processes and outcomes, it makes the following points:

- between 2006–07 and 2011–12, the Board considered a total of 48 382 applications of which it rejected only 115 (0.2 per cent);[40]
- since October 2007, FIRB has accepted all 380 foreign direct investment proposals from Chinese companies; only six of these projects have had conditions placed on them;

36 China Development Bank, *Powerpoint presentation*, 10 May 2013, Slide 18.

37 China Development Bank, *Powerpoint presentation*, 10 May 2013, Slide 19.

38 China Development Bank, *Powerpoint presentation*, 10 May 2013, Slide 5.

39 China Development Bank, *Powerpoint presentation*, 10 May 2013, Slide 5.

40 Foreign Investment Review Board, *Annual Report 2011–12*, p. 20.

- in 2011–12, FIRB approved 4752 applications from Chinese investors, totalling A$16.2 billion in value. Mining applications accounted for 65 per cent of this value;[41]
- between 2008–09 and 2011–12, China was ranked in the top three sources of proposed investment (in terms of the value of approvals);[42]
    - the value of projects from China approved by FIRB has increased substantially over the past eight years. In 2004–05, this value was only A$264 million. It peaked in 2008–09 at A$26.5 billion, before falling to A$16.3 billion, A$15 billion and A$16.2 billion in the 2009–10, 2010–11 and 2011–12 financial years respectively.[43]

2.44 Above all, the delegation emphasises that the Australian Government's approach of reviewing foreign investment proposals against the national interest on a case-by-case basis is sensible and prudent. This flexibility maximises investment flows, while protecting Australia's interests. It is also appropriate that the foreign investment review process recognises the importance of Australia's market-based system which makes companies responsive to shareholders and investment decisions based on market forces 'rather than external strategic or non-commercial considerations'.[44] In this context, the delegation agrees with the view that there is an important role for routine consultation between Australian and Chinese authorities to facilitate scrutiny of competition, corporate governance and financial transparency issues.[45]

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41 Foreign Investment Review Board, *Annual Report 2011–12*, p. 30.

42 Foreign Investment Review Board, *Annual Report 2011–12*, p. 20; Foreign Investment Review Board, *Annual Report 2010–11*, p. iii.

43 Foreign Investment Review Board, *Annual Reports 2004–05 to 2011–12*.

44 Australian Treasury, *Australia's Foreign Investment Policy*, 2013, http://www.firb.gov.au/content/_downloads/AFIP_2013.pdf (accessed 25 June 2013).

45 This view was put by Professor Peter Drysdale and Professor Christopher Findlay, 'Chinese foreign direct investment in the Australian resource sector', *China's New Place in a World in Crisis*, Ross Garnaut, Ligang Song, Wing Thye Woo (eds.), 2009, p. 380.