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Committee on Trade in Financial Services

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COMMUNICATION FROM AUSTRALIA

Transitional Review Mechanism in connection with Paragraph 18 of the Protocol on the Accession of the People's Republic of China

The following communication, dated 12 September 2005, from the delegation of Australia is being circulated to the Members of the Committee on Trade in Financial Services.

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1. Australia acknowledges China's continuing efforts to implement its WTO commitments for financial services. Australia recognises that China's accession to the WTO and its own economic reform program have instigated a welcome process of liberalisation with a view to greater access for foreign firms across the financial services sector. The competitive stimulus and enhanced efficiency flowing from opening the financial services sector to greater foreign participation, coupled with strengthened regulation and supervision will be an important driving force in the growth of the financial services sector and of the broader Chinese economy.

2. Questions from Australia to China concerning financial services relate to the banking and insurance sectors.

BANKING

3. Australia wishes to further clarify issues arising from procedures issued in 2004 dealing with limitations on foreign banks borrowing off-shore to lend to businesses operating in China. Australia understands that the *Procedures on the Administration of Foreign Debts of Foreign Capital Banks in the Territory of China* issued on 27 May 2004, set limitations on the amount of foreign exchange funding foreign banks may acquire from overseas, through the imposition of a quota system.

4. As pointed out in last year's communication (S/FIN/W/42) these procedures, combined with the provisions contained in Article 30 of the *Administrative Regulations on Foreign Invested Financial Institutions*, which *inter alia* sets a 70 per cent limit on foreign bank holdings of foreign currency deposits, have increased costs and restricted the market access of foreign banks, particularly those with smaller operations in China.

5. In light of China's GATS national treatment and market access obligations, please indicate how long China intends to maintain the quota system outlined in the *Procedures on the Administration of Foreign Debts of Foreign Capital Banks in the Territory of China.* Now that the quota system has been in place for more than a year, please explain how, in practice, quotas for foreign exchange funding are determined. How much flexibility is available with respect to application of quotas?

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6. In light of China's accession commitments in respect of Chinese-foreign joint banks, in which no limits on foreign equity ownership are scheduled, please explain why China presently limits foreign equity ownership to a maximum of 20% for a single foreign investor in existing Chinese domestic banks.

7. Similarly, in light of China's "horizontal" GATS commitments, in which China scheduled a *minimum* of 25% foreign investment in a Chinese-foreign equity joint venture, please explain the rationale for why China imposes a foreign investment limitation of a *maximum* of 25% aggregate foreign ownership of Chinese domestic banks.

INSURANCE

8. China committed to open its group life, health, pension and annuity market to international participation within three years after accession. Australia notes that China's revised GATS offer confirms that foreign participation in such business would be permitted with immediate effect. Please indicate when implementing measures will be issued by the China Insurance Regulatory Commission to provide specific guidelines and approval criteria/procedures for foreign insurers interested in providing such services so as to give effect to China's commitments in this area.