



No. 1709 [EN]

IMI Working Paper

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The Belt and Road Initiative, RMB Internationalization and Sino-Australian Financial Cooperation

By YU LUO*, YUHE WU, YIRAN ZHANG and YIQI FANG

July 2017

Abstract

The trade and financial cooperation between Australia and China are increasing year by year. Australia becomes an important priority investment destination of China. We discuss the financial cooperation against the backdrop of the Belt and Road Initiatives and the internationalization of RMB. We analyze the financial cooperation demand between China and Australia after summarizing it as well as the investment situation. We find that the financial cooperation between China and Australia has a broad prospect, both sides can work together in many aspects such as wealth management, establishment of Sydney international RMB clearing center, opening up the financial sector, infrastructure investment and PPP, financial technology and financial regulation. And we have provided many suggestions for cooperation in various fields. It is expected that in the future the financial cooperation between China and Australia will keep moving forward under the constant dialogue between the two countries.

Keywords: The Belt and Road Initiative; RMB internationalization; financial cooperation; China and Australia

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In 2013, China launched the "The Belt and Road "Initiative which relies on the existing cooperation mechanism of China and countries along the ancient Silk Road. The existing and effective platform helps countries along the routes achieve economic policy coordination, regional cooperation in a wider, higher and deeper level, and the initiative has received positive responses. At the same time, recent internationalization of the RMB has become China's national strategy, especially after the inclusion of the RMB into the SDR basket of currencies in 2016, the internationalization of the RMB has developed into a new stage. Under the background of "The Belt and Road" Initiative and the internationalization of the RMB, Chinese companies have been entering the global markets at a faster pace, with Chinese-funded financial institutions expanding overseas, the affluent class's needs for overseas asset allocation are on the rise. Australia has advantageous economic and political stability with sufficient supervision experience in a developed financial system. The financial cooperation between Australia and China is becoming increasingly close. The two sides are complementary in creating more opportunities for future investment and development platform.

Economic globalization has encountered a series of obstacles since the last year. Under this background, on March 24th, 2017, Premier Li Keqiang and Prime Minister Malcolm Turnbull of Australia jointly attended the fifth annual meeting of Chinese and Australian prime ministers in Canberra. During the visit, the two sides reached more than twenty agreements on intergovernmental and commercial cooperation in many fields. The leaders of the two countries have repeatedly stressed in different occasions that they will jointly promote economic globalization, trade and investment liberalization and facilitation, oppose trade protectionism, and push forward the building of an open world economy. Financial cooperation between China and Australia will have broader prospects.

This paper studies the financial cooperation under the background of "The Belt and Road" Initiative and the internationalization of RMB. It is structured as follows: The first part summarizes the Sino-Australian financial cooperation and investment situation; The second part analyzes the demands of China's financial cooperation with Australia from China's perspective under the background of "The Belt and Road" and the internationalization of RMB; The third part analyzes the demands of Australia's financial cooperation with China from Australia's perspective; The fourth part we put forward some possible areas and approaches of Sino-Australian financial cooperation; The fifth part analyzes the existing difficulties of Sino-Australian financial cooperation; The last part is the conclusion.

1. The overview of the Sino-Australian investment and financial cooperation

1.1 The basic situation of China's investment in Australia

For China, Australia is an important destination for overseas investment. According to the "*Foreign Investment Review Board(FIRB) Annual Report 2013-14*", China for the first time overtook the United States and Canada to become the largest source of foreign investment in Australia with 27.65 billion AU dollars of investment approved

by the Foreign Investment Review Board (FIRB) in the 2013- 14 financial year. In recent years, Chinese investment in Australia has also improved in quality and structure, from the original single mineral and energy industry to a wider area of many different fields such as infrastructure, health, agro-food, energy regeneration and commercial real estate. According to China's statistics, in 2016, China's direct investment in Australia has increased by 4.8 billion AUD with an increase of about 56%.

Real estate investment is China's most important investment in Australia. Data from "*Foreign Investment Review Board (FIRB) Annual Report 2014-15*" shows that Chinese investment in Australian real estate has four fold in two consecutive years with a total amount of up to 24.394 billion AUD, accounting for 28% of all foreign real estate investment in Australia. Chinese developers invest in both residential real estate and commercial real estate. According to a report from Knight Frank, in 2016, Chinese spent 1.8 billion USD in Australian residential investment, accounting for 38% of disclosed total sales, which was 9.4% higher than in 2015. Over the past three years, the transaction amount of Chinese developers and investors has taken 25% of the disclosed total sales and reached a record high of 38% in 2016. In addition to residential real estate, China's investment has also entered into long-term development projects including residential development, office buildings, retail properties and hotels and other commercial properties. KPMG's "*Demystifying Chinese Investment in Australia, March, 2013*" reports that commercial real estate is still the most attractive to Chinese investors: in 2015 it has attracted 46% of the total Chinese investment in Australia.

China's interest in Australian financial investment also surges. More and more Chinese financial services groups expressed willingness to buy Australian insurers' equity stakes. By buying a small stake and joining the board of directors of well-known insurance companies, they can acquire knowledge of market and business operations in Australia. China's enterprises also want to enter the financial services industry through listing and acquisitions. In October 2016, MAJOR HLDGS announced to purchase 13.42% stake of NSX Limited in Australia. In the future, MAJOR HLDGS hopes to enter Australian financial services industry through The National Stock Exchange of Australia (NSX). In March 2017, JIAJIAFU MODERN LIMITED, a leading enterprise of organic agriculture from Shandong, China, successfully listed on the Australian Stock Exchange (ASX).

1.2 Business development of Chinese-funded financial institutions in Australia

As the globalization goes deeper and the "Going-out Strategy" of Chinese enterprises unfolds, Chinese-funded financial institutions also accelerate their overseas expansion. More and more oversea branches have been set up to provide various financial services and support for the internationalizing of these Chinese enterprises.

At present, the major part of Chinese-funded financial institutions in Australia are banks, among which the Bank of China, Industrial and Commercial Bank of China, China Construction Bank and other big banks take the leading role, while insurance,

securities and leasing companies also have a certain degree of participation. Table 1 shows some major banks' assets and liabilities in Australia:

Table 1 Selected assets and liabilities on Australian books of individual banks				
(\$ million)				
Jan-17	Gross loans and advances	Total deposits	Number of branches	Start date
Agricultural Bank of China Limited	982	891	1	2014.4.28
Bank of China (Australia) Limited	1,073	945	10	1985.12.16
Bank of China Limited	16,640	12,874		
China Construction Bank Corporation	2,808	2,586	3	2010.12.01
Industrial and Commercial Bank of China Limited	5,432	1,902	4	2008.9.23
Bank of Communications Co., Ltd.	1,701	994	2	2011.11.28

Data from: APPA Monthly Banking Statistics

1.3 The development of RMB clearing business in Australia

With the internationalization of RMB, more and more enterprises and financial institutions of China and Australia will use RMB in cross-border trade. The construction of RMB clearing bank will become the infrastructure for RMB internationalization.

In July 28, 2014, Bank of China announced that the RMB clearing system jointly developed by Bank of China and the Australian Stock Exchange has run successfully in Australia. RMB becomes the first foreign currency included in the Australian clearing system. The launch of the Australian RMB clearing system marks a key step in the internationalization of the RMB in Australia.

On November 17, 2014, China and Australia signed a deal to launch an RMB clearing service in Sydney, in another push for use of the Chinese currency in international business. According to the memorandum of understanding inked by the two countries' central banks, the People's Bank of China and the Reserve Bank of Australia, China will set up a clearing bank in Sydney to handle transactions denominated in RMB. Under this agreement, China will grant Australian banking institutions a 50-billion-yuan (8.2 billion U.S. dollars) quota under the RMB Qualified Foreign Institutional Investors (RQFII) program. In November 18, the People's Bank of China authorized the Bank of China's Sydney branch as the clearing bank of RMB business in Sydney.

On February 9, 2015, the launch of the Bank of China (Sydney) as the official RMB clearing bank in Australia made Sydney one of the few places to deal with RMB clearing. The official launch of the bank in Sydney represents an important step in the internationalization of RMB, a strengthening tie between the Australian RMB

market and China's RMB clearing system. It is also expected to further reduce the cost of trade between China and Australia and rich investment and financing options.

On April 8, 2015, The Reserve Bank of Australia has signed a new bilateral local currency swap agreement with the People's Bank of China (PBC). The agreement, which can be activated by either party, allows for the exchange of local currencies between the two central banks of up to AUD \$40 billion or CNY 200 billion. It follows the initial swap agreement between the two central banks signed in 2012 and is for a further period of three years.¹

1.4 Australia's participation in Asian Infrastructure Investment Bank

Asian infrastructure investment bank (AIIB), initiated by China, is a multilateral development bank aiming to support the building of infrastructure in the Asia-Pacific region. Australia responded positively to the initiative. On March 29th, 2015, the Commonwealth of Australia government announced the intention to join AIIB as a founding member. In June 24, 2015, Australia officially announced that Australia will become one of the founding members of AIIB, and would inject 93 billion AUD into AIIB in the next five years to become the sixth largest shareholder of AIIB. Australian officials said that joining AIIB would bring significant opportunities for Australia. Australia could work together with its largest trading partner China and other Asian neighbors to promote economic development and employment. AIIB would work closely with the private sector which could provide opportunity for Australian companies to benefit from the great development of infrastructure in the region.

1.5 China–Australia Free Trade Agreement (ChAFTA) greatly facilitates bilateral investment and financial cooperation

The China-Australia Free Trade Agreement (ChAFTA) entered into force on December 20th 2015. In this FTA, China and Australia both made a commitment of investment liberalization at a high level. ChAFTA has greatly reduced the restrictions on bilateral trade and investment to establish a more open, convenient and standardized institutional arrangements for the future development of bilateral economic and trade relations.

In the field of investment, both China and Australia give each other the most favored nation treatment (MFN) in the Bilateral Investment Agreement. ChAFTA will promote further Chinese investment in Australia by, for example, raising the Foreign Investment Review Board (FIRB) screening threshold for private companies from China in non-sensitive areas from AU\$248 million to AU\$1,078 million.

In the field of financial services, Australia makes a negative list to list specific matters and restrictions in banking, insurance and securities sectors. In addition, Chinese financial institutions will enjoy equal treatment with local financial service providers, which promotes cooperation, development and prosperity of the financial market. China relaxes market access with positive list, considering the major demands of Australian banks, securities and other sectors, and realizing further opening in the field of banking, insurance and securities. China has committed to providing new or expanded market access for Australian financial institutions in banking, insurance,

¹From: <http://www.rba.gov.au/media-releases/2015/mr-15-06.html>

fund management, securities, securities and futures. This has created new business opportunities for those financial institutions, which will encourage other Australian financial institutions to participate in Chinese financial activities, enhancing the bilateral trade, financial services and investment to ensure the future tightening of overall bilateral economic relations.

2. The demands of China's financial cooperation with Australia from China's perspective under the background of “The Belt and Road” and the internationalization of RMB

2.1 Australia is a preferred destination of overseas investment for Chinese Enterprises

Under the background of “The Belt and Road,” and China's enterprises choose their “going out” destinations, they need overall investigation of political, economic and cultural factors. Australia's political stability, transparent regulatory system, and sound governance frameworks underpin its economic resilience. Australia's demonstrated economic resilience, adaptability and record of steady growth provide a safe, low-risk environment for business. Now in its 26th year of consecutive annual economic growth, the Australian economy is underpinned by strong institutions, an exceptional services sector and an ability to respond to global changes.²

Australia's economy is the world's 13th largest and ranked 17th in “*The IMD World Competitiveness Scoreboard 2016*”. By April 1st, 2017, Australia will achieve a record of maintaining economic growth for 104 consecutive quarters since the second quarter of 1991, becoming the country with longest economic growth in the world since records began.

Statistics also show that China's investment in Australia has increased rapidly in the past ten years. The American Enterprise Institute's China Global Investment Tracker shows that for cumulative investment from 2005 to 2015, Australia ranks the second with USD 78.68 billion(United States the first with USD 99.92 billion). “*Statistical Bulletin of China's Outward Foreign Direct Investment*” reports that in 2003 China's direct investment to Australia was only USD \$30 million; in 2008, the number soared to nearly USD \$1.9billion followed by a slight fluctuation. It reached USD \$4 billion in 2014, declined slightly in 2015 for USD \$3.4 billion.

2.2 Australia is an important investment destination of overseas asset allocation for the affluent class in China

After decades of rapid economic growth, the overall size of China's personal wealth has accumulated a certain scale. Industrial Bank (IB) and the Boston Consulting Group (BCG) jointly released the comprehensive development report of private banking in China, which shows the private wealth in China hits about 113 trillion RMB in 2015 with an annual growth rate of 24%. By 2020, the private wealth in China is estimated to reach 200 trillion RMB with an annual growth rate of 12%. It is also estimated that the amount of investible financial assets from High Net Worth individuals (HNW) is supposed to reach 51% of the overall individual wealth at home. China is well on its track to become one of greatest markets in HNW clients³.

²From: <http://www.austrade.gov.au/International/Invest/Why-Australia/Growth>

³From: *the Annual Report (2016) into Private Banking Institutions in China: Tremendous Growth Clamors for*

With the rapid growth of wealth, the needs of HNWIs in China become increasingly complicated and urgent. With investment area changing from simple to diversified, HNWs are more inclined to choose more customized products and services. Their links with overseas market will no longer be limited to daily activities, more commercial activities like technical cooperation, overseas financing, overseas investment will bring them into the global economy, further promoting a more globalized asset allocation.

China's financial market is not perfect and many investment channels are still restricted. A lot of HNWI individuals change investment vision from focusing on domestic investment market to developing overseas markets. Australia has become an important destination for their overseas asset allocation. According to Bloomberg, the annual report *Foreign Investment Review Board(FIRB)* shows that in the past year by June 2015, China's investment in Australian residential and commercial real estate increased from AUD\$12.4 billion to AUD\$24.3 billion, while in 2013 it was only AUD\$5.9 billion. All Chinese investors participated in a survey by KPMG and University of Sydney expressed their intention to invest more in Australia. More and more funds from China are continually flowing into the real estate market in Australia.

2.3 Australia has a developed financial services sector which makes it an ideal cooperator for China

Australian financial sector is the largest driving forth for Australia's national output, employment and economic growth, generating about 10% of real gross value added. Australia's developed financial industry benefits from its transparent regulation, floating exchange rate, open capital account and the high-end financial institutions which have been active in the international market. All these make Australia a good partner for China to develop financial cooperation.

(1) Australia has a huge market and rich experience in wealth management

Funds management plays an important role in the Australian financial ecosystem. Australia has developed professional and innovative asset and capital management capabilities, managing funds of more than AUD\$2.6 trillion. In the international market including funds management, pension funds, life insurance, hedge funds etc., Australia shows its strong capabilities of risk analysis and capital allocation. These capabilities are backed by highly specialized service department that provides tax, accounting, legal and advisory services related to financial transactions. Financial instruments used in investment involve fixed and non-fixed two kinds, especially in the field of non-fixed financial derivatives and off balance sheet assets.

Australia's AUD \$2.1 trillion pension system is the basis of its financial services sector, and makes a substantial contribution to the overall development of the industry. At present, Australia has 245 kinds of APRA-regulated funds and more than 560,000 kinds of Self-Managed Superannuation Fund (SMSFs). The mature pension system as well as the close geographical location to Asia will help Australia provide experience and expertise to China.

(2) Australia has experience in PPP and REIT

Australia has developed a robust and resilient public-private partnership (PPP) model and strengths in REIT through 30 years of experience combined with strong governance arrangements and a highly supportive legal and legislative framework. Economic projects delivered to enhance Australia's productivity include transport and transit systems such as toll roads, airport rail links, light-rail transit systems and major tourism precincts anchored by convention centers. Social projects include hospitals, prisons, schools, housing and accommodation, sports facilities and water and waste treatment facilities. The majority of PPP projects worth USD \$50 million or more and their contract period varies from 15 to 40 years. Australia's four major banks occupy more than 50% market share in the domestic PPP project financing market. Australian government also works with Japan, Canada, Philippines, Indonesia and other Southeast Asian countries to carry out the PPP project with a wide range of technical cooperation. The formation of PPP project management structure shows both unity and relative independence, follows the federal government development strategy under the overall project priorities and improves the construction of project information management system and the actual operation guidance.

China has a huge demand for infrastructure construction and now Chinese government is vigorously promoting PPP. Australia's rich experience can be an important reference for China to carry out such business.

(3) Australia has valuable experience in financial regulation

Australia's financial regulatory quality is among the best in the world. Australia has three major financial regulatory agencies: Australian Prudential Regulation Authority (APRA), Australian Securities and Investment Commission (ASIC) and Reserve Bank of Australia (RBA). The three are mutually independent but seek complementary to promote the economic development of Australia. Council of Financial Regulators (CFR) is the coordinating body for Australia's main financial regulatory agencies. Its members are the RBA (Chair), ASIC, APRA and Treasury. They hold regular meetings, exchange financial information, establish a memorandum of understanding and form effective financial regulatory cooperation.

At present, the main body of China's financial supervision includes the general headquarters of People's Bank of China, China Securities Regulatory Commission, China Insurance Regulatory Commission and China Banking Regulatory Commission. In recent years, with China's financial industry development, the requirements of the financial services gradually increased. Increasing financial innovation and the diversity makes financial products and instruments more complex. The original supervision system is no longer compatible to the development. Australia's advanced regulatory experience can provide guidance for the reform of China's financial regulatory system and the improvement of the financial regulation and cooperation framework.

(4) Australia has strengths in Fintech

Australia is a recognized country in the field of financial technology, and its use of financial technology in banks, fund pension and asset management has a broad range

of advantages, creating many world leading payment systems, financial management platforms, foreign exchange trading system and investor communications equipment. In 2017, the government also plans to implement a "new payment platform" for the development of a new national infrastructure project which is rapid, flexible and rich in data to improve the payment and settlement system throughout Australia.

In recent years, China's inclusive financial development shows the characteristics of multiple service subjects, wide coverage and mobile internet payment. China's internet financial development has outperformed many developed countries. China's financial technology companies have also entered Australian market. In 2014, AliPay announced the construction of a subsidiary in Sydney, Australia, to provide customized cross-border electronic commerce solutions for Australian businesses to help Australian companies expand Chinese market and promote the development of cross-border business between two countries. Additionally, AliPay also combined with Australia post to promote and sell AliPay shopping cards in 4,400 local retail stores so that Australian consumers can shop on Tianmao and Taobao platform. In 2016, Commonwealth Bank of Australia (CBA) became the first bank to work with AliPay, meaning AliPay could use digital pay infrastructure of federal banks which allowed Australian consumers to buy goods through Alibaba group e-commerce such as AliExpress to reduce the transaction inconvenience caused by currency.

2.4 Australia plays an important role in the internalization of RMB.

(1) Accelerating the RMB cross-border trade and clearing services will enhance the international status of the RMB

Australia is an important economy of close economic and trade relationships with China. Since 2014 Bank of China has provided RMB clearing services in Australia. In 2015, Bank of China was identified as the official clearing bank of Australia, the RMB internationalization process in Australia has taken an important step. The increased use of the RMB as settlement currency in the trade and investment activities between China and Australia and the acceleration of cross-border RMB clearing services in Australia not only makes cross-border trade and investment more convenient, but also reduces operating costs and exchange rate risks for the enterprises. With the deepening of the process of internationalization of RMB, it will play a greater role in cross-border trade settlement and bond market investment areas.

(2) China is trying to attract more Australian investors to invest in China

With the process of internationalization of the RMB, China welcomes more Australian investors to participate in China's offshore and onshore financial market. Australian government also showed willingness to support the development of offshore RMB market. In 2014, Bank of China's Sydney branch successfully issued two-billion-yuan "Oceania Bond", to become Australia's first RMB bond market with a total subscription amount of more than 4.9 billion yuan. In April 2014, Australian central bank planned to invest about 5% of its foreign reserves in Chinese government bonds to help diversify investments and deepen economic ties with China. Allowing foreign central banks to invest in Chinese government bonds is one of the important steps for China to promote the internationalization of the RMB. It can benefit the RMB flow in the bond market and bring the corresponding return to foreign investors.

In 2014, People's Bank of China and the Reserve Bank of Australia signed a memorandum of cooperation in the establishment of the RMB clearing arrangements in Australia. The same year, the central bank of two countries agreed to expand the pilot region of RQFII to Australia. Under the agreement, China would grant Australian banking institutions a 50-billion-yuan (8.2 billion U.S. dollars) quota under the RMB Qualified Foreign Institutional Investors (RQFII) program.

The Central Bank of Australia is allowed to invest up to 10 billion yuan (about USD \$1.6billion) in the China inter-bank bond market. RMB clearing bank helps to protect local institutions in Australia so that they can get RMB conveniently, and the establishment of RQFII will be conducive to the return of RMB.

3. Analysis of Australia's demand for China's financial cooperation after stranded TPP

3.1 Australia can take the advantage of China's growth dividend to promote economic growth and financial development

Australia has been actively promoting the development of the Trans-Pacific Partnership Agreement (TPP), however, in 2017, Donald Trump, the new president of the United States signed an executive order to announced the withdrawal of the United States, the future of TPP remains to be seen. Under this circumstance, the cooperation between Australia and China has been put on the track again. In fact, according to a World Bank report published in 2016 shows that by 2030, TPP will only contribute 0.7% to Australia's GDP. Since Australia established diplomatic relations with China in 1972, the trade volume between China and Australia has increased by 1700 times, and the goods trade volume has reached ¥637.34 billion, it continues to maintain a good momentum of stable growth. Since 2007, China has become Australia's largest partner for 9 consecutive years. The Bonuses resulted from the Belt and Road Initiative and the implementation of the FTA to Australia will be far more than the contribution that TPP will bring to the Australian economic growth.

Through economic and trade cooperation with China Australia can obtain various growth dividends and at the same time, through the direct or indirect investment in Australia in all aspects, Australia can get funds to develop from China. Such cooperation can bring more communication between China and Australia. A large number of cross-border investments will promote the development of Australia's financial services industry. According to Investment Bank Credit Suisse reported⁴ in mid-2016, Chinese companies worldwide acquisitions reached USD\$11.7 billion, of which USD \$2.5 billion are for the acquisition of Australian companies. On one hand, the merger and acquisition acquires Chinese local financial services institutions to provide services; on the other hand, a successful case of merger or acquisition needs the help of Australian financial services institutions. As a result, it can vigorously promote the development of the Australian financial services industry.

Australia has the third large fund pool in the world, its total net assets has reached 1600 billion in 2014. Australian fund management industry in the future can be focused on the export market, as well as the entry and expansion of international

⁴ The report comes from *World Wealth Report 2016* by Investment Bank Credit Suisse.

market participants to get more room for development. With the deepening of cooperation between China and Australia, in order to attract more Chinese investment, Australia's financial services industry will continue to innovate and reform spontaneously.

3.2A large number of cross-border capital flows need the Chinese government to relax the control of the capital account to Australia.

China's capital account is not fully opened. Recently, Chinese government worried that the devaluation of RMB would worsen the capital outflows, which would lead to further devaluation of the currency. Hence Chinese government tightened its capital controls. In 2015, China's central bank strengthened the supervision of foreign exchange business: it notified commercial banks to control the exchange of dollar, and provided window guidance to suspend the application of the new RQDII (RMB qualified domestic institutional investors) related business. In 2016, due to the control of the capital outflows and strict implementation of annual limit of \$50,000 foreign exchange purchase, many Chinese investors unable to remit funds to Australia, causing many potential deals to break.

Trade and financial cooperation between China and Australia need releasing their respective capital controls. Trading business and fund management, the two key areas of the development of RMB business in Australia, should accept certain degree of capital account liberalization. Australia also hopes that China will relax its control of capital in Australia so that it will be free to move in and out of the market. This requires the deepening of financial cooperation between China and Australia.

3.3 Under the background of internationalization of the RMB, Australia can act as the Asia Pacific and global RMB clearing center

As the RMB join the SDR basket in 2016, its internationalization will be further accelerated with the rise of China's economy. Australia's Kathleen Walsh and Geoff Weir co-authored a report "The internationalization of RMB and the evolution of the offshore RMB center" states the chance of Sydney, which viewed from a new perspective to examine the opportunities for the internationalization of RMB to Sydney and Australia. The report shows that Australia and China, these two economic systems are complementary in terms of capital, food input and output, service and capital management. According to HSBC, if Australia directly exchanged to RMB, rather than first converted into dollars and then converted into RMB, the Australian companies can save up to 7% of the transaction costs. And if the RMB trading center establishes with FTA agreement, then in 2020, China's investment in Australia will grow 7 times to USD \$300 billion.

Therefore, Australia plays an important role in promoting RMB internationalization, Australia should strive to serve as Asia Pacific and global RMB clearing center in the background of RMB internationalization. Deputy Treasury Secretary Siino Dinos said Australia and China should focus on development of long-term cooperative relations. Australian companies should increase their business settlement in RMB, expanding the use of its currency in Australia, which enhances the status of Australia as an increasingly important offshore RMB trading center⁵.

⁵Sources from economic daily, February 25, 2014, *an important step in the internationalization of the RMB in*

3.4 Strengthening cooperation with China in global financial governance under the framework of G20 and Australia's influence.

Australia is a regional power eager to increase its international influence. In 2008, the international financial crisis exposed the current global financial governance system lagging behind the actual needs of economic development. Global financial governance reform is imperative. Australia is the world's top financial regulator, Australia can voice louder through China's current international influence in global financial governance, provided the experience of financial governance and regulation. China can rely on Australia's advanced regulatory system, and actively transform the old international economic order and financial governance structure, and undertake more international responsibilities. By strengthening multilateral cooperation between the two countries, coordinating cooperative relationship at international, regional and bilateral levels, both will improve their international influence and discourse power while strengthening financial cooperation.

4. Prospect of financial cooperation between China and Australia

4.1A brilliant future in wealth management lies ahead.

With the deepening of globalization, many wealthy Chinese began to invest overseas; wealth management business in China's private banking must keep pace with the need of their customers, resulting in great cooperative demand between China's private banking business and its foreign counterparts. Additionally, with the advent of the globalization of capital, cross-border asset allocation problem becomes the most significant issue remained settling. Australia has become a popular choice for many investors, China and Australia can further their cooperation in cross-border asset allocation: China will invest capital to Australia, and Australia provides high returns and security. It is expected to further expand the scope and scale of overseas investment in the field of Mutual Fund Connect, QDLP/QDIE, Shenzhen-Hong Kong Stock Connect program besides previous QDII and Shanghai-Hong Kong Stock Connect program. Australia should pay more attention to its professionalism and platform to build a fully operational asset allocation platform and information platform.

4.2 Establishment of Sydney international RMB clearing center

Under the background of internationalization of the RMB, Australia acts as the Asia Pacific and global RMB clearing center which can bring a lot of opportunities for cooperation between Australia and China, and can also provide convenience for both sides. The RMB business in Sydney has broad market prospects. Most of the RMB transactions are related to trade: the provision of foreign exchange services, derivatives hedging, cash management services, fixed deposits and trade financing. As “financing is attracted by trade”, two-way investment between China and Australia will continue to strengthen, which will also bring a lot of business opportunities for domestic and foreign banks in Australia.

To become a successful offshore RMB center, Australia can explore its own special strengths and skills from the underlying principles. Australia has professional

knowledge in capital management, global real estate and global infrastructure funds. In the future, the offshore renminbi market in Sydney will start from the global real estate fund management, and global infrastructure fund etc., in addition to the transaction banking. Australia should make good use of its local advantages to construct offshore RMB center. Therefore, first of all, the most important thing is to help the subject of investments to facilitate the settlement of the currency, create a better market and policy environment for bilateral currency investment activities. Secondly, we must strengthen the financial cooperation between China and Australia, and try to provide more convenient financial services and better financial products for both companies.

4.3 Cooperate with each other in opening up the financial sector

Australia has been hoping an opener financial services sector in China. In 2015, China and Australia signed a free trade agreement on further opening of China's financial market. Australian financial institutions have obtained more development opportunities in China's financial market. Australia should strictly control the financial capital to China, and ensure the stability and reliability of the capital. This approach will provide confidences for China to further lessen the capital account restrictions, widening Australian financial institutions access to Chinese financial market.

China and Australia can further sign agreements on the market access rules of the financial institutions, relax the restriction to a certain extent, and establish agreement on the cooperation of financial institutions so that China can have more financial institutions in Australia. To this end, China needs to prepare in the following three aspects: 1) accelerate the competitiveness of China's domestic banking sector, 2) establish efficient laws and regulations systems as soon as possible to provide a solid legal guarantee for the opening up for China's financial market; 3) Form a comprehensive and effective financial risk monitoring system and enhance the confidence of foreign investors in China's financial sector.

4.4 Cooperation in infrastructure investment and PPP based on Asian Infrastructure Investment Bank.

In 2015, Australia became a founding member of the Asian Infrastructure Investment Bank. As an important developed country in the Asia Pacific region and with capital or experience, Australia will have an important impact on the development of the Asia Pacific Region. For Australia itself, joining the Asian Infrastructure Investment Bank can get huge economic benefits. Australia has been attracting infrastructure investments from China for a long time. In 2012, the Australian government signed a memorandum of cooperation to promote infrastructure construction. Becoming a founding member of the Asian Infrastructure Investment Bank will enable Australian companies get more opportunities to participate in investment projects in the Asian Infrastructure Investment Bank, which can in turn promote the growth of its resources and services. In addition, for the entire region, the cooperation in Asian Infrastructure Investment Bank will further enhance the depth and density of economic and trade Exchange. It can also play a leading role in the South Pacific Region to help the South Pacific island countries strengthen

cooperation with China under the propose of maritime Silk Road initiative.

Cooperation in infrastructure investment between China and Australia can improve the infrastructure in Australia, expand and deepen mutually beneficial cooperation between the two countries while providing confidences in winning more infrastructure projects in western developed countries. To put into practice, the two countries can cooperate in capital, labor, planning design, management consulting, project construction、operation and supply of equipment. Australia has a thirty-year history of providing critical infrastructure and services and private sector financing, including public-private partnerships (PPPs) and long-term preferential ownership and operating agencies. China can strengthen cooperation in sharing the experience of PPP model with Australia, pay attention to the economic, social and environmental benefits of the project, and promote the realization of public policy objectives through the PPP model. Financial institutions in both countries should also provide support for PPP, and the two countries should improve the policy system of financial support for PPP projects financing. Financial institutions should also develop innovative financial products to support. All policy banks should actively participate in the project financing, providing risk management measures, and using syndicated loans, and entrusted loans. Finally, the governments of both countries should expand the financing channels of PPP projects, including the issuance of project bonds, etc.

4.5 Developing cooperation in financial technology(Fintech)

In view of the rapid development of Chinese mobile payment such as “Alipay” and its successful experience in overseas promotion, Australia can cooperate with Chinese mobile payment institutions in the future to push forward the establishment of a new payment platform. Australia can take this as a breakthrough to explore new modes of cooperation with China in financial technology, to promote the further development of financial cooperation between the two countries in science and technology. China and Australia should seize the development trend of mobile payments, and play the leading role in the field of mobile payment cooperation to promote the development of internet finance in the two countries and strengthen financial technology cooperation between China and Australia.

4.6 Cooperation in financial regulation

With its relatively well-established financial regulatory mechanisms, Australia can quickly recover from the financial crisis. China and Australia has a lot of room for cooperation in the field of financial regulation. China can learn from Australia to better regulate its domestic finance sector, to promote the stability and prosperity of the domestic financial market, and prepare itself for potential risks in investing in Australia.

Australia has set up memorandums with two of China's top financial regulators--the China Securities Regulatory Commission (CSRC) and the China Banking Regulatory Commission (CBRC)--ASIC has maintained a strong relationship with China Securities Regulatory commission. China and Australia should deepen cooperation in the field of financial regulation in the future, establish a macro and micro prudent management mechanism, form an effective financial risk assessment, testing, control system to scientifically forecast risk, evaluate risk and deal with risk, strive to achieve

the establishment of a well-established financial risk system. Besides, the two countries should improve the framework of cooperation in financial regulation, China may learn from Australia in the field of financial supervision system, give full play to the one bank and three commissions, appropriate increase the restrictions on cross-border financial cooperation. Finally, the two countries can work together to promote the implementation of the relevant laws and regulations, help improve the integrity and standardization of global financial risk regulation

5. Problems and challenges

5.1 Australia's strategic concerns

Australia's strategic concerns may affect the financial cooperation between China and Australia. As an important part of the Asia Pacific political and economic structure, Australia is important in connecting the two sides of the Pacific. In addition to maintaining economic and trade relations with countries in the Asia Pacific Region, the reason for choosing to join TPP and actively promoting the TPP negotiations is that it can help maintain U.S.-Australian alliance. When former U.S. President Obama came to power, he proposed the Asia Pacific rebalancing strategy, re-expressed concern about the Asia Pacific region. Based on its identity positioning as a "western country" and its "alliance with the strong" strategy, Australia actively cooperated with it. In addition, Australia actively promote relations with the United States with their national security considerations. In developing relations with China, some people in Australia have strategic concerns. On March 23th 2017, Australia refused AUD \$5 billion as national infrastructure fund which was promoted by China to invest in Canberra, and Australia also refused China's New Silk Road strategy. Australia is worried that its connection with China could undermine relations with the United States when it is the time that they call for Washington to strengthen its activities in the region.

5.2 Remaining Barriers to cross-border investment and financial cooperation

At present, China has stricter regulations on cross-border capital flows, and has already limited some cross-border capital flows and investments in China. There are also some barriers to cooperate in Australia. Australian treasury secretary Scott Morrison announced new rules that the important infrastructure assets of all states and territories governments must be examined by the Australian Foreign Investment Review Board (FIRB) before transaction. Australian government believes that foreign investment has become an important source of funding for infrastructure construction and upgrading in Australia, and it is necessary to regulate the behaviors of asset acquisitions by foreign investors to ensure that foreign investors do not violate the national interests of Australia. And this has affected the merger and acquisition of Chinese enterprises in Australia.

5.3 Local interests conflict

Financial cooperation between China and Australia may also encounter some local interest conflicts. Australian vice-premier Banaby Joyce announced that future bids from state-owned enterprises would face a rigorous review. In 2016, Australia declined a \$10 billion purchase offer to Australian power company Ausgrid from

China's National Electric Net Ltd, a Chinese state-owned enterprise, and CK Infrastructure Holdings Limited headquartered in Hong Kong. Reuters quoted a claim from government official said that one of the reasons that Australia rejected the mergers and acquisitions application was a concern of China becoming a “geopolitical threat”. Besides, the Australian government has also blocked a Chinese consortium to buy Kidman, a livestock company owning more than 1% of Australia's land. Australia said it was for the national interests and security considerations, they worried that China's acquisition of Australian companies would lead to unemployment of Australian workers.

6. Conclusion

The trade and financial cooperation between Australia and China are increasing year by year. Australia becomes an important priority investment destination of China. Financial services industry plays an important role in the economic development of both countries. As China's largest trade and investment partners, Australia can actively seek opportunities for financial investment and achieve diversified cooperation in all aspects of finance. Under the background of the Belt and Road initiative and RMB internationalization, the financial cooperation between China and Australia can achieve a win-win situation, and the prospect of financial cooperation between the two countries is broad.

Despite potential problems and challenges, China and Australia will gradually open their capital restrictions and widen the access to financial institutions, making joint efforts to promote the construction of a financial cooperation platform. It is expected that in the future the financial cooperation between China and Australia will keep moving forward under the constant dialogue between the two countries.

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