Zhou Xiaochuan: China's economic development and external financial cooperation

Speech by Mr Zhou Xiaochuan, Governor of the People's Bank of China, at the Sino-French Financial Forum, Beijing, 21 September 2006.

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Honorable Governor Christian Noyer, Dear guests, Ladies and gentleman,

Good morning.

Today, we have gathered at the Sino-French Financial Forum sponsored by the People's Bank of China jointly with the Bank of France. On behalf of the People's Bank of China, I would like to extend warm welcome to Governor Noyer and the French colleagues and express sincere appreciation to the National Council for Social Security Fund, China Insurance Regulatory Commission, the Industrial and Commercial Bank of China, China Construction Bank, China Life Insurance (Group) Company, as well as the participating experts and academicians for your support.

The theme of the Forum is "promoting the Sino-French financial cooperation and dialogue". Let me take this opportunity to share with you my views on China's economic development and external financial cooperation.

Healthy development of the Chinese economy needs international financial cooperation at a higher level. China's GDP grew at 9.4 percent on average in the past 28 years since reform and open-up, the highest in the world and almost 3 times of the world average. Economic development of a country underpins the growth of its financial sector. On the other hand, as the core of modern economy, sound financial development guarantees the steady and fast development of the aggregate economy.

To maintain healthy and fast economic development, the Chinese government has strengthened macro-economic management, deepened economic restructuring and steadily promoted the reform of state-owned commercial banks and capital market in recent years. Following the successful IPO of the China Construction Bank, Bank of China has issued H share and A share respectively in Hong Kong and Shanghai in June and July this year. The ICBC is actively preparing for its public offering. As for the capital market, due a mistake a decade ago the institutional shares were not tradable. We have made a big decision to change it and with resource input have already achieved evident progress. Meanwhile, we have conducted a series of supplementary reforms including enhancing accounting standards, reforming tax system, improving law and regulations and strengthening policy transparency. To a great extent, this has improved China's investment environment and guaranteed the return on foreign capital.

China has made progress in financial opening-up. As of end-June, 71 foreign-funded banks have opened 214 operational institutions in China; in particular, 25 cities have been opened for corporate RMB business; 26 foreign financial institutions have made equity investment in 18 domestic banks totalling US$17.9 billion; 23 joint-venture fund management companies and 8 joint-stock securities companies have been established; 42 foreign entities have become QFIIs. China has not only honored the WTO accession commitments seriously, but also promoted, at its own initiative, RMB convertibility under the capital account by reducing or removing restrictions on capital account items in line with the economic and financial development situation.

Opening-up is one of China's fundamental state policies. We will continue to push ahead financial reform and opening-up so as to improve the corporate governance structures and management of domestic commercial banks. After the WTO transition period, both Chinese and foreign financial institutions will enter into a new development era.

Sino-European and Sino-French financial cooperation have a bright prospect. It benefits both side to promote Sino-European financial cooperation. Sino-European cooperation is the requirement of globalization process and promotes the later in turn. Sino-European economic and trade cooperation serves as the foundation and is boosted by financial cooperation. The further development of Sino-European comprehensive strategic partnership has provided a strong basis for economic and financial cooperation. The European Union is China's largest trading partner, the largest technology provider and the fourth largest investor. In 2005, bilateral trade volume between China and

Europe totaled US$217.307 billion, an increase of 22.6 percent y-o-y; in particular, China's export increased by 34.1 percent y-o-y and import 4.9 percent y-o-y. Economic and trade cooperation between France and China has also expanded. Right now, France is China's second largest technology provider, the third largest investor and the fourth largest trading partner. Bilateral trade volume between France and China reached US$25.93 billion in 2005, increasing by 22.5 percent, with growth of import and export both above 20 percent. In recent years, the two countries have had fruitful cooperation in aviation, energy and environmental protection fields. Many well-known French companies including Veoliaenvironment, Alcatel Group, Michelin Group, Renault Group, Carrefour, Group Danone and Lafarge Group have business operations in China. Accordingly, many French financial institutions are looking for opportunities to cooperate with Chinese counterparts. Large inflow of European capitals provided capital and technology support for sustained and fast economic development in China. The size and dynamics of the Chinese market have given European companies room for further development. Strong economic complementarities between China and Europe, as well as China and France have laid a solid foundation for strengthening our economic and financial ties.

Economic globalization has increasingly integrated the global capital market. Financial institutions' expansion and information technology development have enabled them to provide financial services globally. Cross-border M&A activities have increased tremendously both in terms of size and speed and blurred the nationalities of financial institutions.

Learning international experiences and adopting international best practices is one of the important principles in China's reform and opening-up. In 1990's, China introduced the Value-added Tax (VAT), which is a French invention. The reform has a large impact on China's economic and trade development. We also felt that if we couldn't have understood international experiences and followed the best practices, we would probably have zigzagged in our development or even paid a heave price. Therefore, we value the opportunity to exchange views with our French friends.

Financial market has also shown a globalization trend. Along with further reform and opening-up in China, foreign capitals will continue to participate in the Chinese financial sector, while more and more Chinese institutions and capitals will go abroad to actively participate in the financial globalization. Chinese financial market has had much interaction with its foreign counterparts, a natural process of market development and selection, but there are still rooms and needs for countries to improve their market entry regulations.

China committed itself to further open-up in the 5-year transitional period when it joined the WTO. The Chinese government has reiterated the policy to further open-up in various important documents. Sustained progress has been made in financial market reform and integration with the world market. We will continue efforts to develop financial market, further open up the market in a gradual and orderly manner and promote RMB's free convertibility steadily.

To conclude my speech, I wish the Forum a great success and all participants good health!