

## Zhou Xiaochuan: Opening to the outside world - past experience and prospects

Speech by Mr Zhou Xiaochuan, Governor of the People's Bank of China, at the World Economic Development Declaration Conference (WEDDC) and the China Business Summit, Zuhai, 10 November 2003.

\* \* \*

I feel honored to be able to address such a distinguished audience. Let me first congratulate on the launch of the *World Economic Development Declaration* and wish the conference a great success. One of the key subjects under discussion in this conference is reflected in the first part of the Declaration. That is under market economic conditions, all countries and economies need to liberalize trade in goods and services and investments for each other so as to cement inter-dependence and promote common development. Today, I would like to share with you my views on economic opening up, in particular the opening of the service industry.

History of economic development and opening over the recent decades showed we are prone to underestimate advantages brought by opening up to the outside world while overestimating the shocks and risks that may result in such a process. Such a perception is more likely to prevail in the early periods of economic opening in the developing countries when they are dwarfed in terms of economic strength compared with the developed countries. And China's experience over the past two decades is a good example in this regard.

In the late 1970s and early 1980s, China started to import home electronic appliances, mainly color TV sets and cassette recorders. At that time, we heard loud voices expressing concerns over the damage the opening might cause to the viability of the Chinese electronic industry, for we were far behind the foreign countries in terms of industrial competitiveness. The final result, however, is we have not only made remarkable progress in developing the electronic industry, but also become the largest producer and exporter of the electronic audio and video products in the world. In the late 1980s, China forcefully cut import quotas and licensing control, and such an action raised concerns about widespread shocks a step forward in opening the Chinese economy big as this one could possibly inflict on the domestic market. Contrary to these worries, China's trade sector witnessed steady development with the competitiveness of domestic industries remarkably improved in the process of international competition.

In 1994, we unified the dual exchange rates and adopted the managed floating exchange rate regime. When this reform was put on table for debate and discussions, some people expressed profound worries about the timing to introduce it, citing unsound domestic economic fundamentals and the inherent big risks. In their view, three preconditions must be satisfied before we could proceed to unify the dual exchange rates, namely a robust strengthening of export capability, a large stockpile of foreign reserves and skilled macroeconomic management. In the absence of any of these three preconditions, the authorities found it very difficult to make the decision to unify the exchange rates. At the end of 1993, China however decided to go ahead with reform of the exchange rate regime and subsequently further achieved current account convertibility in 1996. With the benefit of hindsight, now we can see the foreign exchange reform was a great success. At the end of 2001, China joined the World Trade Organization (WTO). As to whether China should join the WTO, people at the beginning were actually holding different views. Some worried about the impact it might bring on the domestic industries. We made careful preparation. Experience over the past two years indicated that China's WTO accession has brought itself benefits far more than the shocks and risks. In my view, the above four cases may help to improve our perceptions about opening up to the outside world in the future.

The global experience was not much different. After World War II, the developing countries initially did not fully recognize their comparative advantages in international competition and worried about shocks associated with external liberalization. They generally thought that the world economic order was discriminatory in nature against the developing countries, so they demanded for a change of the terms of trade with the developed world and a strengthening of protection for their national industries. However, with the great success of the export-oriented development strategy adopted first by the four "Asian Dragons" and then by the five "Asian Tigers", such a development strategy has started to gradually take firm root in the developing countries, including China. Despite the breakout of the Asian financial crisis in late 1990s, many developing countries have come to realize that the benefits brought by economic opening up actually outweigh the inherent shocks and risks, and these countries have

become an important force in advancing the liberalization of trade and investment. Of course, there is no denying that some countries have not even attempted to open up to the outside world, and it is more disappointing to see the resurgence of protectionism in some developed countries and the failure of the Cancun negotiations.

Looking forward on the basis of historic experience, I hope to talk a bit more about the future of service trade. Similar to the liberalization of trade of goods, opening of the service sector will also bring competition. Competition further brings not only pressure, but also vigor and prosperity. In this regard, opening and competition will promote technology exchange and more effective allocation of the resources. In China, financial opening constitutes an important component of the overall opening of the service sector. As China's banking system is still heavily burdened with various deficiencies and the capital market and insurance sector remain young, we need to make unremitting efforts to strengthen our own competitiveness. Despite the above-mentioned obvious advantages, the shocks and risks are still likely to be overstated when it comes to the opening of the service industry.

It is my belief that steady opening of China's service industry in accordance with the Chinese government's WTO commitments and the timetable of the WTO will bring more benefits to the Chinese economy and the whole world. The People's Bank of China looks forward to making valuable contribution, through its financial policies, to the opening of the service sector, to the realization of principles contained in the Declaration and to the success of this conference.

Thank you!