Welcome speech: gradually and steadily promoting China's capital account liberalisation

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The seminar on "Capital account liberalisation in China: international perspectives", jointly held by the Bank for International Settlements (BIS) and the State Administration of Foreign Exchange (SAFE), is now getting started. On this occasion, I would like, on behalf of the SAFE, to welcome all the international experts, representatives of The People's Bank of China and the Chinese Academy of Social Sciences, as well as my colleagues from various regional branches of the SAFE, to this seminar.

The BIS has given the SAFE much support during our long cooperation and in particular has helped to bring about this seminar. We are honoured that Mr André Icard, the Deputy General Manager of the BIS, is able to spare the time to attend and even to chair a section of the seminar, which itself gives this event a boost. There is an old Chinese saying: "It is always a pleasure to greet a friend from afar." It is my sincere hope that Mr Icard, Mr Ooi Sang Kuang, Deputy Governor of the Central Bank of Malaysia, and all the other friends present will enjoy their stay in Beijing.

At present, China runs a unified, managed floating exchange rate regime based on market demand and supply. Since this regime was first established eight years ago, the exchange rate of the renminbi has been basically stable. With regard to the allocation and use of foreign exchange, China has abolished the foreign exchange retention scheme, the mandatory surrender system for foreign exchange earnings, and the system of planning and administrative approval of foreign exchange uses. In their place, China has established a system of "purchase and sale of foreign exchange through designated banks", thereby establishing a market-based mechanism of foreign exchange supply and demand and achieving the full current account convertibility of the renminbi. At the same time, in view of the current situation of the country, certain controls have been maintained on capital account transactions, with the intensity of such management and control measures varying across different types of capital transactions.

Generally speaking, the current foreign exchange management system is consistent with China's situation and the requirements of a market economy; it has contributed to the maintenance of China's balance of payments and the stability of the renminbi, supported the rapid and healthy development of the Chinese economy, and guarded China's economic security related to external transactions. In recent years, with few exceptions, China has achieved surpluses on both its current and capital accounts, and its overall balance of payments displays a promising outlook. The amount of foreign exchange purchases and sales through banks is an indicator reflecting the total foreign exchange revenues and outlays of the economy. Judging by this indicator, the foreign exchange sales and purchases for trade, non-trade and capital account transactions all showed net surpluses during 2001. This trend was maintained, and even accelerated noticeably, in the first half of 2002. After the reform of the foreign exchange management system in 1994, China's foreign exchange reserves rose rapidly for several successive years to reach USD 246.5 billion by the end of July 2002, which is 11 times the USD 21.2 billion level achieved at the end of 1993. The renminbi exchange rate has remained steady and even appreciated.

China became an official member of the WTO in December 2001. It is now actively amending its relevant laws and regulations according to its accession commitments to the WTO and speeding up the adjustment of its industrial structure. Although China did not make any commitment to open up its capital account in its WTO accession agreement, its current foreign exchange management system does not constitute a restriction on legal and normal transactions under capital account either. However, we understand that the long-run goal of China's foreign exchange system reform is to push forward renminbi convertibility for capital transactions and ultimately to achieve full renminbi convertibility. Therefore, it is important for the SAFE to study issues related to capital account liberalisation.

Over the past few years, the SAFE has organised several seminars on capital account liberalisation, which have served as a useful reference for the further reform of China's foreign exchange management system. This joint BIS/SAFE seminar, however, is unique and differs from previous ones in that the topics selected for discussion cover some of the more difficult, less known, not yet clarified but unavoidable issues that we have come across in our research on capital account liberalisation. For instance, it remains controversial whether certain preconditions are necessary for capital account liberalisation. Some believe that the capital account cannot be liberalised unless certain preconditions are met, while others hold that preconditions are unnecessary because conditions can be created along the liberalisation process. Another example is how to coordinate and harmonise monetary policy, fiscal policy and supervisory policy towards capital markets in the process of capital account liberalisation. Finally, the seminar looks into the question of how we manage the pace of capital account liberalisation so as to steadily and properly promote the progress of renminbi convertibility, safeguard the security of China's financial system, and effectively prevent financial risks and crises. After repeated discussions and consultations with the experts of the BIS, we decided on some of the above questions as the topics for discussion at this seminar. Then, international experts were invited to give us presentations on their own economies' practice and international experience in accordance with the questions raised. It appears that the papers the experts have submitted are well organised and feature in-depth analysis, providing a basis for the success of this seminar.

We hope that all the participants can actively engage in discussion and exchanges throughout the seminar, and offer their opinions and advice on how to improve China's foreign exchange management system and promote renminbi convertibility under the capital account. I am confident that this seminar will be a great success.