

Zhou Xiaochuan: Financial cooperation between China and Europe

Address by Zhou Xiaochuan, Governor of the People's Bank of China, at the First China-Europe Financial Services and Regulation Roundtable Conference, Shanghai, 28 October 2005.

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Ladies and Gentlemen,

Good morning.

On behalf of the People's Bank of China, I would like to take this opportunity to express my warm welcome to all the guests and delegates to attend the first China-Europe Financial Services and Regulation Roundtable Conference co-sponsored by the People's Bank of China and the European Commission.

The Roundtable conference not only provides a good opportunity for China and Europe to have high-level dialogue about financial services and regulation, but also creates a new platform for further cooperation in this regard. We will exchange our views sincerely about financial services and financial markets regulation, the challenges brought by globalization trend, international cooperation and other issues of our mutual interests in a very pleasant atmosphere.

The conference was held in Shanghai because it is the financial center of China harboring a large number of domestic and foreign financial institutions. On 10 August 2005, The People's Bank of China established the Shanghai Head Office. The event of the first China-Europe Financial Services and Regulation Roundtable Conference in Shanghai holds great significance for the development of Shanghai as a financial center, as well as financial exchange and cooperation between China and Europe.

In the recent years, economic and trade relations between China and Europe have been strengthened gradually. The ancient "Silk Road" tied China and Europe closely more than 2000 years ago. Since the reform and opening-up, China has registered an average annual GDP growth rate of 9.4 percent, while on the other side of the Euro-Asia continent, the European Union has gradually developed into an organization comprising 25 member countries. In 2004, the enlarged European Union became the largest trading partner of China, China became the second largest trading partner of the European Union and the bilateral trade volume reached over USD170 billion, increasing by 33.6 percent. As of end-December 2004, the European Union had nearly 20 thousand enterprises invested in China with the contractual value of capital reaching USD75.38 billion. China has benefited much from the EU in the process of economic cooperation in terms of capital, technology and advanced management experience. At the same time, the rapid development of Chinese economy also provided many chances for the EU countries.

After its accession to the WTO, China has stepped up reform and opening-up of the financial industry. RMB exchange rate regime has been reformed, market-oriented interest rate reform has been steadily promoted, financial institutions' restructuring has been deepened gradually and the capital adequacy level of commercial banks and other financial institutions has been increased markedly. Moreover, China has strengthened its efforts on preventing financial risks and maintaining financial stability, introduced modern financial management skills, qualified personnel, products and modern corporate mechanisms and advanced financial innovation.

Along with the strengthened economic and trade relations between China and Europe and the acceleration of China's financial system reform, bilateral financial relations have been improved further. First, institutions from both sides increased their presence in each other's side. At present, 52 banks from the EU have established branches and representative offices in China, including HSBC Holding, Standard Chartered Bank from the UK, Société Générale and Natexis Banque Populaires from France, Deutsche Bank, Bayerische Landesbank from Germany, Bank of Rome, UniCredito Italiano from Italy, ING Bank from Netherlands, KBC Bank N.V. and Fortis Bank S.A./N.V. from Belgium. Moreover, there are non-banking financial institutions invested by German institutions in China, such as Siemens Finance Company, Volkswagen Auto Finance Company. At the same time, Industrial and Commercial Bank of China, Bank Of China, China Construction Bank, Bank of

Communications have established branches and representative offices in Frankfurt, London, Paris, Luxemburg, Amsterdam, Milan and Budapest etc. Besides, cooperation in insurance industry was advanced positively. For example, Groupama-Gan, Allianz, Allianz-Volkswagen Life Insurance, Koln Reinsurance, Royal Sun Alliance Insurance from the European countries have already had joint-stock or solely-owned insurance companies. People's Insurance Co. Ltd. of China and China Life Insurance Co. Ltd. established 5 insurance companies, 1 insurance brokerage companies and 1 insurance agent companies in the UK, Germany and Luxemburg respectively. As to the securities industry, 12 securities companies from the European Union established 19 representative offices in China. At the same time, some joint-stock securities firms and fund management firms were established in China. For example, Xiangcai Securities Ltd. of China and Credit Lyonnais Securities Asia jointly established the China Euro Securities Ltd., Xiangcai Securities Ltd., and ING Bank jointly established the Xiangcai Hefeng Fund Management Co. Ltd., Bank of Communications and Schroders Group from the UK jointly established the Bank of Communications & Schroders Fund Management Co. Ltd., Deutsche Bank AG bought equities of Harvest Fund Management Co.Ltd. and Belgian company invested in Fushi Fund Management Co.Ltd in Shanghai etc. Second, China and Europe have made a series of great progress in financial strategic cooperation. HSBC holding became the strategic investor of the Bank of Communications; Royal Bank of Scotland became the strategic investor of the Bank of China; BNP Paribas invested in the Nanjing Commercial Bank and became its strategic investor; Bausparkasse Schwabisch Hall AG and China Construction Bank together established the Sino-German Bausparkasse in Tianjin. Third, financial cooperation between China and Europe via Hong Kong is in even greater scale. As the frontline of China to open up to the outside world, Hong Kong has 35 licensed banks from the European Union, such as BNP Paribas Peregrine, Deutsche Bank, among the 167 licensed banks under the HKMA regulation and 126 licensed securities future traders, consulting companies, asset management companies and other licensed financial intermediaries held by European shareholders among the total licensed financial intermediaries under the supervision of Hong Kong Securities Regulatory Commission. Furthermore, there are 1422 funds authorized by the Hong Kong Securities Regulatory Commission to operate in Hong Kong are registered in Europe. At end-2004, net assets of those European funds reached over USD500 billion.

Financial development between China and Europe will bring not only new challenges but also new opportunities for both sides to strengthen cooperation in financial services and regulation. China and Europe have already set up bilateral financial services cooperation projects before, and the People's Bank of China as well as the China banking, securities and insurance regulatory authorities, have conducted and benefited from broad business exchange and collaboration with their European counterparts. In future, both sides will continue to strengthen exchange, understanding and cooperation to promote further development of their bilateral relations.

Ladies and Gentlemen, China is making efforts to deepen financial reform and improve financial market openness. In particular, after the WTO accession, China is conducting financial opening-up in line with the WTO commitments. The Third Plenum of the 16th CPC Central Committee held in October 2003 pointed out that, China will boost opening-up in full scale, improve institutional protection of opening-up, advance the facilities of trade and investment, introduce more and more advanced technology, management experiences and qualified personnel, strengthen the capability to participate in international collaboration and competition, develop service trade and continue to implement the "going out" strategy. The just concluded Fifth Plenum of the 16th CPC Central Committee in October further stressed that, China will promote globalization and facility of trade and investment, continue to open up services markets and accumulate the inward transfer of modern service industry from other countries in an orderly way and support qualified enterprises to invest in overseas market.

In such an environment, we fully believe that the prospects of financial cooperation between China and Europe will be much brighter in the days to come.

Finally, I wish the Roundtable Conference a complete success.

Thank you.