

Administrator's Message

In 2003, Chinese economy stood up to the severe tests of unexpected SARS epidemic at home and the unfavorable environment featuring slow recovery of world economy and volatility on the global financial market abroad with maintaining a rapid growth. In the year, the import and export value totaled US\$851.2 billion, and the actual utilization of foreign direct investment reached US\$53.5 billion. All these helped create a good beginning for building a well-off society in an all-round way.

Underpinned by sustained rapid growth of the national and external economy, China's balance of payments continued to post a dual surplus under current account and capital account in 2003, to the effect that the exchange rate of renminbi kept stable, and the state foreign exchange reserves grew to a new high. By the end of 2003, the state foreign exchange reserves hit US\$403.3 billion.

In the year past, the State Administration of Foreign Exchange deepened the reform of foreign exchange administration system, actively promoted the trade and investment facilitation, made concrete efforts to meet the reasonable foreign exchange demands under current account, widened the channels for capital inflow and outflow, supported the implementation of the "going-global" strategy, further rectified and streamlined foreign exchange market, modified the statistical and monitoring system for balance of payments, fully managed to foster inter-bank foreign exchange market with a view to improving the renminbi exchange rate formation mechanism. All these performances played a positive role in accelerating the national economic development. The year of 2003 witnessed new achievements and a new phenomenon in reforming and perfecting the foreign exchange administration system.

2004 will be an important year for China to deepen reform, open wider to the outside world and push forward development. As both international and domestic economic situation is generally getting better, China's external economic and trade scale is expected to expand steadily. However, there will be uncertainties in both domestic and international economic development, which are to pose new and greater challenges facing the administration of balance of payments. Chinese government has made clear that pushing forward economic growth, expanding employment, stabilizing price level and maintaining equilibrium of the balance of payments are its major macro-economic control targets. Equilibrium of the balance of payments depends on faster restructuring of the domestic economy and rational utilization of economic resources. No doubt, the external economic policies shall also play a positive role in this process.

To facilitate implementation of the macro economic policies and ensure sustainable, fast, coordinated and healthy development of the national economy, the SAFE will, under the guidance of the spirit of the 16th CPC National Congress and its Third Plenary Session, take the equilibrium of the balance of payments as its principal goal in 2004. It will further improve its current account administration, and meanwhile steadily push forward the convertibility of renminbi under capital account, facilitate the foreign trade and investment activities, intensify full-course surveillance over foreign exchange inflow and outflow in well order to prevent the risks of short-term capital flows, rectify and standardize the foreign exchange market by tackling problems both on the surface and at the root, accelerate the reform of the administrative approval system, further adjust the functions of foreign exchange administration, actively develop and standardize the inter-bank foreign exchange market, improve renminbi exchange rate formation mechanism, and make every effort to push domestic development and opening-up to a new level.

The adjustment of foreign exchange administration policies should follow three basic principles: first, establishing a full-course surveillance system to monitor capital inflows and outflows to the effect that the conditions and environment for two-way flow of capital will gradually be ready and consistent; second, creating an environment for fair competition between domestic and foreign capital to the effect that various types of economic entities will be able to develop on an equal footing; third, streamlining the foreign exchange administration on resident individuals and non-resident individuals in the principle of giving non-discriminatory treatment to legal and natural persons.

The new year is facing new opportunities and new challenges as well. It is a new starting point for the reform and development of foreign exchange administration. We will well focus on meeting the needs of reform, opening-up and economic development, strengthening cooperation and coordination with other departments, further deepening reform of the foreign exchange administration system, striving to ensure equilibrium of the balance of payments, and making every effort to reach the goals of balanced, coordinated development of the internal and external economies and building a well-off society in an all-round way.

Reform and Development of Foreign Exchange Administration

In 2003, aiming at promoting the equilibrium of balance of payments (BOP), the SAFE continued to push forward the reform of foreign exchange administration system, enhance the adjustment of foreign exchange policies, make an endeavor to transform the management mechanism, intensify the monitoring of capital flow, promote trade and investment facilitation, and thereby playing an active role in boosting the sound and healthy growth of the national economy.

Facilitating trade and investment activities to widen China's opening-up to the outside world. First, the SAFE improved the import payment and export proceeds verification system by setting up a classified verification pattern including case-by-case, batch, and automatic verification, and popularized the application of Export Proceeds Verification and Reporting System. Second, the SAFE normalized the foreign exchange administration of border trade throughout the country by broadening the scope of currencies used in settlement and verification, and bring the settlement of border trade into the banking system. Third, the SAFE further abolished prior recording requirement on some kinds of import payments and simplified procedures of foreign exchange purchase and payment for advance payment to facilitate enterprises' operation. Fourth, the reform of foreign exchange administration on overseas investment was deepened. By the end of 2003, the total number of areas brought into the pilot program was increased from 6 to 14, with the total quota approved for foreign exchange purchase of US\$1.9 billion. Fifth, the SAFE regulated the foreign exchange operations of Qualified Foreign Institutional Investors (QFIIs) system. By the end of 2003, 11 domestic commercial banks had been approved to act as custodian banks, and 12 foreign institutions approved to be QFIIs, 10 of which had been granted investment quotas amounting to US\$1.7 billion.

Normalizing foreign exchange receipts and payments of enterprises and individuals to meet their reasonable foreign exchange demands under current account. First, the enterprises involving in international contracting project and international labor service were allowed by the SAFE to retain in full amount their foreign exchange proceeds from current account transactions so as to cater to their deployment of foreign exchange fund. Second, the pilot projects related to non-trade foreign exchange administration were practiced by the SAFE in Beijing, Shanghai and Shenzhen where multinational companies were allowed to directly pay the overseas advanced or apportioned expenses. Third, the directive limit for foreign exchange purchase per resident individual for overseas private purposes was increased and the scope of activities eligible for purchase enlarged, and the limit for foreign

currency that individuals were allowed to carry in and out of the border was raised as well. Fourth, the supervision over foreign currency bankcards was strengthened. The foreign exchange advance due to overdraft with foreign currency bankcards for resident individuals' consumption abroad was allowed to be repaid by purchasing foreign exchange later. Fifth, the SAFE regulated the business of currency exchange agents to facilitate the currency exchange activities of individuals.

Carrying out a nationwide inspection on foreign exchange receipts and sales business of designated foreign exchange banks to further discipline the foreign exchange market. First, the SAFE carried out a nationwide inspection for the first time on the business of foreign exchange receipts and sales done by the designated banks with a view to timely dealing with those illegal operations to deter speculative funds. The inspection provided the authorities with a clear picture of foreign capital inflow and a foundation for formulating relevant policies. Second, the SAFE formally implemented the reporting system of large sum and suspicious foreign exchange transactions and preliminarily set up the mechanism of anti-money laundering related to foreign exchange transactions among banks, SAFE offices and competent public security agencies. Third, the SAFE coordinated closely with the Ministry of Public Security and other government agencies to investigate on, and deal with, a series of cases with large and serious impacts, smashed up the "underground money shops" and dens of illegal foreign exchange trading in some major regions, and severely struck down illegal foreign exchange transactions. Fourth, the SAFE drafted a five-year working plan to establish a credit system in the foreign exchange market.

Improving the statistical and monitoring system of the BOP and foster the inter-bank foreign exchange market. First, the SAFE perfected the BOP statistical reporting system by shortening the time limit of BOP income reporting from 10 working days to 5 and carried out inspection on the statistical reporting. Second, the SAFE formally built up the early-warning system of BOP risks to analyze and evaluate China's BOP risks quarterly. Third, the SAFE brought more banks and types of transactions into the pilot business of forward purchase and sale of foreign exchange, extended the trading time of inter-bank foreign exchange market and launched two-way trading in the market.

Enhancing the capacity of foreign exchange reserve management and keeping foreign exchange reserves' security, high-quality and sufficient liquidity. Facing up to the changes in the international financial market and focusing on the investment benchmark, positive actions were taken to expand investment instruments and to diversify investment channel. At the same time, other measures were taken to further improve the decision-making mechanism,

strengthen risk management institutions, perfect internal managerial system, raise the standard of information service, and to ensure the successful management of foreign exchange reserves.

Making research and preparation actively to support banks in Hong Kong to conduct individual renminbi business. For the purpose of facilitating economic, trade and personal exchange between the Mainland China and Hong Kong, and orderly channeling the renminbi to flow back to the Mainland, the SAFE began to make investigations, research and preparations being in supportive of banks in Hong Kong to conduct individual renminbi business in 2001. On November 2003, with the approval of the State Council, the People's Bank of China (PBC) committed to providing clearing arrangements for banks in Hong Kong to conduct individual renminbi deposit-taking, exchange, bankcard and remittance business.

Practicing the capital injection into the Bank of China and the China Construction Bank to promote the pilot project of transforming state-owned commercial banks into shareholding. Upon decision made by the State Council, US\$45 billion foreign exchange reserves was successfully injected to the Bank of China and the China Construction Bank to consolidate their capital base without producing any negative effect on foreign exchange reserve management or international and domestic markets, and therefore, speeding up the transformation process of the two banks into shareholding.

Providing high-quality services to serve external economic activities during the SARS period. In accordance with the requirements by the Central Committee of the CPC and the State Council of fighting against SARS on the one hand and sticking to economic construction on the other hand, convenient service in terms of foreign exchange administration was provided for the combat against SARS and economic growth as well, and at the same time, ensuring the smooth operations of foreign exchange administration. Flexible measures were taken for foreign exchange payment and verification of import of materials used to prevent and cure SARS, the efficiency was raised in verifying fund movement related to anti-SARS, and working method and process have been reasonably adjusted to help solve enterprises practical problems and ensure the normal operations of enterprises.

• Individual Renminbi Business of Banks in Hong Kong

For the purpose of facilitating economic, trade and individual exchange between the Mainland and Hong Kong and orderly channeling the renminbi to flow back to the Mainland, the People's Bank of China (PBC) issued an announcement on November 19, 2003 that, following approval from the State Council, the PBC agreed to provide clearing arrangements for banks in Hong Kong to conduct individual renminbi deposit-taking, exchange, bankcard and remittance business. The PBC and the Hong Kong Monetary Authority (HKMA) signed a memo of understanding regarding the individual renminbi business conducted by banks in Hong Kong on the same day.

According to the announcement, after consulting the HKMA, the PBC shall select a licensed Hong Kong bank as clearing bank for individual renminbi business in Hong Kong (hereafter referred to as "clearing bank") and authorize the clearing bank to conduct deposit and withdrawal of renminbi position, transport renminbi notes, and provide clearing service for other individual renminbi business. The PBC shall authorize the clearing bank to sign clearing agreements on renminbi business with other licensed banks in Hong Kong (hereafter referred to as "participating banks"), which accept concerned clearing term and arrangement on voluntary basis, and to provide them with clearing service in accordance with the agreements.

The PBC provides following clearing arrangements for banks in Hong Kong to conduct individual renminbi business.

Renminbi Deposit: The PBC Shenzhen Sub-Branch opens a clearing account for the clearing bank to take deposit and pay interest on the deposit. Deposit of the clearing bank is confined to renminbi deposit of Hong Kong individual residents absorbed by the participating banks.

Renminbi Exchange: As a member of the China Foreign Exchange Trade System, the clearing bank squares off the position of exchange between renminbi and HK dollar. The PBC authorizes the clearing bank to offer settlement services for the participating banks satisfying the following exchange business: exchange transaction not exceeding the equivalent of RMB6,000 per transaction for individuals who are not holders of renminbi deposit accounts, or exchange transaction not exceeding the equivalent of RMB20,000 per person per day for individuals who are holders of renminbi deposit accounts, exchange of renminbi receipts by designated businesses engaged in individual traveling and consumption into HK dollar.

BOX

Renminbi Bankcard: The clearing bank and the China Union Pay Co., Ltd. provide clearing service for individual renminbi bankcards. Mainland residents may use individual renminbi bankcards issued by Mainland banks for traveling spending or withdrawing small amount of HK dollar cash on ATMs in Hong Kong. Participating banks or their subsidiaries may also issue renminbi bankcards to individual residents of Hong Kong for traveling spending or withdrawing small amount of renminbi cash on ATMs on the Mainland.

Renminbi Remittance: Mainland banks qualified for conducting individual renminbi business can accept individual renminbi remittances of Hong Kong residents from their renminbi deposits accounts in Hong Kong to bank accounts under the same name on the Mainland via the clearing bank. The maximum amount that can be remitted is RMB50,000 per person per day. Any renminbi remittance without being drawn can be remitted back to Hong Kong with approval. On December 24,2003, the PBC authorized the Bank of China (Hong Kong) Limited to be the clearing bank. On January 18,2004, the PBC started to allow Mainland bankcards to be used in Hong Kong. On February 25, 2004, the Bank of China (Hong Kong) Limited. started to provide clearing service to 39 local banks participating in individual renminbi business for their deposit-taking, exchange and remittance business.

The PBC's clearing arrangements for Hong Kong banks to conduct individual renminbi business will help the advantages of Hong Kong banking industry, enhance its competitiveness, and safeguard Hong Kong' role as an international financial center, will push forward the process of renminbi convertibility, and promote Mainland economy and financial industry to steadily open wider to the outside world, and will facilitate mutual visit and sight-seeing consumption between the Mainland and Hong Kong residents, make a closer economic relationship between the Mainland and Hong Kong, and speed up the prosperity of the Mainland and Hong Kong together.

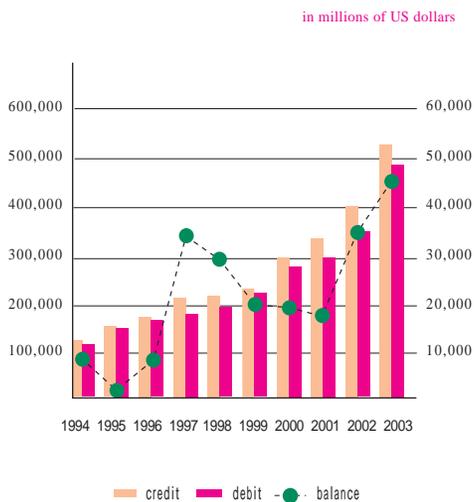
China's Balance of Payments, External Debt and Foreign Exchange Market

China's BOP Position in 2003

The year of 2003 witnessed another strong balance of payments (BOP) position, with both the current account and the capital and financial account remaining in surplus and the record increase of foreign exchange reserves. The exchange rate of renminbi remained stable. In 2003, China's current account surplus rose by 30 percent to US\$45.875 billion; capital and financial account surplus rose by 63 percent to US\$52.726 billion. Foreign exchange reserves reached US\$403.251 billion at the end of 2003, increasing by US\$116.844 billion over the end of 2002. The end-of-year exchange rate of renminbi against US dollar remained at 8.2767.

The current account surplus grew

China's Position of Current Account, 1994-2003



Trade surplus in goods kept almost equivalent to that in 2002. In terms of international criteria for BOP measurement, China's trade surplus in goods rose by 1 percent to US\$44.652 billion in 2003, with the exports increasing by 35 percent to US\$438.270 billion and the imports increasing by 40 percent to US\$393.618 billion. Due to the active role played by China's accession to the World Trade Organization (WTO) and strong internal demand to support domestic development, China's import kept expanding at high speed and its growth outpaced export growth, directly contributing to an equivalent surplus in goods to that of previous year.

Trade deficit in services widened. With the opening-up of China's service industry and increasingly closer economic intercourse, the receipt of services reached US\$46.734 billion, 18 percent higher than that of previous year; payment of services reached US\$55.306 billion, 19 percent higher than that of previous year. The deficit in services increased by 26 percent to US\$8.573 billion. The following items contributed greatly to the deficit under the account: First, the deficit of transportation increased by 31 percent to US\$10.326 billion. In the circumstance of expanding foreign trade in 2003, the receipt and payment of transportation rose by 38 percent and 34 percent respectively. Second, affected

by the SARS, receipt of international travel decreased by 15 percent to US\$17.406 billion and the surplus of travel item dropped by 56 percent to US\$2.219 billion. In addition, the deficit of international insurance increased by 40 percent to US\$4.251 billion, the deficit of royalties and license fees reached US\$3.441 billion, 15 percent higher than that of 2002.

The deficit under income item declined. In 2003, the deficit under income item dropped by 48 percent to US\$7.838 billion, with the receipt under the item increasing by 93 percent to US\$16.095 billion and the payment under the item increased by 3 percent to US\$23.933 billion. In 2003, the capital investment and import of equipment composed the main part of foreign direct investment (FDI), and the pace of FDI profit reinvestment slowed down, contributing to the slow increase of payment under the item. Meanwhile, domestic financial institutions increased their profit margin. Different increase pace at receipt side and payment side resulted in the drop of overall deficit under the item.

The surplus in current transfers increased. In 2003, the receipt of current transfers rose by 34 percent to US\$18.482 billion while the payment under the item rose by 5 percent to US\$0.848 billion. The overall surplus increased by 36 percent to US\$17.626 billion. The surplus increase can mainly attribute to the rapid growth of remittance from abroad received by Chinese residents.

The surplus in the capital and financial account rose rapidly

The surplus of direct investment remained stable. In 2003, direct investment registered a surplus of US\$47.229 billion, 1 percent higher than that of previous year. The actual utilization of foreign direct investment amounted to US\$53.505 billion, while the payment of foreign direct investment reached US\$6.428 billion. The foreign direct investment developed at stable pace in 2003.

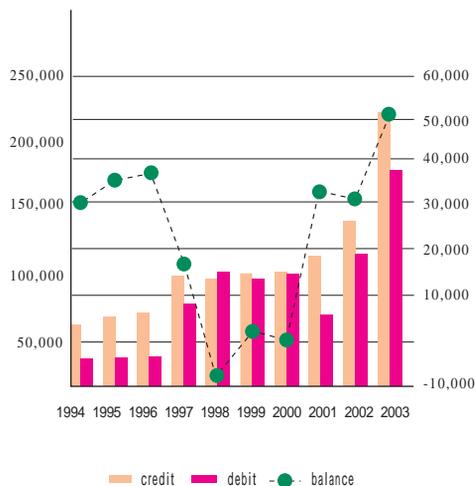
• "Net Errors and Omissions" in Balance of Payments

Box

The balance of payments is a statistical statement that systematically records, for a specific period of time, the economic transactions of an economy with the rest of the world. Double entry system is applied in the BOP compilation, that is, every recorded transaction is represented by two entries with equal values. In principle, the sum of all credit entries is identical to the sum of all the debit entries, and the net balance of all entries in the statement is zero. In practice, however, the accounts scarcely balance. Generally, data for balance of payments estimates are derived independently from different sources; as a result, there may be a net credit or net debit. A separate entry, namely, net errors and omissions, is created to balance the accounts. If the sum of debit side is larger than the sum of the credit side, the net balance is recorded on the credit side of the entry of net errors and omissions, otherwise on the debit side. The size of the entry could be used to evaluate the statistics quality of balance of payments to some extent. It is satisfactory that the ratio of net errors and omissions to total exports and imports of goods does not exceed 5 percent in accordance with international practices.

Portfolio investment turned surplus.

Portfolio investment switched to a surplus of US\$11.427 billion. In 2003, domestic financial institutions adjusted their foreign securities investment strategy and withdrew some of those funds home to satisfy expanding demand for domestic loans. This factor contributed greatly to the switch from sustaining deficit since 1998 to surplus under the item. Meanwhile, more domestic enterprises went on financing abroad and China implemented QFII system to attract qualified foreign institutional investors to invest in China's A-share market, both factors enlarging capital inflow and contributing to a surplus under portfolio account.



Deficit under other investment widened. In 2003, other investment registered a deficit of US\$5.882 billion, while it recorded a deficit of US\$4.107 billion in 2002. In 2003, some domestic financial institutions reduced some types of assets abroad while increasing holding other types of foreign exchange assets, leading to the widening of overall deficit under other investment item.

The reserve assets increased by a fairly large margin

Promoted by the surplus in both the current account and the capital and financial account, China's international reserves grew by US\$117.023 billion in 2003, US\$41.516 billion more than the increase of previous year. The special drawing rights and the reserves position in the International Monetary Fund (IMF) increased respectively by US\$90 million and US\$89 million, and foreign exchange reserves scored a record annual increase of US\$116.844 billion, US\$42.602 billion more than the increase of previous year. By the end of 2003, China's foreign exchange reserves reached US\$403.251 billion.

Net errors and omissions occurred on the credit side

In 2003, net errors and omissions registered another credit side amounting to US\$18.422 billion which was equivalent to 2.21 percent of the combined volume of export and import of goods in terms of the BOP criteria, and fell into a reasonable scope of 5 percent recognized internationally.

It is expected that China will witness another dual surplus in both current account

and capital and financial account and that foreign exchange reserves of China will continue to increase in 2004. Besides, exchange rate of renminbi will remain stable.

Current account will continue registering another surplus but of a smaller size. In 2004, export of China will grow but at a relatively lower growth pace than that of 2003. Import will grow rapidly with a growth rate that may outpace export once again, but the trade in goods will remain surplus. Under services account, after China's accession to the WTO, with related service industries gradually opened and the demand for services abroad increasing as a result of developing foreign-related economy, trade deficit in services will persist over a long course, and keep rising over a period of time. In addition, deficit under income item comes mainly from profit payment to foreign investors of foreign-funded enterprises, and current transfers will remain quite large. In one word, it is expected that surplus in goods and current transfers will continue to exceed deficit in services and income and the overall current account will register another surplus in 2004.

The capital and financial account will register another surplus. In 2004, China will continue providing quite favorable investment environment. With the gradual expansion of opening-up fields, China will constantly attract more FDI. The size of FDI will expand but at a relatively small growth rate. It is expected that direct investment item will register another surplus and the overall capital and financial account will record surplus throughout 2004.

China's External Debt in 2003

China's outstanding external debt totaled US\$193.634 billion by the end of 2003, an increase of US\$22.278 billion, or 13.0 percent compared with that of 2002 (that of Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region excluded). Of the total, medium- and long-term debt stood at US\$116.590 billion, an increase of US\$1.028 billion compared with the figure at the end of 2002, and accounted for 60.21 percent of the total; short-term debt was US\$77.044 billion, an increase of US\$21.250 billion compared with the figure at the end of 2002, and accounted for 39.79 percent.

In the total outstanding external debt, registered external debt was US\$157.06 billion; outstanding trade credit was US\$36.574 billion. In the registered external debt, sovereign debts borrowed by government department were US\$52.766 billion, and accounted for 33.60 percent of the total; debts by Chinese-funded financial institutions US\$37.623 billion and 23.95 percent; debts by foreign-funded enterprises US\$37.795 billion and 24.06 percent; debts by Chinese-funded enterprises US\$7.625 billion and 4.85 percent;

debts by foreign-funded financial institutions US\$20.948 billion and 13.34 percent; debts by others US\$0.303 billion and 0.20 percent.

In the year of 2003, the new borrowing (trade credit excluded) was US\$101.544 billion, principal repayment was US\$92.906 billion, interest payment was US\$5.221 billion, and exchange rate changes or other adjustment led to a US\$3.389 billion increase of the outstanding external debt.

Both the outstanding amount of external debt and new borrowing increased by a large margin in 2003, which could attribute to China's rapid economic growth and increasingly improved foreign investment environment. The interest difference between domestic and foreign currencies also helped the growth.

China now has adequate foreign exchange reserves and strong international solvency, thus the increase of external debt will not fundamentally affect its safety. At the end of 2003, the debt service ratio (repayment of principal and payment of interest on long- and medium-term external debt plus payment of interest on short-term external debt divided by foreign exchange income under goods and services items) was 6.85 percent, the debt coverage ratio (outstanding external debt to foreign exchange income) was 39.92 percent, the indebtedness ratio (outstanding external debt to GDP) was 13.74 percent and the ratio of short-term debt to total foreign reserves was 19.11 percent. All these external debt indicators were well within the internationally accepted safety range.

• Main External Debt Indicators

Box

1. Debt service ratio (repayment of principal and payment of interest on long- and medium-term external debt plus payment of interest on short-term external debt divided by foreign exchange incomes under goods and services items) should not exceed 25 percent.
2. Indebtedness ratio (outstanding external debt to GDP) should not exceed 100 percent.
3. Debt coverage ratio (outstanding external debt to foreign exchange income in the same year) should not exceed 200 percent.
4. Ratio of short-term external debt to total external debt should not exceed 25 percent.
5. Ratio of short-term external debt to total foreign reserves should not exceed 100 percent.

Inter-bank Foreign Exchange Market and Renminbi Exchange Rate

In 2003, China's inter-bank foreign exchange market had a steady operation and the exchange rate of renminbi remained stable.

Foreign exchange transactions were more buoyant and the turnover recorded a historical high. A total of 251 sessions of transactions were conducted in the

inter-bank foreign exchange market in the whole year with an accumulated turnover of US\$151.11 billion or an average daily turnover of US\$602 million, increasing by 30.3 percent compared with that in the previous year.

Supply persistently exceeded demand in the foreign exchange market, and foreign exchange reserves continued to increase. In 2003, foreign exchange supply increased dramatically while the demand declined relatively, which boosted the rapid growth of China's foreign exchange reserves.

Exchange rate of renminbi continued to remain stable. The 2003 year-end exchange rate of renminbi against US dollar was 8.2767, up by 6 basis points compared with that (8.2773) in the previous year. Renminbi exchange rate against US dollar fluctuated generally within a narrow range between 8.2765 and 8.2776. The annual average exchange rate was 8.2770, basically the same level of the previous year.

The major factors influencing the inter-bank market operation of the whole year were:

First, China's economy maintained a rapid growth, the balance of payments witnessed a favorable performance, and the foreign exchange incomes and payments of enterprises and banks increased fast, which laid a sound foundation for the healthy and steady development of the inter-bank foreign exchange market.

Second, the operating mechanism of the inter-bank foreign exchange market was innovated and improved. Since February 8, 2003, the trading time of inter-bank foreign exchange market was adjusted from 9:30-11:00 to 9:30-15:30, and all-day transaction between renminbi and four major foreign currencies (US dollar, Japanese yen, euro and HK dollar) was adopted. From October 1, 2003, two-way trading was launched in the inter-bank foreign exchange market, which allows banks to conduct sale or purchase of foreign exchange in one session. These measures could facilitate banks to manage their fund positions and avert exchange rate risks; and increase the frequency of quotation and transaction opportunity of members, and activate the market.

Third, business of forward purchase and sale of foreign exchange was further promoted and the business scope expanded. Following the pilot forward business in the Bank of China in 1997, the business of forward purchase and sale of foreign exchange was introduced officially in the Industrial and Commercial Bank of China, the Agricultural Bank of China and the China Construction Bank from April 1, 2003. The business scope was further extended to some transactions under capital account beyond the existing items.

In 2003, the total amount of contracted forward purchase of foreign exchange reached US\$12.78 billion and that of forward sale was US\$2.15 billion. The promoted forward business has further facilitated enterprises and activated the foreign exchange market.

Fourth, in light of the situation of supply and demand in the foreign exchange market and the objective need of banks to replenish foreign exchange capital and to deal with non-performing foreign exchange assets, the People's Bank of China regulated the foreign exchange market aggressively. At the same time, administration on foreign exchange purchase and sale of designated foreign exchange banks was improved, which effectively secured the steady operation of foreign exchange market.

China's economy and external sector will continue to maintain the rapid growth in 2004. More measures will be adopted to foster and develop foreign exchange market and to improve the mechanism of renminbi exchange rate formation. Against this background, the inter-bank foreign exchange market will be more buoyant with steady operation, and the renminbi exchange rate will remain stable at a reasonable and equilibrium level.

• **Current Renminbi Exchange Rate Arrangement**

China's current unified, managed floating exchange rate regime based on supply and demand of foreign exchange market was introduced in 1994 since the unification of dual exchange rate. The regime is based on the banking foreign exchange purchase and sale system, in which foreign exchange purchase and sale by institutions or individuals should be conducted through designated foreign exchange banks. Designated foreign exchange banks sell or purchase foreign exchange in the inter-bank foreign exchange market to meet the requirements on fund positions for the purchase and sale of foreign exchange. Renminbi exchange rates then are generated in the market.

The current renminbi exchange rate regime has the following features: first, it is a market-based rate. The renminbi exchange rate is determined by the supply and demand of foreign exchange in the inter-bank market instead of an administered exchange rate; second, it is unified. The unified exchange rate is used in all domestic foreign exchange transactions; third, it is a managed floating exchange rate. The exchange rate could fluctuate within a set range. The People's Bank of China manages and adjusts the foreign exchange supply and demand with regulations and market-based means to maintain exchange rate largely stable.

Practices in recent decade have indicated that, the current renminbi exchange rate regime is consistent with the development of China's economy, the capability of financial supervision and the resilience of enterprises, and with the actual situation of China. Renminbi exchange rate formation mechanism will be further explored and improved in the deepening financial reforms in accordance with China's economic development and balance of payments performance.

Balance of Payments Statistics and Monitoring

In the year of 2003, the SAFE continued to improve BOP statistical regulations, enhance the statistical technology, strengthen development and use of BOP data and make research on standardization of statistical information based on the improvement of statistics quality, and play a positive role in supporting macro-economic analysis and policy-making.

Statistics regulations improved continuously. First, *Detailed Rules for the Implementation of Measures on Balance of Payments Statistics Reporting* was revised and promulgated in compliance with new changes and new demand of economic developments, which provided legal basis for the statistics and monitoring of cross-border capital flows. Second, *Off-site Verification System of Indirect Balance of Payments Statistics Reporting(Experimental)* was promulgated, thus, a set of off-site verification system and approach was established gradually.

The transparency and timeliness of BOP statistics improved. The SAFE updated the BOP metadata and published it on SAFE website (www.safe.gov.cn) at the anniversary of China's subscription to the GDDS of the IMF. The time limit of BOP income reporting was shortened from 10 working days to 5 as of January 1, 2003, following the shortening from 25 working days to 10 in 2001. The improvement of reporting time limit enhanced the timeliness of BOP statistics and provided better information sources for analysis and policy-making.

The BOP risks early-warning system adopted officially. At the beginning of 2003, the BOP risks early-warning system was officially adopted by the SAFE. China's BOP risks were evaluated quarterly according to the system. The system could reflect current situation of China's BOP, give a warning of potential problems and forecast future trend through comprehensive analysis of BOP data and relevant macroeconomic indicators, which provided reference for policy-making to maintain a sound BOP.

A network of statistics and monitoring system established. First, sample survey on trade credit was initiated. The stock of China's trade credit was calculated through the survey of 4,000 Chinese-funded trade enterprises and foreign-funded trade enterprises, which paved the way for the future assessment of size and flow direction of trade credit and for the analysis and judgment of BOP situation. Second, the monitoring system of export cost was established. 400 sample enterprises were chosen according to their business scope, product and ownership. The situation of profit and export costs of these enterprises was monitored in the system. Third, border trade monitoring spots were set up to monitor the exchange, settlement, payment and circulation of renminbi in border areas, which has functioned well for the policy-making of foreign exchange policies consistent with the characteristics of border trade. Fourth, the monitoring system against black

market of foreign exchange was improved. The regular monitoring makes reference for the consolidation of foreign exchange market and crackdown on illegal foreign exchange transactions.

Standardization of statistical information enhanced. First, *Classification and Coding for External Income and Payment Transactions* was compiled, which filled up the vacuum in standardization of external transactions classification and laid a foundation for computerization of statistics and monitoring. Second, the SAFE and the State Administration of Quality Supervision, Inspection and Quarantine jointly promulgated *Operational Rules on Coding Special Institutions in Balance of Payments Statistics Reporting*, to enhance the identification and management of special institutions beyond the previous coding scope. The coding was cooperatively conducted by the SAFE and the National Administration Center of Institutional Code. Thus, cross-border capital flows by special institutions were included in statistics and monitoring system. Third, metadata of BOP statistical indirect reporting was designed and demonstrated to establish standardized metadata system and to regulate data exchange between banks' computer systems and BOP statistics and monitoring system.

In 2004, the SAFE will continue to make efforts to improve the BOP statistical regulations by streamlining and revising old regulations and formulating new regulations to meet the need of economic development and BOP statistics; to

• **Early-warning System for Balance of Payments Risks**

BOP crisis broke out in many countries since 1980s, which had significant adverse effects on them and global economy. With the rapid economic growth, deepened opening-up and integration into the world economy, the total volume of China's BOP expanded quickly. The influence of BOP position on the whole economy is increasing. The SAFE, jointly with the Systematic Science Institute of Chinese Academy of Science, developed early-warning system for BOP risks to monitor China's BOP situation effectively, to make alarm signals and to support policy-making for macroeconomic management.

The system was designed in accordance with the actual situation of China's economy. Some research results of the IMF and economists in western countries and the experiences in crisis countries were adopted for reference in developing the system. The main functions include data inquiry, early warning and projection.

The regression method for time series was mainly used in the system to make analysis and projection. An indicator system was established including simultaneous indicators, leading indicators and reference indicators, which were chosen on the basis of effectiveness, forecasting ability and availability. In the system, the simultaneous indicators are used to determine whether crisis has emerged; the leading indicators are used to forecast crisis and the reference indicator taken as reference in risk assessment.

The development of the early-warning system for BOP risks was started at the beginning of 2000, and accomplished basically at year-end 2001. The system was officially launched in 2003 after upgrading and pilot project. The SAFE conducted risk monitoring according to the system and made quarterly analysis and assessment on China's BOP situation.

Box

upgrade the BOP reporting and monitoring system, to improve the data quality, and to enhance monitoring on cross-border capital flows; to further regulate statistical information collection and clean up current foreign exchange statistical forms; to promote the comprehensive use of data resources and enrich statistical product to better serve policy making and administration.

Foreign Exchange Administration under Current Account

The continued reform of administration concerning foreign exchange account opened for current account purposes facilitating the operation of enterprises. The regulatory policy concerning foreign exchange account opened for current account purposes has been further adjusted to be in line with enterprises' specific fund flow profiles. With respect to such current account items as international contracting project, international labor service, international ocean shipping, freight or shipping forwarder and international bidding, the foreign exchange accounts opened were reclassified as special accounts. The quota of account balance was changed from 20 percent of enterprises' foreign exchange proceeds from current account transactions in the preceding year to 100 percent of enterprises' foreign exchange proceeds under current account. This move has in fact allowed these enterprises to retain all of their foreign exchange proceeds in their accounts and thus has solved the problem of insufficient quota for above-mentioned current account transactions.

The policy on import payment and export proceeds verification adjusted to promote the development of foreign trade. First, the administration of export proceeds verification was improved. The promulgation of *Measures on the Administration of Export Proceeds Verification* and the detailed rules for its implementation has introduced three classified ways of regulation, namely case-by-case verification, batch verification and automatic verification. The universal application of Export Proceeds Verification and Reporting System has also improved the efficiency of verification. Second, the administration of export proceeds verification under the item of factoring was rectified. For those factoring involving financial services with no recourse, exporters could go through the procedures of verification by the amount of financed funds beforehand. Third, following the abolition of prior recording requirement on three kinds of import payments in 2002, such requirements on three other items were lifted to further simplify import payment verification procedures, namely advance payment made in carrying trade, payment for goods used in overseas projects and advance payment of a high ratio or value. Fourth, the inspection of foreign exchange purchase and payment for advance payment was simplified to reduce enterprises' operational cost. Enterprises were permitted to purchase up to a maximum of US\$200,000 for advance payment without presenting a letter of guarantee compared with US\$30,000 previously. The procedures of foreign exchange purchase for advance payment by multinational companies were standardized, so were such procedures for advance payment under the item of processing trade with imported materials. Fifth, the Network of Inspection of Import Declaration Forms was upgraded to improve the computerization level of import payment verification.

The limit for foreign exchange purchase per resident individual raised and the scope of activities eligible for purchase enlarged. The directive limit for foreign exchange purchase by resident individuals for private purposes was raised from US\$2,000 (US\$1,000 for travel to Hong Kong and Macao) per person to US\$3,000 for overseas travel shorter than half a year and US\$5,000 for overseas travel longer than half a year

(inclusive) respectively. The maximum amount of purchase by individuals having real needs but not going abroad was also raised to US\$3,000. The scope of students eligible for purchasing foreign exchange for study abroad at own expense was expanded to cover all students rather than only those who study courses above preparatory college level previously. The foreign exchange advance due to overdraft with foreign currency bankcards for resident individuals' consumption abroad was allowed to be repaid by purchasing foreign exchange later. Moreover, individuals travelling to all officially approved border travel destination were permitted to purchase foreign exchange compared with only those travelling to Heilongjiang, Inner Mongolia and Xinjiang according to previous regulations.

The policies concerning carrying foreign currency into and out of the border by residents and non-residents adjusted and unified to meet normal needs of individuals. According to the new regulations, resident and non-resident individuals carrying foreign currency less than US\$5,000 inclusive or equivalent out of the border need not declare to the Customs, otherwise, they must declare. When carrying foreign currency more than US\$5,000 or equivalent out of the border, resident or non-resident individuals must also apply for the Permit of Carrying Foreign Currency Abroad from banks or SAFE offices. When carrying foreign currency more than US\$5,000 or equivalent into the border, individuals must declare to the customs. At the same time, payment instruments denominated in foreign currency are no longer subject to inspection at the Customs.

The administration of foreign exchange purchase and payment for non-trade purposes improved to facilitate the normal operation of enterprises. First, in respect of foreign exchange purchase and payment for non-trade purposes not clearly defined in the existing foreign exchange regulations, an amount-based assignment of authority was set forth and the documents needed were clarified. For an amount of up to US\$50,000 inclusive, foreign exchange purchase and payment could be conducted directly with the banks. For an amount of above US\$50,000, foreign exchange purchase and payment shall acquire approval from SAFE offices. Second, pilot programs concerning multinational company's foreign exchange purchase and payment for certain non-trade purposes were carried out in Beijing, Shanghai and Shenzhen where regional headquarters of multinational companies concentrated. After going through the authenticity verification, qualifying multinational companies and their domestic affiliates are allowed to use foreign exchange in their accounts or purchase by renminbi to make payments to their overseas headquarters or affiliates for advanced or apportioned expenses.

The foreign exchange administration concerning border trade regulated to promote the economic and trade development of border areas. Enterprises engaging in border trade were allowed to use different kinds of currencies such as a convertible currency, a neighboring country's currency or renminbi for pricing

and settlement. Export proceeds denominated in such currencies could be used for verification. Funds transferred through domestic bank accounts could also be accepted for verification. Commercial banks at the border areas were encouraged to establish correspondent bank relationship with neighboring countries' banks in order to set up a direct channel for settlement.

In 2004, the general ideas governing foreign exchange administration under current account are: first, to continue fulfilling the commitment of convertibility under current account to satisfy reasonable needs of foreign exchange for current account purposes; second, to monitor foreign exchange inflows and outflows equally in order to maintain balance of payments in equilibrium; third, to research the establishment of classified regulatory system over enterprises and to put into force the methods of total supervision and afterwards inspection. The SAFE will further improve import payment and export proceeds verification, promote the reform of administration over foreign exchange account opened for current account purposes, perfect foreign exchange administration over service trade, facilitate the foreign exchange purchase and sale by multinational companies for current account transactions, better foreign exchange administration over resident and non-resident individuals, and standardize the administration of payment instruments denominated in foreign currency.

• Export Proceeds Verification System

The export proceeds verification system established on January 1st, 1991 is a regulatory system for verifying the receipt of foreign exchange based on the value of exported goods. Under this system, exporters present the Export Proceeds Verification Form to the Customs before exporting, go through the procedures of verification after receipt of foreign exchange proceeds, and then apply for tax drawback to the tax authority. Since its establishment, this system has been improving gradually and playing a positive role in monitoring foreign exchange receipts by enterprises.

At the beginning of the establishment, due to the technological restrictions there was no effective channel for exchanging information among the SAFE, the Customs and the tax authority, and the whole system was based on the paper documents relayed manually by exporters. Therefore, some exporters can take advantage of this regulatory loophole, which became severe since 1998, to evade repatriation of their export proceeds by forging, altering, embezzling and unlawfully using the verification form and customs declaration form, or making a false report of the loss of verification form.

In 2001, the SAFE and the General Administration of Customs (GAC) jointly developed the Export Proceeds Verification System, a sub-system of the Electronic Law Enforcement Network at the Customs, which established electronic records on Export Proceeds Verification Forms and Export Declaration Forms at the public data warehouse of the China E-port. This move realized the sharing of electronic information among administrative agencies, which had not only improved regulatory efficiency and reduced time lag but also eliminated the regulatory loophole. Nevertheless, due to the technological restrictions of banks the information concerning foreign exchange proceeds had not been included.

In 2002, the SAFE developed a system called Export Proceeds Verification and Reporting System by which the electronic information of export proceeds could be acquired from banks while export declaration information could be acquired from the Electronic Law Enforcement Network at the Customs. To coordinate with the universal application of this system, the SAFE promulgated *Measures on the Administration of Export Proceeds Verification* and the detailed rules for its implementation in 2003. As a result, the administration of export proceeds verification has been improved in two aspects. First, the mode of export proceeds verification has been changed. The authenticity inspection and export proceeds verification are now done by comparing the information of exporting goods and receiving funds reported by exporters with the information on export proceeds and customs declaration that SAFE acquired from the Export Proceeds Verification and Reporting System. Second, classified administration based on different situations of exporters has been introduced. Apart from retaining the previous case-by-case verification, two new methods of administration, namely batch verification and automatic verification, have been put into operation. However, the quality of basic data, timeliness of data transfer and hardware of the system still need further improvement.

Foreign Exchange Administration under Capital Account

The reform of foreign exchange administration on overseas investment deepened to support the implementation of "going global" strategy. First, the pilot program of foreign exchange administration on overseas investment was extended to another 8 areas, causing the total number of pilot areas up from 6 to 14 and the total quota approved for foreign exchange purchase up to US\$1.9 billion. Second, the examination procedures on the sources of foreign exchange for overseas investment were simplified. The number of documents needed to present for inspection decreased from 11 to 5. Moreover, the deposits surrendered as guarantee for repatriation of profits in previous years were paid back to enterprises collectively. Third, the maximum amount of foreign exchange for overseas investment which could go through the examination procedures on sources at SAFE branches in the pilot areas was raised from US\$1 million to US\$3 million. On approval from local SAFE branches, investors in the pilot areas could also remit a portion of their funds abroad prior to the establishment and registration of overseas company as start-up capital. According to statistics, in the year of 2003, SAFE branches had handled 461 applications for examination of sources of foreign exchange and registered 290 overseas investments, resulting in a volume of foreign exchange purchase for overseas investment of US\$273 million. Fourth, annual joint inspection of enterprises investing outward was carried out for monitoring and statistics of the flow and stock of overseas investment.

The qualified foreign institutional investors (QFIIs) system implemented steadily to promote the orderly opening-up of capital markets. The year of 2003 was the first year the QFII system was put into actual operation. By the end of year, 11 domestic commercial banks had been approved by the China Securities Regulatory Committee (CSRC) and the SAFE as custodian banks of QFIIs, among which 7 are Chinese-funded and 4 foreign-funded. 12 foreign institutions had been approved as QFIIs. Ten of them had been given investment quotas amounting to US\$1.7 billion by the SAFE, of which US\$ 1.088 billion had been remitted into China.

Pilot program carried out concerning the verification of interest and expense payments in relation to foreign exchange loans extended by domestic foreign-funded banks. At present, foreign exchange loans extended by domestic foreign-funded banks to domestic enterprises are still supervised as external debts for which prior approval from SAFE offices is required for interest and principal repayments. The SAFE has authorized its branches in Shanghai, Shenzhen, Guangdong and Tianjin to simplify the procedures of verification concerning interest and expense payments within their locality. In these areas, foreign-funded banks could verify and handle interest and expense payments for their foreign exchange loans directly.

Foreign exchange administration on foreign direct investment clarified and standardized, joint inspection of foreign-funded enterprises also strengthened. In line with the new characteristics and trends of foreign direct investment, the SAFE specified the principle

of administration over foreign direct investment not involving the establishment of an enterprise, broadened the means and sources of capital contribution, standardized foreign investors' acquisition of shares of domestic enterprises, and clarified the administration on domestic investment by non-holding foreign-funded enterprises and on enterprises with foreign investors' capital contributions less than 25 percent. From the year of 2003, foreign-funded enterprises are required to provide a Form of Foreign Exchange Receipts and Payments to SAFE offices with an aim to improving the annual joint inspection. The form contains detailed and complete information on the enterprise's external credits, debts and balance between foreign exchange purchase and sale. It is useful for the supervisory authority to gain more systematic knowledge concerning foreign-funded company's foreign exchange receipts and payments.

Foreign exchange administration with regard to overseas listing further improved, foreign exchange administration over fund management companies with foreign shareholding also standardized. On the basis of the foreign exchange registration requirement concerning overseas listed shares implemented in 2002, the scope of registration was further clarified. The types of fees and means of payment were also standardized. Moreover, *Circular on Foreign Exchange Administration of Fund Management Companies with Foreign Shareholding* promulgated by the SAFE specified rules concerning opening procedures of foreign exchange accounts by the companies, scope of credits and debits to the accounts, foreign exchange sale and foreign exchange purchase and payment, etc. Sale of foreign capital and outward remittance of profits and dividends by fund management companies with foreign shareholding required prior approval from local SAFE office.

In 2004, the general idea governing foreign exchange administration under capital account is to strengthen foreign exchange administration under capital account with a view to maintaining balance of payments in equilibrium, promoting orderly flow of funds and steadily pushing forward the process toward renminbi convertibility. Cooperating with related government departments, the SAFE will make further efforts in the following aspects: to study the policy of unifying regulations over Chinese-funded banks and foreign-funded banks in terms of external debts and foreign exchange loans, to relax the restrictions on transfer of assets by emigrants and transfer of legacies by non-residents to a reasonable degree, to conduct research on qualified domestic institutional investors (QDIIs) system, to research the issue of renminbi denominated bond offerings by high-rating international entities, to push further the pilot reform of foreign exchange administration on overseas investment, and to optimize foreign exchange administration over foreign direct investment.

• **Current Status of the Convertibility of Renminbi under Capital Account**

The convertibility of renminbi under capital account and then full convertibility are the long-term goals of the reform of foreign exchange administration in China. In 1996, China had realized the convertibility of renminbi under current account. With the development of economy and the deepening of reform and opening-up to the outside world, the convertibility of renminbi under capital account has been steadily advanced and realized partially. Of all the IMF categories of capital account transactions, in China nearly half of the capital account transactions are not restricted or lightly restricted, some 30 percent more restricted, and less than 20 percent tightly restricted by now.

Supervision on Foreign Exchange Business of Financial Institutions

In 2003 the SAFE took effective measures, on the one hand, to strengthen supervision on foreign exchange receipts and payments of various financial institutions such as banks, securities companies, insurance companies and so on and regulate their foreign exchange operations; on the other hand, to facilitate the development of financial institutions and enhance the competitiveness of such institutions.

Improving the supervision on the foreign exchange business of banks to regulate and facilitate banks' operations

Regulating and encouraging the development of foreign currency bankcards. Under the current system of foreign exchange purchases and sales, the SAFE specified and consummated the administrative policies of foreign currency bankcards. The SAFE regulated the business of domestic bill receiving for overseas issued bankcards, the scope of overseas use of domestically issued foreign currency bankcards, the overdraft and repayment with domestically issued foreign currency bankcards, the reporting system of large receipts and payments with domestically issued foreign currency bankcards and statistics of transactions with foreign currency bankcards. As for the foreign exchange advances due to overdraft with domestically issued foreign currency bankcards, according to the principle of renminbi convertibility under current account, cardholders are permitted to pay back with foreign cash, foreign exchange in their accounts or purchased by renminbi on condition that the cardholders can present the relevant transaction bills offered by the issuer.

Regulating the business of foreign currency exchange agents. The PBC promulgated *Provisional Measures on the Administration of Currency Exchange Agents*, which regulated the market access procedure and operational behavior of such agents. Banks were required to sign agreements with the currency exchange agents and report to local SAFE branches for the record when authorizing the agents to operate currency exchange business. Banks should concretely fulfill their regulatory responsibility over the authorized currency exchange agents. Currency exchange business by such agents was restricted to a one-way exchange of individuals' banknote and traveler's checks in convertible currencies into renminbi.

Regulating and pushing forward the business of overseas remittance. Qualified overseas branches of the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank are entitled to pilot the business of inward remittance with advanced sale of foreign exchange by overseas individuals. If an overseas remitter asks a payment in renminbi to a domestic remittee when remitting foreign exchange through the overseas branch, the branch can convert the foreign exchange into renminbi according to the exchange quotation of that day and remit the foreign exchange inward. The domestic bank therefore can directly pay the remittee in renminbi according to the value already converted by the overseas branch.

Allowing foreign-funded banks to open special-purpose renminbi cash accounts for foreign exchange purchases and sales. With the acceleration of financial industry's opening-up after China's entry into the WTO, the customer limitation for foreign exchange purchases and sales of foreign-funded banks has been relaxed. Besides the foreign-funded enterprises, Chinese-funded enterprises and individuals have become new customers to the foreign-funded banks. However, the current special-purpose renminbi accounts for foreign exchange purchases and sales of foreign-funded banks can only deal with the renminbi settlements with the enterprises. To guarantee the normal business of foreign exchange purchases and sales between foreign-funded banks and individuals, the PBC allow foreign-funded banks qualified to operate foreign exchange purchases and sales but unqualified to operate renminbi business to open special-purpose renminbi cash accounts in domestic commercial banks for the renminbi settlements with individuals.

Exploring the off-site supervision philosophy on foreign exchange receipts and payments of banks. Summarizing the historical experience of foreign exchange supervision on banks and basing upon the current condition, the SAFE has pushed forward the study on and establishment of the off-site supervisory system on foreign exchange receipts and payments of banks. The philosophy and operational framework of the off-site supervision have basically been defined and the supervision index system and related regulations have been put forward, which laid a foundation for the implementation of off-site supervision.

Besides, the SAFE has set about to check up the administrative procedures for market access of banks' foreign exchange purchases and sales and to study the amendment of relevant regulations in order to keep up with the changes in the banking regulatory system.

Regulating foreign exchange receipts and payments of insurance companies

Since the implementation of *Provisional Rules on Foreign Exchange Administration of Insurance Business* in 2002, the SAFE has consummated related policies step by step, and pushed the administration for foreign exchange business of insurance companies into a stage of all-round regulation and administration. By the end of 2003, 41 insurance companies had got the go-ahead from the SAFE to operate foreign exchange business.

Regulating the cross-border reinsurance activities of domestic insurance companies. Domestic insurance companies with the qualification of foreign exchange reinsurance are allowed to cede abroad their renminbi and foreign exchange insurance undertaken in China and to purchase foreign exchange to pay the reinsurance premium for qualified domestic renminbi insurance. The measures help to improve the reinsurance capacity of domestic insurance companies and to protect the interests of policyholders.

Permitting insurance companies to operate domestic inter-financial institution borrowing and lending in foreign currency. Domestic insurance companies with relevant qualifications are allowed to participate in the inter-financial institution borrowing and lending in foreign currency through the China Foreign Exchange Trade System, which will increase the liquidity of insurance companies' foreign exchange capital and improve their foreign exchange solvency.

Regulating specific operations of insurance-related foreign exchange business. Operational Rules on Insurance-related Foreign Exchange Administration was promulgated. Specific operations of insurance companies and banks for various foreign exchange businesses are detailed in accordance with regulations on insurance-related foreign exchange supervision and administration.

Facing the trend of insurance market's continuous opening-up, the SAFE will continue to set up and improve the administrative mechanism for insurance-related foreign exchange business in 2004, improve the statistics of, and monitor for, insurance-related foreign exchange funds, and further study the expansion of investment channels for foreign exchange funds of insurance companies to promote the sound development of insurance-related foreign exchange business.

• **The Development and Administration of Foreign Currency Bankcards in China**

With the development of China's economy and finance and the booming of external contacts the foreign currency bankcards, payment instruments that are secure, fast, and convenient to be used overseas, have developed rapidly.

In order to further regulate and encourage the development of foreign currency bankcards, the SAFE promulgated *Circular on the Administration of Foreign Currency Bankcards* in 2003. The established basic principles are as follows: first, current account payments such as consumption by individuals who go abroad for private purpose, travelling expenses for business and so on are allowed to be paid with domestically issued foreign currency bankcards, but payments of other transactions are not; second, cardholders can choose to pay back the overdraft under normal overseas transactions by their own foreign exchange or by purchase with renminbi; third, a ceiling is set to overseas cash withdrawal with foreign currency bankcards; fourth, reporting is required for overseas large-sum cash withdrawal and consumption with foreign currency bankcards.

The policy plays an active role in promoting the development of China's foreign currency bankcards. Besides the existing seven issuers of Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of Communications, Guangdong Development Bank and China Merchants Bank, three new issuers of CITIC Industrial Bank, Shanghai Pudong Development Bank and Shanghai Bank emerged in 2003. The above ten banks altogether had issued 2.6 million foreign currency bankcards by the end of 2003, with an increase of 1.84 million than that of the end of November 2002. The overseas cash withdrawal and consumption with foreign currency bankcards amounted to 5.26 million bills with a sum of US\$966 million in 2003, while from January to November, 2002, the relevant volume was 2.32 million and the sum totaled US\$658 million.

In order to define the scope of the use of domestically issued foreign currency bankcards and facilitate banks' examination for legality of overseas transaction, the SAFE sets restrictions and bans on the transactions under the item of trade and capital account and forbidden by national laws by screening category codes of commercial firms. Banks should also prepare relevant facilities in the foreign currency bankcards system to guarantee the normal and legal overseas use of foreign currency bankcards.

Exploring to improve foreign exchange administration of securities companies and other non-bank financial institutions

In order to keep up with the opening-up of China's capital market, the SAFE continued to study and amend securities-related foreign exchange regulations in 2003. The SAFE and concerning administrative bodies have made definite the responsibilities for each other after times of communications. On the above basis the SAFE, after preliminary researches, has drafted administrative regulations for the foreign exchange business of securities companies, which regulate the relevant business in an all-round way. By the end of 2003, 102 securities companies had got the go-ahead from the SAFE to operate foreign exchange business.

To further strengthen the foreign exchange administration for non-bank financial institutions such as trust & investment companies, finance companies and financial leasing companies, the SAFE drafted foreign exchange regulations for the three kinds of institutions after researches and broad consultation with relevant parties. The regulations mainly deal with administration for foreign exchange capital, foreign exchange accounts and foreign exchange operations.

In 2004 the SAFE will promulgate the regulations for the foreign exchange business of securities companies, trust & investment companies, finance companies and financial leasing companies, and strengthen supervision and administration according to the regulations.

Rectifying and Regulating Foreign Exchange Market

In 2003, focusing on rectifying and regulating foreign exchange market, the SAFE intensified the professional spirit of “improving administration through inspection, and promoting service through inspection” made a further integration of on-site examination with off-site inspection, and took effective measures to maintain a good order of foreign exchange market.

In 2003, the total number of cases involving illegal foreign exchange transactions that have been investigated and dealt by the SAFE was 3,472, of which, 3,436 cases have been closed. The amount of fines accumulated to RMB81 million, with the fines and confiscation collected accumulating to RMB76 million. And the major work accomplished in 2003 as follows:

Clampdown on such illegal foreign exchange transactions as “underground money shops” reinforced. In 2003, in further collaboration with the Ministry of Public Security, taking advantage of the Joint Office on Combating Nationwide Illegal Foreign Exchange Transactions, the SAFE focused on the crackdown on harmful dens of illegal foreign exchange trading and “underground money shops” in major regions. In the whole year, it took more than 2,614 person-times to participate in the inspection, with 150 suspected offenders seized and 24 dens and “underground money shops” destroyed. The SAFE also succeeded in destroying a passel of large-scaled “underground money shops” in Fujian, Guangdong, Heilongjiang and Beijing, with striking a heavy blow to the illegal traders’ swollen arrogance.

Special inspection over foreign exchange receipts and sales of designated foreign exchange banks. In the second half of 2003, the SAFE launched a special compliance inspection over foreign exchange receipts and sales of designated foreign exchange banks. The inspection and timely punishment of transactions violating foreign exchange regulations has deterred the inflows of speculative funds, and helped the SAFE get the information of the compliance of banks’ foreign exchange receipts and sales and laid a solid foundation for analyzing current foreign exchange influx and improving relevant policies.

Foreign exchange operations of designated banks regularized. In 2003, the SAFE organized compliance inspections over the foreign exchange operations of 4 designated Chinese-funded foreign exchange banks. After the inspection, the SAFE penalized a bank with significant violations by means of fines, responsibility ascertainment of main principals, notification within the banking industry and follow-up check over the bank’s corresponding rectification.

The responsibilities of anti-money laundering undertaken in an all-round way. In 2003, the SAFE adopted a series of policy measures for the sake of the implementation of *Measures on the Administration of Reporting by Financial Institutions of Large-sum and Suspicious Foreign Exchange Transactions*. The SAFE also launched pilot program on

extracting data related to large-sum and suspicious foreign exchange transactions from the banks' core database such as original accounting database, strengthened coordination and cooperation with the People's Bank of China, the Ministry of Public Security and took joint actions for some important clues, intensified anti-money laundering training for staff of SAFE offices and banks and enhanced communication with the anti-money laundering departments of international organizations including the International Monetary Fund and the World Bank. By the end of 2003, the number of large-sum and suspicious foreign exchange transactions reported to the SAFE by designated foreign exchange banks nationwide was 2.65 million, with the amount reaching US\$661.8 billion. Therefore, a preliminary anti-money laundering mechanism in terms of foreign exchange has been established.

The infrastructure construction for foreign exchange inspection strengthened. The development of the Management Information System of Foreign Exchange Inspection further enhanced the level of foreign exchange inspection. Meanwhile, special training in such aspects as anti-money laundering for officials in charge of foreign exchange inspection was intensified.

The establishment of foreign exchange market credit system proactively advanced. In accordance with the spirit of national working conference on rectifying and regulating market economic order, the SAFE formulated a five-year plan for the establishment of foreign exchange market credit system, which has laid a solid foundation for further development. Currently the SAFE is one of the important contact agencies of the Leading Office on Rectifying and Regulating Market Economic Order Nationwide in terms of establishing social credit system.

• Foreign Exchange Market Credit System

Foreign exchange market credit system mainly includes: a perfect legal framework for foreign exchange administration, standardized administrative enforcement and internal control system, expedite channels of policy dissemination and feedback, efficient management system of foreign exchange market credit information, connected credit information sharing system, scientific credit evaluation, rewards and punishment system, and strict punishment mechanism against default.

The general target of the establishment of a sound foreign exchange market credit system set by the SAFE in the near future is as follows: under the guidance of the overall objective of the reform of foreign exchange administration, which is to improve foreign exchange administration under current account and to advance capital account convertibility steadily and gradually, change the pattern of administration and strengthen the supervision over financial institutions so as to realize ex-post surveillance and indirect administration, take both pro-active and preventative measures to tackle problems either on the surface or at the root, establish the framework and operational mechanism for the foreign exchange market credit system step by step, and finally formulate an honest, reliable and compliant foreign exchange market credit system.

Box

• Special Inspection over Foreign Exchange Receipts and Sales of Designated Foreign Exchange Banks

To fully understand the foreign exchange capital flows into China and the effectiveness of existing foreign exchange administrative policies, and to command the changes and trends in the balance of payments developments, from September to November 2003, the SAFE launched a special inspection over the foreign exchange receipts and sales conducted by designated banks in the first half of 2003.

After the head offices of all designated foreign exchange banks conducted self-inspection over their 10,300 branches and sub-branches having foreign exchange business, the SAFE and its branches launched on-site examination on the head offices of 22 designated banks and 1,143 branches and sub-branches subordinated to them. The on-site examination involved 2.56 million transactions of foreign exchange receipts amounting to US\$85.4 billion and 3.83 million transactions of foreign exchange purchases amounting to US\$2.2 billion, covering almost 80 percent of the total transactions currently conducted by banks for the corresponding period.

During the inspection, violations committed by some designated banks and enterprises in their foreign exchange operations were found, such as misbehaviors in the banks' foreign exchange receipts and sales business, illegal behaviors in the domestic foreign exchange transfer business, extending renminbi loans pledged with foreign exchange funds to Chinese-funded enterprises without approval, non-compliance with related regulations on export verification, non-compliance with regulations on opening and using foreign exchange accounts, inaccuracy in balance of payments reporting and statistics of foreign exchange sales and purchases, and non-compliance with large-sum foreign exchange transaction reporting system, etc.. The overall compliance of banks nevertheless has been improved. Through the special inspection, the SAFE found out the basic situation of the operations of foreign exchange receipts and sales conducted by designated banks and got to know the channels and scale of foreign exchange capital inflows, which laid a solid foundation for extending inspection and improving foreign exchange administrative policies in the future.

Box

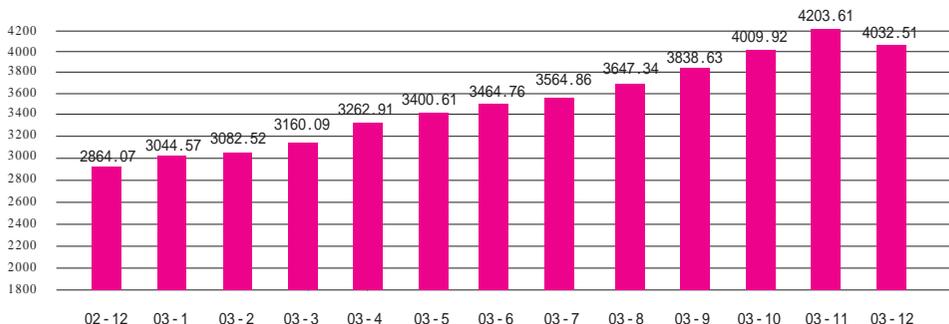
Management of State Foreign Exchange Reserves

In 2003, China's foreign exchange reserves kept a rapid rising by US\$116.844 billion or a growth by 40.8 percent to US\$403.251 billion by the year-end, with the margin of increase hitting a record high.



Foreign Exchange Reserves from Decemder 2002 to Decemder 2003

in US\$100 million



The international financial market experienced violent fluctuations in 2003 due to the imbalance of the economic recovery in major developed countries. The US dollar depreciated dramatically. The euro appreciated by 20 percent against the US dollar from the end of 2002 to the end of 2003, with the exchange rate setting a record high. The green back plumped through the support line against the Japanese yen, ending up with a 9.5 percent depreciation at the year-end. The major bond markets put the interest rates to one bottom after another. The yields of 10-year treasury bonds of the United States, Germany and Japan each hit its 45-year low in June, but soared afterwards. All in all, the market fluctuated acutely.

Though facing the complex and volatile international market and the investment pressure brought by additional large reserves, the SAFE has pushed the management of foreign exchange reserves in normalization, specialization and internationalization to a new stage. They satisfactorily accomplished the annual investment task by gaining a handsome return on the basis of security and liquidity.

Various operational activities carried out with PIBM at the core. To counter the US dollar's continued depreciation in the foreign exchange market the SAFE strengthened the monitor and study on the exchange rate, accurately grasped the trends of exchange rate and actively optimized the currency structure. Facing the bond market characterized by a low interest rate and a steep yield curve the SAFE took advantageous opportunity to adjust the asset structure and term structure rationally and effectively improved the

profitability of the assets. Meanwhile, the SAFE further diversified the investment, boosted active operations, strove to tap managerial potentials, continued to expand repurchase transactions and bond offerings, and vigorously exploited new products and new market.

The investment operational procedure further improved around PIBM. First, facing the complex and volatile condition of international politics, economy and finance, the SAFE strengthened relevant research and preliminarily set up a systematic analysis framework. Second, the SAFE strengthened the mechanism of Risk Management Committee so as to trace, analyze and control credit risk, market risk and operational risk promptly. Third, the SAFE effectively controlled the general risk of reserve management by fully revising the investment guideline, amending and improving relevant rules and regulations, strengthening internal audit and further improving investment and operational management. Fourth, in order to improve the assessment system and ameliorate methodology of performance evaluation, the SAFE set up comprehensive means to assess the present return and future profitability of the asset, which accurately reflected the actual performance of each investment department.

Team construction vigorously enhanced to guarantee the stability and development of reserve management team. The SAFE took various effective means to strengthen personnel training such as education by foreign universities, professional training by foreign banks and participation in symposium and seminars. The SAFE also actively improved the human resource management, preliminarily established an all-round quantified assessment system and ameliorated the stimulating and binding mechanism.

Improvement of Rules and Regulations for Foreign Exchange Administration

Administrative License Law implemented in an all-round way, and the reform of administrative approval system advanced

Existing administrative approval items further cleaned up with some being cancelled afterwards, and administrative functions transformed. According to the overall arrangement of the State Council on the reform of administrative approval system, the SAFE cancelled another 6 administrative approval items on the basis of 20 administrative approval items being cancelled in 2002, and publicized the follow-up supervision measures. After the promulgation of Administrative License Law, the SAFE screened and reviewed existing administrative approval items once again, decided to take advantage of market rules and means and cut as many administrative approval items as possible, especially for those items that can be regulated by market competition mechanism, and shifted from direct administration of enterprises to indirect administration via banks, and from focusing solely on administration to focusing on both administration and service.

Legal basis for existing administrative approval items examined, and follow-up supervision over administrative approval items reinforced. According to Administrative License Law, the SAFE screened the legal basis, prescribed conditions, procedures and vouchers/certificates for existing foreign exchange administrative approval items, speeded up the pace of adjusting and amending those administrative approval items inconsistent with Administrative License Law in terms of content and the effectiveness of legal basis, simplified the procedures of approval, and further standardized relevant operational procedures. Meanwhile, the SAFE also strengthened supervision to prevent additional administrative approval items by means of issuing new regulations on foreign exchange administration, so as to ensure the reform of administrative approval system.

Great efforts made to innovate and improve legislation for foreign exchange administration

Reform strengthened to satisfy various market entities' demand. With the development of the socialist market economy, the economic demand of different market entities has become more and more diversified and complicated. On the basis of in-depth investigation, making full use of the initiatives, innovation and guiding functions of the legislation, the SAFE further reformed foreign exchange policies such as canceling the approval for sales of foreign exchange capital by foreign-funded enterprises, allowing multinational companies to make payments to their overseas headquarters or affiliates for advanced or apportioned expenses, and raised the ceiling of foreign exchange accounts opened for current account purposes for some special enterprises. All these measures have satisfied the demands of various market entities and promoted their development.

Strengthening supervision of capital outflows and inflows to maintain the balanced

development of national economy. In 2003, the SAFE reinforced full-course administration over both capital outflows and inflows. On the one hand, the SAFE improved monitoring of cross-border capital flows and management of foreign exchange capital inflows; on the other hand, based on the objective needs of economic development, reform and opening-up the SAFE also lifted restrictions on capital outflows stage by stage and steadily advanced the convertibility of renminbi under capital account so as to promote sound and balanced development of the internal and external economies.

Service incorporated into administration, and the operational environment for market entities improved. Foreign exchange administration is the unification of enhanced supervision and improved service. While strengthening supervision over various market entities' foreign exchange transactions and urging them to conduct business according to laws and regulations, the SAFE also made great efforts to better its service, simplify approval procedures, and enhance efficiency, such as adjusting the foreign exchange purchase policies for individuals and simplifying import and export verification procedures, which further facilitated the development of foreign trade and investment.

The establishment of legislation strengthened to enhance transparency and feasibility of lawmaking

The argumentation system for legislation improved. The SAFE established the argumentation system for draft of foreign exchange regulations. In the process of making foreign exchange regulations, the SAFE and its branches actively carried out argumentation for the draft and sought comments from relevant government departments, banks, enterprises and other institutions, enhanced the participation of the public and reinforced the feasibility and operationalization of the regulations.

The information feedback mechanism for legislation established. In order to track the enforcement and effectiveness of the foreign exchange regulations, find out problems and solve them in time, the SAFE set up the information feedback mechanism for the enforcement of foreign exchange regulations. For major foreign exchange regulations

The SAFE's Second Set of Administrative Approval Items Cancelled (Issued on February 27, 2003)

1. Approval of repaying domestic foreign exchange loans to local banks with self-owned foreign exchange of debtors
2. Approval of sales of foreign exchange capital for foreign-funded enterprises
3. Approval of registration of domestic foreign exchange loans for borrowers
4. Approval of annual inspection of foreign exchange receipts and payments regarding ocean fishery for ocean fishery enterprises
5. Approval of payment of over-standard outbound travel expenses to overseas from the foreign exchange accounts under the item of inbound travel for travel agencies
6. Approval of foreign exchange purchase and making repayments outside its locality of registration by borrowers of domestic foreign exchange loans

Box

and policies that have been issued, the SAFE collected comments and suggestions from all circles, and studied and evaluated them seriously, thereby to ensure that the regulations were well implemented.

Perfecting information exchange with the public through various channels. Taking advantage of various channels including internet, press media and symposium, the SAFE acquainted itself with the difficulties, problems and suggestions of banks, enterprises and individuals in terms of daily foreign exchange activities, understood the demands of various economic entities in terms of foreign exchange administration. Based on the information the SAFE ameliorated legislation and policy-making, made due policy adjustments, and improved foreign exchange administration correspondingly.

IT Application

In 2003, based on the information technology (IT) development plans and supported by establishment of regulations, the SAFE focused on the construction of service platform, and developed the IT application work in terms of foreign exchange administration in an all-round way.

Focusing on the construction of service platform. In 2003, the SAFE accomplished the overall layout of business demand for the "network business system for foreign exchange administration"; launched the software development and pilot programs for export reporting and verification via network (network export verification); popularized the Export Proceeds Verification and Reporting System nationwide and improved the processing of export verification data; completed the design, development and pilot programs of the IC card system for comprehensive administration of enterprises' foreign exchange business (stage I), and expanded the application scope of the system.

Speeding up the construction of supervision platform. In 2003, the SAFE accomplished the key research of Foreign Exchange Information Management and Decision-making System of the State with such functions as data sharing, data checking and quantified analysis, which has enhanced the timeliness and accuracy of analysis on foreign exchange receipts and payments. The development of the information system for statistics and analysis of foreign exchange accounts realized the functions including compilation of report forms, statistics and analysis for data of foreign exchange accounts.

Improving office automation system and constructing internal information website. The SAFE upgraded its office automation system, enlarged its information capacity, increased confidentiality measures and standardized working procedures, which laid a solid foundation for realizing electronic transfer of documents. The SAFE also began to construct the internal information website, which will provide a platform for information distribution, sharing and communication among the SAFE, its branches and sub-branches.

Carrying on infrastructure construction, backbone network expansion and update. The backbone network is the information alternation centrum among SAFE offices and the key to smooth operations of the application system. Through the expansion and update of backbone net, the width of the backbone network and the exchange speed of core nodes were raised, the width bottleneck of data transmission was reduced, and the reliability and usability of backbone network was enhanced. The completion of principal projects of the backbone network has laid a solid foundation for the coming construction of the decision-making support system, related application system and multimedia application.

Strengthening the establishment of regulations. The formulation of *Provisional*

Regulations on IT Project Management clarifies the work division and detailed procedures for construction of IT projects, which is helpful to standardize the management of IT projects and to make full use of all the IT resources of the SAFE, its branches and sub-branches.

In 2004, according to the requirements of the plans for IT development, the SAFE will continue to focus on both service and supervision, make a breakthrough by conducting foreign exchange business via network, and tackle the key problem of constructing a service platform; improve office automation system and start using the internal information website; study and explore the platform and framework for foreign exchange supervision and regulation on the basis of data integration and reuse of information resources.

• Brief Introduction to Some Application Systems of the SAFE

No.	System	Time of population	Scope of Application	Functions
1	Statistical System for Foreign Exchange Sale and Purchase of Banks	1995	The SAFE, its branches and sub-branches; head offices, branches and sub-branches of designated foreign exchange banks	Generating statistics of the foreign exchange sale and purchase data reported by banks on a ten-day/monthly basis, which is the channel of gathering data of foreign exchange sale and purchase by banks.
2	Statistica and Monitoring System for Balance of Payments	1996	The SAFE, its branches and sub-branches; head offices, branches and sub-branches of designated foreign exchange banks	Generating statistics of BOP transactions which are conducted via banks and reported by banks. This system has provided technical support for the establishment of the International Transactions Reporting System (ITRS), and enhanced the completeness, accuracy, and timeliness of related data.
3	Statistical and Reporting System for Exchange Business	1998	The SAFE, its branches and sub-branches; head offices, branches and sub-branches of designated foreign exchange banks	Generating statistics of exchange transactions related to individuals inbound and outbound that take place in banks or at exchange agents. The system is an important means of data collection for balance of payments statistics.
4	Statistical and Monitoring System for External Debt	2002	The SAFE, its branches and sub-branches	Used for external debt registration, statistics and monitoring, analysis and early warning, this system is the technical basis for external debt statistic and monitoring.
5	Management Information System for Foreign Exchange Purchase by Domestic Resident Individuals	2002	The SAFE, its branches and sub-branches; head offices, branches and sub-branches of designated foreign exchange banks	The SAFE, its branches and sub-branches fulfill administration and statistics of foreign exchange purchase business by domestic resident individuals via the system, and banks conduct foreign exchange sale business for domestic resident individuals through the system. It was the first real-time network business system connected with banks that was developed by the SAFE. The system is favorable for lifting the restrictions on banks' conducting foreign exchange sale business for individuals, preventing duplicate foreign exchange purchase by individuals and realizing cross-locality foreign exchange purchase.
6	System for Batch Exchange of Export Verification Data	2002	The SAFE, its branches and sub-branches	Via the system, the SAFE receives information of export verification forms, customs declaration forms and information of enterprises in batches from the General Administration of Customs, and distributes the data to sub-centres.
7	Management Information System for Foreign Exchange Accounts	2003	The SAFE, its branches and sub-branches	The SAFE, its branches and sub-branches collect, process and analyze the information of foreign exchange accounts, thereby to monitor capital flows effectively via foreign exchange accounts.
8	Export Proceeds Verification and Reporting System	2003	The SAFE, its branches and sub-branches	The SAFE, its branches and sub-branches fulfill export verification and relevant statistics and analysis. Through the system, the SAFE, its branches and sub-branches can obtain information of export proceeds and export declaration at Customs, realize electronic check with the information reported by enterprises, and go through authenticity examination and verification, which is propitious to enhancing the efficiency of verification and promoting the development of enterprises.

External Relations and Cooperation

Pursuant to the focuses of its foreign exchange administration work, the SAFE sent quite a few missions for investigation and training overseas in 2003 so as to widely draw on foreign experiences in financial and foreign exchange surveillance. In the meantime, it received visits from international and foreign organizations and disseminated China's foreign exchange policies.

Disseminating China's foreign exchange policies to the international community. As China adjusted its foreign exchange policies with greater force in recent years, the international community has shown much concern and visits of overseas organizations have increased remarkably. In 2003, the SAFE received 290 foreign visits, during which it disseminated such contents as China's foreign exchange policies, progress of capital account liberalization, designs of the QFII system, exchange rate of renminbi, launch of renminbi services in Hong Kong, and management of foreign exchange reserves. Contacts with overseas organizations enhanced the international community's understanding of China's current foreign exchange policies, and raised the public confidence and transparency in foreign exchange administration. The opinions and suggestions put forward by international financial organizations, foreign central banks, foreign financial institutions and foreign enterprises also served as helpful references to China's reforms in foreign exchange administration.

Organizing missions to go abroad for on-site investigation. In order to learn from foreign experiences in such aspects as financial surveillance, opening of capital market, reform of exchange rate system and balance of payment statistics, the SAFE sent 99 missions involving 270 person-times abroad throughout 2003. These investigation missions wrote a lot of high-quality investigation reports by borrowing international experiences and combining them with domestic circumstances, providing references for further promoting trade and investment facilitation and opening the domestic capital market wider to the outside world.

Arranging training abroad in different forms. In 2003, two missions were organized to receive short-term training abroad. The mission for anti-money laundering training in the United States was aimed mainly to train persons engaged in anti-money laundering and foreign exchange examinations. It invited experts from the US Department of Justice, Department of the Treasury, Customs and other government departments to introduce anti-money laundering work in the United States, such as anti-money laundering legislation, anti-money laundering organs and operations, current conditions about anti-money laundering in the financial field and international cooperation in fighting against money laundering. The mission for training of foreign exchange surveillance theory and practice in Australia heard the introduction of treasury, finance, Reserve Bank and other departments of Australian government on financial and foreign exchange administration practices, and learned the experiences of Australia in the aspects of insurance and foreign exchange surveillance. Meanwhile, the SAFE also sent

young staff members to receive training abroad through the scholarship projects of the International Monetary Fund, the UK government, and the German Development Foundation.

Building international platform for seminars on foreign exchange policies. In 2003, the State Administration of Foreign Exchange and the China Foreign Exchange Trade System jointly sponsored an international seminar on development of China's foreign exchange market in Shanghai, in which more than 150 representatives from Chinese and foreign government agencies, international financial organizations and financial institutions participated. The Chinese and foreign experts attending the seminar put forward a lot of opinions and suggestions on such issues as new development trends and new features of international foreign exchange markets, the relationship between development of foreign exchange market and convertibility of renminbi under capital account and improvement of renminbi exchange rate formation mechanism, and development prospects and system designs of China's foreign exchange market.