INTERNATIONAL EXCHANGE AND COOPERATION

In 2007, the PBC actively participated in international financial affairs, continuing its financial exchange and cooperation in all dimensions, as well as taking further steps in both bilateral and multilateral arenas.

Strengthening international coordination and dialogue, actively participating in international financial affairs, adequately enhancing its role in the major international financial organizations, striving to inaugurate a new phase of cooperation The PBC continued to actively participate in the multilateral consultations, which were coordinated by the IMF with representatives from the US, Japan, EU, Saudi Arabia and China aiming at discussing global imbalances, and discussed with other relevant parties on policy issues including orderly solutions to global imbalances and made great efforts in explaining China's economic and financial policies to obtain international understandings and supports.

Since the former IMF President Rodrigo de Rato formally decided to initiate the amendment of *the 1977 Decision on Surveillance over Exchange Rate Policies,* the PBC actively expounded China's position on the amendment on various occasions, studied in-depth the amended text and delivered its responses in a timely manner, which helped the final text of the *Decision* somewhat reflect concerns from developing countries, especially from China.

In September 2006, as scheduled, the IMF increased the ad hoc quotas for China, Korea, Mexico and Turkey, hence, the reforms regarding the developing countries' quota and their voice in the IMF were entering the second stage. The main reform measures for the second phase include: amendment of the quota formula, adjustment of quotas, enlargement of low income countries' voting power and voice, as well as greater transparency in the election of the Managing Director and Board of Directors reforms etc. On the sideline of IMF Seminars, Board of Directors meetings, G20 Seminars, G20 Deputies' meetings as well as G20 Ministers' Meetings, the PBC further clarified its stand on quotas and voice, and laid a solid foundation for the further increase of China's quota and solution of relevant issues.

In 2007, the senior management of the PBC attended various BIS meetings such as all the six governors' meetings, the deputy governors' meeting, as well as the Asia Consultative Council meeting and the meeting of the Commission on Global Financial System to enhance cooperation with the BIS and other central banks. Furthermore, after becoming a member of the BIS Board of Directors in June 2006, Governor Zhou Xiaochuan was invited to be the member of the BIS Auditing Commission in 2007. In the course of the year, in order to fulfill his obligation, Governor Zhou attended five meetings of Board of Directors and two meetings of Auditing Commission's.

In order to let G30 members experience the fruits of China's reforms, the PBC co-hosted with G30 the 2007 G30 Spring Plenary in Hangzhou from April 26 to 30 April, 2007. This was the first time that G30 held its meeting in China. Overall, 26 G30 members and some other Chinese and foreign financial experts attended the event. During the meeting, the participants explored in-depth issues of financial reform, capital flows, risk management etc.

The Commission on Growth and Development (CGD) of the World Bank, established in 2006, aiming at fostering policy recommendations on the economic development and reform of the developing countries, held three closed-door meetings in April 2006, Sep. 2006, and April 2007, respectively. A report relating to policy recommendations was scheduled to be published in 2008. From Nov.12 to Nov.14, 2007, the PBC co-hosted the Commission's fourth closed-door meeting, where discussions on the draft report took place. This was the first CGD meeting in China, and its success contributed to the further development of China's financial cooperation and exchange channels

Establishing regional financial stability mechanism and promoting regional financial cooperation In 2007, the PBC continued to promote the currency swap cooperation under the Chiang Mai Initiative (CMI) among ASEAN+3 and renewed the bilateral swap agreements with the Philippines, Korea and Japan. With regard to the CMI multilateralization, as the co-chairs, the PBC and the Bank of Thailand have been engaged in promoting other ASEAN+3 to unanimously agree in principle to establish the self-managed foreign exchange reserve pooling agreement governed by single arrangement as the appropriate form of CMI multilateralization, which marked a breakthrough on CMI multilateralization. Taking this as a departure point, the PBC continued to co-ordinate exchanges of views on total size of reserve pooling arrangement and their surveillance, and an initial consensus on reserve currency, prepayment and default had been reached.

As the first chairman (started from February 2007) of deputy level Monetary and Financial Stability Committee under EMEAP framework, the PBC hosted the first and second meetings of the Committee in Chengdu, China in April 2007 and Bali, Indonesia in November respectively, and finalized the Committee's first *Regional Macro-economic Surveillance Report*. In April 2007, the 32nd EMEAP Deputy Meeting was held in Chendu, under the co-ordination of the PBC. Furthermore, the PBC is going to host the 13th EMEAP Governors' Meeting and other governors' meeting as the president in 2008.

Strengthening cooperation with multilateral development banks, and further enhancing co-operation with developing countries On May16 to May 17, May 2007, the Annual Meeting of the African Development Bank Group (ADB) "Africa and Asia: Associates in Development" was held in Shanghai. Approximately 2 200 representatives from 77 member countries of ADB (including five African countries with no diplomatic relations with China), 17 international institutions such as the World Bank, the IMF, and regional development financial institutions, non-governmental organizations (NGO), enterprises and media attended the event. This was the ADB's first annual meeting in Asia, and the second outside of Africa, which was highly appreciated by the bank, saying that it is the most successful ever annual meeting held in its history.

In addition, by making use of platforms such as Annual Meeting of the Caribbean Development Bank and the Trade and Development Bank of Eastern and Southern Africa as well as the Sino-Caribbean Economic and Trade Cooperation Forum, the PBC endeavored to deepen the trust and cooperation with those countries in regions mentioned above.

Enhancing bilateral exchanges to realize equal dialogue with large countries and to further strengthen cooperation with neighboring central banks The PBC continued participating actively in the activities relevant to the Sino-US Strategic Economic Dialogue (SED), with in-depth discussions and exchanges between the two sides on issues such as Chinese monetary policy, opening of financial markets etc. Progress was achieved on the China joining the Inter-American Development Bank (IDB) and branch opening by Chinese banks in the US market. In March 2007, on behalf of the Chinese Government, the PBC signed the Memorandum of Understanding with the IDB concerning officially starting discussion on China's admission to the IDB. The negotiation is still under way. Furthermore, in November 2007, China Merchants Bank was issued a banking permit by the US Federal Reserve, which allowed it to set up a branch in the US.

Policy dialogue with the EU was conducted to strengthen mutual trust and understanding. With the continuing depreciation of the US dollar as an aftermath of the sub-prime crisis, the euro had been under increasing pressure of appreciation, arousing the trade protectionism sentiment within the EU, and greater concerns on the RMB exchange rate against the euro. In November 2007, the PBC hosted a meeting in Beijing to exchange views on exchange rate and global imbalances with the visiting Chairman of Euro Group, Mr. Juncker, Prime Minister of Luxembourg, and Mr. Trichet, governor of European Central Bank, and Mr. Joaquin Almunia, member of Economic and Currency Affairs of European Commission. The two sides agreed to establish a financial coordination working group to enhance financial cooperation between China and Europe.

Dialogue and cooperation with neighboring central banks were strengthened. In September 2007, Governor Zhou Xiaochuan paid his first visit in five years to the Bank of Japan to exchange views on the situation of international economic and financial development, and delivered a speech: “China's Macro-economic Policy”. At the same time, the PBC also actively participated in the Sino-Korean Financial Cooperation Conference and the Sino-Japanese-Korean Central Bank Governors Meeting, aiming at deepening cooperation with Japan and Korea in monetary policy, financial stability, payment and settlements, as well as other areas. Furthermore, the PBC hosted the 8th Sino-Russian Bank Cooperation Sub-Committee and the 3rd Sino-Kazakhstan Financial Cooperation Sub-Committee, where issues such as financial supervision and anti-money laundering were discussed.

Deepening and enlarging financial communication steadily in Hong Kong and Macao, and promoting financial cooperation among China's Mainland, Taiwan province and Hong Kong In 2007, RMB business in Hong Kong and Macao developed steadily, with smooth fund clearing and settlements. By the end of the year, there were 37 banks in Hong Kong handling RMB business, with outstanding deposit balance of RMB 33.4 billion yuan, and remittance to mainland of RMB 7.153 billion yuan. Meanwhile in Macao, 15 banks started RMB business, with a total outstanding deposit of RMB1.156 billion yuan, and remittances (from Macao to the mainland) of RMB 88.2 million yuan.

On January 10, 2007, the State Council authorized the range of RMB business in Hong Kong to be further expanded by allowing mainland financial institutions to issue RMB financial bonds in Hong Kong, which enabled Hong Kong to be the first RMB bond market outside of the mainland. This had not only blazed a new financing channel for mainland financial institutions, but also offered a new investment instrument for Hong Kong banks handling RMB business and RMB depositors, therefore broadening RMB recycling channels for Hong Kong. Consequently, the State Development Bank, China Import and Export Bank and Bank of China have issued RMB bonds in Hong Kong, amount to the equivalent of RMB5 billion yuan, RMB2 billion yuan and RMB3 billion yuan on July 12, August 24 and September 28 during the year respectively.

Through the financial science seminar, an important platform for financial industries across the straits to communicate, the PBC made its efforts in expounding to Taiwan compatriot on the economic and financial developments in the mainland and the achievements of reform to deepen mutual trust and understanding, and promote the development of financial cooperation between the mainland and Taiwan. In October 2007, the China Society for Finance and its Taiwanese counterparts jointly sponsored the 13th Financial Science Seminar Across the Straits in Taipei, focussing on the subject of financial cooperation and prospects across the Strait, and exchanging views on hot financial issues.

Consciously strengthening public understanding on financial reform and opening policies by using multiple channels In order to boost public understanding and gain support for China's economic reform policies, especially on the reform of the RMB exchange rate and the effort China has made to combat global imbalances, in 2007, the PBC continued to use the Chinese and foreign press to publicize its activities and positions. On occasions of the National People's Congress and the Chinese People's Political Consultative Conference, two rounds of SED and the 17th CPC National Congress, the PBC successfully expounded and clarified China's financial reform policies in interviews with press representatives.

In order to commemorate the 10th year of the handover of Hong Kong, in 2007, the PBC launched a series of activities, including the publication of the book *Ten years of Finance in Hong Kong: 1997-2007* and arrangements of a number of interviews with the PBC's heads by “Mingpao” and “China News”, extolling the achievements of financial cooperation between mainland China and Hong Kong in its return of ten years.

Box

China Becoming A Full Member of the FATF

The Financial Action Task Force on Money Laundering (FATF) is an international organization specialized in AML. The FATF was set up on July 16, 1989, based on the economic declaration of the G7. By the end of 2007, the FATF, as an inter-governmental agency, has expanded to its current 34 members (32 jurisdictions and 2 international organizations) and more than 20 observers (8 FATF-style regional AML bodies and more than 15 other international organizations or agencies). The FATF has the mission to set out international standards in AML/CFT sphere, promote implementation and supervision of these standards nationally as well as internationally, analyze and study typologies and trends of money laundering and terrorist financing activities, and cooperate with other relevant international organizations with a view to combating money laundering and terrorist financing activities jointly. *The Forty Recommendations on Anti-money Laundering* and *Nine Special Recommendations on Combating Terrorist Financing* revised after June 2003 are the most renowned international AML guiding documents, have become the international standards in this sphere that are broadly recognized by international organizations including the Security Council of the United Nations, the International Monetary Fund, the World Bank and many governments as well.

With the precondition of maintaining national sovereignty, China has been actively pursuing membership of the FATF and actively participating in relevant activities of international and regional AML organizations. The FATF listed China as a country of strategic importance in its membership waiting list in 1998, and accepted China as its observer in January 2005. The FATF Liaison Group visited Beijing for a 3-day fact finding trip and pre-evaluate on China's AML/CFT regime in November 2005. The FATF, jointly with the EAG, conducted an on-site visit of evaluation of China's AML/CFT system from November 13 to

25, 2006. After being accepted as observer of the FATF, China has taken an active part in FATF Plenary Sessions and other events. China hosted the FATF/EAG Joint Experts' Meeting on Typologies successfully in Shanghai from November 28 to 30, 2006, which expanded China's influence on international community. On June 28, 2007, FATF XVIII-3 Plenary approved the Mutual Evaluation Report of China and accepted China as its full member.

Full FATF membership is of key importance to China's in-depth engagement in international AML/CFT cooperation, efficient suppression of criminal activities including money laundering and corruption, and guarantee of financial stability. Firstly, full FATF membership will help China establish an image of a responsible player in AML/CFT sphere and politically as well, and preserve national interests more advantageously and constructively by taking a part in the process of establishment and approval of AML/CFT international standards and rules. Secondly, full FATF membership will help China promote its AML/CFT international cooperation, and help in combating illegal cross-border transfer of criminal proceedings and recovering it. Thirdly, full FATF membership symbolizes that China's the AML/CFT regime has been set up in line with international standards, which will help Chinese financial institutions explore in financial markets abroad with equal status as financial institutions of other FATF member states. Lastly, full FATF membership will encourage China to further improve its AML/CFT regime by promoting its financial institutions to enhance internal control system, operate smoothly, and keep awareness of relevant risk posed, and therefore strengthen China's overall effort in prevention and suppression of money laundering and financing of terrorism.