

# Increasing financial cooperation

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**ZHOU XIAOCHUAN** graduated with a BE degree from Beijing Institute of Chemical Technology in 1975 and received a PhD in Economic Systems Engineering from Tsinghua University in 1985. He has held various senior positions in the Chinese government and commercial banks, including Vice President of the Bank of China (1991-1995), Deputy Governor of the People's Bank of China (1995-1998), President of the China Construction Bank (1998-2000) and Chairman of China Securities Regulatory Commission (2000-2002). Dr Zhou became Governor of the People's Bank of China in 2002.

Local landmark:  
London's famous Lloyd's Building was acquired by China's Ping An Insurance Group in 2013

It is vitally important for China and the UK, an emerging market economy and a mature one, to step up our bilateral financial cooperation. Our markets cooperating means that financial resources will be used more efficiently, growth dividends can be shared, and both the Chinese and British people will benefit. It also promotes economic and financial rule-making across the world.

In recent years, British and Chinese leaders have worked together to make important strategic decisions on bilateral financial cooperation. Representatives of the financial sectors of the two countries have worked together to identify innovative potential areas for future cooperation. As the comprehensive strategic partnership between China and the UK enters into its second decade, the financial communities of the two countries will build on the momentum already established and join hands to bring in a golden age of financial cooperation.

This bilateral financial cooperation has produced fruitful results. In recent years, politicians, financial experts, and academics in both countries have worked closely in promoting pragmatic financial cooperation through bilateral and multilateral channels. During all seven rounds of the China-UK Economic and Financial Dialogue, financial cooperation has remained at the core of the agenda. The Dialogue has meant policy communication and coordination on macro-economic policy and financial regulatory reform, as well as on the mutual opening of our financial markets. At the same time, it has effectively maintained monetary and financial stability, and promoted sound and stable real economic growth.

Moreover, Chinese and British financial institutions have entered each other's markets to provide services to the local economy. HSBC, Standard Chartered and other UK institutions have been important players in the Chinese market for many years. In recent years, China's four largest commercial banks have expanded their business in the UK. Other financial institutions, including the China Development Bank, China Investment Corporation Limited, and China Foreign Exchange Trade System, are also looking to open London branches or offices. And today all ATMs and many shops, especially in London, accept China's popular UnionPay cards.

Since the outbreak of the global financial crisis in 2008, China and the UK have jointly participated

in crisis resolution through multilateral platforms, and promoted international monetary system and global financial sector reform. In particular, the two countries have enhanced financial policy coordination and promoted standard-setting in major platforms and international financial organisations such as the G20, the IMF, the FSB and others.

This year, the IMF is conducting its Special Drawing Rights (SDR) review of the currencies it uses to maintain its supplemental foreign exchange assets. China wants to see the yuan included in this basket of currencies, and the UK has provided important technical assistance for this goal, including providing the IMF with the benchmark yuan exchange rate of the London market. These acts reflect the shared hope of the two countries to improve the international monetary system.

China and the UK are pioneering and innovative in bilateral financial cooperation. Talking of pioneering, the UK was the first country to sign a bilateral currency swap agreement with China. The two countries will soon renew the arrangement and expand the size of the facility to maintain financial stability. Among



developed countries, Britain was the first to obtain a yuan qualified foreign institutional investor (RQFII) quota, and among the first European countries to establish a yuan clearing arrangement. The direct trading of the yuan against the pound sterling has started, ahead of many other countries. In the developed world, the UK has been a forerunner in fostering the offshore yuan market in London.


As early as 2011, HSBC was qualified as an underwriter of debt financing instruments for non-financial companies, as a result of market-based assessment. We are also supportive of Standard Chartered being qualified on the basis of meeting the existing market criteria. Thus far, no other foreign banks have been qualified to underwrite debt instruments for non-financial companies in the Chinese market. In the aftermath of the global financial crisis, China was the first country to open new bank branches in Britain. Moreover, in the process of establishing the Asian Infrastructure Investment Bank (AIIB), the UK was the first developed country to support the initiative and played an important role in the preparation for the AIIB's launch.

There have also been innovative new means of financial cooperation. In October 2014, the UK Government issued a milestone yuan denominated sovereign bond and included the proceeds of 3 billion yuan in the country's foreign exchange reserve. This is the first time ever that a Western country has issued a yuan-denominated government bond and announced the inclusion of the yuan in its

reserve. We in China regard this as a big innovation in pragmatic bilateral financial cooperation.

On 20 October 2015, the PBC will issue a 5 billion yuan central bank note in London, the first time for the Chinese central bank to do so in an overseas market. The Agricultural Bank of China has also recently issued a yuan-denominated green bond in London. Furthermore, the two countries are working together to promote the building of infrastructure for our financial markets, and to strengthen cross-border regulatory cooperation on the trading of over-the-counter derivatives.

Looking ahead, I see broad prospects for bilateral financial cooperation and envisage much more to come. There is a lot of room for cooperation in further opening the bond markets (including the issuance of yuan sovereign bonds and enterprise bonds), the connectivity of the two capital markets, commodity market cooperation, and other areas.

In the near future, we look forward to progress in mutual recognition of fund products, the connectivity of the Shanghai and London Stock Exchanges, the regulation of internet finance and shadow banking, financial support for tech firms, financial consumer protection, insurance industry, and more. This cooperation is consistent with the direction of financial development in both countries, and will be mutually beneficial. I am confident that by taking a long term perspective and fully capitalising on the existing momentum, the two sides will work together to create a golden age of bilateral financial cooperation. 

**The PBC  
will issue  
a 5 billion  
yuan central  
bank note in  
London, the  
first time  
the Chinese  
central bank  
has done so in  
an overseas  
market**



Pillar of the community:  
Bank of China's London  
Branch office building.  
The bank has maintained  
a continuous presence in  
London since 1929