

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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WORKING PARTY ON CHINA'S STATUS AS A CONTRACTING PARTY

Communication from China

The following communication, dated 21 January 1994, has been received from the Deputy Permanent Representative of the People's Republic of China with the request that it be circulated to members of the Working Party.

Please find the attached information on China's exchange system. This information is intended to help members of the Working Party better understand the latest developments in China's trade regime.

**PEOPLE'S BANK OF CHINA (PBC) ANNOUNCEMENT
OF FURTHER REFORMS OF THE FOREIGN EXCHANGE SYSTEM**

(28 December 1993)

(Unofficial translation)

In order to promote the establishment of the socialist market economic structure, further open up the Chinese economy and foster sustainable, rapid and healthy growth, further reforms will be introduced regarding the foreign exchange system with effect from January 1, 1994 according to the decision of the State Council. The reforms are as follows:

I. Adopt the system of selling exchange earnings to banks and abolish the exchange retention system

Prompt repatriation of all foreign exchange income is required for all enterprises, government establishments, state organs, and non-governmental bodies within China. With the exception of foreign-funded enterprises, foreign exchange income falling into the following categories must be sold to designated banks at the bank-quoted exchange rate.

1. Foreign exchange earned through export or entrepot trade and other transactions;
2. Foreign exchange received from providing transportation and communications services, postal services, tourist services and insurance services, as well as from governmental transactions;
3. Net foreign exchange income earned by banks from conducting foreign exchange business which is subject to submission; foreign exchange profits generated from overseas civil engineering and labour contracts and investments which are subject to repatriation;
4. Other types of foreign exchange income that must be sold to banks according to regulatory provisions of the foreign exchange administration authorities.

Cash accounts are permitted with designated banks for foreign exchange income of the following categories:

1. Foreign exchange remitted as an investment by overseas legal entities and natural persons;
2. Foreign exchange acquired through overseas borrowing, bond issues and stock offerings;
3. Foreign exchange repatriated for the execution of project contracts by civil engineering and labour contractors within the duration of the contracts in question;
4. Foreign exchange donations approved for particular uses;
5. Foreign exchange of foreign embassies, consulates, international organizations and resident offices of other overseas legal entities;

6. Foreign exchange of individuals.

Payments from the above-mentioned categories for domestic expenses should be made by purchasing Renminbi (RMB) with foreign exchange at designated banks.

The current system of foreign exchange retention, surrender and quota control is abolished. Current quota balances and cash deposits other than the above six categories will be treated and handled according to the following principles:

Current foreign exchange quota balances can still be used at the exchange rate quoted on December 31, 1993. For undistributed quotas, for which exchange earnings have been sold before the exchange rate unification, distribution and book entry should be finished before the end of January 1994, and the use of such quotas is permitted at the exchange rate quoted on December 31, 1993.

For foreign exchange cash deposits other than the above six categories, existing accounts can be maintained after adoption of the new system of selling exchange earnings to banks; however, no new deposits can be made to such accounts, and only withdrawals are permitted until the account is cleared. Current balances of such accounts may be used for current payments and repayment of foreign exchange obligations, or sold to banks.

II. Adopt the system of purchasing foreign exchange from banks and introduce limited convertibility of Renminbi under the current account

With the adoption of the system of purchasing foreign exchange from banks, the approval system will be abolished for using foreign exchange for external payments under the current account. For making such external payments, enterprises, government establishments, state organs and non-governmental bodies within China should purchase needed foreign exchange with RMB at designated banks by presenting the following valid documentation:

1. Quota certificates, import licenses or certificates and corresponding contracts for the import of goods subject to quota or other import controls;
2. Registration certificates and corresponding contracts for the import of goods subject to automatic registration;
3. Import contracts and payment notifications issued by overseas financial institutions for the import of goods other than the above two categories but in line with the state import regulations;
4. Payment agreements or contracts and payment notifications issued by overseas financial or non-financial institutions for operational payments under non-trade items.

Purchase of foreign exchange or purchase and withdrawal of foreign exchange cash for non-operational payments will be handled according to applicable accounting and exchange regulation provisions. The approval system will be continued for remittances abroad as investment, lending and donation.

As a transitional measure immediately after the exchange system reform, export companies are allowed to open transitional accounts with designated banks in the amount equal to 50 per cent of their total exchange earnings sold. Foreign exchange needed by export companies for export and trade-related expenses can be purchased at the banks by presenting the

above-mentioned documentation, from the balance of their transitional accounts held with the banks. The needed foreign exchange exceeding their account balances can be purchased, by presenting the required valid documentation, at designated banks according to applicable provisions of the state.

III. Establish interbank foreign exchange market, improve exchange rate mechanism and maintain an appropriate and stable exchange rate of the Renminbi

Upon the introduction of the system which requires selling of foreign exchange earnings to and purchasing foreign exchange from banks, a nationally-integrated interbank foreign exchange market will be established which shall consist of the banks designated to deal in foreign exchange. The main function of the interbank foreign exchange market is to facilitate transactions and settlements among the designated banks. The PBC shall supervise and administer the interbank market through the State Administration of Exchange Control.

The exchange rates of the RMB shall be unified effective January 1, 1994. The single unified rate shall be a managed floating one based on the supply and demand in the market. The PBC shall publish daily the median rate of the RMB against the U.S. dollar based on the prevailing rate of the previous day in the interbank market. It shall also announce the RMB rates against other major currencies reflecting the movements in international exchange markets. The designated banks shall buy from and sell to their clients foreign exchange at their own quoted rates, which are allowed to vary within the range set by the PBC. In the overall context of stabilizing the domestic currency, the quoted rates shall be kept broadly consistent and stable through interbank transactions and through the PBC's exchange injection into and recall from the interbank market.

IV. Strengthen regulation compliance in the operations of designated banks and enhance their services

In principle, the designated banks shall use their own funds to pay for their purchase of foreign exchange. The foreign exchange working funds for settlement purposes of the designated banks shall be managed based on ratio limits, determined by the PBC in accordance with the banks' assets and the amount of foreign exchange needed for settlement. In the event that the amount of the exchange working funds for settlement purposes of any bank exceeds the limit ceiling, the bank in question shall sell the surplus to other designated banks or to the PBC; in the event that the amount of such exchange working funds of any bank falls below the limit floor, the bank in question shall purchase from other designated banks or from the PBC to eliminate the shortage.

To protect clients with future exchange payment obligations from exchange rate risks, the designated banks may, upon presentation of valid documentation by the clients, undertake both Renminbi and foreign currency hedging operations for the clients.

All designated banks shall maintain an appropriate asset/liability ratio and comply to regulations in their foreign exchange operations, including foreign exchange sales and purchases, opening accounts, borrowing and lending. They shall also strive to improve their services, reduce service costs and refrain from illegal operations and unfair competition.

V. Strengthen the management of external debt, establish a debt-service fund and protect the creditworthiness of the state

External borrowing and repayment shall remain under the debt management plan and subject to review of financial positions and debt filing. Provision of guarantees to foreign legal persons (including those institutions and enterprises with Chinese investment) shall be strictly subject to "the Provisions Governing Foreign Exchange Guarantee Provided by Domestic Institutions to Foreign Borrowers" promulgated by the SAEC.

In order to maintain the external creditworthiness of the state, it is essential to maintain "the-borrower-honours-his-repayment principle" and thereby strengthen debt-service management. Borrowers shall enhance the management of the projects with foreign financing and increase their economic efficiency and the capacity to generate foreign exchange earnings. The state shall encourage the localities, government agencies and enterprises with heavy foreign debt to establish debt-service funds with amounts in proportion to their outstanding obligations. Such funds may be deposited in cash accounts with designated banks. With the approval of the state, the export earnings earmarked for the repayment of foreign loans may also be deposited in such accounts. Such earmarked foreign exchange funds may only be used to service foreign debt and may not be transferred for any other purpose.

Borrowers shall service their debts from their debt-service funds. In case of debt-service difficulties, they may, with the approval of the department responsible for exchange administration, purchase from the designated banks the foreign exchange needed for repayments, upon presentation of the required documents, including the loan agreement, foreign debt filing certificate and debt service approval certificate. Repayment before contract maturity shall be subject to approval by the exchange administration authorities. No bank shall, without due authorization, settle repayments for any external borrowing not filed or for any obligations incurred as a result of guarantees provided by domestic institutions, in violation of relevant rules, to a foreign borrower.

However, borrowers may use their own export earnings or, as stipulated in the loan agreements, purchase foreign exchange to repay the loans already extended by domestic financial institutions with the institutions' own foreign exchange. Under the new system, foreign borrowing by domestic financial institutions and loans extended with their foreign currency deposits shall be repaid in the original currency in accordance with the aforesaid repayment procedures.

VI. Maintain the existing regulations governing the foreign exchange holdings of foreign-funded enterprises

A foreign-funded enterprise may deposit its exchange income in its cash account with a designated bank or a foreign bank located in China. Such an enterprise may, in accordance with the relevant rules and regulations, repay its foreign obligations and service its foreign currency debts to domestic financial institutions directly from its cash account balance; foreign exchange needed for production, management, debt-service and repatriation of profits in excess of its cash account balance may be purchased from designated banks, with approval of the exchange administration authorities based on the required documents endorsed by the competent departments and the contract in question.

VII. Prohibit the settlement in foreign currency denominated instruments and the circulation of foreign currencies in China

Effective January 1, 1994, any form of denomination and settlement in foreign currency shall be prohibited within the territory; circulation of foreign currency and foreign exchange transactions other than those with designated financial institutions shall also be prohibited; issuance of Foreign Exchange Certificates will be discontinued, while the existing Foreign Exchange Certificates may continue to be used until they are phased out of circulation.

VIII. Enhance the macro-management of balance of payments

Work on the analysis and prediction of the movements and trends of exchange balance and the balance of payments shall be intensified so as to gradually improve China's macro-management of the balance of payments. The balance-of-payments reporting system will be developed, and the recording of foreign exchange receipts and payments, borrowing and repayments as well as their statistics, supervision and administration will be improved so as to eliminate loopholes and reduce and prevent capital flight.

All government agencies shall strengthen their cooperation and coordination, act promptly to solve problems that may surface in the course of the reform and ensure the effective implementation of the reform of the foreign exchange regime.