



LEGAL SERIES



# FOREIGN EXCHANGE CONTROL IN CHINA



**CCH ASIA PTE LIMITED**

# **FOREIGN EXCHANGE CONTROL IN CHINA**



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### **CCH Asia Pte Limited**

11 Keppel Road, #11-01 RCL Centre, Singapore 089057

Telephone: (65) 6225 2555 Customer Service Hotline: 800 6162 161 Facsimile: 001 800 2240 0000

E-mail address: [support@cch.com.sg](mailto:support@cch.com.sg) Website: <http://www.cch.com.sg>

### **Commerce Clearing House (Malaysia) Sdn Bhd (216303-M)**

Suite 9.3, 9th Floor Menara Weld, 76 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia

Telephone: (603) 2026 6003 Customer Service Hotline: 1800 181151 Facsimile: 00 800 2240 0000

E-mail address: [support@cch.com.my](mailto:support@cch.com.my) Website: <http://www.cch.com.my>

### **CCH Hong Kong Limited**

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Telephone: (852) 2526 7606 Customer Service Hotline: 800 968 667 Facsimile: 001 800 2240 0000

E-mail address: [support@cch.com.hk](mailto:support@cch.com.hk) Website: <http://www.cch.com.hk>

### **Beijing Wolters Kluwer Asia Pacific Information Technology Co. Ltd**

201-B, No. 2 CITIC Building, No. 19, Jianguomenwai Dajie, Beijing 100004 China

Telephone: (8610) 6500 6490 Customer Service Hotline: (8610) 6500 6519

Facsimile: (8610) 6500 6491 E-mail: [support@cchchina.com.cn](mailto:support@cchchina.com.cn)

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## FOREWORD

In contrast with global recession in recent years, China's economy grows annually at a rate exceeding 7% for 10 consecutive years. Today, China is one of the fastest locomotive engines in world economic development. These achievements show the success of China's macroeconomic policies with foreign exchange control being one of the most important implemented.

Many countries today adopt foreign exchange control measures, directly or indirectly, to assure stable, healthy and continuous economic development. A party, whether an entity or individual, gets involved in foreign exchange-related activities in one way or another, be it through cross-border movement of commodity or capital or international travel. Knowledge of foreign exchange control is absolutely essential.

This book, *Foreign Exchange Control in China*, is the first book written in English covering the framework, requirements and regulations of foreign exchange control in China. Aimed at assisting readers to understand this complicated subject of foreign exchange control in China as well as businesses, and in particular foreign investors, to comply with foreign exchange control procedures in their day-to-day operations in China, this book is an invaluable resource.

The contents of the book are laid out systematically and is easy to read. It covers the theoretical aspects of China's foreign exchange control policy developments from the opening up of its economy, when it becomes a member of IMF, to current practices. It even takes a look at the future of foreign exchange control in China amidst the recent controversies surrounding its policies. It is also user-friendly in providing practical step-by-step guides to procedural, documentation and regulatory compliance requirements. Potential issues that require more attention in handling foreign exchange-related activities are highlighted. All these will make this book very useful reference material to financial, legal and other professionals and academics alike.

I am impressed by the comprehensiveness of this book written by someone rich in experience in foreign exchange-related matters. I must congratulate the author on his contributions to the field of foreign exchange control in China. I wish that this book will assist every reader in grasping the difficult topic of foreign exchange control in China and will find this book a continuous and reliable source of reference in handling foreign exchange control activities in China.

**Zhang Jianguo**

President

Bank of Communications

## ABOUT THE AUTHOR

A veteran in banking and finance, Tu Hong currently heads the Bank of Communications in New York as its general manager.

Tu Hong's extensive experience in banking and finance is gathered over a span of 15 years in the commercial banking industry in China. From operations to supervision and planning, his banking and financial experience extends from domestic personal banking, information technology, bank accounting and audit, marketing and bank-customer relationship management, coordination of banking activities with regulatory authorities and loans to foreign investment enterprises, to international banking of both domestic and overseas branches in foreign exchange compliance, international settlements, foreign exchange treasury, financial institution management and risk control and banking business and product planning and development.

An expert in foreign exchange control policies and regulations in China, Tu Hong has been invited to speak in numerous foreign exchange administration seminars in China attended by professionals and high-level executives from multinational companies, financial institutions and foreign investors to China.

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## PREFACE

The world economy has gone through both liberalisation and globalisation in the past three decades. The economies of many countries have become more open to each other as well as more interdependent. At the same time, cross-border fund and capital movements arising from international trade and investments have become more and more frequent. International fund and capital movements need a free payment system, but exchange restrictions still exist even though the world economy tends towards liberalisation and globalisation.

At present, each country legislates its own currency policies within its jurisdiction and imposes direct or indirect restrictions on foreign exchange. These legislations and restrictions are complicated and disperse, causing great difficulties to international trade and investments. Knowledge of exchange control measures and rules is therefore vital to the facilitation and participation in fund and capital movements at both the international and national levels for any commercial entity or individual involved.

### **Foreign exchange control in China**

The economic environment in the People's Republic of China has undergone profound changes over the past 25 years. The policy of reforming and opening to the outside world has been adopted since 1979 and the economic structures have gradually evolved from a centrally-planned economy to a market economy. In the course of this evolution, foreign exchange control policies have played a leading role assuring stable, continuous and healthy economic development.

It is clear that China is increasingly turning into a commercial market with enormous potential. After its accession to WTO in 2001, China has enjoyed a dramatic increase in foreign trade and foreign direct investments. China's foreign trade volume went up from US\$510 billion in 2001 to US\$800 billion in 2003. Foreign direct investments in China exceeded US\$53 billion in 2003 after China became the largest foreign direct investment host country instead of the United States of America in 2002.

China is providing a gigantic chance as well as a challenge to the world. However the reality is that not all foreign entities will be successful in China. Only the entity that is both realistic and far-sighted will successfully grasp the chance. And for a foreign entity to be able to grasp the chance successfully, it is crucial that it carefully studies and becomes familiar with all relevant policies of China. These relevant policies constitute the "game rules" in China with foreign exchange control policy being one of the most important and complicated aspects of these game rules. The more familiar the foreign entity is with foreign exchange control rules of China, the more benefits it will reap and the earlier it will do so compared with its competitors.

The law is stated as at 31 March 2004.

**Tu Hong**

*I dedicate this book to my mother and my wife  
for their unflagging support.*



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