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Rise of the RMB Zone – Trade, Investment and Asset Management in the Coming Decade
Way forward for financial services industry and businesses

Rise of the RMB Zone, from the perspective of local commercial banks and financial institutions

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The internationalisation of the RMB is the Chinese government's long term goal. This helps to reduce the exchange rate risks facing Chinese companies. It can boost cross-border trade and investment activities. It can improve the funding efficiency of Mainland financial institutions. More importantly, it helps China to reduce its reliance on US dollar-based foreign exchange reserves.

However, since the full internationalisation of the RMB involves capital account opening and full convertibility of the currency, it will be a long time coming. During this process that will take different stages, commercial banks in Hong Kong offer China a unique testing ground. We shall recap on the major developments to date and the opportunities open to commercial banks.

Hong Kong's RMB business development: progress to date

RMB trade settlement was first launched in 2009. Since then, RMB trade settlement conducted through commercial banks in Hong Kong has been undergoing rapid growth as a result of the collaborative efforts of the RMB Clearing Bank and commercial banks in Hong Kong. By the end of 2011, China had conducted RMB2.58 trillion cross-border trade settlement in RMB, with the majority handled by commercial banks in Hong Kong.

RMB deposits in Hong Kong almost doubled in 2011. For the first 10 months of the year, RMB deposits of corporates increased by RMB259 billion to over RMB440 billion, representing over 70% of the total RMB deposits in Hong Kong. Of this, 18% were deposits of companies incorporated overseas. The banking industry's efforts to build up the offshore RMB liquidity pool is bolstering the development of offshore RMB financing and investment.

Hong Kong has developed into a global hub for offshore RMB bonds. In the first 11 months of 2011, 76 entities issued RMB100 billion dim sum bonds in Hong Kong. Banks in Hong Kong have taken active roles as placing banks as well as institutional investors.

Hong Kong banks' RMB business development: moving forward

The Mainland authorities have announced rules on RMB overseas direct investment (ODI) and RMB foreign direct investment (FDI). These new roles will help to lower foreign exchange risks for Mainland corporates that wish to expand overseas, and foreign corporates that wish to invest in the Mainland. This will create new demand for RMB funding which will include RMB syndicated loans from commercial banks in Hong Kong, and the issuance of dim sum bonds and offshore RMB equities, thereby furthering the development of the RMB investment market outside the Mainland.

Recently China has also issued rules governing RMB Qualified Foreign Institutional Investors (RQFII), giving a green light for overseas RMB funds to invest in Mainland securities. Although at the moment, the scheme is open to the overseas arms of Mainland fund and broker houses only, and the total capital size is capped at RMB 20 billion, we anticipate that it will soon be opened to other financial institutions under a normalised arrangement. This move is expected to widen the investment channel for overseas RMB funds and add new momentum to transforming the RMB into an international currency.

With non-Mainland corporates and investors being allowed to accumulate RMB offshore, and offshore RMB being given more freedom to cross the Mainland border, we expect to see an emergence of RMB derivative products linked to currency, interest rate, bonds, and equities from financial institutions outside the Mainland.

Hong Kong banks' uniqueness in offshore RMB business development

RMB's rising role in the global market is catching the world's attention. Financial hubs like London and Singapore have expressed keen interest to become an offshore RMB centre. But Hong Kong has unique advantages.

Our major strength is that our RMB development is supported by the central and Hong Kong governments. China's national 12th five-year plan reaffirms Hong Kong's development as China's global financial centre and the major offshore RMB centre.

Hong Kong is the key intermediary platform for the Mainland's international trade and direct investment. The city's economic cooperation with the Mainland has continued to strengthen through the Closer Economic Partnership Arrangement (CEPA) and other agreements between the Mainland and Hong Kong.

Banks and financial institutions in Hong Kong possess sophisticated financial infrastructure, world-class talent and high efficiency to support RMB business development.

RMB Internationalisation: a long journey

The future of RMB internationalisation is promising but it's going to be a long journey. A major reason is that we believe the Chinese government wish to maintain its control on its monetary policies, financial system and capital account.

Experiences from the Asian financial crisis, the US financial turmoil and the European credit crisis reflect that a country with an internationalised currency will be more susceptible to external shock. Thus, it is entirely understandable why China wish to take a prudent approach to internationalise the RMB through gradual reform of its interest rate, exchange rate and capital account control.

Conclusion

China's increasing integration with the global economy presents tremendous business opportunities. However, its currency is still used far less internationally in relation to the major role the country is playing. The globalisation of the RMB is just a timing issue. For businesses that wish to benefit from this phenomenon, Hong Kong is the obvious and ideal anchor.

Thank you.