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Hong Kong's Role as an Offshore RMB Centre

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Good afternoon, Mr Lam, Mr Legros, ladies and gentlemen. I am delighted to be here today to address the annual flagship event of the Federation of Hong Kong Business Associations Worldwide.

Before I start, I wish to say that the achievements of any group are the results of the combined efforts of each member. Your individual efforts as Hong Kong ambassadors have helped to strengthen Hong Kong's image in the world. For this, I wish to sincerely thank you all.

Hong Kong is strategically positioned as a major international financial centre. It is China's global financial centre and China's major offshore RMB centre. Given the gradual liberalisation of the RMB, this is an opportune moment to talk about Hong Kong's development as an offshore RMB centre.

There is increasing acceptance of using RMB in trade settlement, in capital investments and as storage of value in and outside of China.

Because of its unique geographic location and its established financial structure, Hong Kong is well positioned as a platform to further China's gradual currency liberalisation and capital market opening goals. This strategic role has the blessing of both the central and Hong Kong governments.

Only last week, I was a member of a joint Hong Kong Association of Banks and Hong Kong Monetary Authority delegation to Beijing where a renewed currency swap agreement was signed. The new agreement, with an increased size of RMB400 billion, will facilitate the further development of offshore RMB business in Hong Kong.

RMB Developments in Hong Kong

Hong Kong now boasts the largest pool of offshore RMB funds. Let's take a brief look at our trail-blazing journey to where we are today.

In 2004, the central government announced that banks in Hong Kong could offer RMB-denominated businesses to personal customers in Hong Kong. This made Hong Kong the first to launch an offshore RMB centre outside the Mainland.

In 2007, Hong Kong became the first place outside the Mainland to operate an offshore RMB bond market.

In 2009, Hong Kong witnessed the launch of the pilot scheme for cross-border trade settlement in RMB.

In 2010, the pace of offshore RMB business development was stepped up, when the geographical coverage of the pilot scheme was expanded. Restrictions on the corporate use of RMB in Hong Kong were also basically lifted.

In 2011, the pace of RMB liberalisation has quickened further. In January, the People's Bank of China announced that enterprises on the Mainland are allowed to conduct and settle overseas direct investments in RMB, encouraging the outflow and use of RMB outside the Mainland.

In August, Mr Li Keqiang, the Vice-Premier of the State Council, visited Hong Kong to celebrate the issuance here of RMB20 billion of sovereign "dim sum" bonds. This demonstrated the central government's strong support for Hong Kong's development as an offshore RMB centre.

Vice-Premier Li also announced a series of new measures that will enhance Hong Kong's RMB business development. These measures highlight how the RMB is evolving from a cross-border settlement currency to a cross-border investment currency. We will look at some of these measures.

One measure is on RMB FDI. With this relaxation, foreign investors will be able to make direct investments in RMB on the Mainland through Hong Kong. This will lead to a significant increase in the demand for RMB financing in Hong Kong. Earlier this year, Hong Kong listed the first RMB equity product outside the Mainland. We expect even more RMB capital raising in the form of loans, and the issue of equities and bonds in the coming months in Hong Kong.

Another relaxation is on trade settlement. The extension of cross-border trade settlement in RMB from 20 provinces and cities to the whole of the Mainland will benefit Hong Kong, given the prominent role it plays as China's trading partner.

A further relaxation is on securities investment. Hong Kong companies will soon be able to invest in securities on the Mainland via an RMB-denominated QFII scheme. The new scheme will provide additional channels to deploy RMB funds generated in Hong Kong. This in turn will allow Hong Kong to develop more innovative RMB wealth management products for customers. This policy will no doubt further strengthen Hong Kong's position in wealth and asset management.

RMB business in Hong Kong has grown rapidly in less than a decade. Given Hong Kong's efficient and reliable RMB infrastructure, over 80% of total RMB trade settlement is currently handled by banks in Hong Kong. During the first

three quarters of this year, RMB trade settlement conducted through banks in Hong Kong amounted to over RMB1.3 trillion, and RMB deposits in Hong Kong nearly doubled to RMB622 billion. The latter now accounts for about 10% of the total deposits in Hong Kong.

In the first 10 months of this year, over 70 entities issued RMB “dim sum” bonds in Hong Kong amounting to RMB92.6 billion.

The outstanding amount of RMB loans granted by banks in Hong Kong increased to RMB19 billion at the end of September, compared with less than RMB2 billion at the start of this year.

Close to 800 foreign banks have chosen RMB participating banks in Hong Kong to handle RMB business, representing a three-fold increase compared with the start of this year.

Hong Kong’s Unique Position

Hong Kong is facing competition from other financial centres in developing offshore RMB business. Why, you might ask, do so many corporations around the world choose Hong Kong to take advantage of RMB opportunities? The answer is obvious. Hong Kong has unique strengths that place it ahead of any competition.

Hong Kong is the key intermediary platform for the Mainland’s trade with the rest of the world. About 30% of the Mainland’s trade is intermediated by Hong Kong in the form of offshore trade or re-exports.

In 2010, nearly 60% of the Mainland’s inward and outward direct investments were originated from or directed to Hong Kong.

These figures highlight Hong Kong’s role as both the gateway for foreign companies to access the Mainland market, and for institutions on the Mainland to gain exposure to international markets.

Hong Kong’s major unique strength is that its RMB development is supported by the central and Hong Kong governments. The National 12th Five-Year Plan, which was promulgated by the central government earlier this year, reaffirms Hong Kong’s development as China’s global financial centre and the major offshore RMB centre.

The policy address delivered last month by Hong Kong’s Chief Executive, Mr Donald Tsang, outlines this same goal.

Our economic cooperation with the Mainland has continued to strengthen through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other agreements with Mainland regions.

As a global financial centre, Hong Kong possesses sophisticated financial infrastructure, world-class talent and high efficiency.

As part of China, Hong Kong enjoys a high degree of autonomy under the principle of “one country, two systems”. We allow free flows of capital. We enjoy autonomy in our financial and regulatory systems, and provide transparent operations.

Hong Kong has prospered as an open and free economy — in fact, the freest economy in the world according to both the Heritage Foundation and the Fraser Institute.

Given our lead start back in 2004, Hong Kong has accumulated a wealth of operational and regulatory experience in RMB business over the years. Hong Kong has developed an RMB Real Time Gross Settlement System, which is a highly reliable RMB clearing platform, to ensure smooth fund flows.

Role of Financial Institutions

Hong Kong’s banking and financial institutions are committed to developing and promoting RMB product and service innovation.

A wide array of RMB deposit products, from savings to structured deposits, is available. In response to the business needs of corporate clients, a suite of RMB trade and supply chain solutions has been rolled out since 2009. RMB cash management solutions, corporate treasury services and wealth management offerings began to emerge in 2010. These help clients better protect themselves against foreign exchange risks and minimise transaction costs in conducting cross-border RMB business.

Hang Seng Bank has been a key player and pioneer in the provision of RMB products and services in Hong Kong. We were the first to launch RMB payroll services. We were the first to lead-arrange an RMB syndicated loan. We were also the first non-Mainland fund manager to offer an RMB bond investment fund in Hong Kong.

With a growing network of operations on the Mainland, Hang Seng is well-positioned to help customers capture the trade and investment opportunities arising from the expanding offshore RMB market.

Ultimately, a strong offshore RMB market requires sufficient RMB liquidity. Hong Kong’s banking and financial institutions will continue to explore alternative RMB sources and channels with the authorities to meet this challenge.

Pace of RMB Internationalisation

As a result of global economic uncertainty, there are growing calls for another stronger international reserve currency. The central government will take its time and give proper consideration to deciding on the pace of the liberalisation. Because of the country’s rapid economic growth and strong foreign currency reserves, the pace of RMB liberalisation will continue to attract attention around the world.

The Chinese government has adopted an approach that is gradual, undertaking stable reforms in a prudent manner within a complex international monetary system.

While the process of capital account opening needs to be carried out in a smooth manner to avoid unnecessary risks, we are optimistic about the internationalisation prospects for the currency.

We are also convinced that Hong Kong offers China a unique testing ground to undertake this great task.

Conclusion

China is now the second largest economy in the world. The percentage of its total trade that is settled in RMB has risen from 0.7% in the first half of 2010 to 4% in the second half of 2010, and further to 9% in the first half of 2011.

Investment between the Mainland and the rest of the world can also be conducted in RMB. Such investment is likely to grow rapidly due to China's increasing integration with the global economy.

All these present enterprises around the world with tremendous business opportunities. For investors who wish to take advantage of the opportunities presented by the RMB, Hong Kong is the perfect hub. We provide a comprehensive suite of RMB solutions. We offer RMB capital at competitive and attractive funding costs. We have ample RMB liquidity in Hong Kong.

For businesses that wish to expand trade with the Mainland, or to tap a larger investor group through RMB bond or equity issues, Hong Kong is the ideal place for it.

There are many reasons to be optimistic about the future of Hong Kong as the major offshore RMB centre. I am confident that the momentum of RMB market development will strengthen further in view of Hong Kong's first-mover advantage, sophisticated infrastructure, long-term competitiveness and strong government support.

Thank you.