RMB Internationalization Policies & BOC Services

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Chinese Premier Li Keqiang addressed the Fourth Economic and Trade Forum between China and CEE countries.
Contents

- RMB Circulation & Utilization
- Policy Analysis
- BOC’s Financial Services
(I) Background - Diversification of the International Monetary System

- Historically, a period incurring an economic or monetary crisis was usually a period experiencing a change in the monetary system or the internationalization of emerging currencies as well.
- Changes in the world's economic pattern and quick rise of political and economic statuses of emerging economies after the crisis would constitute a strong guarantee for shaping a new global monetary system.
- The QE policies of the US Federal Reserve have profound implications and the current international monetary system is exposed to systemic risks.
- The international community appeals to include RMB into the SDR basket, in a move to build a new diversified international monetary system and further ensure the stability of the currency exchange rates and the world economy.
(I) Background - Economic Globalization & China's Economic Development

China’s comprehensive opening up to the remaining parts of the world at different levels and in wide scopes, with the growing economic strengths.

China is the world's second largest economy. IMF forecasts, China’s GDP will reach USD11.22 trillion in 2016.
(I) Background - Economic Globalization & China's Economic Development

As the world's largest exporter and second largest importer, China increases its trade with other economies over years.

Trade volumes of China with world's major economies in 2009--2014 (USD100 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>America</th>
<th>ASEAN</th>
<th>Japan</th>
<th>Hong Kong</th>
<th>South Korea</th>
<th>South Africa</th>
<th>Australia</th>
<th>Russia</th>
<th>India</th>
<th>Canada</th>
<th>Total import &amp; export value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3640</td>
<td>2983</td>
<td>2130</td>
<td>2288</td>
<td>1749</td>
<td>1562</td>
<td>161</td>
<td>601</td>
<td>388</td>
<td>386</td>
<td>297</td>
<td>22075</td>
</tr>
<tr>
<td>2010</td>
<td>4797</td>
<td>3853</td>
<td>2928</td>
<td>2978</td>
<td>2306</td>
<td>2072</td>
<td>256</td>
<td>881</td>
<td>554</td>
<td>556</td>
<td>371</td>
<td>29728</td>
</tr>
<tr>
<td>2011</td>
<td>5672</td>
<td>4466</td>
<td>3629</td>
<td>3429</td>
<td>2835</td>
<td>2456</td>
<td>454</td>
<td>1166</td>
<td>792</td>
<td>739</td>
<td>474</td>
<td>36421</td>
</tr>
<tr>
<td>2012</td>
<td>4925</td>
<td>4847</td>
<td>4001</td>
<td>3295</td>
<td>3415</td>
<td>2563</td>
<td>599</td>
<td>1278</td>
<td>882</td>
<td>665</td>
<td>700</td>
<td>38668</td>
</tr>
<tr>
<td>2013</td>
<td>5591</td>
<td>5210</td>
<td>4436</td>
<td>3126</td>
<td>4010</td>
<td>2742</td>
<td>652</td>
<td>1364</td>
<td>892</td>
<td>655</td>
<td>544</td>
<td>41603</td>
</tr>
<tr>
<td>2014</td>
<td>6151</td>
<td>5551</td>
<td>4804</td>
<td>3124</td>
<td>3761</td>
<td>2905</td>
<td>603</td>
<td>1369</td>
<td>953</td>
<td>706</td>
<td>552</td>
<td>43030</td>
</tr>
</tbody>
</table>

Data Source: Websites of the State General Administration of Customs of China
Enterprises' practical demands

- **Trade facilitation**
  Help global enterprises develop the Chinese market and promote trade relationship; mitigate the exchange rate risk and reduce the currency exchange cost; have discretionary power in different markets.

- **Investment facilitation**
  Enterprises’ demands for RMB businesses are gradually extending from the settlement under the current accounts to the investment & financing under the capital accounts.

- **Diversified asset allocations**
  Enterprises’ demands are shifting from cross-border arbitrage and financial cost reducing to risk mitigation, medium & long-term cross-border asset allocations and other value-added demands.

- **Comprehensive cross-border financial services**
  Enterprises’ demands are shifting from single conventional trade settlement and financing products to cross-border integration of cash flows and whole package of integrated management services.
(II) RMB’s Global influences expand

1. Market share of cross-border settlement for trade in goods (PBOC)

2. Rank as a global payment currency (SWIFT)

3. Bilateral currency swaps agreements (PBOC)

4. Number of countries/regions having cross-border payments/receipts in RMB w/ Mainland China (PBOC)

- 20%
- 5th (2.17% of total)
- 28 countries/regions
- RMB3 trillion
- Over 200 countries/regions
(II) RMB’s Global influences expand

- Cross-border RMB settlement under current accounts remains the main carrier for RMB internationalization.

- The share of cross-border RMB settlement under capital accounts will increase significantly.

- Total of current account (2009-2014): RMB **16.7** trillion

- Total of direct investment (2009-2014): RMB **1.9** trillion
(II) RMB’s Global influences expand

Offshore RMB centers grow fast.

Hong Kong: Most important offshore RMB center, over RMB1 trillion RMB funds, rich product portfolio

London: RMB clearing center, RMB-denominated bond and commercial bill, RMB related FX trading, LME RMB settlement

Middle Asia: “Silk Road economic belt”

Japan, South Korea: bilateral currency swap, direct quotation of RMB against JPY & KRW

Taiwan: currency clearing mechanism, RMB bond

Germany, France, Luxemburg: RMB clearing center, RMB bond

Canada: offshore RMB center construction

Africa: add RMB as its foreign exchange reserve or invest in China’s capital market in RMB

Australia, New Zealand: direct quotation of RMB against AUD & NZD, Oceania bond in RMB

ASEAN: “Maritime Silk Road”

South America: China’s “going out” projects
(III) RMB is expected to become the third largest international currency

- Step development based on three functions
- By 2025, RMB is expected to become the third largest international currency after the US dollar and the Euro.

Graph showing the development of international currency usage from 2009.6 to 2025, with steps I, II, and III indicating increased usage of RMB as an international currency.
Contents

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(I) Policy Framework of RMB internationalization

Cross-border RMB utilization involves two cycles:
① Cross-border cycle: A. Trade; B. Investment; C. Inter-bank cooperation; D. Inter-governmental cooperation.
② Overseas cycle: Mainly involves offshore RMB markets.
(I) Policy Framework of RMB internationalization

Milestones:

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>The pilot initiated</td>
</tr>
<tr>
<td>2010</td>
<td>Expand domestic pilot areas to 20 provinces and cities</td>
</tr>
<tr>
<td>2011</td>
<td>Expand pilot areas to all over the country</td>
</tr>
<tr>
<td>2012</td>
<td>Expand the list of pilot export enterprises</td>
</tr>
<tr>
<td>2013</td>
<td>Facilitate business process under current account</td>
</tr>
<tr>
<td>2014</td>
<td>Cross-border RMB policy under Shanghai Free Trade Zone</td>
</tr>
</tbody>
</table>

- Accelerate RMB back flow; improve clearing channel of RMB
- Capital account unlocked, including overseas direct investment (ODI), foreign direct investment (FDI), project loan, and qualified foreign institutional investor (QFII)
- Domestic enterprises could issue the RMB bond in HK
- FDI of foreign financial institution unlocked
- Encourage RMB to be used in new Areas, such as panda bond, qualified domestic institutional investor (QDII), and cross-border cash management
**(I) Policy Framework of RMB internationalization**

Trade and other current accounts

Under the current accounts, policies on cross-border RMB settlement have covered the commodity trade, service trade, income transfer and other current account items.

<table>
<thead>
<tr>
<th>Item</th>
<th>Policy</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fully open</td>
<td>Partially open</td>
</tr>
<tr>
<td>Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>√</td>
<td>Special supervised list</td>
</tr>
<tr>
<td>Income</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Current transfer</td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>
## (I) Policy Framework of RMB internationalization

### Capital accounts

Enterprises can conduct RMB ODI, FDI and cross-border RMB loans, etc.

<table>
<thead>
<tr>
<th>Item</th>
<th>Fully open</th>
<th>Partially open</th>
<th>Unopened</th>
<th>Policy</th>
<th>Market</th>
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<tbody>
<tr>
<td>Capital inflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td></td>
<td>√</td>
<td></td>
<td>Regulations introduced</td>
<td>Scale up gradually</td>
</tr>
<tr>
<td>Domestic inter-bank bonds market</td>
<td></td>
<td>√</td>
<td></td>
<td>Total scale control</td>
<td>Scale up gradually</td>
</tr>
<tr>
<td>RQFII</td>
<td></td>
<td>√</td>
<td></td>
<td>Total scale control</td>
<td>Scale up gradually</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital outflow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ODI</td>
<td></td>
<td>√</td>
<td></td>
<td>Regulations introduced</td>
<td>Scale up gradually</td>
</tr>
<tr>
<td>Overseas bonds market</td>
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<td>√</td>
<td></td>
<td>Case by case approval</td>
<td>Scale up gradually</td>
</tr>
<tr>
<td>Overseas securities market</td>
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<td>√</td>
<td></td>
<td>Case by case approval</td>
<td>Scale up gradually</td>
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<tr>
<td>Others</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(II) Outlook for Policies & Market

The policy framework for cross-border circulation of RMB, that is “trade + investment + offshore market”, has basically taken shape. Cross-border trade settlement remains a basic RMB business for some period in future, and serves as the major source of overseas RMB capital. RMB services scale up in cross-border trade and investment, and will gradually extend to the financial markets.

Significant progress will be achieved in convertibility of RMB under the capital accounts, interest rate liberalization, and the reform of the exchange rate formation mechanism, etc, which will further promote a benign cross-border circulation of RMB and facilitate enterprises’ economic and trade activities in RMB.

In the long run, RMB is expected to become an important part of the international monetary system.
Contents

- RMB Circulation & Utilization
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(I) History of BOC

Brilliant History of 100 years

1912
Former Da Qing Bank restructured as Bank of China and established as central bank of the Republic of China

1928
began to conduct foreign exchange and international trade businesses

1953
the only licensed bank to handle foreign exchange businesses

1979
became the specialized bank for foreign exchange and trade

1994
reformed to be the state-owned commercial bank

2004
Bank of China Limited was formally Incorporated in Beijing as a joint stock commercial bank

2006
successfully listed in domestic and overseas markets
(II) BOC’s RMB internationalization financial products

Diversified financial platform

- BOC has a diversified and integrated financial service platform and delivers commercial banking, investment banking, insurance, asset management, aircraft leasing and other financial services.
(II) BOC’s RMB internationalization financial products

Rich financial products

- Cross-border RMB settlement
- RMB import/export financing
- Cross-border RMB guarantee
- Cross-border RMB refinancing
- RMB supply chain financing
- Cross-border RMB factoring
- Cross-border RMB forfaiting
- Cross-border Hui Li Da
- RMB deposits
- Cross-border RMB direct loans
- RMB export buyer's credit
- Cross-border RMB project loans
- Cross-border RMB advisory service
- RMB spot trading
- RMB forward trading
- RMB swaps
- Overseas RMB bond issuance
- RMB fund
- RMB agent investment

- Quick account opening
- Cross-border RMB cash management
- Overseas institutional account services
- RMB wealth management
- RMB notes
- Cash management
- Market trading
- Corporate banking
- Trade finance

All-dimensional cross-border RMB services
(II) BOC’s RMB internationalization financial products

Leading business scale

Cross-border RMB settlement volume of BOC’s domestic institutions

Volume (RMB100 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>16</td>
<td>1656</td>
<td>7784</td>
<td>11985</td>
<td>17663</td>
<td>25545</td>
</tr>
</tbody>
</table>
(II) BOC’s RMB internationalization financial products

Professional market research

Bank of China cross-border RMB index (CRI)

Bank of China offshore RMB index (ORI)

White paper on RMB internationalization business of Bank of China
(II) BOC’s RMB internationalization financial products

Broad customer base

[Logos of various companies]
(II) BOC’s RMB internationalization financial products

Sound international brand

- Global systemically important financial institution
- The first bank engaged in trade finance in Chinese mainland; The world's largest bank in terms of international settlement volume
- The most internationalized and diversified bank in China
  - Overseas institutions in 37 countries and Hong Kong, Macau, Taiwan regions;
  - More than 1,600 correspondent banks across the world;
  - Offer three RMB clearing patterns – agent bank, clearing bank and designated overseas clearing house, and taking the leading position in the quantity of cross-border RMB inter-bank clearing accounts;
  - The sole designated RMB clearing bank in Hong Kong, Macau and Taiwan regions, and France, Germany, Australia and Malaysia;
  - Offer RMB account clearing services to global customers across time zones.
RMB
THE KEY
BANK OF CHINA
FUTURE
RMB SERVICES OF BOC, THE KEY TO THE FUTURE.

中国银行跨境人民币服务，为您开启未来成功之门！
Thank you!