



Rmb settlement policy
and mechanism –
positioning of Hong
Kong as an Rmb
settlement centre

Discrepancy between China's economic scale and the international position of RMB (1)

GDP (2008)*		Export (2008) #	
	USD (trillion)		USD (trillion)
USA	14.26	Germany	1.47
Japan	4.92	China	1.43
China	4.40	USA	1.30

*estimates by IMF

WTO figures

Discrepancy between China's economic scale and the international position of RMB (2)

Yet, USD the dominant currency (followed by Euro & Yen/Sterling) in :

- int'l trade settlement
- int'l financial market
- government reserves

In China

- 80% gov't reserves in USD assets, of which 50% (US\$800 billion) in US treasuries

Discrepancy between China's economic scale and the international position of RMB (3)

Internationalisation level of RMB (2006, Ba Shusong)

- USD 100, Euro 40, Jap Yen 28.2, RMB 2
- at the initial stage of regionalisation
- main usages:
 - border trade: Yunnan, Guangxi
 - Popular in Myanmar, Laos, Mongolia
 - Tourism related industry in HK, Macau
 - Gov't reserves: Malaysia, Philippines

Objectives of RMB trade settlement policy

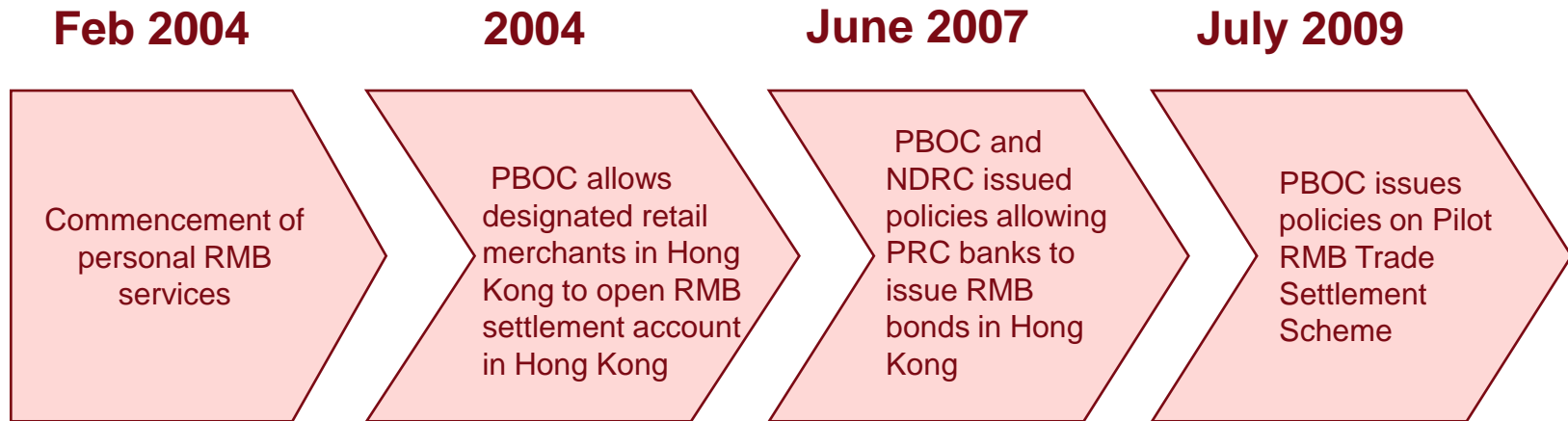
Macro

- diversify currency risk for national reserves
- accelerate China's int'l economic power
- raise capability to support possible current/capital account deficit
- first step towards RMB internationalisation

Micro

- Reduce currency risk and conversion costs for domestic export enterprises
- Increased business opportunities for Chinese banks

Development of RMB policy and related products in Hong Kong



Pilot RMB Trade Settlement Scheme

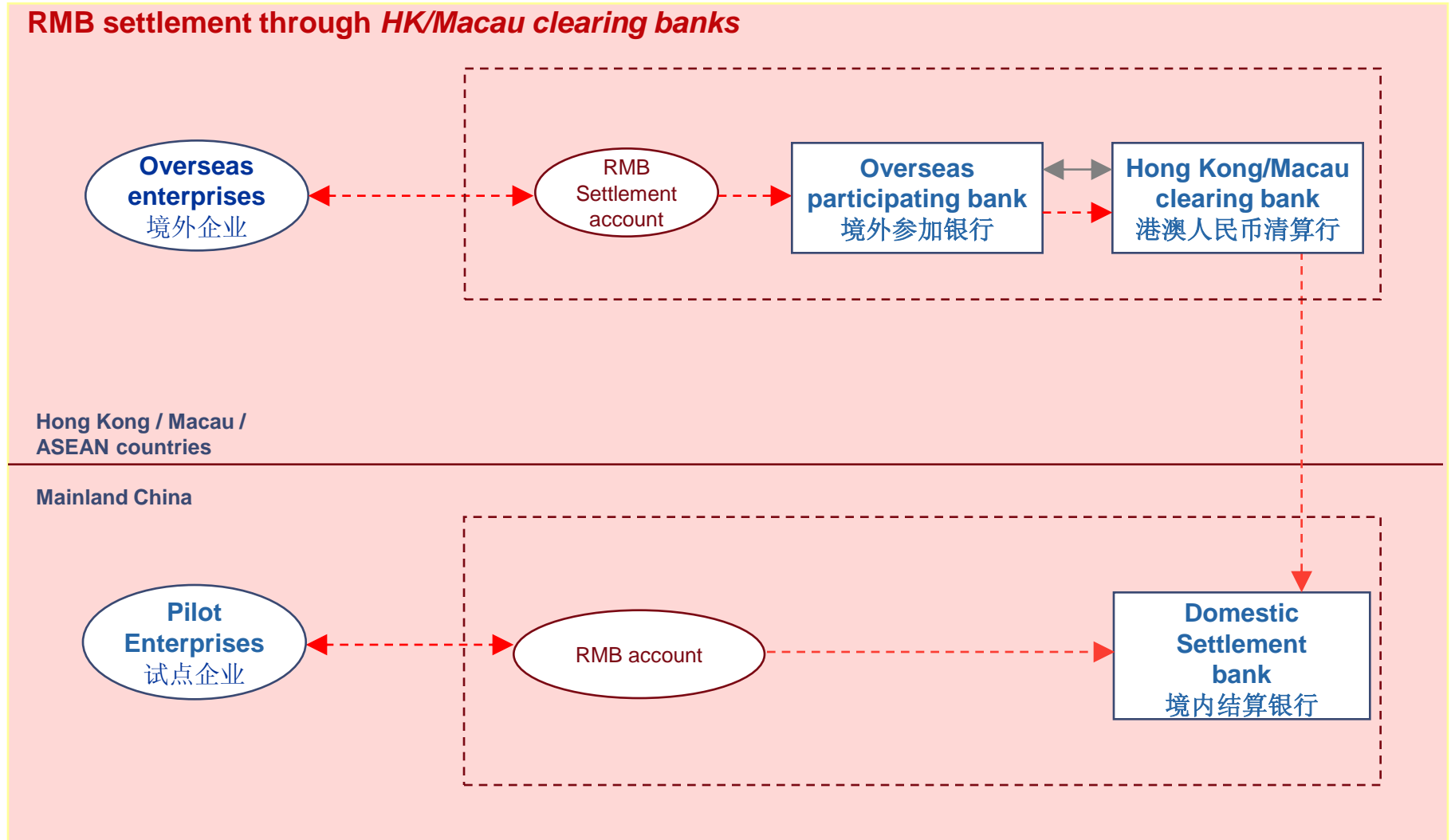
- **Regulatory basis:**
 - Administrative Measures for the Trial RMB Settlement in Cross-border Trade (issued and effective 1 July 2009)
 - Detailed Implementation Rules (issued and effective 3 July 2009)
- **RMB can be used for cross-border trade settlement between:**

Cities	Shanghai	Guangzhou	Dongguan	Zhuhai	Shenzhen
No. of Pilot Enterprise	92	88	56	38	91



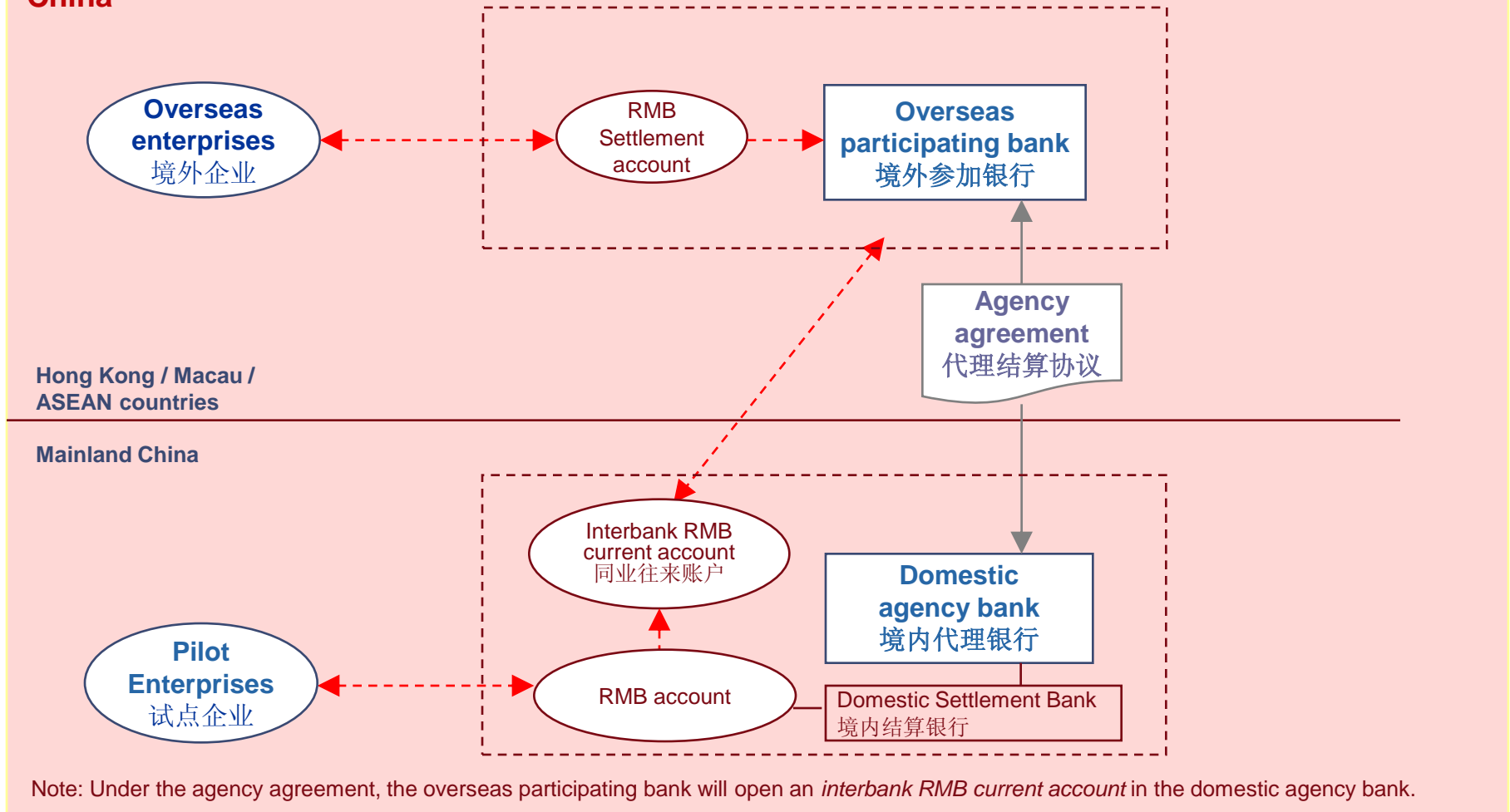
Overview of the RMB settlement mechanism – Option 1

RMB settlement through *HK/Macau clearing banks*

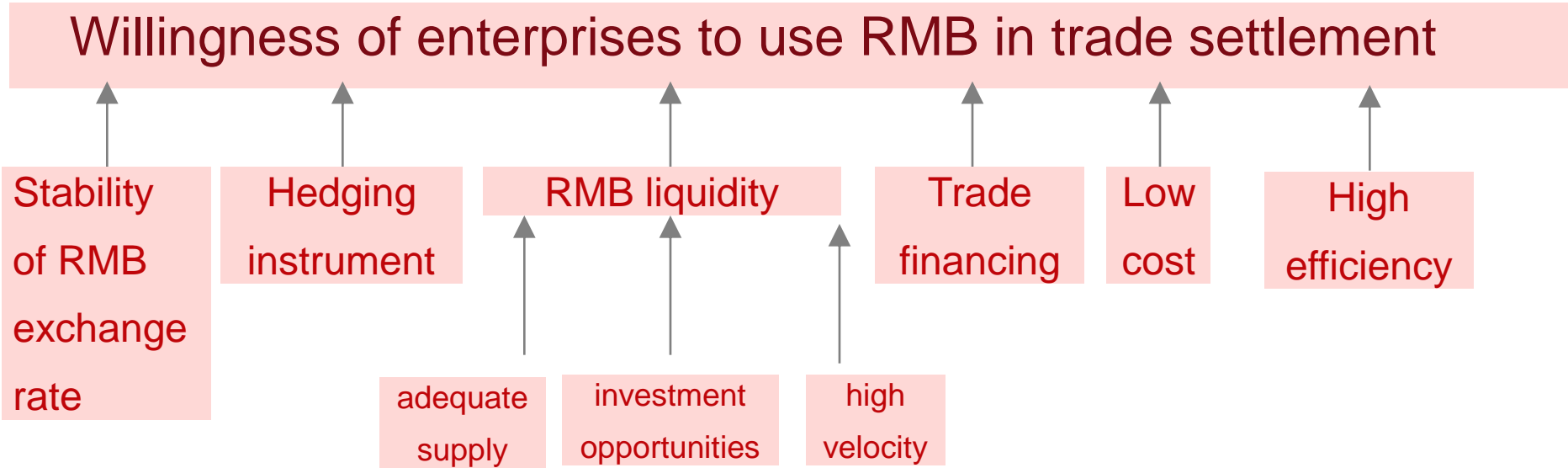


Overview of the RMB settlement mechanism – Option 2

RMB settlement through *domestic agency banks* that are engaged by *participating banks* outside China



Key success factors for RMB trade settlement policy



Advocating Hong Kong to become an RMB Settlement Centre – Some suggestions (1)

Trade Settlement and Financing

1. Allowing banks to provide RMB trade financing
2. Encouraging PRC enterprises to pay in RMB for Hong Kong imports , and to place RMB proceeds in HK
3. Increasing the number of designated enterprises and pilot cities
4. Attracting Southeast Asian countries to settle RMB trade settlement in Hong Kong
5. Supporting Hong Kong in developing RMB futures market

Advocating Hong Kong to become an RMB Settlement Centre – Some suggestions (2)

Investment

6. Increasing the issuance, issuers and variety/maturity of RMB bonds in Hong Kong
7. Issuing RMB denominated Exchange Traded Fund (“ETF”) in Hong Kong
8. Allowing the use of overseas RMB fund to invest in the PRC, such as QFII or FDI
9. Hong Kong SAR government to use RMB as part of FX reserve

Personal saving and consumption

10. Increasing the quota for RMB conversion (from RMB20,000 to RMB30,000)
11. Introducing RMB life insurance policies

Risk Management

12. Strengthening risk management policies