

## Enhancing Hong Kong's Offshore RMB Centre Function

EMA TADA

BUSINESS DEVELOPMENT OFFICE  
HONG KONG BRANCH

T +852-2823-6091

E EMA\_TADA@HK.MUFG.JP

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**  
A member of MUFG, a global financial group

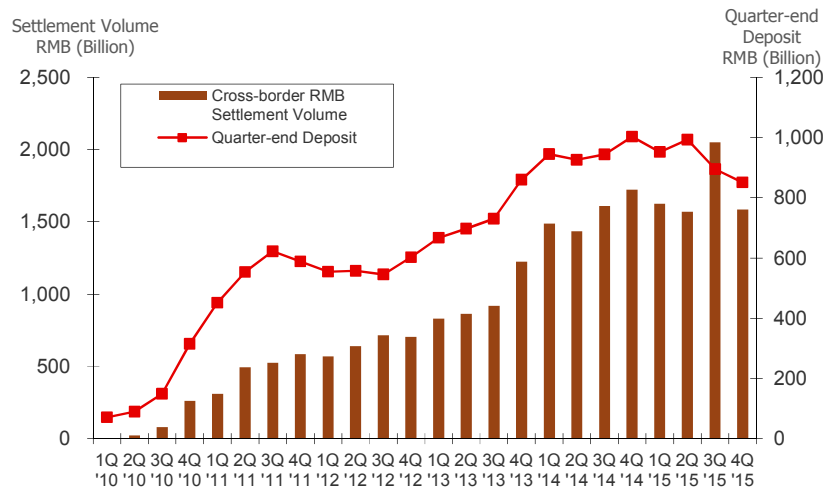
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China released the full script of its 13<sup>th</sup> Five-year Plan on March 17, 2016. The plan, which outlines the general direction of national development for the next five years (2016-2020), has included a separate chapter discussing Hong Kong SAR, Macau SAR and Taiwan's position in the context of national development. Where Hong Kong is concerned, consolidating its position as a global hub for offshore RMB business is highlighted.

### Hong Kong's Achievements to Establish an Offshore RMB Centre

The previous 5-year plan (2011-2015) set to establish Hong Kong as an offshore RMB centre. The goal is well accomplished, and the numbers speak for themselves.

Hong Kong is now the largest offshore hub for trade settlement in RMB, taking up more than 90% of the global total. During the last five years, the amount of RMB settlement handled has grown steadily year-on-year, reaching over RMB6,833 billion in 2015, which contributed greatly to the increasing acceptance of RMB in global trade invoicing and payment.



(Source from HKMA)

Hong Kong also owns the biggest offshore RMB liquidity pool in the world<sup>1</sup> with a total deposit reaching RMB851 billion by the end of year 2015. The liquidity condition boosted Hong Kong's position as the premier centre for offshore RMB finance. The outstanding balance of RMB loans extended by banks in Hong Kong has increased phenomenally in the past five years to hit RMB300 billion by the end of year 2015, representing an increase of 58% from the end of year 2014.

In spite of the overall achievements, RMB internationalization suffered some setback recently. Both RMB-denominated trade volume and quarter-end deposit in Hong Kong declined in the last quarter of 2015. However, the trend of RMB internationalization is irreversible. China is continuously injecting confidence to the market by making effort to manage the currency's exchange risk. By doing so, it is also creating a healthier environment and paving a smoother way for further RMB internationalization.

### Measures to Consolidate Hong Kong's Strength as an Offshore RMB Centre

Hong Kong has out-performed other financial centres in the offshore RMB business, partially attributed to:

<sup>1</sup> RMB liquidity is defined as the sum of customer deposits and outstanding certificates of deposit denominated in RMB.

- ◇ Its intimate economic relationship with the Mainland China;
- ◇ The early-bird advantage in the offshore RMB business; and
- ◇ Sound financial infrastructure and its position as one of the top global financial centres.

However, to bring into full play its function as the leading offshore RMB centre, Hong Kong needs to demonstrate its enduring appeal to China as well as to its business partners in future. Just as the Chief Executive of Hong Kong CY Leung mentioned in his 2016 Policy Address, the stronger economic and trade ties between the Mainland and the Belt & Road<sup>2</sup> countries would render RMB more widely accepted in Hong Kong.

To leverage the Belt & Road market, Hong Kong is cultivating the human capital. Belt & Road scholarship is offered to students from selected Belt & Road countries each year. A sum of HKD200 million has been set aside to support local professional services in launching publicity and arranging exchanges with Belt & Road countries.

In addition, to encourage the centralized management of fund and its associated risks in Hong Kong, Inland Revenue Department has introduced a legislative bill offering a concessionary profit tax rate of 8.25% to the qualified CTCs (Corporate Treasury Centres) activities. A similar tax incentive is also adopted to encourage multinational companies establishing captive insurer in Hong Kong, making insurance arrangements and enhancing risk management for their businesses expanded under international trade, including those under the Belt & Road initiative.

Driven by the favorable tax regime, and affected by Hong Kong's effort to bridge the gap and facilitate the trade between China and Belt & Road countries, more multinational companies may seek to fortify their financial management functions in Hong Kong. Given the assumption that RMB will eventually become one of the main transaction currencies along the Belt & Road, Hong Kong shall deepen its involvement in the trade between China and the Belt & Road countries. Multinational companies' treasury centres in Hong Kong would thus be exposed to a full-fledged offshore RMB market, accelerating the usage of RMB for their global settlement.

## Conclusion

By forging a well-coordinated relation with Belt & Road countries, new business opportunities may be captured, and cross-border fund flow may be stimulated. Active fund flow may then bring about additional demand for fund raising and financial risk management. Owing to the liberalized financial environment, and the forthcoming tax incentives, Hong Kong could provide the ideal platform to cater for such demand. Meanwhile, RMB settlement may be further encouraged in the trend of regional economic cooperation.

However, the concern about RMB liberalization under capital account remains, and the market is expecting Hong Kong to flesh out the above-mentioned framework with detailed measures and step-by-step approaches. Hong Kong's future role amidst further RMB internationalization may depend largely on how much it could differentiate its RMB service from other offshore RMB centres such as London and Singapore.

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<sup>2</sup> Belt & Road refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Chinese chairman Xi Jinping proposed the Belt & Road initiative in Sep. 2013 to develop the connectivity and cooperation among the China and over 60 Belt & Road countries, with a total population of 4.4 billion.