Scaling up RMB Internationalization

Findings of the *2015 Global RMB Survey*

BENCHMARK THE Asset RESEARCH

中国建设银行
China Construction Bank

Asset Benchmark Research

Asset Benchmark Research conducts in-depth, product-specific surveys on Asia's financial markets. Part of the group that publishes The Asset magazine, the research team specializes in accessing senior corporate decision-makers and institutional investors to provide accurate quantitative and qualitative data to assist in management decisions.

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Preface

Dear reader:

2015 marks the 10th anniversary of China Construction Bank's public listing in Hong Kong, and also the 10th anniversary of the share reform and listing of large commercial banks in Mainland China. We are delighted to use this important anniversary to present new findings about the internationalization of the renminbi in this report.

As the world's largest trading nation and second largest economy, China has made great efforts to push forward The One Belt, One Road Initiative and the "Going Out" Strategy of Chinese enterprises in recent years, which have created favourable market conditions for ongoing renminbi internationalization. China Construction Bank is the world's second-largest bank by tier-one capital, according to The Banker's Top 100 World Banks list. As of the third quarter of 2015, our assets amount to more than 18,000 billion yuan. Its major financial indicators including ROA, ROE and capital adequacy ratio have maintained leading positions in the industry.

China Construction Bank has seized this historic opportunity and positioned its cross-border renminbi business as a strategic franchise. Since 2009 and up to the third quarter of 2015, China Construction Bank has handled cross-border renminbi transactions with a total value of over 9,600 billion yuan for both Chinese and foreign clients, with an average annual growth rate of over 200%. It has established business relationships in 189 overseas countries and regions and has almost 20,000 clients for cross-border renminbi business.

We promote the establishment of renminbi clearing banks in financial centres around the world and have also issued several renminbi bonds in cross-border CNH markets, which have become important benchmarks in those markets. At present, China Construction Bank has set up 27 (first-level) overseas institutions in the world, covering 25 countries and regions in five continents. CCB branches in the UK, Switzerland and Chile have also been appointed as the official renminbi clearing banks in their respective markets.

With the implementation of national strategies under the 13th five-year plan, large banks including China Construction Bank will step into a development stage driven by transformations. China Construction Bank has already obtained financial licenses for funds, lease, trust, life insurance, futures, investment banking and pension fund services. China Construction Bank will use the coming months to further integrate resources of domestic and overseas institutions in order to provide best-in-class cross-border financial services.

We hope you find this report interesting and useful to your business. Please get in touch with your local CCB branch for any additional information.

Mr. Huang Zhiling

Chief Economist

China Construction Bank

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Executive summary

Global acceptance of China's currency, the renminbi (RMB), has grown significantly in recent years. Our *2015 Global RMB Survey* – conducted on behalf of China Construction Bank (CCB) among nearly 140 corporations and financial institutions from China, the UK, Switzerland, and Chile – finds that a majority of Chinese and foreign corporates have gained initial experience in using the renminbi in cross-border trade settlement since March 2012, when a pilot scheme that allowed Chinese and overseas companies to settle international trade in renminbi was expanded nationwide. However, the results also highlight the challenges that threaten to slow the pace of the renminbi's internationalization.

Chinese corporates are keen to reduce their exposure to volatile foreign exchange markets by having more of their suppliers and buyers invoice and pay in renminbi. Many international corporates are happy to oblige, if only to grow their network of Chinese counterparties. Both parties, though, face difficulties communicating their preferences to each other and are sceptical whether offshore renminbi centres have reached critical maturity.

The change of the renminbi's fixing regime in August has also attracted attention in the market. Chinese and foreign financial institutions as well as regulators need to work closer with corporate clients and introduce them to the growing renminbi product portfolios available for trade finance, hedging and financing.

Major findings

- **RMB plays firm role in cross-border trade settlement**
  - More than 60% of China-based corporates have used the renminbi in international trade settlement or plan to begin doing so within six months
  - One-third of China-based respondents settle up to 20% of their global trade in renminbi
  - 10% of China-based respondents believe they will settle more than 60% of their international trade in renminbi within two years
  - 33% of companies in the materials sector prefer to pay and invoice in renminbi compared to less than 20% in the energy and consumer goods industries
  - Among overseas companies with active trade ties to China, one-third (31%) have used the renminbi in cross-border trade settlement

- **FX risks drive RMB adoption**
  - 62% of China-based respondents cite "better manage FX risk" as their primary driver for cross-border renminbi invoicing/payment
  - That is not surprising, seeing that more than half (56%) of them do not hedge their current FX exposures
  - Renminbi trade settlement allows Chinese companies to shift FX risks to foreign buyers and suppliers
- **A "latent love" for the RMB exists among China-based and overseas corporates**
  - Both cite "lack of interest by suppliers and buyers" as the number one impediment to greater renminbi adoption (i.e. China-based corporates believe that their overseas trading partners are unwilling to settle trade in renminbi, and vice versa, when in fact, they both do as the survey reveals)
  - Concerns about renminbi volatility are also frequently mentioned as an impediment to greater international adoption
- **Banks, especially global ones, are not doing enough to promote their RMB products**
  - Less than half (48%) of companies in the UK, Switzerland and Chile are aware that renminbi letters of credit (L/Cs) are available in their respective markets. Even fewer are aware of bank guarantee and documentary collection offerings that are available
  - Of six major banks in Switzerland and Chile, five say RMB trade finance products and RMB FX instruments are or will be provided "now or in the coming six months", but four of the six banks have no specific strategies for renminbi deposits
  - 50% of overseas corporates cannot recall any updates from their banks about renminbi products and developments
- **Chinese banks are presented with a huge opportunity in actively promoting the RMB internationalization**
  - 53% of China-based corporates and 47% of companies in the UK, Switzerland and Chile prefer to seek advice from Chinese banks on renminbi-related topics
- **Offshore RMB financing seeks new channels**
  - Only 7% of China-based respondents have issued debt in the offshore renminbi markets and a lower percentage plans to tap these markets again, due to rising funding costs in offshore markets
  - 22% of China-based corporates have implemented cross-border renminbi cash pooling structures (including synthetic solutions such as regular cross-border intercompany loans or dividend payments)

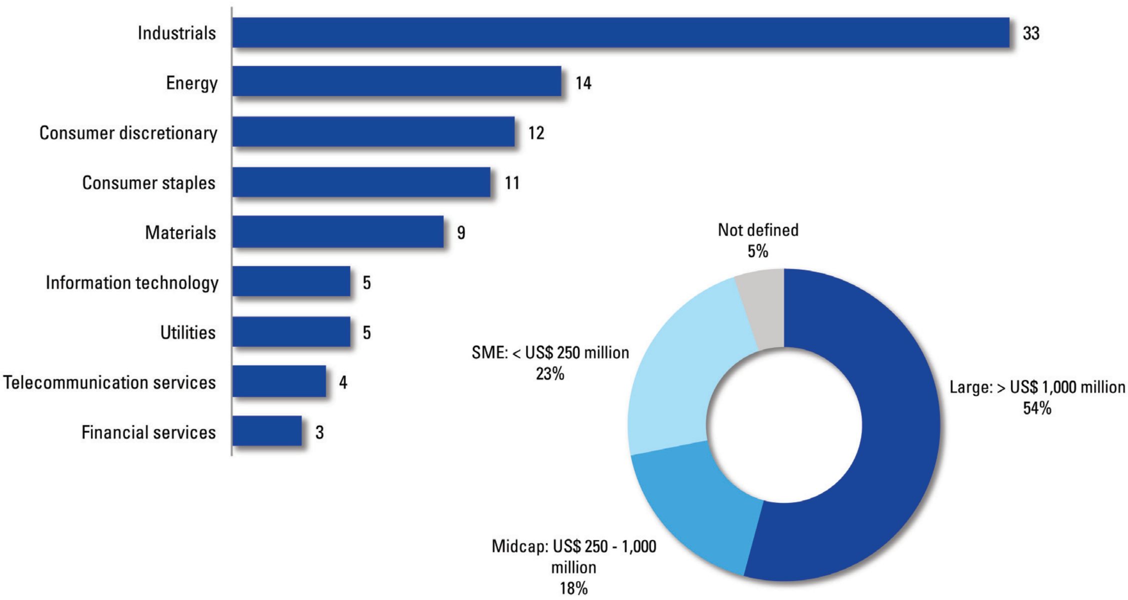
II

About the survey

Asset Benchmark Research contacted CFOs, corporate treasurers and finance directors of 96 corporations in China and 33 corporate and financial institutions from Chile, Switzerland and the UK within a five-week period from mid-August. Their responses, obtained through an online questionnaire as well as phone interviews, form the basis of our research report *Scaling up RMB Internationalization – Findings of the 2015 Global RMB Survey.*

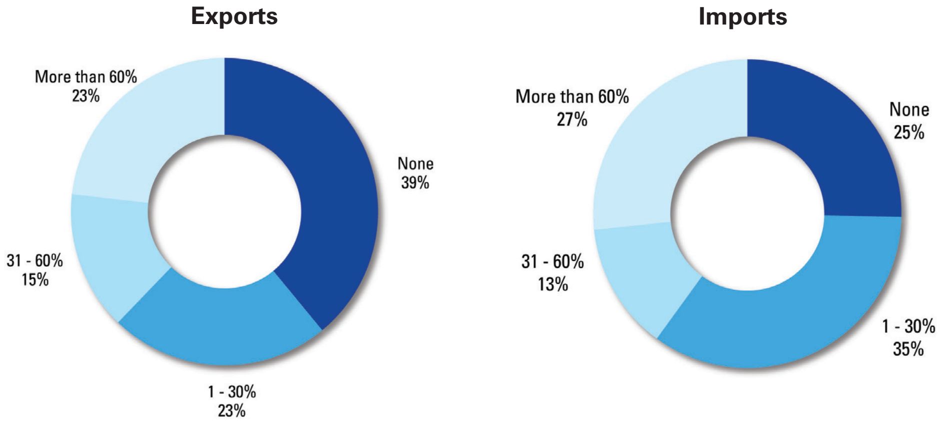
Among China-based respondents, industries most widely represented are industrials (with 33 respondents), energy (14), consumer discretionary (12) and consumer staples (11). By annual turnover, slightly over half (54%) of respondents record revenues of above US$1,000 million, while SMEs with less than US$250 million in annual revenue make up about 23% of the respondents and midcaps accounting for the rest.

Chart 1 and 2 **Breakdown by industry and annual revenue, China-based respondents**



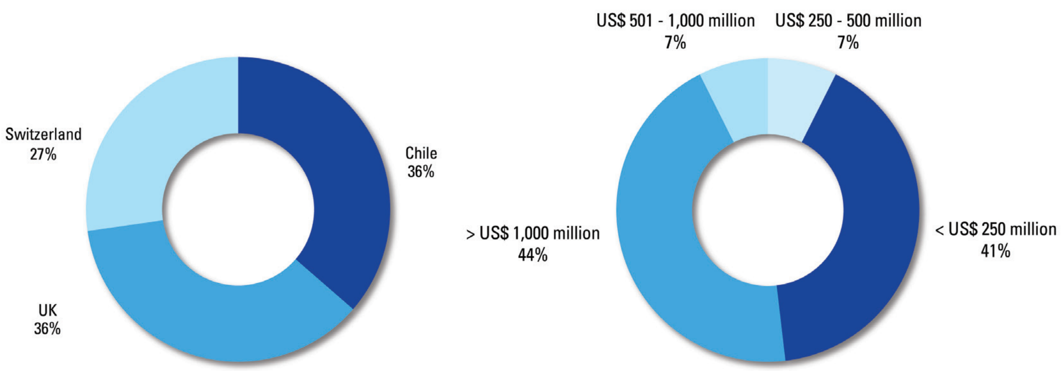
Among China-based corporates participating in the survey, 55% respond that either imports or exports or both make up for at least 31% of their total sales/procurement. 23% of China-based respondents sell more than 60% of their goods or services overseas.

Charts 3 and 4: **Global trade exposure, China-based respondents**
(What percentage of your sales is destined for overseas markets? What percentage of your procurement is sourced from overseas markets?)



Among international companies surveyed, the largest part is represented by those with more than US$1,000 million in annual revenue. Respondents in this category are from the UK (36%), Chile (36%) and Switzerland (27%). We also surveyed eight financial institutions in these markets to understand more about their renminbi strategies.

Charts 5 and 6: **Breakdown by market and annual turnover, overseas respondents**



III

Keeping the momentum

Most China-based companies we surveyed want to increase the use of their local currency in global trade transactions to benefit from lower exposure to volatile foreign exchange markets. Nearly two in three of them already use the renminbi in cross-border trade settlement or expect to do so within the coming six months. But overseas acceptance of the currency is still low, they note, and the change in the renminbi's fixing regime in early August, which was accompanied by a stark depreciation of the currency, has made it even more difficult to drum up acceptance among foreign buyers and suppliers. Boosting confidence in the renminbi abroad is now the key ingredient to continue the currency's internationalization.

a. Taking stock of RMB internationalization

Global acceptance of a country's currency entails a host of benefits for its economy. Take the US dollar as an example. Since many of their international trade partners accept or pay in US dollars, US companies can reduce their direct FX market exposure substantially. Meanwhile, their overseas counterparts bear the exchange rate risks or the cost of hedging these. During periods of extreme volatility in global markets, this is especially valuable for US firms. At the same time, the US receives seigniorage income worth several billions of dollars each year by virtue of the fact that its currency is considered a safe store of value in many other countries.

Chinese companies are keen to benefit from an increasing acceptance of the renminbi globally. Monetary authorities and financial institutions in China have made significant progress in boosting the use of the currency in trade settlement. Global transaction services organization Swift confirmed that the renminbi has surpassed the Japanese yen to become the fourth most-used global payment currency by value in August 2015, having jumped past several currencies in a matter of less than three years. Many central banks around the world have included the renminbi among their reserve currencies and even its inclusion in the International Monetary Fund's (IMF) Special Drawing Rights basket was confirmed in early December 2015.

One purpose of our *2015 Global RMB Survey* is to determine acceptance of the renminbi in various cross-border and offshore activities – trade settlement, FX transactions, deposits, loans and investments. Among these, we find renminbi use to be highest in cross-border trade settlement. We find that, already, more than 60% of China-based corporates use the renminbi in international trade settlement or plan to begin doing so within six months (see Chart 7). This percentage is even higher among larger corporates with revenues of above US$1,000 million, as Chart 8 shows. Nearly three in four of these companies settle at least parts of their international trade in renminbi.

A relatively high proportion of China-based corporates (43%) also conduct currency exchange transactions that involve the renminbi offshore, suggesting that many of the survey respondents have entities outside of China. Indeed, cross-border intercompany trade within the group makes up one-fifth of total international trade or more for 46% of our respondents. Only 14% of SMEs have had experience in renminbi currency exchange outside of China, compared to 57% of larger corporates. Larger corporates are also more likely to keep some of their renminbi in offshore accounts (33%) and even avail themselves of renminbi loan or working capital facilities (33%) outside of China. By far the least common use of the renminbi is for investment abroad, with just 10% of respondents using the currency for strategic or portfolio investment overseas. That is largely a reflection of prevailing capital account restrictions.

Chart 7: **Cross-border RMB usage in five segments, China-based respondents**
(Has your company (including any of its subsidiaries) been involved in the following offshore RMB activities outside of mainland China?)

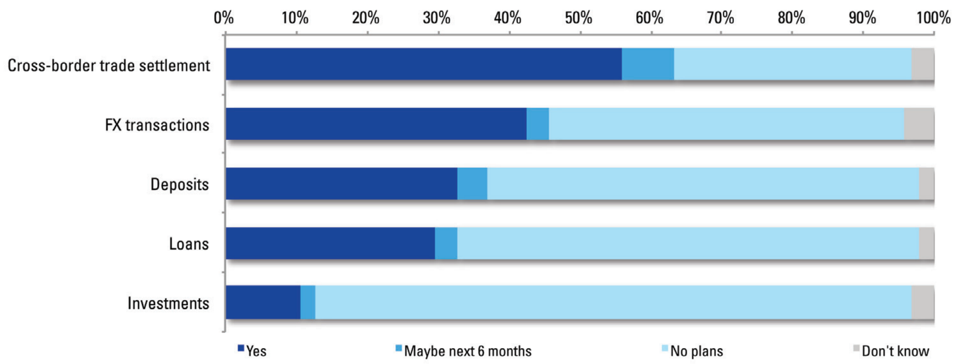
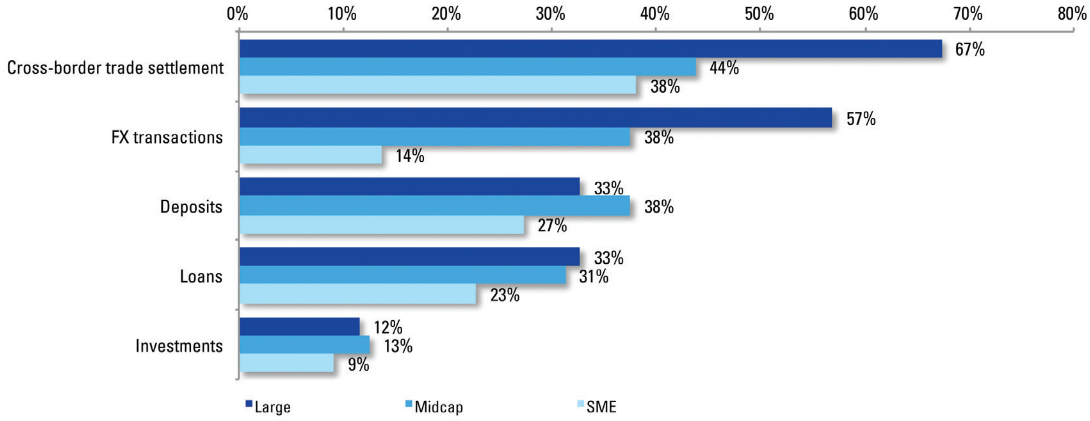


Chart 8: **Most active offshore RMB users, China-based respondents**
(Percentage of respondents that replied 'Yes' to RMB use in five areas)



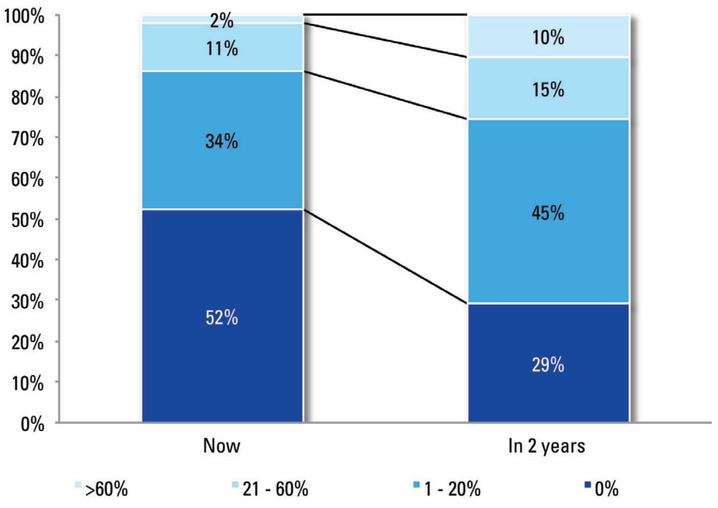
b. Trade settlement

While an impressive majority of China-based corporates have already gained experience using the renminbi in cross-border trade settlement, a more important indicator is the volume of renminbi-denominated transactions vis-à-vis the total volume of a company's cross-border trade. Chart 9 examines what percentage of respondents' international trade currently is denominated in renminbi and what figure they expect it to be two years from now. Currently, one in three respondents settle up to 20% of their global trade in renminbi, while less than 15% of respondents cite higher cross-border renminbi trade volumes. While a high number of corporates have used the renminbi in international trade, their renminbi transactions still account for a relatively small proportion of their total trade.

Respondents paint a more optimistic picture for renminbi-denominated trade in two years. Nearly two-thirds expect to settle between 1% and 60% of their global trade in renminbi. One in ten believe more than 60% of it will be settled in China's currency. Expectation of the renminbi's wider use in trade is shared among small, midcap and large companies.

We asked these respondents to identify the factors driving the increase in renminbi usage. By far, the most frequently cited reason is to 'better manage FX risk' (see Chart 10). Cost savings and improved access to overseas partners follow by some distance.

Chart 9: **RMB use in trade settlement today and in two years, China-based respondents**
(What percentage of your international trade is denominated in RMB and what figure do you expect it to be in two years' time?)

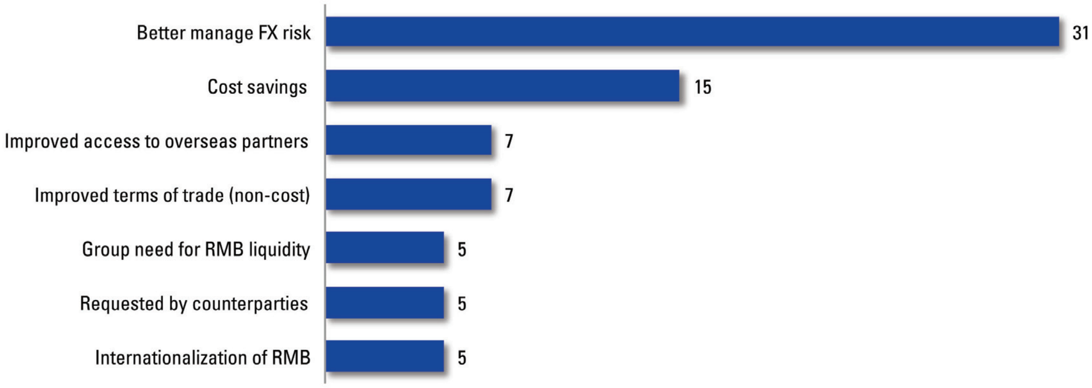


Most corporates expect the renminbi's exchange rate to be more unpredictable after the currency's stark depreciation in mid-August. This heralds the end of an era of permanent appreciation of the renminbi and the start of a new one with two-way fluctuation of the currency's exchange rate. This will require a shift in thinking and the adoption of new strategies by all market participants.

As one corporate treasurer explains: "Hedging business for us is quite a strange business, but of course, with the expansion of foreign exchange exposure, we will need to consider using some hedging strategies or products." Another one adds: "We do not hedge against foreign currency exposure because we do not understand the relevant products and strategies."

Chinese companies know of and are keen to benefit from renminbi usage in trade, yet most of them continue to shoulder exchange rate risk and transaction costs. Despite the benefits of switching to renminbi invoicing/payment in cross-border trade, Chinese corporates hesitate to take the step. We asked respondents to share their approaches to payments and invoicing. Even though most corporates expect to substantially increase their use of the currency in the coming 24 months, a large majority currently prefer to pay and quote in US dollars (see Chart 11). Less than 20% prefer to pay in renminbi, and of these, 40% do not actively ask their suppliers to quote in the currency. An even lower percentage (11%) prefer to quote in renminbi.

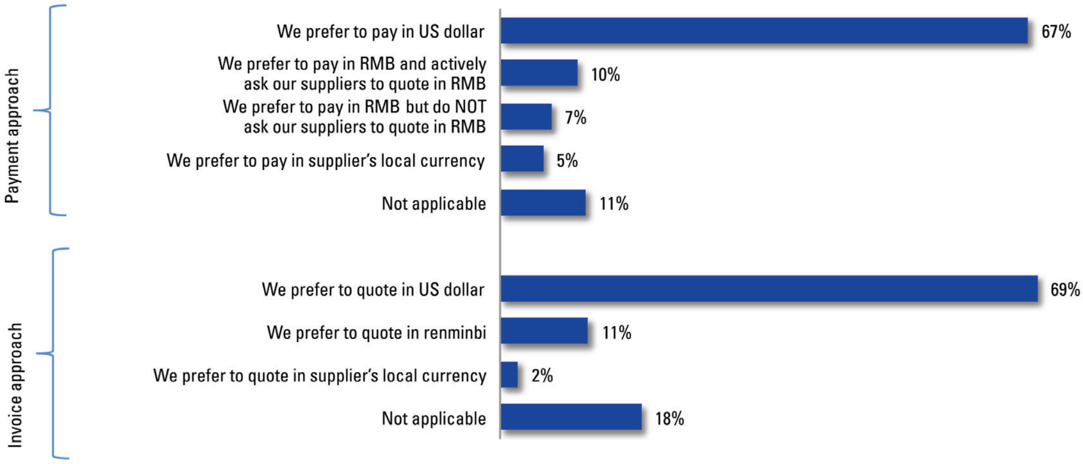
Chart 10: **Most important drivers to RMB trade settlement, China-based respondents**
(Which factors drive your use of RMB in cross-border trade settlement?)



Most companies bear significant risks as a result, highlighted by the fact that many Chinese companies do not hedge their FX exposures. More than half (56%) of respondents are not hedging their FX exposures because they don't consider their exposure to be large enough. Some respondents cite a lack of company policy on hedging, while others find they lack an understanding of the instruments or because hedging is too costly (Chart 12).

As trade between China and emerging countries in South America, Africa and the rest of Asia proliferates, foreign exchange exposure is not limited to the US dollar. Explains one treasurer of a Chinese industrial conglomerate with a large presence in many African nations: "We have many customers in Africa and they do not pay in renminbi and most of them not even in US dollar. They prefer to pay in their local currencies, which we then exchange into US dollar and finally repatriate." Companies such as his must bear significant transaction costs that arise from the cross-currency exchange of two relatively illiquid currencies (the renminbi and an African currency) via the US dollar. The exchange rate risk is also doubled.

Chart 11: **Payment and invoice approaches, China-based respondents**
(How would you describe your payment approach for imports? What is your invoice approach for exports?)



For the counterparts in emerging nations, two major disadvantages arise. First, transaction fees associated with the currency exchange and borne by the Chinese supplier will ultimately be reflected in a higher price they pay. Second, assuming the company also exports goods to China, any opportunity of having a natural hedge (i.e. matching renminbi payments and receivables to reduce overall exposure) is lost when paying in local currencies or the US dollar. Chart 13 depicts the readiness to pay and/or quote in renminbi within the top five industries (by number of respondents). One-third of the companies in the materials sector respond with a preference for renminbi payment/invoicing, compared to less than 20% for energy and consumer goods industries.

The unpredictability of the renminbi's exchange rate movements has fueled anxiety over currency markets exposures among treasurers and CFOs in China. But the natural solution – to shift the risk to overseas trading partners by invoicing in the home currency – is not considered a viable option by a majority of executives. What prevents corporates from increasing the volume of renminbi-denominated trade with overseas partners? Are the roadblocks to greater renminbi adoption too large or are old habits simply difficult to break? Chart 14 outlines the major obstacles respondents identify. Lack of interest by suppliers and buyers abroad is ranked the number one challenge by respondents, followed by concerns over renminbi depreciation/volatility. (Importers paying in US dollar were able to lock in carry trades when the renminbi appreciated during the credit terms granted to buyers.)

Chart 12: **Hedging policies, China-based respondents**
(Do you actively hedge your company's FX exposure and, if not, why not?)

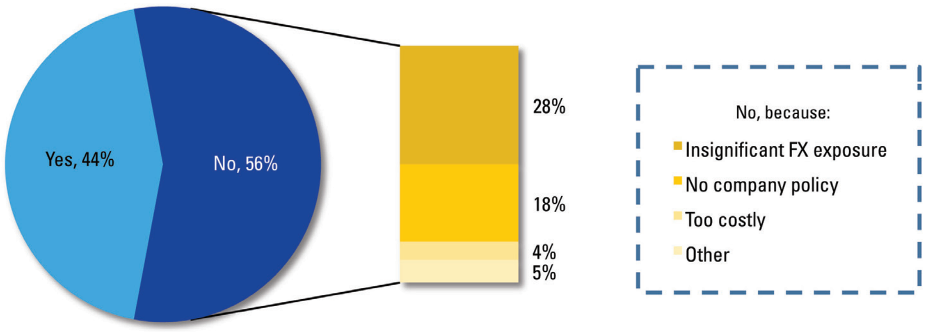
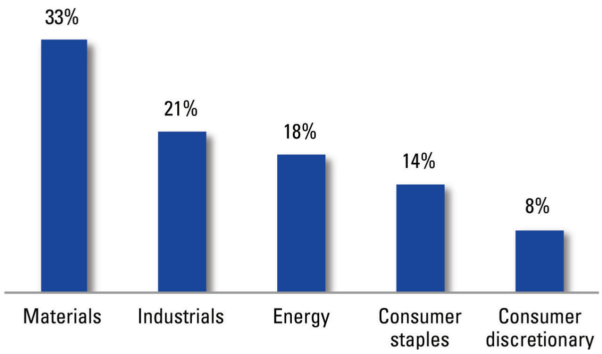


Chart 13: **RMB readiness among industries, China-based respondents**
(Percentage of respondents within top 5 industries that prefer to pay and/or quote in RMB)



One company executive sums up what many of his peers feel, saying: "We do not have the right to demand payment in renminbi because of our small business abroad." But from a macroeconomic perspective, China's influence both as an importer and an exporter is all but small. Supporting acceptance of the renminbi in trade settlement will be a two-fold task: first, it requires transparent communication by regulators with regards to exchange rate fixing and liberalization; and second, helping Chinese companies to be more assertive in the global markets. The latter task will primarily be within the scope of responsibilities of the bigger financial institutions, both from within and outside China.

Many Chinese companies are sceptical whether offshore renminbi centres are developed to the extent that is necessary to allow them to press their overseas partners on the issue. The majority of respondents are confident that the most common trade finance product, the L/C, is available in offshore markets in renminbi (Chart 15). However, few corporates are aware that more sophisticated trade finance instruments, including standby L/Cs, receivables financing, and pre-shipment financing, are available to their customers and suppliers (or their own offshore subsidiaries) in many offshore renminbi centres. Banks clearly need to step up their communication strategies for renminbi products and services that are available to corporate clients.

Chart 14: **Most important impediments to RMB trade settlement, China-based respondents**
(What prevents you from increasing the volume of trade with overseas partners that is settled in RMB?)

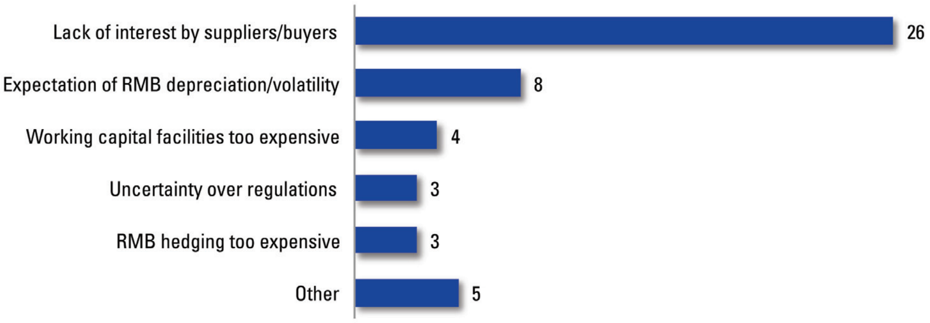
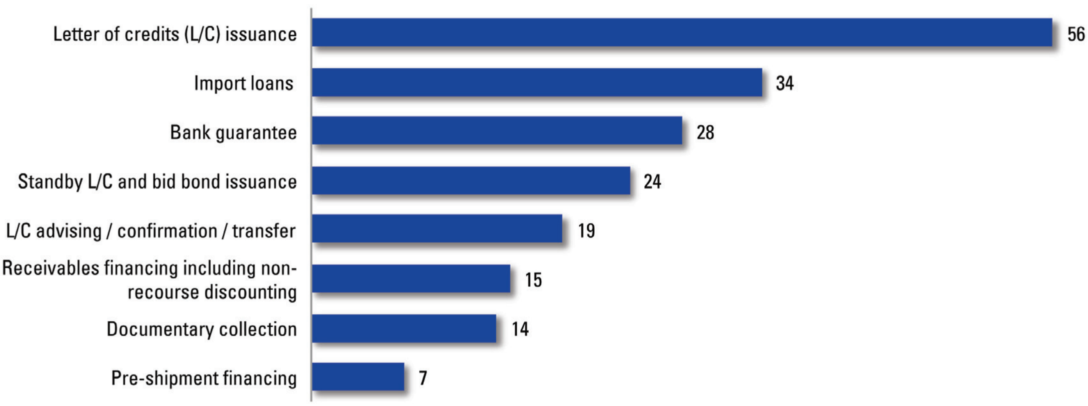


Chart 15: **Most frequently cited trade finance instruments available, China-based respondents**
(To your knowledge, what are the RMB trade finance products available in offshore markets?)



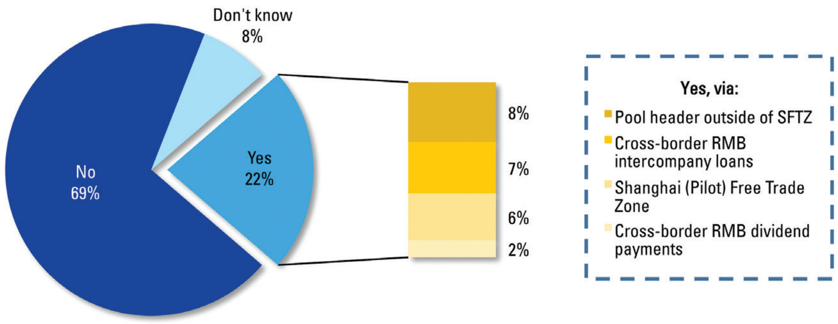
Use of cross-border RMB cash pool structures

Particularly among large corporates, multi-currency and multinational cash pool structures are common methods to optimize working capital and lower funding costs at the group level. Until just a few months ago, integrating China into such a structure was a costly process that required a painstaking amount of manual processes and procedures, which presented a debacle for many multinational corporations that saw their profits pile up in China, on the one hand, but had no way to deploy them elsewhere on the other. Chinese corporates looking to fund their growing overseas presence or wishing to repatriate earnings to their home market faced similar challenges.

Existing methods available to corporate treasurers and CFOs carried disadvantages. Intercompany loans to subsidiaries outside of China were (and continue to be) one popular method to integrate China with the Asian or global treasury. However, each loan requires lengthy meetings with local tax authorities to determine when interest rates on such loans can be considered to be at arm's length. Further regulatory approval is needed from local central bank branches and State Administration of Foreign Exchange offices (for foreign currency loans). Other companies simply choose to distribute earnings in the form of intercompany dividends, a costly method subject to a 10% withholding tax.

With the advent of the Shanghai (Pilot) Free Trade Zone, automated cash pool structures became a reality for corporates in China starting January 2014. Several dozen multinational corporations with headquarters in China and abroad participated in the scheme within a few months, highlighting the need for a broader scheme. The Chinese government extended the pilot program nationwide in November last year and relaxed the eligibility criteria to include smaller corporates in September 2015. With the

Chart 16: **Use of cross-border RMB cash pool structures, China-based respondents**
(Has your company implemented a cross-border RMB cash pooling structure and, if so, which method do you use?)



go-ahead from Chinese authorities, companies can set up automatic cash sweeps in renminbi or foreign currencies from a pool header anywhere in China.

The swift evolution in this core treasury concept excited many global multinational corporations in China. But how much interest do the new schemes elicit among local Chinese corporations? A surprising 22% of survey participants respond their firms have implemented a cross-border renminbi cash pooling structure. When asked about the methods they utilize, the new pan-China program, the SFTZ pilot scheme and the classical intercompany loans garnered equal shares of responses. Only 2% of companies implement cash pool structures via regular cross-border dividend distribution.

c. Funding and investment

In order to gauge interest in offshore pockets of renminbi liquidity for funding, we asked respondents to comment on their experience with offshore renminbi bond markets and new special economic zones that allow access to offshore financing. Clearly, the appeal of the once booming offshore renminbi markets primarily in Hong Kong, Taiwan and Singapore has waned as the interest rate divergence to the onshore market has compressed, partly due to the series of benchmark rate cuts in China over the past 18 months. As one Shandong respondent notes: "The interest rate advantage now on offshore renminbi bonds is not very large, plus there are a variety of other costs [associated] with an offshore renminbi issue."

In total, 7% of respondents have issued debt in the offshore renminbi markets, with the percentage of those planning to tap those markets again even lower (Chart 17). New special economic zones, in comparison, have elicited greater interest. Leading by a wide margin, the SFTZ, established in late 2013, has attracted the highest number of corporates we surveyed. Nearly 25% of them have already established an entity in the pilot zone, at least partly in order to tap offshore renminbi and foreign currency markets.

The Qianhai Special Economic Zone, that preceded the SFTZ by a few months and allowed Hong Kong-domiciled banks to lend renminbi to enterprises in the zone since late 2012, has attracted 7% of respondents (i.e. six companies with a further two looking to establish an entity there in the coming six months).

Chart 17: **Offshore RMB bonds, China-based respondents**
(Has your company issued offshore RMB bonds or do you plan to do so in the coming six months?)

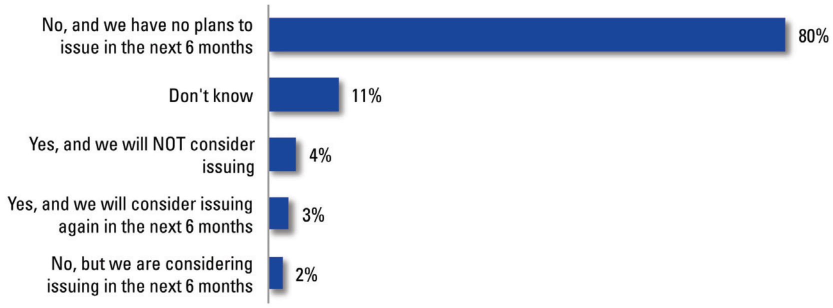
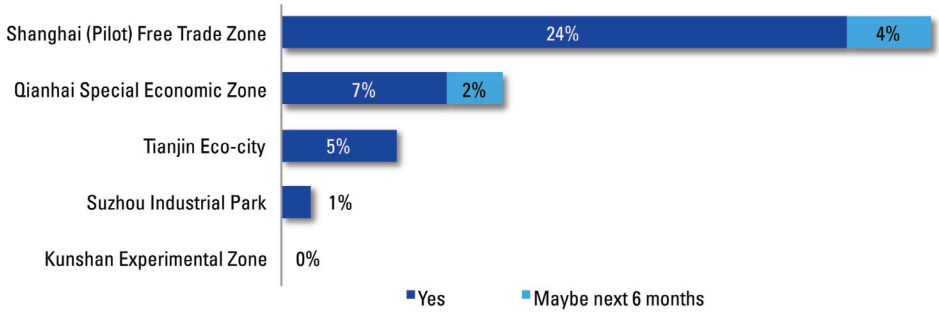


Chart 18: **Special Economic Zones, China-based respondents**
(Have you established or do you plan to establish an entity in any of the following pilot scheme regions in order to borrow from offshore RMB markets?)

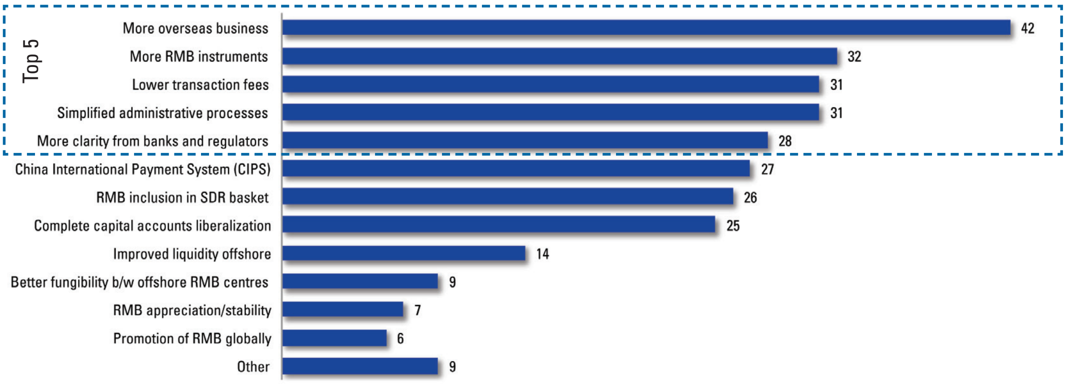


d. Outlook

We asked respondents to name the most important catalysts for increased renminbi usage. More exposure to overseas trading partners, lower transaction fees, more renminbi instruments, simplified administrative processes and better visibility of regulations are the top five responses. Notably, banks play an important role in three of the catalysts mentioned; they are called upon to lower fees, launch a broader product trade finance and FX risk management suite, and communicate developments in the regulatory landscape on an ongoing basis. Especially with respect to treasury risk management, banks in China have both an opportunity and an obligation to educate their corporate clients more actively.

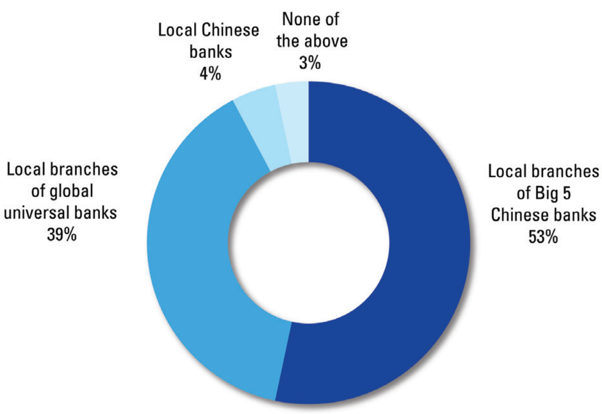
But even beyond the top five catalysts, a host of other developments are eagerly tracked by corporates. At the time of the survey in September, the launch of the China International Payment System (CIPS) was still imminent. Judging from the strong awareness of respondents on the issue in our survey, the CIPS launch in October should indeed boost renminbi acceptance among China-based and foreign corporates. The inclusion of the renminbi in the IMF's SDR basket will also be welcomed.

Chart 19: **Most important catalysts for increased RMB use, China-based respondents**
(What, if any, change would encourage your company to increase cross-border use of the RMB in trade, financing and/or investment?)



With the challenges to greater renminbi adoption identified, we also wanted to establish which group of financial institutions is considered the best for cross-border renminbi settlement and other products. We find that China-based corporates largely (53%) prefer to work with the Big 5 Chinese banks when implementing cross-border renminbi solutions. This compares to 39% of respondents that consider the local branches of global banks more competent in this remit. This also means that the responsibility to promote cross-border renminbi products and help win support for more renminbi use abroad primarily lies with Chinese banks that are now growing their overseas presence to fulfill this role.

Chart 20: **Best banks for cross-border RMB, China-based respondents**
(Which type of bank in offshore markets do you associate most with knowledge and capability in RMB developments and products?)



Verbatim comments

Chinese	English
发行离岸人民币债券对我们来说有很大的困难，因为我们是贸易公司，在审核方面有很多的阻碍，同时我认为目前发行离岸人民币债券的成本已经很高了。	Offshore RMB bond issuance is very difficult for us, because we are a trading company and there are many obstacles in auditing. Also, I believe that the current cost of offshore renminbi bonds is already high.
目前我们没有以人民币计价的海外交易，未来两年也应该不会有，主要是因为八月人民币大幅贬值	Currently, we do not have overseas RMB-denominated transaction and I don't believe this will change in the next two years mainly because of the sharp depreciation of the yuan in August.
我认为如果能够促使我们更多的使用离岸和跨境人民币，主要是需要政府继续推动人民币国际化，同时简化一些监管措施，降低业务成本，这样企业才会更加愿意去使用。	I think if we need to encourage more use of offshore and cross-border yuan, which includes more government promotion of RMB internationalization and streamlining some regulatory measures to reduce business costs. Then companies will be more willing to use the RMB.
我们有很多非洲的客户，他们没有人民币，也没有很多美元，所以他们通常用当地货币来结算，我们会在当地换成美元再汇回国内。	We have many customers in Africa and they do not pay in RMB and most of them not even in US dollar. They prefer to pay in their local currencies, which we then exchange into US dollar and finally repatriate.
主要的因素我认为是银行降低业务收费，降低融资成本且监管机构能够简化审批程序，同时银行更够推出更多的融资产品。	I think the main factor to increase the use of the RMB is for banks to reduce business fees, lower financing costs and for the regulatory approval process to be simplified, while banks can also launch more financing products.
对冲业务对我们来说还是比较陌生的业务，当然随着外汇敞口的扩大，我们也会考虑使用一些对冲策略或产品，当然这之前我们也会评估相关的风险。	Hedging business for us is quite a strange business, but of course, with the expansion of foreign exchange exposure, we will consider using some hedging strategies or products, but we will need to assess the associated risks first.
我们没有对外汇敞口进行对冲，因为我们对相关的产品或者策略不了解。	We do not hedge against foreign currency exposure because we do not understand the relevant products and strategies.
我们大部分也是面向海外市场的，目前遇到的问题是人民币的国际地位不够，交易对手对人民币的接受程度低。	Most of our business is facing to the international market. For us the major problem is the international status of the yuan – counterparty acceptance of the currency is not enough.
目前发行离岸人民币债券的利率优势不是非常大，再加上各种其他成本，我觉得发行离岸人民币债券已经没有多大的优势了，不如在境外发行美元债券。	Currently, the interest rate advantage on offshore renminbi bonds is not very large, plus there are a variety of other costs, so I think the issue of offshore renminbi bonds does not have many advantages anymore, less than a dollar bonds issued abroad.

IV

Different perspective, same issues

In contrast to what many China-based corporates believe, multinational companies with trade ties to Chinese counterparties are keen to denominate more of their trade in renminbi. A high proportion expects the renminbi to play a greater role in their funding as well. Yet, the impediments to greater adoption identified by overseas respondents mirror those of their China-based peers and reveal a conundrum. Just like Chinese corporates find their overseas partners lack interest in the renminbi, corporates abroad say they have difficulty convincing their Chinese partners to accept renminbi in cross-border trade and financing. It appears both parties share a "latent love" of the renminbi, but are too shy to admit their preferences to each other.

a. Beyond the first steps

While Chinese corporates represented the primary target group of our survey, we also interviewed a total of 33 top-tier corporates in the UK, Switzerland and Chile. In each of these three markets, China Construction Bank has been appointed as the official renminbi clearing bank by the People's Bank of China.

The majority of these corporates in these markets have made "first contact" with the renminbi, typically through trade settlement. Among those overseas companies with active trade ties to China (defined as those with at least 5% of their imports and/or exports from/to China), 31% have used the renminbi in cross-border trade settlement (see Chart 21). Another 38% consider beginning using the renminbi in trade.

An even higher percentage already have exchanged the renminbi on offshore FX markets (42%), and a surprisingly large proportion also have or have had offshore renminbi deposits and loans. This includes the overseas presence of Chinese firms as well as local corporates that need renminbi for general corporate purposes and to finance trade with Chinese counterparties.

Our research shows that companies in the UK, Switzerland and Chile expect to settle more trade in renminbi just like their Chinese peers. Chart 22 depicts the percentages of their trade volume that is settled in renminbi at the moment and their expectation for the same in two years' time. The percentage that currently do not trade in renminbi at all will have diminished by nearly half in two years, while those that currently denominate up to 20% of their trade in renminbi expect to move up to larger volumes. Similar to respondents in China, we wanted to ascertain what drives international companies to use the renminbi in trade and what challenges they face to greater adoption. The responses for both questions are very similar to those voiced by China-based companies. FX risks, cost savings and better access to Chinese counterparts are the top three drivers, while a lack of interest by Chinese suppliers and buyers is the top challenge, followed by a lack of trade finance instruments and insufficiently developed renminbi hedging markets.

Better managing FX risks is the top driver for both Chinese and international companies in adopting the renminbi in trade settlement. For Chinese companies, that is easy to comprehend, as renminbi invoicing (or payment) simply shifts the currency risks to their buyers (suppliers). But

Chart 21: **RMB usage today, overseas respondents**
(Has your company (including subsidiaries) been involved in the following offshore RMB activities (i.e. outside of China)?)

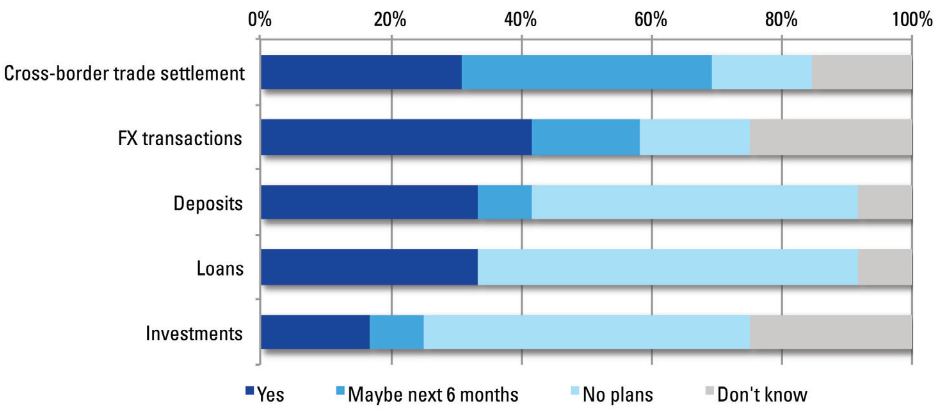
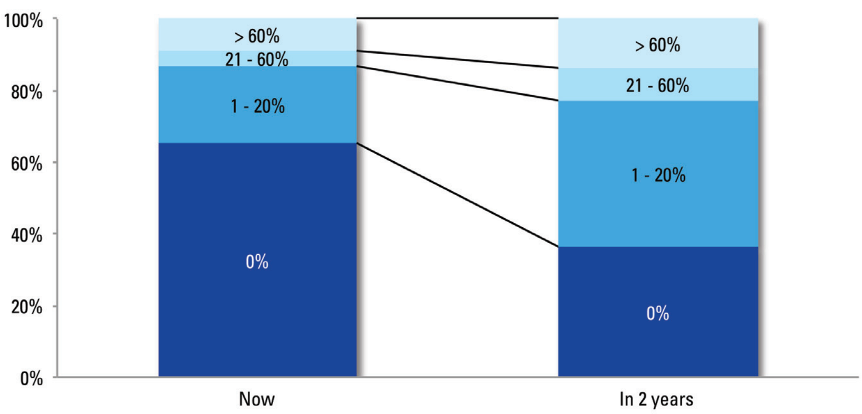


Chart 22: **RMB trade settlement expectation, overseas respondents**
(What percentage of your overseas trade is currently settled in RMB and what percentage do you anticipate it will be in two years' time?)

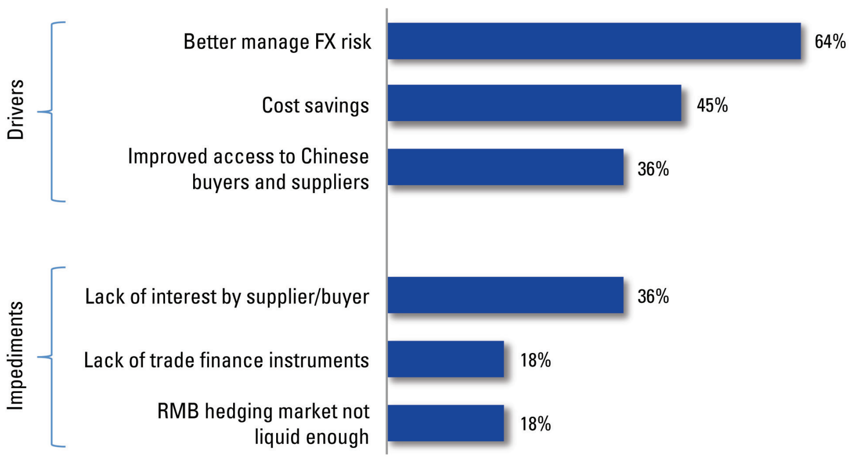


how could their foreign partners also realize lower FX risks when switching from the US dollar (predominately) to the renminbi? The answer lies in these companies' two-way trade flows with China. More companies that export to China also import from suppliers there, hence accepting renminbi for payments allows these firms to make purchases in China without any activity on the foreign exchange markets. This type of "natural hedging" can cut transaction costs significantly, especially when the home currency is not as liquid as the US dollar or the euro (such is the case for Chilean fruit exporter Gesex, see case study below).

Even more interesting is the correspondence of the impediments to renminbi usage. The findings suggest a "latent love" of the renminbi in cross-border trade settlement among both Chinese and global corporates. Both groups expect to increase their renminbi settlement volumes, yet both lament that their primary challenge is to convince their trade partners (i.e. each other) to accept the currency.

How can this be? Chart 24 explains this in part. We wanted to know to what extent companies in the UK, Switzerland and Chile are aware of the different trade finance instruments available in their markets. The results are telling. Less than half (48%) of companies are confident that renminbi L/Cs, the most basic trade finance product, are available in their market. Less than 25% believe import loans, bank guarantees, and documentary collection are available. In fact, all of these are available, at least in the UK and Switzerland.

Chart 23: **Most important drivers for and impediments to RMB trade settlement, overseas respondents**
(Which factors drive your use of RMB for cross-border trade settlement? What prevents you from increasing the volume of trade with overseas counterparties settled in RMB?)



We also had a chance to ask a number of Swiss and Chilean banks about their renminbi strategies. Our survey of two of the largest Swiss banks (that requested anonymity, see Table 1) and four banks in Chile (see Table 2) finds that, although only one bank in each market shows interest in renminbi deposits, all the Swiss respondent banks and three out of four in Chile indicate they offer renminbi trade finance products and renminbi FX instruments to corporate clients "now or in the coming six months". These banks expect renminbi deposits from clients to increase in the coming years, but they will need to step up communication of their suite of trade finance and FX products already offered.

Chart 24: **Availability of trade finance instruments, overseas respondents**
(To your knowledge, what are the RMB trade finance products available in your market?)

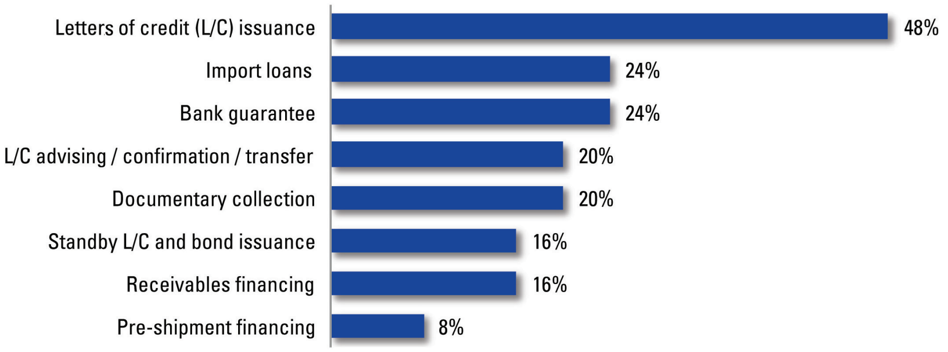
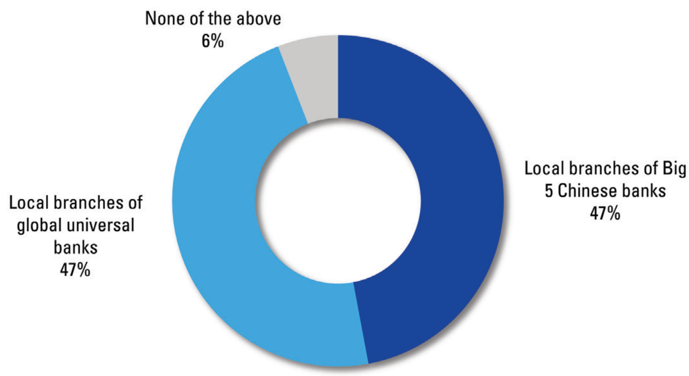


Chart 25: **RMB bank relationships, overseas respondents**
(Which type of bank in offshore markets do you associate most with knowledge and capability in RMB developments and products?)



Scaling up renminbi internationalization will need greater efforts from financial services providers to communicate their capabilities and proactively assist corporate clients. Meanwhile, regulators in China must ensure confidence in the currency and tackle common misperceptions. Corporates in both the domestic Chinese and global markets are ready to write history and help the renminbi become one of the world's most widely-used payment currencies globally.

Table 1: **Swiss Banks' RMB Strategies**

	Bank 1	**Bank 2**
How do you manage transactions denominated in RMB?	Operate a RMB nostro account with a Chinese bank in Hong Kong / mainland China	Operate a RMB nostro account with a Chinese bank in Hong Kong / mainland China
What percentage of your deposit liabilities do you expect to be denominated in RMB in 2 years' time?	N/A	1 - 2%
For what percentage of your corporate clients do imports from China and/or exports to China account for 10% or more of their total international trade?	21 - 40%	0 - 20%
How would you describe your institution's strategy towards RMB deposits?	Not actively attracting deposits but offering RMB deposit accounts	No specific strategy yet
Which trade finance products do you offer your corporate clients in RMB in Switzerland, now or in the coming 6 months?	Letters of credit (L/C) issuance; Bank guarantee; Standby L/Cs and bid bond issuance; (Export) L/C advising/confirmation/ transfer; Documentary collection	Currently: Letters of credit (L/C) issuance; (Export) L/C advising/confirmation/ transfer; Documentary collection Maybe next 6 months: Bank guarantee
Which FX instruments do you offer your corporate clients in Switzerland, now or in the coming 6 months?	Spot RMB FX; Deliverable forwards/futures in RMB; RMB Options; RMB NDFs; RMB Cross-currency swaps	Spot RMB FX; Deliverable forwards/futures in RMB; RMB NDFs; RMB Cross-currency swaps
What do you consider to be the most important attribute of the RMB clearing bank in Switzerland?	Late cut-off times	Straight-through processing rate

(Note: Identity of the banks has been kept anonymous)

Table 2: **Chilean Banks' RMB strategies**

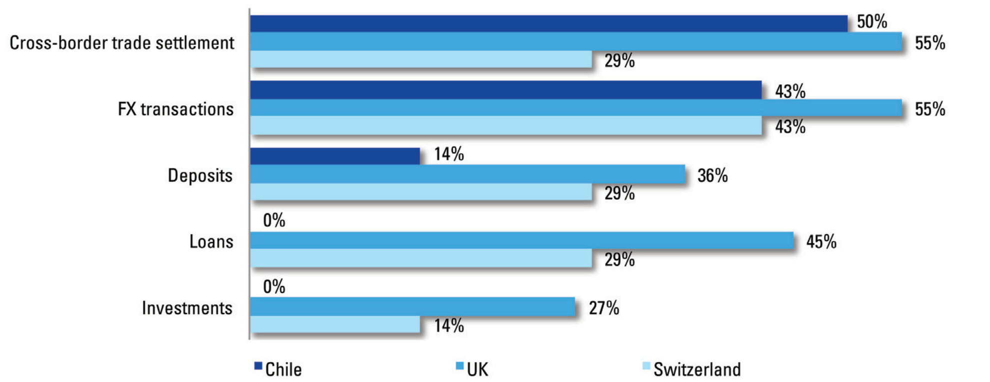
	Bank 1	Bank 2	Bank 3	Bank 4
How do you manage transactions denominated in RMB?	Operate a RMB nostro account with a global bank	Operate a RMB nostro account with a global bank	Operate a RMB nostro account with a global bank; and operate a RMB nostro account with a Chinese bank in Hong Kong/ mainland China	Cannot process RMB denominated transactions
What percentage of your deposit liabilities do you expect to be denominated in RMB in 2 years' time?	6 - 10%	0	1 - 2%	3 - 5%
For what percentage of your corporate clients do imports from China and/or exports to China account for 10% or more of their total international trade?	21 - 40%	41 - 60%	0 - 20%	0 - 20%
How would you describe your institution's strategy towards RMB deposits?	No specific strategy yet	No specific strategy yet	No specific strategy yet	Not actively attracting deposits but offering RMB deposit accounts
Which trade finance products do you offer your corporate clients in RMB in Chile, now or in the coming 6 months?	Letters of credit (L/C) issuance; Standby L/Cs and bid bond issuance; (Export) L/C advising/ confirmation/transfer; Pre-shipment financing	None	Currently: Letters of credit (L/C) issuance; Receivables financing Next 6 months: Bank guarantee; Standby L/Cs and bid bond issuance; (Export) L/C advising/ confirmation/transfer; Documentary collection; Pre-shipment financing	Letters of credit (L/C) issuance; Import loans; Bank guarantee; Standby L/Cs and bid bond issuance; (Export) L/C advising/ confirmation/transfer; Documentary collection; Receivables financing; Pre-shipment financing
Which FX instruments do you offer your corporate clients in Chile, now or in the coming 6 months?	None	Spot RMB FX; Deliverable forwards/futures in RMB; RMB NDFs	Currently: Spot RMB FX Next 6 months: Deliverable forwards/futures in RMB; RMB options; RMB NDFs; Cross-currency swaps	None
What do you consider to be the most important attribute of the RMB clearing bank in Chile?	Straight-through processing rate		Good customer service and same time-zone support	Knowledge and communication of RMB developments

(Note: Identity of the banks has been kept anonymous)

Country highlights

By market, renminbi acceptance is highest in the UK in all segments (see Chart 26). Fifty-five percent of British companies with trade ties to China responded that they already or may begin to settle trade in renminbi and conduct FX transactions involving the Chinese currency. Although it is the newest addition to the growing network of offshore renminbi centres, Chile also displays strong momentum in adopting the renminbi as a trade settlement currency.

Chart 26: **RMB usage today and within 6 months, by market**
(Percentage of companies in each of the 3 overseas markets that respond 'yes' or 'maybe next 6 months' to RMB use in different areas)



In the UK, some corporates have witnessed a reduction in renminbi-denominated trade volumes compared to earlier periods. One treasury executive at a large commodities trading house explains: "RMB trade volumes have come down last quarter because the cost of bank-guaranteed CNY L/Cs in China is up, so our buyers there don't have access to them as easily. US dollar and euro L/Cs are cheaper for them." However, these corporates may ignore transaction costs related to FX hedging or the risks associated with unhedged foreign exchange exposure.

Another UK commodities firm notes that in prior years, an expectation of renminbi appreciation led many Chinese importers to prefer US dollar-denominated L/Cs, because the cost of the instrument – in renminbi – would decline between the date it is issued and the payment day, typically 90 to 180 days later. Although ongoing renminbi depreciation results in the opposite, the UK respondent has not witnessed a rise in demand for renminbi invoicing from Chinese buyers. In the long term, like many of his peers, he expects to receive more of these requests, however.

Table 3: **UK, Switzerland and Chile compared**

	UK	Switzerland	Chile
2014 GDP (RMB billion)	18,259.0	4,414.4	1,599.6
2013 Exports to China (RMB billion)	118.3	347.7	128.4
2013 Imports from China (RMB billion)	315.8	21.8	81.3
RMB Clearing Bank (since)	China Construction Bank (June 2014)	China Construction Bank (November 2015)	China Construction Bank (May 2015)
RMB deposits (billion, including estimates)	25.40	20.00	-
Bilateral swap agreement (RMB billion)	215	140	22
RQFII quota (RMB billion)	80	50	50
Comments		Free trade agreement effective July 2014	Free trade agreement effective since 2005

Sources: China Statistical Yearbook 2014, China Construction Bank, City of London, Swiss Bankers Association

Gesex case study

Gesex (Gestión de Exportaciones Frutícolas SA) is one of Chile's most prominent fruit marketing companies, established in 1998. It owns orchards around the country and handles international packing, export and distribution of fresh fruit, including grapes, peaches and mandarins. The company operates overseas offices in London, the US, Hong Kong and Shanghai. Around 20% of the company's exports are destined for Asia, with most of that for the Chinese market.

China is the fastest growing market for the company with sales up 30% year-on-year on average, according to Gonzalo Matamala, general manager at Gesex. The company has been able to build a wide distribution network in China, including in tier-two and tier-three cities, thanks in part to the free trade agreement signed between the two countries in 2005.

Currently, Chinese buyers typically pay the company in US dollars, but Matamala is excited about the appointment of a renminbi clearing bank in Chile for two reasons. "Because of our growing operations in China and procurement from Chinese suppliers for our Chilean operations, we are exploring with our Chinese buyers for them to pay us directly in renminbi. We forecast that in a couple of years, RMB deposits at Gesex should be about US$0.5 million equivalent."

"For us, it makes a lot of sense to receive RMB from our China buyers and make more of our purchases, like the equipment for our orchards, in RMB. At the same time, our buyers in China would not need to incur the transaction costs of paying us in US dollar or even Chilean peso."

Once their Chinese buyers are spared the costs of paying in US dollar or peso, Gesex will be in a better bargaining position as a supplier and able to differentiate itself amongst other fruit exporters from Chile and globally. Having access to renminbi from such trade settlement transactions will also help Gesex make purchases in China without any foreign exchange exposure and transaction costs. It may even help the company save on procurement costs.

"Right now, all of our procurement for our normal operations in Chile is made locally in Chile," says Matamala, "but we know that the things we purchase from suppliers here actually are produced in China. So we are trying to cut the middlemen and buy directly from China. If we can pay them in RMB, it will help us."

Matamala previously worked as the trade commissioner of Chile in China and therefore has a prime view on Sino-Chilean trade ties. Trade volumes between the two countries have grown nearly five-fold since the signing of the free trade agreement, driven not only by mining exports from Chile, he notes.

"We are one of the few countries in Latin America that has a trade surplus with China," explains Matamala. "That shows that the two economies are very complementary – we sell what they want and they sell what we need. Commodities have driven the trade flows, but food and beverages have shown strong growth in percentage. China is Chile's biggest trade partner so more and more companies are setting up entities in China."

So far, he adds, use of the renminbi in trade between the two countries remains limited as companies do not yet understand the gains derived from switching to renminbi invoicing and payment. He notes that many of the local banks are beginning to offer renminbi services, including deposit accounts, having arranged interbank renminbi swaps with major Chinese banks (also see Table 2 on Chilean banks' RMB strategies).

"It is not common so far for Chilean businesses to settle trade in RMB," he concludes, "but the new clearing bank set up in Chile will push the companies to do more business in RMB."