

# White Paper on RMB Internationalization

RMB along the “Belt and Road”

2015



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## FOREWORD

*The White Paper on RMB Internationalization* (hereinafter referred to as *the White Paper*), exclusively compiled by Bank of China (BOC), has been issued for three consecutive years since 2013. *The White Paper*, together with the Cross-border RMB Index (CRI) and the Off-shore RMB Index (ORI) of BOC, has become a professional financial tool to understand and study the progress of RMB internationalization and won the supports and recognition from all sectors of the society.

The 2015 edition of *the White Paper* is still characterized by its large sample size, broad coverage and new topics. This year we collected feedback for 3,468 pieces of questionnaires from 32 countries and regions in and abroad, 10 more countries than last year.

Compared with the previous two editions, we see that RMB has been moving steadily towards an international currency in the past three years in this edition. Domestic and overseas enterprises tend to have more positive expectations on RMB becoming a major international currency, with their use of RMB products and services growing steadily, and RMB is gradually becoming a stronger pricing and denominating currency. On the other hand, we also find some noteworthy new characteristics in the survey as RMB internationalization goes faster and deeper. In 2015, in particular, RMB internationalization encounters a different market environment from the past in which the two-way fluctuation of RMB exchange rate becomes more normalized, interest rate environment and level are also changed in onshore and offshore markets, and the establishment of onshore free-trade zones and offshore RMB markets steps forward quickly. These have direct or indirect effects on domestic and overseas enterprises' willingness and practice to use RMB. In this *White Paper*, we analyze and explain the movements of our customers in these aspects mentioned above.

In addition, following the feature on “RMB steps into the Fortune Global 500” discussed last year, this survey introduces a new feature on “RMB along the ‘Belt and Road’”, to track the current RMB use along the “Belt and Road”, reveal the inter-promotional relationship between the “Belt and Road” initiative and RMB internationalization, discover the actual needs of enterprises in the area, and provide a point of reference for enterprises, banks and other participants in the “Belt and Road” initiative.

## HIGHLIGHTS

- RMB is more attractive as a financing currency to global enterprises along with its weakened unilateral appreciation expectations and falling interest rates
- RMB shows the trend of two-way cross-border flows, and the multiplier effect is likely to emerge in offshore RMB markets
- RMB is still weak in pricing in the factor market transactions, such as raw materials and commodities
- Financial innovation in free-trade zones boosts cross-border use of RMB under the capital account, with a great potential for expanding the RMB usage channels of overseas enterprises
- A fast-growing proportion of enterprises using RMB in receipts and payments occurs in America and other regions
- Enterprises along the “Belt and Road” expect more but understand less of the international role of RMB; the accessibility to cross-border RMB products and services in the area have yet to be improved



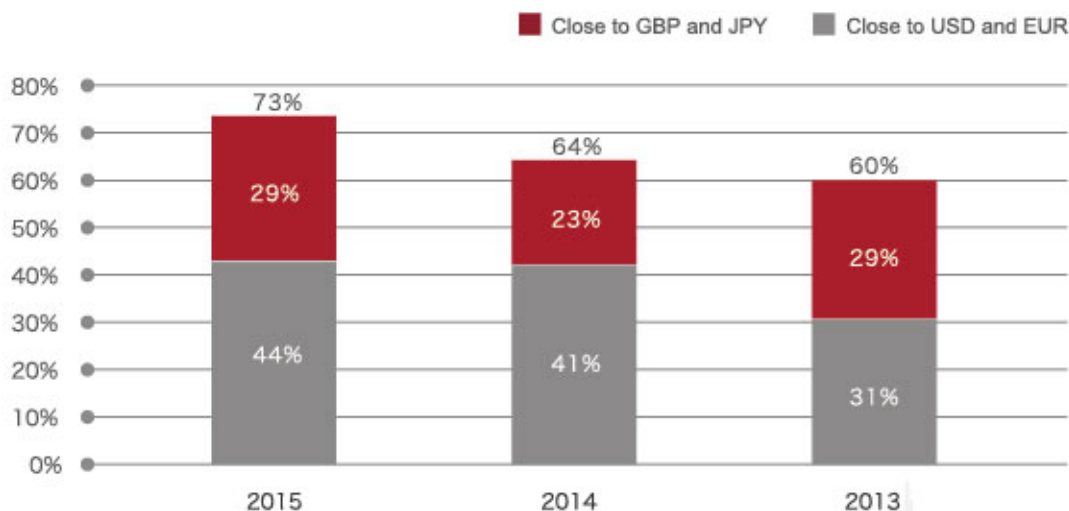
## RMB moves steadily towards an international currency

To maintain consistency and comparability of customer surveys from year to year, we establish “**future expectations, willingness to use, geographical scope and offshore markets**” as four standing dimensions of survey. The same or similar questions are used to keep track of how well domestic and overseas enterprises understand the trends in RMB internationalization and how the RMB international service is used. The results of this survey suggest that respondents are relatively consistent in their opinions acknowledging the trend that RMB moves steadily towards an international currency, and that customers’ experiences in financial services related to RMB internationalization are improving.

### More positive expectations: respondents remain broadly optimistic about the future international role of RMB

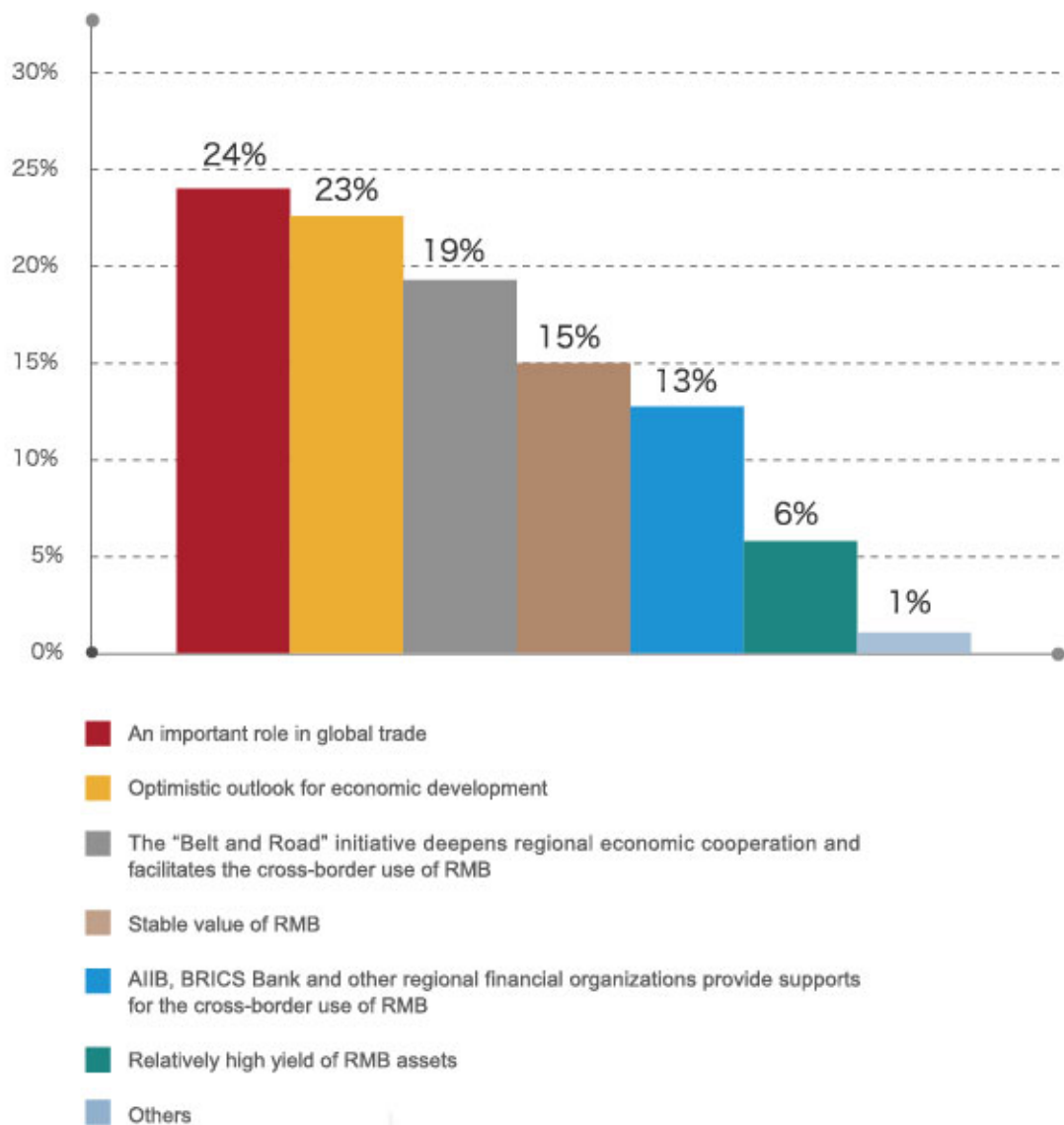
The results show that 73% of the respondents believe that RMB will become an important international currency. Specifically, 44% of the respondents expect the international role of RMB to get close to USD and EUR, which was only 31% two years ago. By contrast, 20% of the respondents think that it is temporarily hard to assess the international role of RMB, 4 percentage points lower than that of 2014, representing a decline for three consecutive years.

Fig. 1: Expectations on the international role of RMB



Looking further into the factors determining enterprises' expectations on RMB, we find that respondents are more likely to base their judgments about RMB prospects on the outlook of economic development, the role in global trade, the "Belt and Road" regional cooperation initiative and other fundamentals of China, while financial factors such as the relatively high yield of RMB assets have relatively lower impacts on expectations of RMB' s international role.

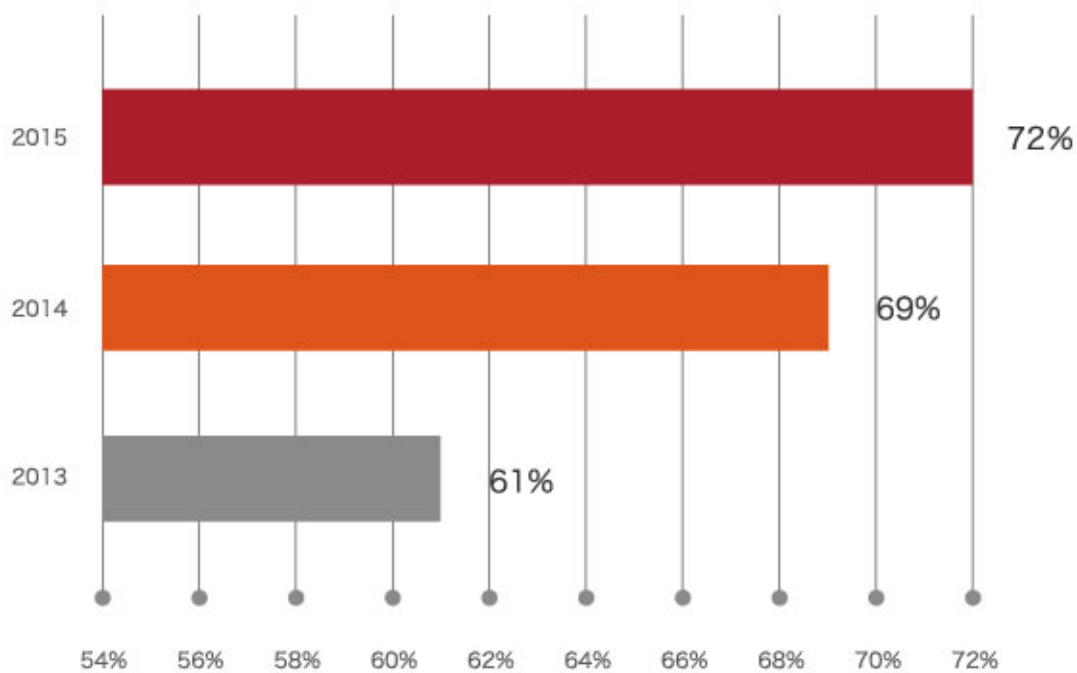
Fig. 2: Reasons for being optimistic on RMB to become an important international currency



**Stronger willingness to use: the proportion of enterprises planning to use more RMB in their cross-border transactions continuously increases**

72% of the overseas respondents plan to use RMB or further increase the proportion of RMB use in their cross-border transactions, up 3 percentage points than that of 2014 and 11 than 2013, indicating that the steady progress of RMB internationalization in the past three years has continuously boosted global enterprises' confidence in RMB. RMB is rising into the view of global enterprises and domestic and overseas enterprises are increasingly willing to use, invest and possess RMB.

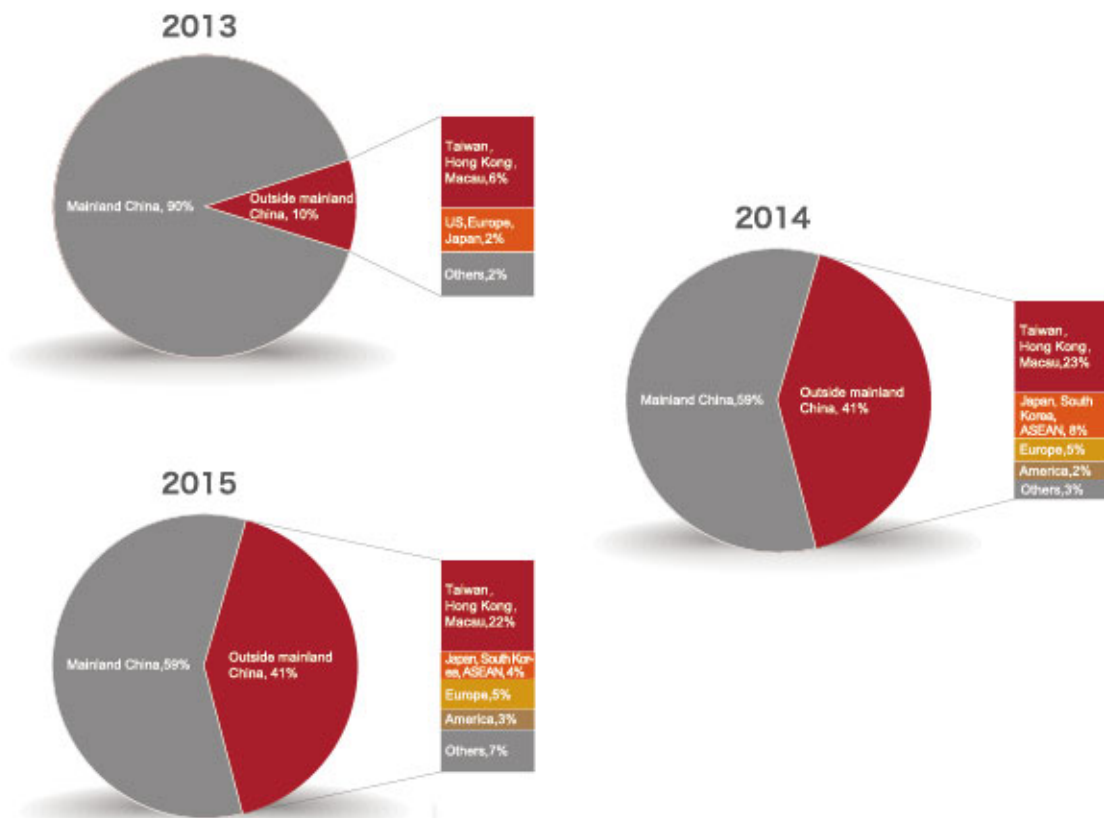
Fig. 3: Percentage of overseas enterprises having used RMB and planning to increase RMB use



**📍 Broader geographic reach: the proportion of enterprises in America and other regions using RMB in receipts and payments grows fast**

The survey results show continuous growth in RMB use in settlement outside mainland China. Of the overseas respondents, 41% report cross-border receipts and payments in RMB from and to countries or regions outside mainland China, staying the same level of 2014 but with some notable changes in the structure. The third-party countries and regions outside mainland China where cross-border receipts and payments in RMB occur are more decentralized than last year. A lower percentage of respondent enterprises have had RMB receipts from or payments to traditional regions for RMB overseas circulation, such as Hong Kong, Macau, Taiwan, Japan, South Korea, ASEAN and other parts of Asia; while a higher percentage of enterprises have had RMB receipts from or payments to America and other countries and regions, increasing from 5% of last year to 10%.

Fig. 4: Geographic distribution of counterparties to overseas enterprises in cross-border RMB settlement





## 📍 More mature global markets: offshore markets continue to provide stronger supports for cross-border use of RMB

76% of the overseas respondents can easily access to RMB products and services in local markets. While in the surveys of 2013 and 2014, 30-45% of enterprises reported that there were less than two local banks able to provide RMB-related services. This significant change in customers' experience indicates that as RMB goes globally, there is a notably larger number of RMB financial service providers in offshore markets whose service capacity has improved substantially compared with the preceding two years.

Fig. 5: Whether overseas enterprises have easy access to RMB products and services

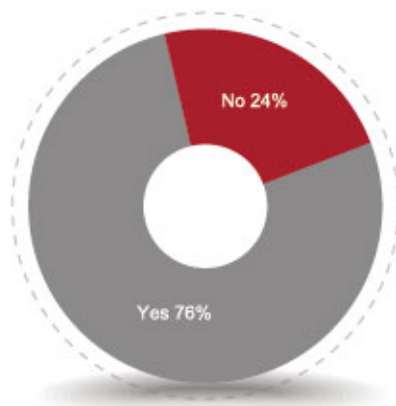


Fig. 6 Main functions of offshore RMB markets



when investigating the main functions of offshore RMB markets, we find that about 40% and 29% of overseas enterprises think that offshore RMB markets meet their currency exchange and risk hedging needs well, reflecting the robust growth in offshore RMB foreign exchange trading (CNH) from the perspective of enterprises. The survey results also reveal that RMB offshore markets have relatively limited capacity in meeting RMB investment and financing needs of enterprises relative to RMB foreign exchange trading, with 14% of respondents believing that potential still exists for further improvements in functions of offshore RMB markets.

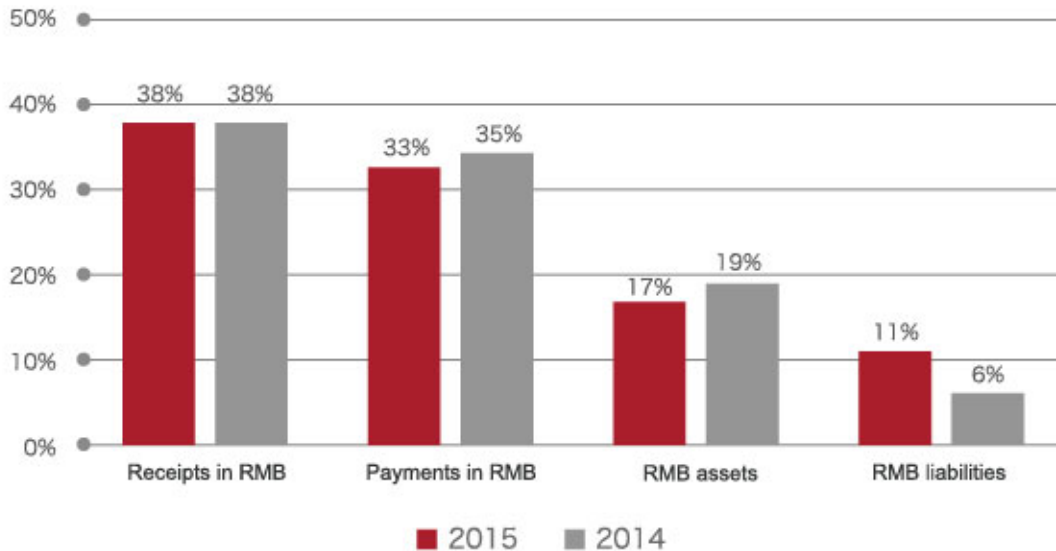
## **New changes in RMB internationalization under new circumstances**

The world's economic growth still faces complicated environment in 2015. According to the July edition of IMF's *World Economy Outlook*, the world economic growth is predicted at about 3.3% in 2015, slower than in 2014. Many changes have occurred to internal and external environments of in RMB internationalization, including greater trend of two-way movements of RMB exchange rate, deepening of RMB interest rate liberalization and capital market opening, expansion of channels for cross-border use of RMB and emergence of RMB as a reserve currency. As an important new option of currency in global trade and investment, RMB has shown some new changes in its cross-border use different from the past, in addition to the positive progress that have been made.

### **RMB is more attractive as a financing currency to global enterprises due to its weakened unilateral appreciation expectations and falling interest rates**

The results show some changes in the structure of RMB assets and liabilities of surveyed enterprises in the past year. Overseas respondents, for example, report a smaller proportion of RMB assets held but a larger proportion of RMB liabilities assumed compared with 2014. One reason is the ending of the unilateral appreciation of RMB against USD last year, with two times of notable depreciation occurring respectively at the beginning and end of 2014. To enterprises, the two-way fluctuations of RMB exchange rate instead of the past unilateral appreciation bring down the relative return on their investments in RMB assets, and also reduce financing costs of RMB debts accordingly. Secondly, a series of cuts in reserve requirement and interest rates in China have resulted in an overall downward trend in RMB interest rates, further pushing down the costs of RMB liabilities. Thirdly, ongoing improvements in offshore RMB markets, rapid development and greater diversity of RMB financing and investment products as well as stronger flexibility of operations have made overseas enterprises more willing to use RMB loans and other financing products.

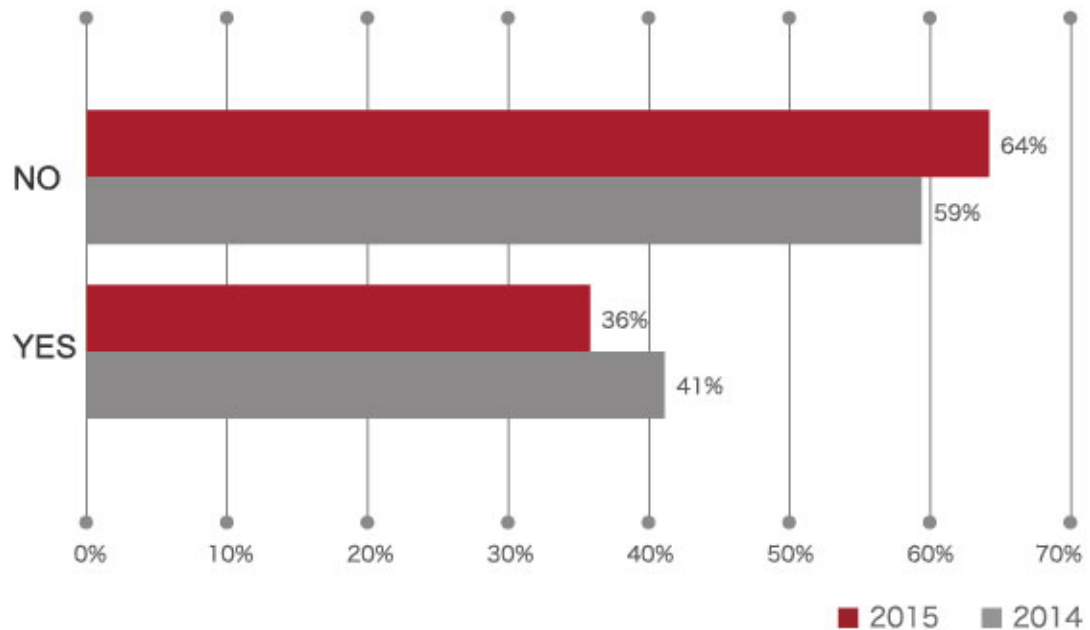
Fig. 7: Changes in RMB assets, liabilities, receipts and payments of overseas enterprises



The People's Bank of China (PBOC) adjusted its quotation mechanism for the middle rate of RMB exchange rate on August 11, 2015. This move, as part of the RMB internationalization process, was intended to increase the market-driven level and transparency of the RMB exchange rate formation mechanism and facilitate more free and convenient circulation and use of RMB in domestic and overseas markets. This measure led to a decline of about 3 percentage points in RMB exchange rate against USD in a short period. After a quick absorption of earlier deviations between middle price and closing rate, RMB exchange rate has basically stabilized now.

The results show that the quick suppression of RMB exchange rate fluctuations within such a short period in August, to a certain extent, resulted from the enterprises' existing expectations on the two-way fluctuations in RMB exchange rate. In this survey, approximately 64% of overseas enterprises answer that the depreciation of RMB against USD in late 2014 had no material impacts on their willingness to use RMB, up five percentage points from early 2014. The survey results with respect to the two rounds of RMB depreciations in early and late 2014 show that, as the two-way fluctuations in RMB exchange rate against USD is gradually normalized and a broader range of RMB hedging products based on real needs of customers are available in onshore and offshore markets, enterprises' attitudes towards RMB value fluctuations will become more mature and stable.

Fig. 8: Whether RMB depreciation against USD affects the willingness to use RMB



**📍 RMB shows the trend of two-way cross-border flows, and the multiplier effect is likely to emerge in offshore RMB markets**

As RMB is increasingly used globally, cross-border RMB flows are expanding in volume from year to year. Since late 2014 and early 2015, RMB has shown the trend of two-way cross-border flows instead of the previous pattern of unilateral net outflows.

This new change has some effects on overseas RMB deposits and liquidity. In Hong Kong, for example, growth in RMB deposits has slowed down in 2015, with total RMB deposits falling in a few months. It is noteworthy that the change of overseas RMB deposits does not fully coincide with the change in direction of cross-border RMB flows. In some months seeing net cross-border RMB inflows, overseas RMB deposits remained on the rise, which probably means that the multiplier effect of RMB lending business in overseas banking institutions gradually emerges.

The stronger activities of deposit derivation and money creation in offshore RMB markets are also evidenced by the continuous growth in RMB loans and loan-to-deposit ratio in Hong Kong in 2015, in addition to the survey results regarding increased RMB liabilities of overseas enterprises mentioned above.

Fig. 9: Cross-border flows of RMB funds (in RMB hundred millions)

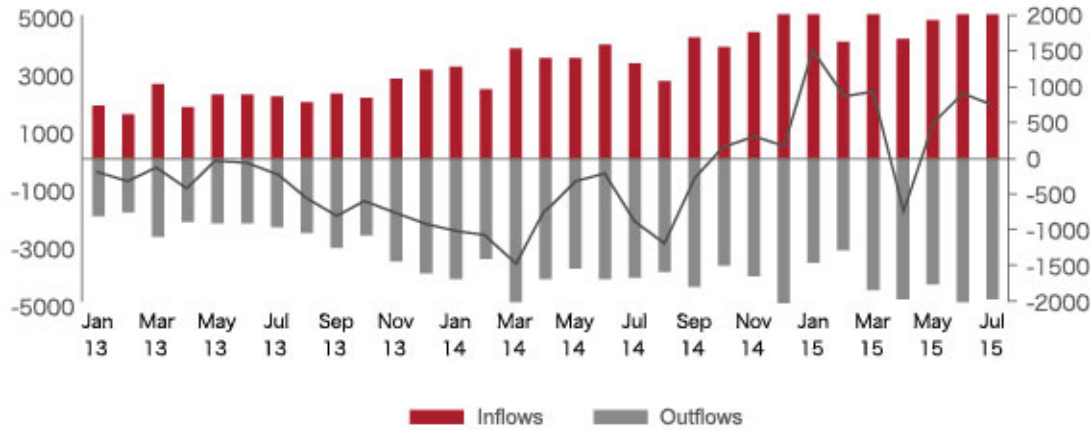


Fig. 10: RMB deposits (in RMB millions) in Hong Kong and y-o-y growth



**RMB is still weak in pricing in the factor market transactions, such as raw materials and commodities**

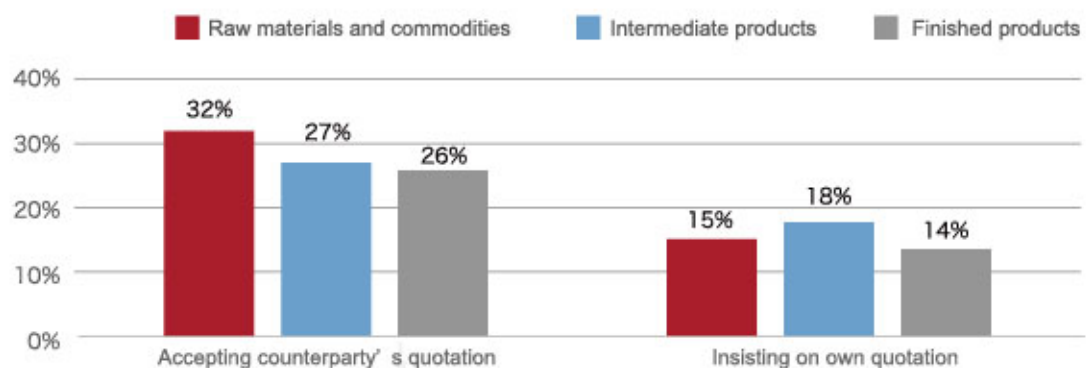
Though RMB contributes to a substantial share of China's international receipts and payments, most foreign trade or investment contracts are denominated mainly in USD or EUR. Chinese enterprises having no dominance in the choice of pricing currency in cross-border transactions is a major constraint for RMB to become an international denominating currency, accordingly having effects on the RMB internationalization.

On the micro scale, RMB's function as a denominating currency is reflected as the enterprises' ability to price in RMB. If enterprises are able to insist on pricing in RMB in order to take no or less adverse impacts brought by changes in RMB exchange rates against other foreign currencies, there will be a realistic basis for RMB to function as a denominating currency.

In this survey, we divide domestic respondents into three categories according to the goods traded, i.e. raw materials and commodities, intermediate products and finished products. The results show that domestic traders of raw materials and commodities have the weakest pricing power. This conclusion basically follows the general rule of choosing denominating currency, that is, transactions of energy, raw materials and other homogeneous goods are usually denominated in USD or other major international currencies, while heterogeneous goods such as industrial finished products are more likely to be denominated in the local currencies of manufacturers.

It should be pointed out that Chinese enterprises already have certain bargaining power in machinery equipment, electronic products and other industrial finished products, which takes up a greater proportion of China's foreign trade, compared with the shrinking proportion of primary processed products, as China's foreign trade structure continues improving in recent years. In addition, RMB is increasingly used in commodity transactions. Measures, such as RMB serving as the pricing and settlement currency for China's domestic crude oil futures trading and Shanghai Gold Exchange, and the "Hong Kong-Shanghai Gold Connect" program permitting overseas investors to participate in the international gold trading in Shanghai through Hong Kong's Chinese Gold & Silver Exchange Society, help gradually boost the function of RMB as a denominating currency. To domestic and overseas enterprises using third-party currencies in pricing and settlement, the direct use of RMB in pricing and settlement will deliver more benefits in avoiding the exchange rate risks.

Fig. 11: Pricing power in RMB for enterprises trading different kinds of goods

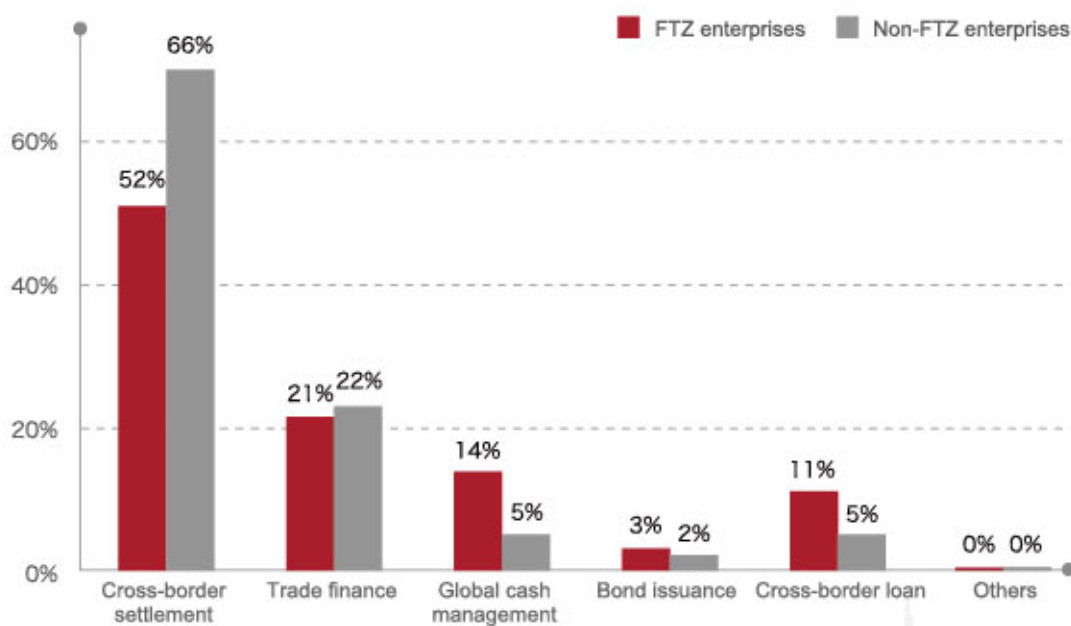


## 📍 Financial innovation in free trade zones boosts cross-border use of RMB under the capital account, with a great potential for expanding channels for use of RMB funds by overseas enterprises

At present, China has set up four free trade zones (FTZs) in Shanghai, Guangdong, Tianjin and Fujian and some pilot areas for special policies on cross-border RMB use as part of its efforts to pursue financial innovation in reducing foreign exchange control, facilitating trade and investment and increasing convertibility of the capital account. Such pilot policies provide platforms and facilitation for enterprises in these areas to increase cross-border use of RMB. The survey results show that some differences have emerged between FTZ enterprises and non-FTZ enterprises in terms of the preference on RMB products.

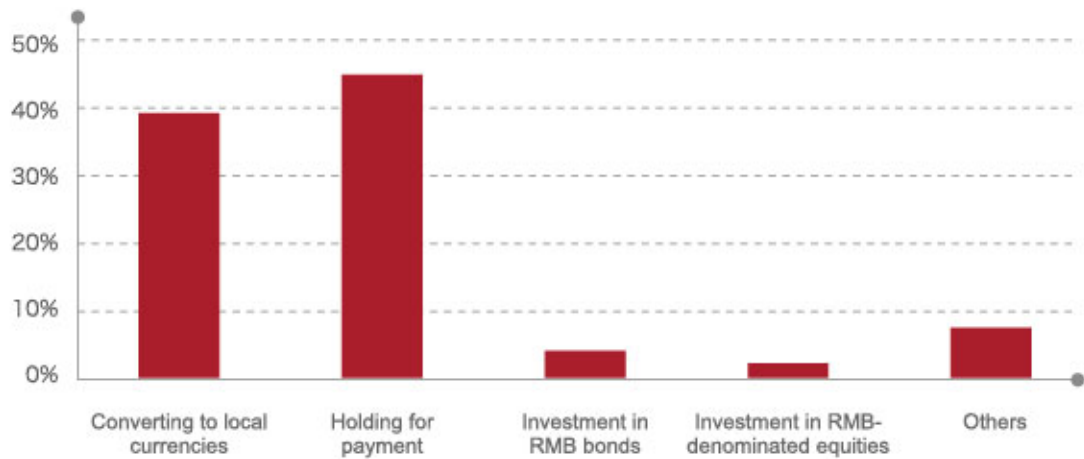
FTZ enterprises present a relatively low concentration level of the use of traditional cross-border RMB settlement products, 14 percentage points lower than that of non-FTZ enterprises, while their use of RMB global cash management products and RMB cross-border loans is respectively 9 and 11 percentage points higher than those of non-FTZ enterprises. This indicates that a greater diversity of cross-border RMB products is available to FTZ enterprises and the use of RMB is more active under the capital account.

Fig. 12: Use of RMB internationalization products by FTZ enterprises versus non-FTZ enterprises



The survey also shows a big potential for expanding the use of RMB among overseas enterprises. With regard to the overseas enterprises' RMB receipts, most of the respondents answer that they mainly use RMB to pay for their trades with China or convert RMB into the local currencies, accounting for 45% and 39% respectively. Only less than 10% of overseas enterprises invest their RMB funds in RMB bonds and RMB-denominated equity products. We believe that in the future the channels for overseas enterprises to use RMB will be further broader as policies are launched to facilitate overseas institutions' investment in China' s domestic interbank bond market and foreign exchange market.

Fig. 13: Channels for RMB use by overseas enterprises





## RMB along the “Belt and Road”

China’s “Belt and Road” initiative emphasizes the principles of wide consultations, joint contribution and shared benefits. It is not only a comprehensive opening-up strategy of China, but also an innovative theory in deepening regional cooperation that brings new ideas on international cooperation and economic globalization in the 21st century.

### RMB internationalization creates conditions to facilitate joint contribution of the “Belt and Road” initiative, which in turn promotes cross-border circulation and use of RMB

#### RMB internationalization facilitates China’s trade with countries and regions along the “Belt and Road”

In the last decades, the trade between China and countries along the “Belt and Road” developed with an average annual growth rate of 19%, accounted for about 25% of China’s total trade volume. The trade scale will further expand as the “Belt and Road” initiative goes deeper. RMB will take advantage of it and play an important role in the trade settlement by helping enterprises avoid risks arising from the exchange rate fluctuation of the third-party country’s currency and facilitating the trade activities.

#### RMB internationalization provides supports for China’s investment and construction in countries along the “Belt and Road”

Funding is an important pillar of the “Belt and Road” initiative. The BRICS Development Bank, the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund share the goal of providing credit supports for infrastructure construction along the “Belt and Road”, among which the capital outflows in RMB will account for a considerable proportion. Given the short-term depreciation trend of RMB against USD and continuous reduction in RMB interest rates, RMB funds will become further attractive relative to other foreign currency financing.

#### The “Belt and Road” initiative helps RMB become a regional currency

RMB has become a major trade settlement currency for China and its neighboring countries and regions. The demands for multilateral local currency cooperation will become

stronger in the “Belt and Road” initiative, enhancing the role of RMB in the regions, such as RMB settlement and financing in infrastructure construction, direct trading of RMB against currencies of countries along the “Belt and Road” and use of funds under the bilateral currency swap agreements. Some neighboring countries will include RMB in their reserve currency baskets as well.

### ■ The “Belt and Road” development helps improve functions of offshore RMB markets

The implementation of the “Belt and Road” initiative further fosters the RMB financing needs of overseas real economies and pushes up cross-border and offshore RMB financing activities. The offshore RMB markets will function to raise and allocate funds for countries along the “Belt and Road”, which fosters stronger real economic needs for the development of offshore markets. Furthermore, RMB outflows under the trade and investment driven by the “Belt and Road” will become important channels for replenishing liquidity in offshore RMB markets. These two features interdependently interact and mutually promote each other, becoming the new growth engine for further increase in RMB use of offshore financial markets.

### 📍 Status quo and characteristics of RMB use along the “Belt and Road”

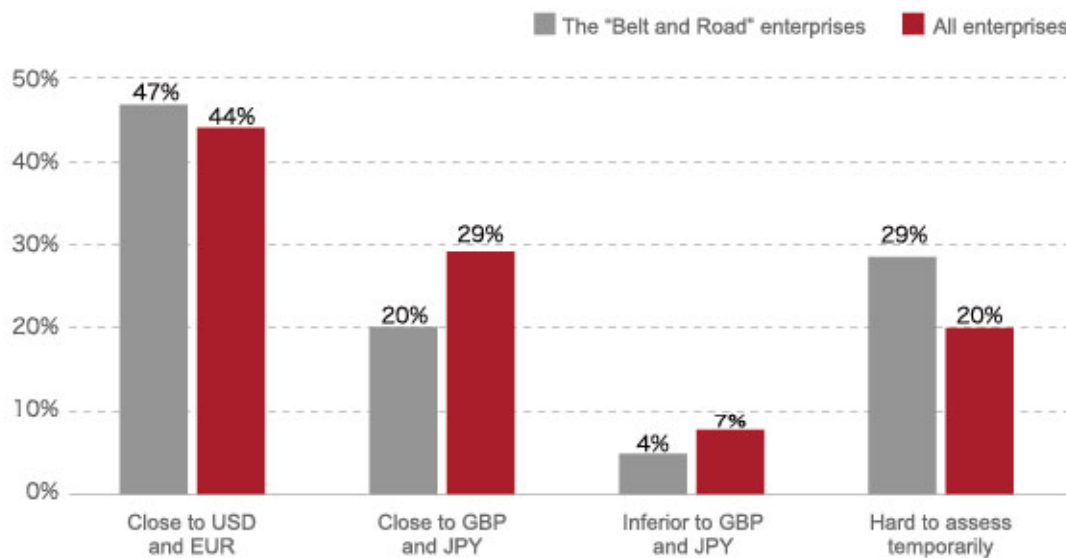
In view of the “Belt and Road” initiative’s close ties to and positive effects on RMB internationalization, we keep track of enterprises’ perceptions and use of RMB along the “Belt and Road” in this survey. According to the survey, enterprises along the “Belt and Road” has relatively high recognition in the international role of RMB and regional cooperation, and RMB has a good potential to develop in this region and is likely to become an important currency for enterprises to choose. All these offer new opportunities to RMB internationalization.

### ■ Enterprises along the “Belt and Road” expect higher but understand less of the international role of RMB

Compared with the overseas enterprises as a whole, the respondents along the “Belt and Road” are divergent in their expectations on RMB’s international status. The proportion of enterprises with optimistic expectations in the region is higher than that to all the overseas enterprises. For example, the proportion of enterprises in the region expecting RMB to get close to USD and EUR as an international currency is 3 percentage points higher than that for all the overseas respondents, but the enterprises considering it “hard to

assess temporarily” account for a notably higher percentage in the meantime. This reflects that enterprises along the “Belt and Road” have greater expectations on RMB, and also suggests that their familiarity with and understanding of RMB remain to be further improved. As RMB is increasingly used in the region, local enterprises are likely to become a customer group with relatively high acceptance of RMB internationalization.

Fig. 14: Expectations on RMB’ s international role among enterprises along the “Belt and Road”

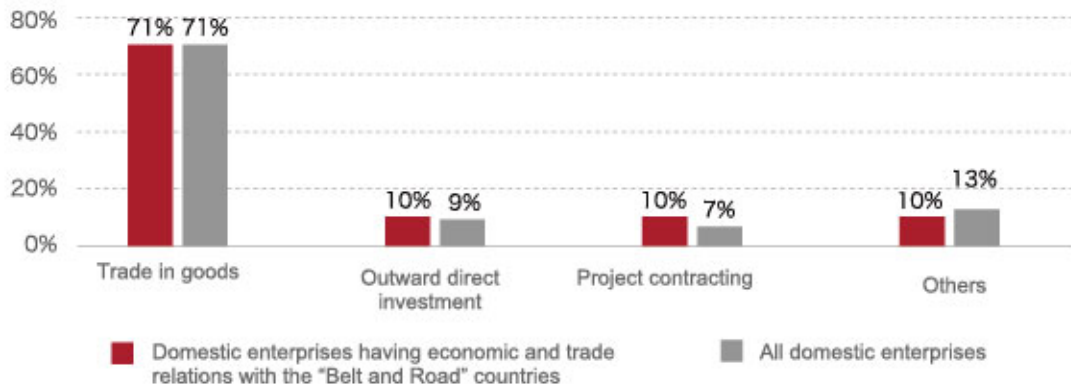


### ■ Enterprises in the region are more desired to use RMB, with the demand particularly strong in project contracting and direct investment

Of the respondents along the “Belt and Road” , 80% plan to increase their RMB use in the future, 8 percentage points higher than that obtained for the entire overseas enterprises, indicating an optimistic potential for broader use of RMB in the region.

The survey also finds out that the proportion of project contractors and outward direct investors among domestic enterprises with economic, trade or investment activities along the “Belt and Road” is bigger than that to all the domestic enterprises investigated. This goes in accordance with the specific measures under the “Belt and Road” initiative, such as improving China’ s opening-up, accelerating domestic capital “going global” and providing supports for key infrastructure projects in the region. RMB internationalization will play a more significant role in the “going global” process of these enterprises. Encouraging these enterprises to use RMB internationalization services will be of greater significance in expanding the circulation and use of RMB along the “Belt and Road” .

Fig. 15: Domestic enterprises having economic and trade relations with the "Belt and Road" countries classified by type of business



■ **Benefits of RMB internationalization have not yet been fully delivered for enterprises along the "Belt and Road" , with the supply of RMB products and services to be improved in the relevant region**

Compared with the entire population of overseas enterprises, a slightly lower proportion of the respondents along the "Belt and Road" answer that RMB products and services are easily accessible from local banks, indicating a relative insufficiency of RMB products and services provided in the region and suggesting big potential for banks to improve their RMB business coverage and continuously enhance their financial service capability in the region.

The survey also shows that the proportion of enterprises having access to convenient RMB settlement business and enjoying lower transaction costs from RMB business in the region is 4 percentage points lower than average level, suggesting that the benefits of using RMB have not been fully delivered and enterprises' demands for RMB business need to be better satisfied in the region. This reveals the emergence of new opportunities for RMB internationalization. RMB is likely to become the preferable currency which enterprises are willing to accept, use and hold in the "Belt and Road" region.

Fig. 16: Whether RMB products and services are accessible in local banks



Note: The inner ring represents enterprises along the "Belt and Road" ; the outer ring represents the entire population of overseas enterprises

## Disclaimer

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