

FGI ISSUE BRIEF (JUNE 2015)

## Development of RMB Payments among Asian Off-shore Centers

Law Cheung Kwok and Wang Yao\*

### OVERVIEW OF RMB PAYMENTS AMONG SELECTED ASIAN ECONOMIES

From Q1 2011 to Q4 2014, global RMB payment flows (MT103 and MT202) grew 19.4 times in value.<sup>1</sup> While intra ASEAN RMB payment flows grew by 426 times in value during the same period, Singapore accounted for about 90% of the total transaction value. Also, total RMB payments via Taiwan grew by 1,438 times in value, from Q3 2011 to Q4 2014.<sup>2</sup> These increases far exceeded the global performance. The establishment of RMB offshore clearing centers in Taiwan (Dec 2012) and Singapore (Feb 2013) are the major drivers for the fast growth. Both of them are China's major trading and investment partners in this part of the world.

Thus, it is important to have a better understanding about the initial impacts of the establishment of these two RMB offshore centers upon RMB payment flows with Hong Kong, China and other ASEAN countries (here, and in the following analysis, "other ASEAN" stands for all ASEAN countries excluding Singapore). In order to assess the above impacts, we would examine RMB payment flows via China, Hong Kong, Singapore, Taiwan and other ASEAN countries by comparing their shares of payment flow in value in 2012 and in 2014.

*\*Law Cheung Kwok is a senior researcher and Wang Yao is a research analyst at the Fung Global Institute.*

---

<sup>1</sup> This study is based on data about SWIFT messages provided by SWIFT's Business Intelligence team. For the entire issue brief, we only look at the **value** of RMB payments via our target economies. MT103 is the standard message type for single customer credit transfers, and MT202 is the standard message type for general financial institution transfers. SWIFT Business Intelligence data does not represent the entire RMB payment flows, neither in volume nor in value.

<sup>2</sup> The financial institutions' RMB payments (MT202) accounted for more than 90% of total value of RMB payments (MT103 and MT202).

The total value of payment flows (sent and received) in these economies increased by 3.6 times during the period. Table 1 shows the share of payment flows between each of the sender/receiver as a percentage of the total payment flows in 2012; while Table 2 shows the results for 2014.<sup>3</sup>

**Table 1 | Weight of Total RMB Payment Flows among Selected Asian Economies, 2012 (percentage)**

Receiver	Sender					Received Total
	Hong Kong	Singapore	Taiwan	China	Other ASEAN	
<b>Hong Kong</b>	87.56	5.64	0.64	0.35	0.45	<b>94.65</b>
<b>Singapore</b>	2.90	0.11	0.00	0.05	0.02	<b>3.08</b>
<b>Taiwan</b>	0.45	0.00	0.03	0.02	0.00	<b>0.51</b>
<b>China</b>	1.16	0.26	0.04	NA	0.04	<b>1.50</b>
<b>Other ASEAN</b>	0.18	0.01	0.00	0.01	0.06	<b>0.27</b>
<b>Sent Total</b>	<b>92.27</b>	<b>6.02</b>	<b>0.71</b>	<b>0.44</b>	<b>0.56</b>	<b>100</b>

Notes: Other ASEAN stands for ASEAN countries excluding Singapore. NA stands for data not applicable. We define total value of RMB payment between the listed economies as 100 percent.

Source: SWIFT Watch, FGI estimation.

**Table 2 | Weight of Total RMB Payment Flows among Selected Asian Economies, 2014 (percentage)**

Receiver	Sender					Received Total
	Hong Kong	Singapore	Taiwan	China	Other ASEAN	
<b>Hong Kong</b>	76.50	4.90	2.47	0.46	0.54	<b>84.88</b>
<b>Singapore</b>	2.80	6.78	0.00	0.05	0.03	<b>9.66</b>
<b>Taiwan</b>	1.62	0.00	1.18	0.15	0.00	<b>2.96</b>
<b>China</b>	1.04	0.21	0.52	NA	0.04	<b>1.82</b>
<b>Other ASEAN</b>	0.35	0.01	0.00	0.01	0.32	<b>0.69</b>
<b>Sent Total</b>	<b>82.31</b>	<b>11.91</b>	<b>4.18</b>	<b>0.67</b>	<b>0.93</b>	<b>100</b>

Notes: Other ASEAN stands for ASEAN countries excluding Singapore. NA stands for data not applicable. We define total value of RMB payment between the listed economies as 100 percent.

Source: SWIFT Watch, FGI estimation.

<sup>3</sup> We did not include domestic RMB payment flows in China, as they were not relevant for this study. Also, please note that only a portion of the payments between financial institutions used SWIFT network, and thus the data were not comprehensive.

Regarding the initial impacts due to the formation of two new RMB offshore centers in Singapore and Taiwan, there are five major findings:

- (1) The share of total RMB payment flows within Hong Kong decreased by about 10%, from 88% to 77%. This decline in share was mainly taken up by Singapore's domestic payment (at around 7%) and cross-border payments between Hong Kong and Taiwan.
- (2) The share of total RMB payments via Taiwan increased almost 5 times to 4% during this period (payments sent increased from 0.71% to 4.18%; and payments received increased from 0.51% to 2.96%). These increases were mainly driven by the increase in cross-border payments between Taiwan and Hong Kong and domestic flows within Taiwan.
- (3) The share of total payments sent by Singapore grew by about 2 times to 12% during this period. However, the increase was mostly driven by domestic flows, from 0.11% to 6.78%.
- (4) The share of other intra-ASEAN countries' payment remained very small and increased from 0.06% to 0.32% only. These payments were mostly domestic payments of Malaysia.
- (5) The payment shares between other economies were relatively stable during the period. For example, the share of payment sending from Hong Kong to Singapore remained at about 3%; and at about 5% on the received side.

### **CHANGES IN CROSS-BORDER RMB PAYMENTS BETWEEN HONG KONG, SINGAPORE AND TAIWAN**

Since the establishment of RMB offshore clearing centers in Singapore and Taiwan, RMB businesses have developed rapidly in these two centers. In terms of RMB offshore deposits, as of December 2014, they have reached RMB302 billion in Taiwan and RMB277 billion in Singapore, together accounting for about 25% of total offshore RMB deposits and more than half of Hong Kong's RMB deposits (RMB1,004 billion)<sup>4</sup>. Rising RMB deposits have stimulated more financial activities. Thus, RMB payment flows between Hong Kong, Singapore and Taiwan have also increased substantially (shown in Figure 1).

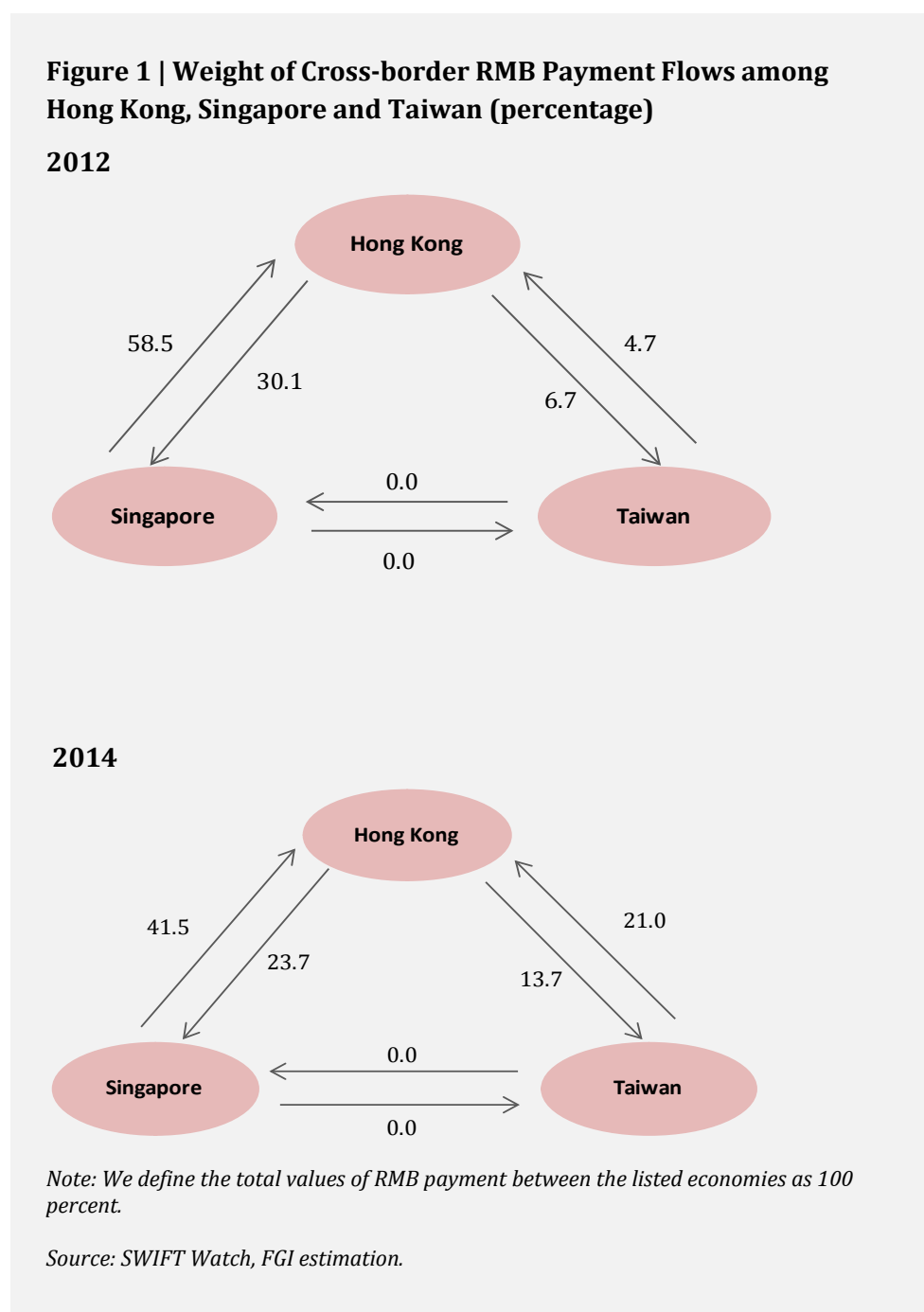
The total cross-border payment flows among the three economies increased by about 4 times from 2012 to 2014. During 2012, almost 90 percent of these payments were recorded between Hong Kong and Singapore and the rest were between Hong Kong and Taiwan. As for 2014, cross-border payments between Hong Kong and Taiwan increased significantly from 11% to 35% of total payment flows, with the corresponding share between Hong Kong and Singapore

---

<sup>4</sup> These financial statistics were obtained from Central Bank of the Republic of China (Taiwan), Monetary Authority of Singapore, and Hong Kong Monetary Authority.

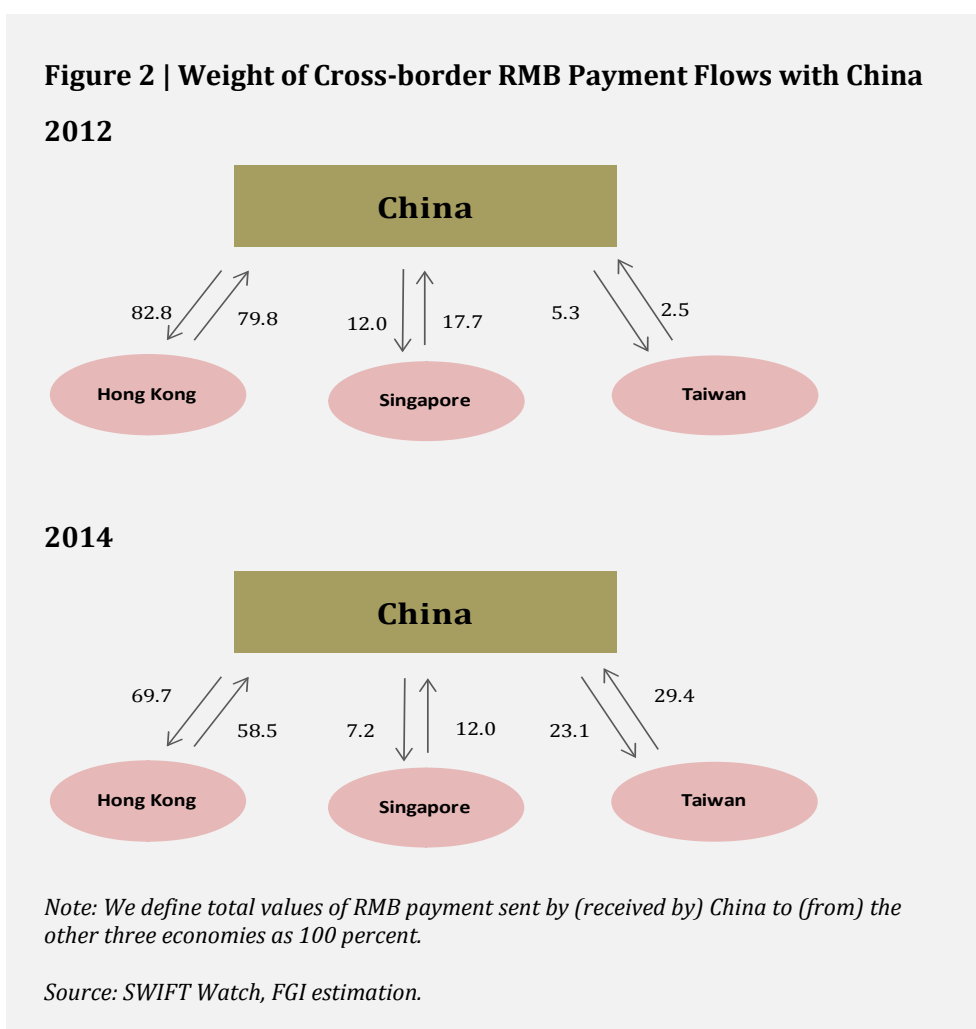
decreased by almost 25%. It seems that there have been very little interactions between the offshore RMB markets in Singapore and Taiwan yet.

From Table 1, Table 2 and Figure 1, we can see that, after the establishment of an offshore RMB center, most of Taiwan's RMB payments are cross-border transactions with Hong Kong; but for Singapore, most of its RMB payments are domestic transactions, with its RMB payments with Hong Kong decreasing.



## CROSS-BORDER RMB PAYMENT FLOWS WITH CHINA

If we look at the payment flows between China and the three main offshore markets (Hong Kong; Singapore and Taiwan), payments received by China grew more than 4 times between 2012 and 2014, while payment sent from China grew 5.5 times.



Among the three offshore centers, Hong Kong accounted for the largest portion of cross-border RMB payments with China (Figure 2). In 2012, 80% of all RMB payments sending from the three offshore centers to China were from Hong Kong, while China sent 83% of RMB payments to Hong Kong.

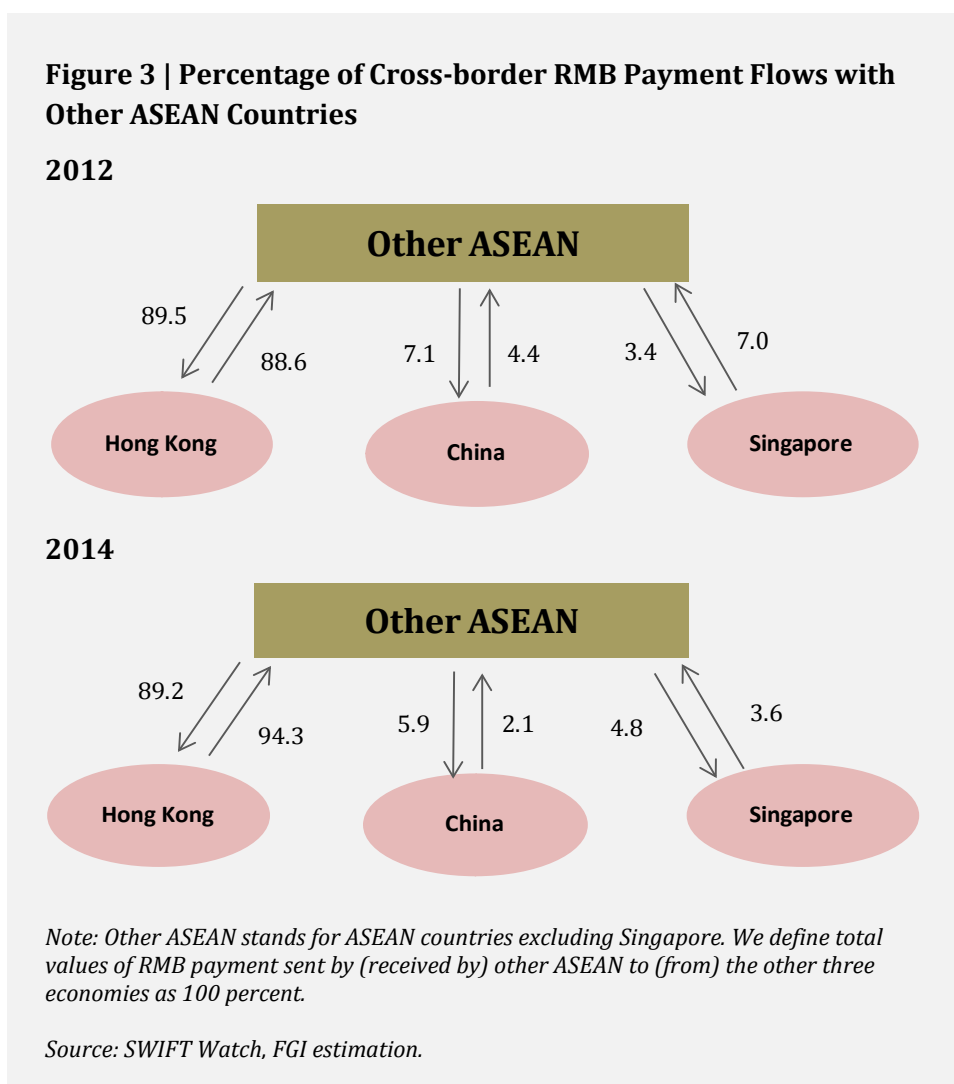
However, Taiwan caught up very rapidly in payments with China during the period. As of 2014, for payments made to China, Taiwan accounted for 30%; and for payments made from China, Taiwan received 23%. The increased shares of

payments between Taiwan and China were mostly diverted from Hong Kong's previous market share.

### CROSS-BORDER RMB PAYMENT FLOWS WITH OTHER ASEAN COUNTRIES

As major trading partners of China, ASEAN countries could be important users of offshore RMB. The major RMB payment counterparties of other ASEAN countries are China, Hong Kong and Singapore. Total payments made by the three economies to other ASEAN countries grew by 6.3 times from 2012 to 2014; while total payments sending from other ASEAN countries grew by 4.3 times during the same period. Among China, Hong Kong and Singapore, there were few differences in the growth of payments with other ASEAN countries.

Hong Kong still dominated the cross-border RMB payments with other ASEAN countries (see Figure 3). Indeed, among the three economies, the share of Hong



Kong's RMB payments sent to other ASEAN countries increased further to 94% in 2014.

### **FURTHER INITIATIVES BY THE CHINESE GOVERNMENT**

Further developments in offshore RMB payments will very much depend on policy decisions of the Chinese Government. RMB internationalization is a critical milestone for China's financial market liberalization. Following the official establishment of the first offshore RMB clearing bank in Hong Kong in 2003, the People's Bank of China (PBOC) has shown continuous strong commitment to internationalize the RMB. Currently, the PBOC applies a "seven-engines" approach, by (i) expanding currency swap contract coverage and amount, (ii) launching new offshore RMB clearing centers, (iii) establishing more free trade zones, (iv) further liberalization of capital account items, (v) introducing new RMB investment schemes, (vi) setting up new multinational financial institutions, and (vii) direct quotations with the RMB and widening RMB trading bands.

At the moment, there are 15 fully functioning offshore RMB clearing centers across the globe, including centers in London, Frankfurt, Toronto, Sydney and Doha, creating a global offshore RMB network. At the same time, to complement such a fast-expanding network, the PBOC maintains offshore RMB liquidity by signing bilateral currency swap deals with 32 central banks since 2009.

To further facilitate RMB trade and investment, the PBOC introduced direct quotations between the RMB and ten other currencies, including major international currencies, such as the British pound, the euro and Japanese yen. A total of RMB870 billion worth of RMB Qualified Foreign Institutional Investor (RQFII) quota were allocated as of end November 2014. In addition, the PBOC announced to widen the daily RMB trading band to rise or fall by 2 percent on March 15, 2014.

The "seven-engines" approach has had encouraging results. Since 2011, the total offshore RMB deposits have tripled to RMB1.8 trillion as of the end of 2014. In the last two years, the Chinese government has initiated the establishment of Asian Infrastructure Investment Bank, Free Trade Zones (Shanghai, Tianjin, Guangdong and Fujian), Shanghai-Hong Kong Stock Connect and the strategic plan of "One Belt, One Road". These are major policy developments and their full impacts have yet to be realized. Internationalization of the RMB is a multiple-track process that requires not only favorable opening-up policies but also sustainable responses to changing market forces and enhancing the international trust in the PBOC's credibility. Going forward, the PBOC needs to provide guiding support for Chinese banks to expand their oversea services, and

set up a sound regulatory framework to avoid one-sided arbitrages and speculative capital flows.

### **Disclaimer**

This report reflects work in progress and the views expressed therein are those of the authors and do not necessarily reflect those of Fung Global Institute. The authors are solely responsible for any errors or omissions.