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2021 Renminbi Internationalisation Report

RMB pushes forward amid disruptions

中国建设银行
China Construction Bank

China Construction Bank
Xicheng District
Beijing, China, 100032
Tel: +86 10 95533

China Construction Bank Corporation (CCB) is a leading large-scale joint stock commercial bank in Mainland China. The bank ranked second in the "Top 1000 World Banks" in 2020 in terms of total tier-one capital according to the UK magazine The Banker. By the end of 2020, the bank has nearly 200 overseas commercial banking institutions at all levels, covering 31 countries and regions.

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THE ASIAN BANKER®

The Asian Banker
150 Cecil Street,
#08-01,
Singapore 089315
Tel: +65 6236 6500

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Preface

In 2021, China Construction Bank (CCB) worked with The Asian Banker to carry out a survey on the internationalisation of the renminbi (RMB), covering 2,060 domestic Chinese and overseas enterprises and companies, and financial institutions (FIs). The survey indicated the stable use of the RMB in cross-border trade and investment, more diversified market demand for RMB products, and optimistic views about the digital RMB and RMB green financial assets held by domestic and foreign entities, despite the impact brought about by the COVID-19 pandemic and severe external environment. The respondents remain optimistic about the prospect of RMB internationalisation.

Since 2020, China has taken the lead in recovering from the global challenges imposed by the pandemic with the social and economic performance growing amid stability and the quality of development enhancing constantly. In the new development paradigm with domestic circulation as the mainstay and domestic and international circulations reinforcing each other, China has stepped up its efforts to deepen reform and opening up in all respects. Through concerted efforts by governments at all levels and market entities, fruitful results have been achieved in promoting the liberalisation of global trade and investment. To be specific, the domestic business environment continued to improve, rising to 31st place globally in 2020. The number of pilot free trade zones (FTZs) further expanded to 21 in total. Major international expos and fairs were successfully held including the 3rd China International Import Expo, the 2nd China International Fair for Trade in Services and the inaugural China International Consumer Products Expo. In addition, China has signed and first ratified the Regional Comprehensive Economic Partnership (RCEP) agreement and has stated its intentions to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

A high-level, open economy requires an internationalised currency, and the internationalisation of the RMB should hold to its original mission of serving and supporting the development of the real economy. Furthermore, China's deep engagement in global economic and financial activities and integration into the global industry value chain have provided a practical basis for the promotion of RMB internationalisation. As the domestic financial market further opens up and cross-border financial infrastructure continues to optimise, the cross-border use of the RMB becomes more convenient and the RMB is increasingly accepted and used worldwide. In 2020, the cross-border RMB settlement grew by 44% on a yearly basis, accounting for 46% of the total cross-border settlement in RMB and foreign currencies in China. The attractiveness of RMB assets for foreign investors has been further boosted, with the amount of domestic RMB-denominated financial assets held by foreign entities growing quickly. The new type of mutually beneficial partnership based on RMB usage has become more robust.

In recent years, CCB has taken the initiative to continuously push forward digital transformation and science and technology innovation, coordinated the pandemic prevention and control measures, and supported economic and social development with new financial actions, thus enhancing its globalised customer service capability and international competitiveness. CCB's RMB clearing banks in the UK, Switzerland and Chile have actively promoted the use of offshore RMB. In particular, CCB's RMB clearing bank in the London, UK, branch has remained the largest RMB clearing bank outside Asia, with a cumulative clearing amount topping RMB 57 trillion ($8.7 trillion) as at the end of June 2021.

A courageous pioneer will never mind going the extra mile for its goals. In the future, CCB will seize the opportunity and forge ahead to foster and expand new driving forces for cross-border RMB development.

Wang Hao
Executive Vice President
China Construction Bank

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Executive Summary

In 2021, CCB in partnership with The Asian Banker launched the annual survey to assess the international usage of the RMB in 2020. This year' s survey was conducted with an expanded base of 2,060 executives from three groups of institutions, namely FIs from around the globe, companies and enterprises based in China (Chinese companies), and companies and enterprises based outside China (overseas companies).

RMB cross-border trade was sustained with divergence in cross-border direct investment and finance affected by COVID-19 and harsh external environment

According to the survey, most respondents maintained the same level of RMB use for cross-border trade settlement in 2020 when compared with 2019, with 78% of FIs, 74% of overseas companies, and 62% of Chinese companies indicating that they either increased or maintained the level of RMB use in cross-border trade settlement. Overseas companies that used the RMB only when counterparties required it declined for four consecutive years, from 47% in 2017, 25% in 2018, 19% in 2019 and to 16% in 2020. The trend shows that overseas companies are becoming more active in their use of the RMB for cross-border trade settlement.

Respondents' choices for RMB cross-border direct investment are more differentiated. The proportion of RMB cross-border direct investment remained relatively the same as 2020' s result. It is the highest choice indicated by three types of respondents. However, the proportion of respondents who chose to increase RMB direct investment demonstrated a sharp drop, 31% of FIs, 24% of Chinese companies, 27% of overseas companies, down 36, 2, and 23 percentage points respectively from 2020' s survey. Meanwhile, 17% of FIs, 28% of Chinese companies, and 21% of overseas companies reduced direct investment in RMB in 2020, up by 6, 7, and 13 percentage points respectively from 2019.

RMB-based trade financing and offshore RMB financing are still the products that are frequently used by all types of respondents, but the change in use by the three types of respondents is significant. Chinese companies' use of the two types of products in 2020 is basically the same as 2019. However, FIs and overseas companies indicated that their use of RMB-based trade financing has declined compared with 2020' s result.

Demand for RMB products has become more diversified

Other than traditional cross-border RMB business needs, all the three segments of respondents indicated a relatively high level of cross-border RMB cash management usage, at 46% of Chinese companies, 37% of overseas companies, and 40% of FIs.

This year' s survey results show that respondents engaged in offshore RMB wealth management as well as offshore merchant services and payments (including cooperation with third parties), with the proportion of FIs, Chinese and overseas companies engaging in offshore RMB wealth management at 23%, 25% and 20% respectively, and offshore merchant services and payments at 25%, 36% and 26% respectively.

The use of cross-border RMB fixed income and equity investment by overseas companies and FIs increased from 29% and 33% respectively in 2019 to 36% and 37% respectively in 2020.

Main channels for foreign institutional investors to enter the Chinese bond market have changed: QFI channels have increased significantly

China has maintained its commitment to opening its domestic financial markets to foreign players. With the merger of the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) regimes into a single Qualified Foreign Investor (QFI) scheme from 1 November 2020, the QFI scheme has emerged as the main channel to access China's financial markets. Sixty-two percent of FIs indicated the QFI scheme as their main channel to enter China's onshore bond market, a 28 percentage points increase from 2020's 34%. The second and third most used channels were direct investment in the interbank bond market and "bond connect", which accounted for 44% and 34% respectively, down 9 and 16 percentage points compared with 2020's survey result.

The Cross-Border Interbank Payment System (CIPS) has gained the participation of more foreign FIs. Fifty-three percent of FIs used CIPS to conduct over 30% of RMB cross-border transactions. In 2021, the proportion of RMB cross-border transactions done through CIPS is expected to continue to rise, with 42% of FIs expected to use CIPS for more than 40% of their RMB cross-border transactions in 2021.

More FIs indicated willingness to work with FIs in China as counterparties and companies differ in their choice of offshore RMB markets

Sixty-one percent of FIs indicated willingness to work with domestic banks and FIs in China as counterparties and custody service providers for RMB products and services.

Offshore RMB deposits have not continued the upward trend of the past two years. The majority of the three types of respondents maintained their offshore RMB deposits, at 26% of Chinese companies, 31% of overseas companies, and 33% of FIs. The proportion of increased offshore RMB deposits shows a significant decline, with 22% of Chinese companies, 28% of overseas companies and 26% of FIs indicating so. Together, the responses for all three types of institutions were all above 45% in 2020's survey. There was an increase of respondents that claimed reduced offshore RMB, with 31% of Chinese companies, 23% of overseas companies, and 22% of FIs stating so.

COVID-19 pandemic caused Chinese and overseas companies to adjust their supply chains

Sixty-four percent of Chinese companies and 82% of overseas companies said that they have adjusted their supply chains due to the impact of the pandemic. In terms of specific adjustment strategies, Chinese companies rely more on the mainland and Hong Kong markets in supply chain selection, while overseas companies have more extensive and balanced supply chain arrangements. The proportions choosing regions such as China, Japan, Hong Kong, Taiwan, South Korea and Malaysia are roughly the same.

Overseas companies and FIs have more positive attitude towards digital currencies

Sixty-eight percent of FIs and 69% of overseas companies had a positive view of digital currencies, while 55% of Chinese companies remained neutral. In terms of using digital currency in financial transactions, this year's survey shows increased interests from FIs and overseas companies. Sixty-two percent in both segments were willing to use it, an increase of 18 and 11 percentage points respectively from last year's survey. Fifty-eight percent of Chinese companies remained undecided, unchanged from last year's survey.

A majority of respondents were optimistic that the digital RMB will promote the internationalisation of the currency. Specifically, 67% of FIs, 84% of Chinese companies, and 61% of overseas companies believed that the digital RMB will promote RMB internationalisation, an increase of three, five and eight percentage points respectively compared with last year’ s survey result.

RMB-related green finance is still in its infancy with much to be expected

Currently, the scale of green financial assets denominated in RMB is still limited. However, 82% of Chinese companies surveyed said that green finance has a positive impact on the international use of RMB. Forty-four percent indicated that they will increase their holding of RMB-denominated green bonds or certificates of deposits (CDs).

Respondents’ overall outlook on RMB internationalisation is optimistic

Regarding the challenges faced by RMB internationalisation, this year’ s survey shows that perceptions about the uncertainty over China’ s economic prospects and the challenges brought about by RMB exchange rate fluctuations to RMB internationalisation have been eased. In the future use of RMB, over 80% of Chinese companies stated that the success of the RCEP and the China-Europe Comprehensive Agreement on Investment (CAI) negotiations and green finance initiatives will increase or maintain international use of RMB. Eighty-one percent of overseas companies regarded RCEP as a driving force to promote the international use of the RMB. Eighty-nine percent of FIs surveyed expect China to further open the capital market to promote the use of the RMB, with one-third of these FIs expecting that such measures will attract foreign investment into the Chinese equity and stock market.

1. 2021 the new starting point of RMB internationalisation

QFII and RQFII reforms to ease complexity of accessing inbound schemes

With effect from June 2020, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) removed investment quotas for QFII and RQFII and sought to standardise the administrative requirements on inward remittances and significantly simplify outward repatriation of investment income.

The China Securities Regulatory Commission (CSRC) along with PBOC and SAFE announced the merger of QFII and RQFII, the inbound investment programmes, which is now known as QFI scheme. The consolidation of both schemes lowers the entry requirements and simplify the application procedures for overseas institutional investors to access China's capital markets. The reform further streamlined the application process by reducing the approval time from 20 to 10 business days through the elimination of some of the complex documentation requirements.

The new arrangement expanded the scope of investment for eligible applicants from A-shares, bonds, public securities investment funds, stock index futures, and certain foreign exchange (FX) derivatives to shares traded on the National Equities Exchange and Quotations, bonds, currencies and interest rate derivatives, depository receipts, bond repos, asset-backed securities, and financial and commodity trading futures.

Major index inclusions to drive inflows in China's equity and bond market and boost foreign ownership of Chinese assets

In addition to being included in the JP Morgan MSCI Emerging Markets Index and Bloomberg Barclays Global Aggregate Index, FTSE Russell completed the first phase of inclusion of China A shares, adding over 25% of the investable market cap of 1,051 China A Shares to the FTSE Emerging All Cap Index. China A-shares now represent approximately 6% of the FTSE Emerging Index.

FTSE Russell also included China A-shares to the FTSE Mandatory Provident Fund (MPF) Index Series in March 2021. China A-shares are projected to account for 19.7% of the FTSE MPF China Index and 7.4% of the FTSE MPF Emerging Index.

In a boost to Chinese fixed income markets, Chinese government/sovereign bonds will be included in the FTSE World Government Bond Index over three years, commencing at end of October 2021.

Improved foreign investment access and bond connect mechanisms

In 2020, CSRC scrapped the limitations on the ratio of foreign shareholding in securities and fund management firms, giving foreign companies the right to set up wholly owned units in mainland China. Furthermore,PBOC and CSRC announced the launch of an 'infrastructure connection mechanism' that links the interbank and the exchange bond markets. Interlinking will permit commercial banks, including foreign-invested banks operating in China, to opt for trading in the exchange market via the connect mechanism or by setting up an account in the exchange market.

The China Foreign Exchange Trade System (CFETS) began providing a direct trading service to foreign investors under the China Interbank Bond Market Direct scheme from 1 September 2020. Foreign institutional investors may engage in spot trading with domestic market makers through request for quotations. Overseas third-party platforms can also connect with the CFETS.

Further trade facilitation with expansion of pilot FTZs

The addition of Beijing, Hunan and Anhui pilot FTZs takes the total to 21 pilot FTZs in China. Notably, each zone adopts unique policies. Beijing FTZ focuses more heavily on opening up of financial services and trade innovation. Anhui FTZ focuses on high-end technologies such as integrated circuits, artificial intelligence, financial technology, and smart transport and appliances; whereas Hunan FTZ concentrates on biomedicine, agricultural technology, and e-commerce.

Special Column 1. RMB internationalisation and RCEP

China is currently the world's largest trading unit. It is the largest exporter and the second largest importer. China has made great strides over the years to come from a small player in global trade, accounting for less than 1% of global trade before 1990, to a major player, accounting for 14.7% share of total global trade in 2020.

Looking at trade figures from the last few quarters from China, there is no doubt that the country's share in global trade has continued to increase. In the first quarter of 2021, China's exports increased by 38.7% and imports went up by 19.3%. Even if China's trade increases at a moderate 3% a year higher than the world average, its share in total global trade will reach 20% by 2030. In ten years' time, China will unarguably be the largest trading nation, with one out of every five containers travelling on the high seas originating from China.

Historically, China's currency was once very popular. Nomisma, the gold money of the Byzantine Empire that reigned in the Western world, is a currency that is termed by historians as "the dollar of the Middle Ages" to characterise its status as an international currency akin to today's US dollar. About the same time, there was another currency in the East, the bronze coin. During China's Northern Song dynasty, starting from around 1000 AD, the bronze coin was widely circulated as the legal tender in neighbouring states such as Xixia, Liao, Jurchen, as well as countries such as Cambodia, Japan, Java, Korea, Malaya, Vietnam and other Southeast Asian and even Arab countries. Today's RMB may not have the same status in history. SWIFT's data showed that the RMB was used in around 2% of global payments and trade finance.

China's recent economic performance and the successful conclusion of the RECP will promote the global use of the RMB. RCEP covers 15 Asia Pacific countries, which will slash tariff and increase market access after its entry into force. These countries represent nearly 30% of global population and GDP, and an HSBC report predicts this ratio is likely to grow to 50% of global output by 2030.

The Association of Southeast Asian Nations (ASEAN) market, which is a centrepiece of the RCEP, has already surpassed the US and the European Union as China's largest trading partner. ASEAN member states are stable trade partners of China and are also popular destinations among Chinese tourists, who made 170 million outbound trips in 2019 before the COVID-19 pandemic. There are also some ASEAN member states that started to use the RMB as a trade settlement and FX reserve currency. As we move towards the post-pandemic era, with RCEP and other potential regional free trade agreements, RMB's internationalisation pace is very likely to accelerate.

2. Use of RMB in cross-border trade and investment

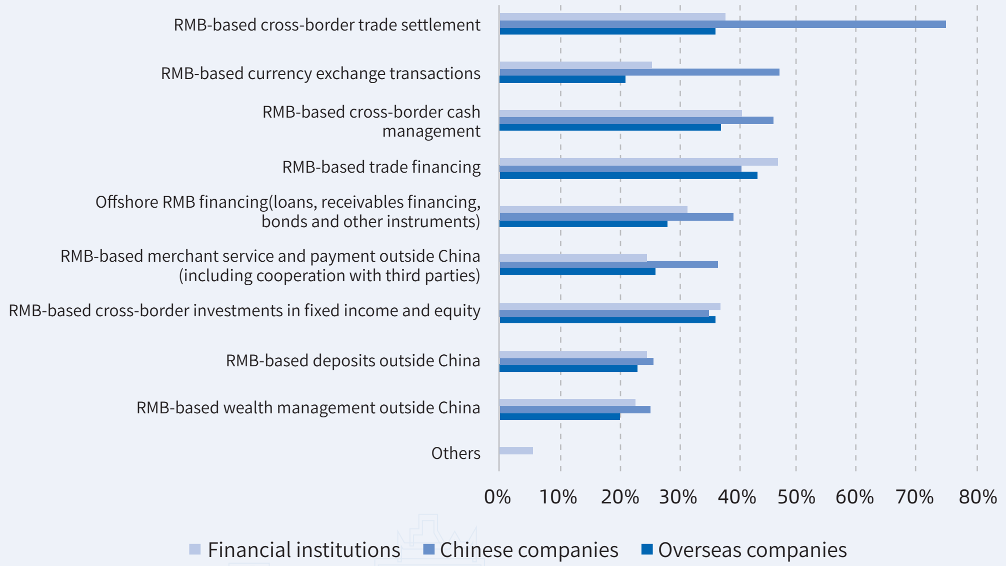
2.1 Use of RMB based cross-border products

In 2020, Chinese companies, overseas companies, and FIs diverged in their use of cross-border RMB products and services. RMB cross-border trade settlement by Chinese companies registered the highest level of usage, reported by 75% of respondents, followed by RMB FX transactions at 47%, continuing the trend from last year. Overseas companies registered the highest use of RMB trade financing, indicated by 43% of respondents. This result is consistent with the previous year' s survey but the use of offshore RMB financing among overseas companies declined as compared with 2020. In this year' s survey of FIs, the use of RMB trade financing was the highest at 46%, surpassing the 38% for RMB cross-border trade settlements. The use of offshore RMB financing options registered by FIs dropped from 50% in 2020 to 31% in 2021.

Please note that across the report, unless explicitly mentioned, 'mainland China' is shortened to China while the Greater China reference includes Hong Kong, Macao, and Taiwan. 'Offshore' and 'overseas' refers to Hong Kong, Macao, Taiwan, and rest of the world, while 'onshore' refers to mainland China.

Chinese companies, overseas companies, and FIs diverged in the use of cross-border RMB products and services

Figure 2.1 Use of RMB cross-border products and services



Source: TABInsights

With the emergence of new products and services, the use of RMB cross-border products and services has become more diversified. All the three segments of respondents indicated a relatively high level of cross-border RMB cash management usage, specifically among 46% of Chinese companies, 37% of overseas companies, and 40% of FIs. The use of cross-border RMB fixed income and equity investment by overseas companies and FIs increased from 29% and 33% in 2019 to 36% and 37% in 2020 respectively.

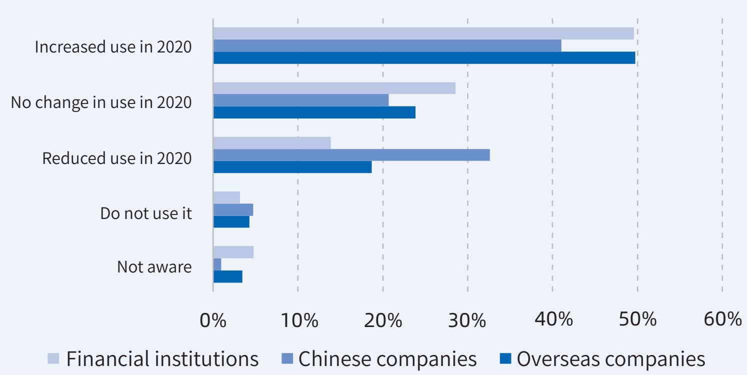
In addition to the traditional cross-border RMB business needs, companies and FIs engaged in offshore RMB wealth management as well as offshore merchant service and payment (including cooperation with third parties), with the proportion of FIs, Chinese and overseas companies for offshore RMB wealth management coming in at 23%, 25%, and 20% respectively, while proportion for offshore merchant service and payment came in at 25%, 36%, and 26% respectively.

2.2 Use and status of RMB in cross-border trade

Despite challenges in the external environment, Chinese companies, overseas companies and FIs maintained the high level of RMB use for cross-border trade settlement. Seventy-eight percent of FIs, 74% of overseas companies and 62% of Chinese companies indicated that they increased or maintained the level of RMB use in trade settlement in 2020. In this year' s survey, the number of respondents who reduced the use of RMB for cross-border trade settlement increased compared with last year' s survey. The proportion of Chinese companies who reduced the use of RMB for cross-border trade settlement increased from 16% in 2019 to 33% in 2020, and the proportion of overseas companies and FIs had also increased by seven and three percentage points respectively.

More than 70% of surveyed FIs and overseas companies, over 60% of Chinese companies increased or maintained the level of RMB use in cross-border trade settlement in 2020

Figure 2.2 Change in use of RMB-based cross-border trade settlement in 2020

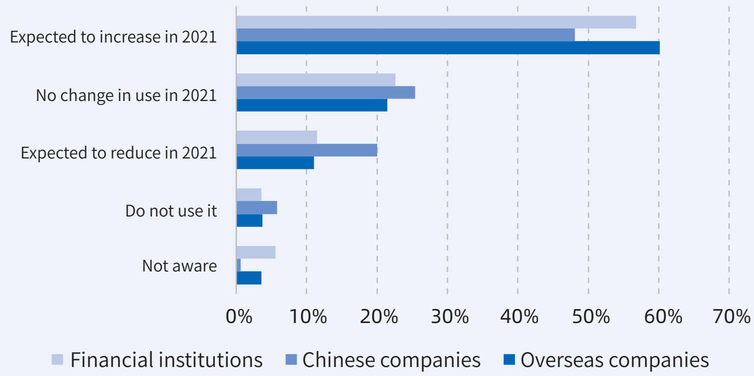


Source: TABInsights

The share of RMB use is expected to increase further in 2021. Sixty percent of overseas companies, 57% of FIs and 48% of Chinese companies indicated very likely increases in the use of RMB for cross-border trade settlements.

Sixty percent of overseas companies expected to increase the scale of RMB cross-border trade settlement in 2021

Figure 2.3 Expected change in use of RMB-based cross-border trade settlement in 2021

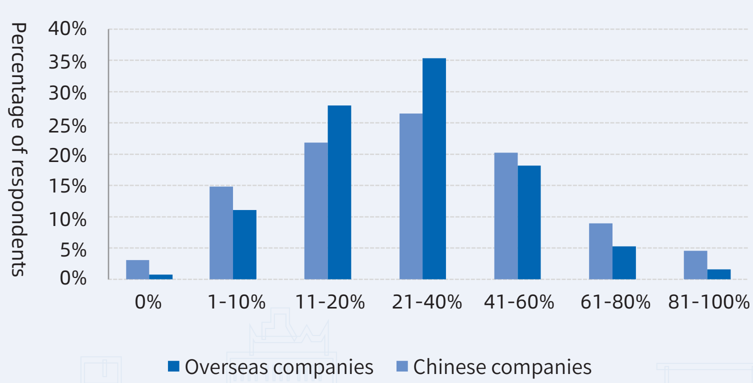


Source: TABInsights

Among the respondents that used RMB for cross-border trade settlement in 2020, 35% of Chinese companies and 27% of overseas companies indicated that it accounted for around 30% of total cross-border trade settlement. This represented increases of two and eight percentage points respectively, compared with the previous year' s result. On the whole, the proportion of foreign companies that used RMB for trade settlement continued to increase from last year' s survey. Among the foreign companies, the proportion that used more than 10% of RMB in cross-border trade settlement increased to 82% in 2020 as compared with 76% the previous year. The proportion of Chinese companies that used more than 10% in 2020 remained the same as the previous year at 88%.

The proportion of RMB use in total cross-border trade settlement of companies increased in 2020

Figure 2.4 Percentage of total cross-border trade settlement done by companies in RMB in 2020



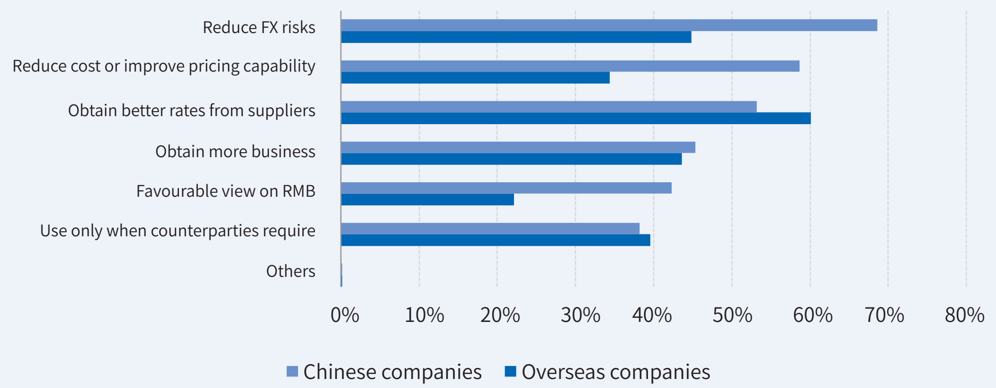
Source: TABInsights

Chinese and overseas companies gave diverse reasons for their use of the RMB. For Chinese companies, the majority (69%) indicated the use of the RMB to reduce FX risk. Chinese companies also used RMB to reduce costs and improve pricing power, 59% indicated so, and 53% used RMB to obtain more favourable prices from suppliers. Sixty percent of overseas companies stated more favourable prices from suppliers as their rationale for the use of the RMB.

The other important trend in this year's survey is that foreign companies that used the RMB only when counterparties required it has declined for four consecutive years. Such proportion has decreased from 47% in 2017, 25% in 2018, 19% in 2019, and to 16% in 2020, indicating that the RMB use for international trade settlement has become more attractive to overseas companies.

Sixty-nine percent of Chinese companies used RMB for cross-border settlement to reduce FX risks, while 60% of overseas companies used RMB to obtain more favourable prices from suppliers

Figure 2.5 Key reason for using RMB in cross-border trade



Source: TABInsights

Special Column 2. RMB-denominated commodity market

Today, China has become the world's largest crude oil importer – a role that has intensified due to its swift economic recovery from the global COVID-19 pandemic. In 2020, China imported a record 542 million tonnes of crude oil, about a quarter of the 2 billion tonnes of total global crude oil traded. In the oil futures market, according to Bloomberg Intelligence, as of early June 2020, the volume of crude oil contracts traded on the Shanghai International Energy Exchange, which is denominated in RMB, accounted for 10.5% of the global volume. The latest data indicate that the total crude oil futures market denominated in RMB already accounted for about 16% of the total global futures trading in crude oil as of the first quarter of 2021.

Take iron ore as another example. China is the world's biggest iron ore importer, and in recent years a few large steelmakers in China have been signing RMB-denominated contracts with Vale, a large Brazilian iron ore global supplier, in efforts to increase their influence over pricing of the steelmaking raw material by using the RMB as a settlement currency.

Ultimately, the option for RMB in future commodity trade is driven by traders' preference for reducing transaction costs and mitigating FX risks. And this year' s survey clearly shows that. The top three reasons that surveyed companies quoted include reducing FX risks, reducing cost or improving pricing capability, and getting better rates from suppliers. With the recent appreciation of the RMB and the auspicious long-term outlook of stability, it is expected that its attractiveness to traders in commodity markets will continue. (TABInsights)

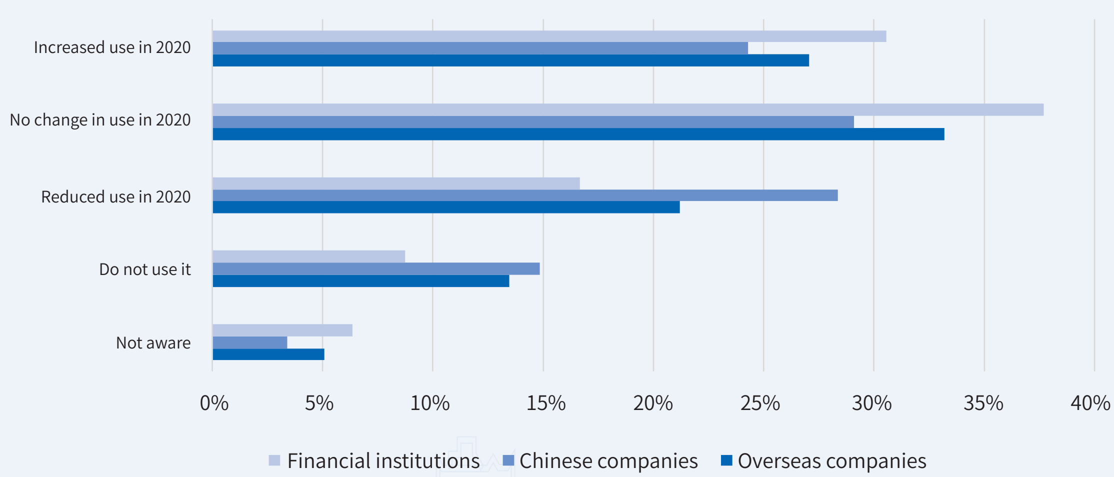
2.3 Use and status of RMB in cross-border direct investments

According to data released by China' s Ministry of Commerce, China' s outbound direct investment in 2020 reached RMB 917 billion ($132.9 billion), an increase of 3.3% from 2019. At the same time, the amount of foreign direct investment exceeded RMB 1.1 trillion ($163 billion), surpassing the US to rank first in the world. This year' s survey results show that relatively more respondents indicated that RMB cross-border direct investment has remained the same as last year' s survey, with FIs, Chinese companies and overseas companies accounting for 38%, 29%, and 33% respectively. The proportion of Chinese companies and FIs that have never used RMB for direct investment has dropped from 20% and 11% respectively in 2019 to 15% and 9% in 2020.

At the same time, some respondents' choices for RMB cross-border direct investment have become conservative. The proportion of respondents who choose to increase cross-border direct investment in RMB has dropped sharply, at 31% for FIs, 24% for Chinese companies, and 27% for overseas companies, showing a decrease of 36, 2, and 23 percentage points respectively compared with last year' s result, while 17% of FIs, 28% of Chinese companies, and 21% of overseas companies chose to reduce cross-border direct investment in RMB in 2020, up by 6, 7, and 13 percentage points respectively from2019.

RMB cross-border direct investment became conservative in 2020

Figure 2.6 Change in use of RMB-based cross-border direct investments in 2020

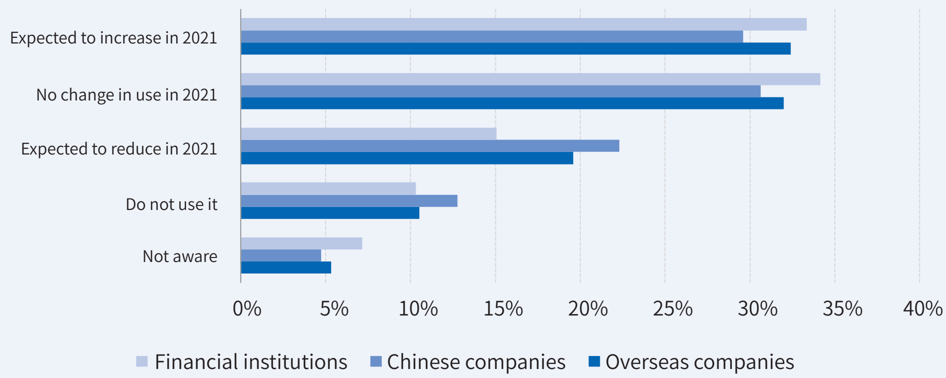


Source: TABInsights

This trend is expected to improve in 2021. Sixty-seven percent of FIs, 60% of Chinese companies and 64% of foreign companies expected either no change or an increase of RMB use in cross-border direct investment. Compared with 2020, FIs have remained relatively unchanged, while Chinese companies increased by seven percentage points, and overseas companies increased by four percentage points. The respondents who indicated reduced use comprised 15% of FIs, 22% of Chinese companies and 20% of overseas companies, all three segments of respondents showed a decrease from 2020.

Over half of the respondents expected to maintain or increase the use of RMB for cross-border direct investment in 2021

Figure 2.7 Expected change in use of RMB-based cross-border direct investments in 2021

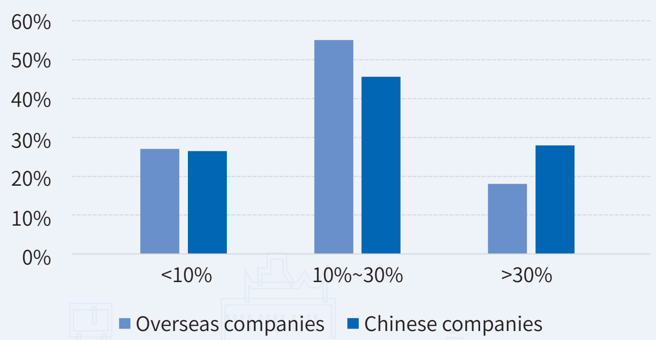


Source: TABInsights

When asked the percentage of RMB used in total cross-border investments, 82% of overseas companies and 72% of Chinese companies indicated that less than 30% of their total cross-border direct investment were in RMB, implying that there is still room for growth in the use of RMB for cross-border investment.

There is still room for growth in the use of RMB for companies' cross-border investment

Figure 2.8 Percentage of RMB in cross-border investment in 2020



Source: TABInsights

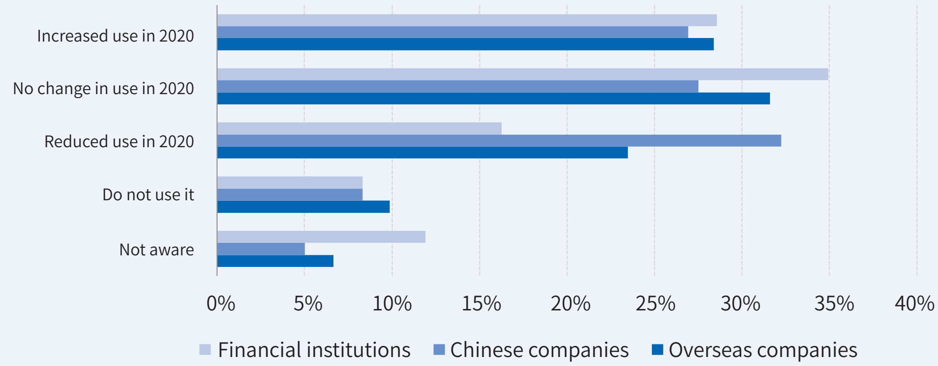
2.4 Overseas RMB assets holdings

More FIs were aware of and held overseas RMB assets in 2020, with a lesser proportion of 20% who indicated “not aware” and “do not use” as compared with the 44% in the previous year. In addition, 35% of FIs indicated that their holdings of offshore RMB assets remained unchanged, an increase of 24 percentage points from the previous year.

Overall, the proportion of respondents among Chinese and overseas companies who increased, reduced and maintained their level of overseas RMB asset holdings was fairly similar. Twenty-eight percent of overseas companies and 27% of Chinese companies increased their overseas RMB asset holdings, while 23% of overseas companies and 32% of domestic companies reduced their holdings. Meanwhile, 32% of overseas companies and 28% of Chinese companies maintained the same level of overseas RMB asset holdings.

More FIs were aware of and held overseas RMB assets in 2020

Figure 2.9 Change in RMB-based holdings outside China in 2020

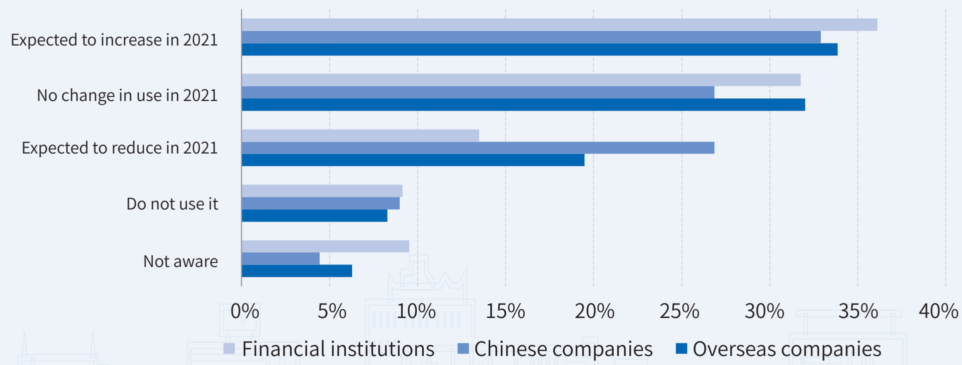


Source: TABInsights

FIs were optimistic about their holdings of overseas RMB assets, and 64% expected to increase or maintain their holdings in 2021. Thirty-four percent of overseas companies and 33% of Chinese companies expected to increase their overseas RMB asset holdings in 2021, while the proportion who indicated they will reduce their holdings dropped. Overseas RMB assets will become more attractive.

Sixty-four percent of FIs expected to hold more or maintain their overseas RMB assets in 2021

Figure 2.10 Expected change in RMB-based holdings outside China in 2021

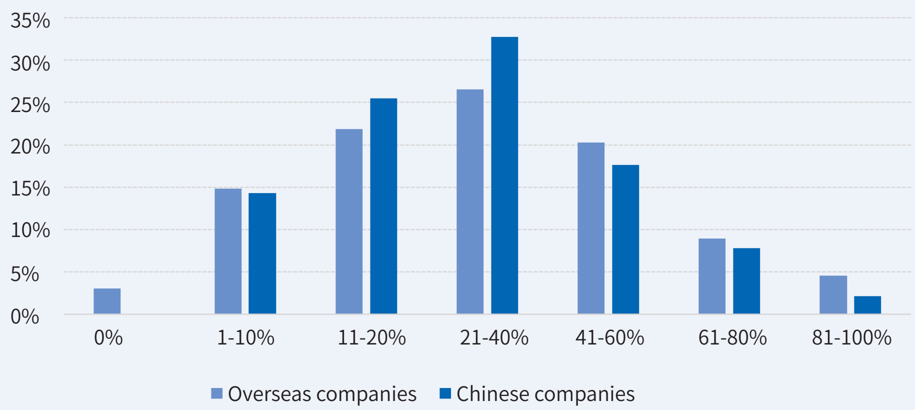


Source: TABInsights

Regarding short-term liquid assets by corporates respondents, 86% of Chinese companies and 82% of overseas companies indicated that the RMB accounted for more than 10% of their total liquid assets. This is expected to continue to increase in 2021, reaching 89% and 91% respectively. Among them, the proportion of Chinese and overseas companies that maintain RMB short-term liquid assets between 40% and 80% has increased significantly, from 25% and 29% respectively in 2020 to 40% and 41% in 2021.

Eighty-six percent of Chinese companies and 82% of overseas companies held more than 10% of their liquid assets in RMB in 2020

Figure 2.11 Percentage of total liquidity asset holdings in RMB held by corporates in 2020



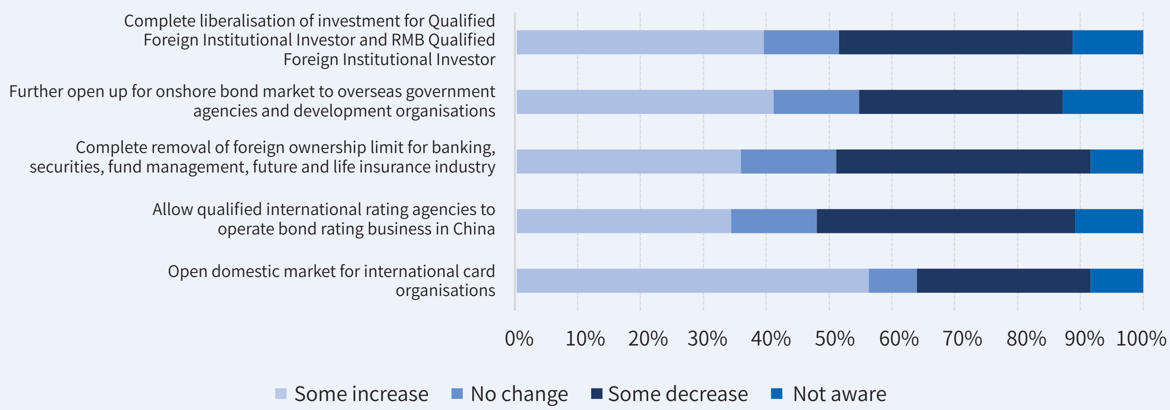
Source: TABInsights

3. China's integration into the global financial markets has deepened

China has been opening its domestic financial markets to foreign players, and this will have positive implications for the demand and use of the RMB. More than half of FIs (56%) considered market entrance by international card organisations to be the most significant driver for RMB-based payments. The removal of foreign ownership limits in various types of financial service institutions (which ranked top in last year's survey) is now considered a less key determinant in this year's survey.

Fifty-six percent of FIs considered that market entrance by international card organisations will drive further RMB usage

Figure 3.1 Impact of financial market opening on the use of RMB



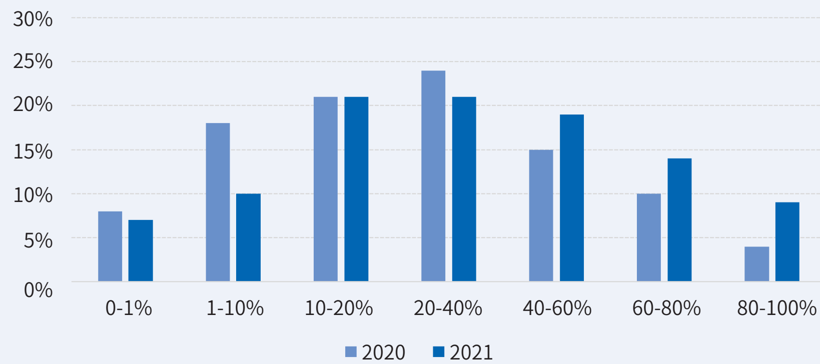
Source: TABInsights

3.1 Financial infrastructure has played an increasingly important role

The clearing efficiency of the CIPS has attracted the participation of more foreign FIs. This year's survey results show that 53% of FIs used CIPS to conduct over 30% of RMB cross-border transactions. Over time, the proportion of RMB cross-border transactions done through CIPS is expected to continue to rise. Forty-two percent of FIs expected to use CIPS for more than 40% of their RMB cross-border transactions in 2021, compared with 29% in 2020.

FIs expected to use CIPS for a higher proportion of their RMB cross-border transaction in 2021

Figure 3.2 Percentage of RMB cross-border transactions done through CIPS by FIs



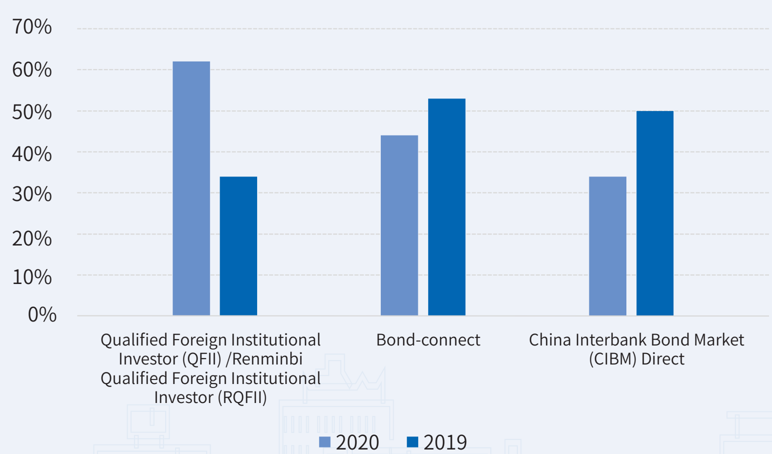
Source: TABInsights

3.2 Bond and Stock Connect

With the simplification of the QFI policy, overseas investment and access to the Chinese capital market have been further optimised, which is aligned with this year' s survey result. When asked about channels used to enter China' s onshore bond market, 62% of FIs indicated QFI (QFII/RQFII), a 28% increase from the previous year' s survey. The second and third most used channels were direct investment in the interbank bond market and "bond connect" , which accounted for 44% and 34% in 2020 respectively, down 9 and 16 percentage points compared with 2019.

QFI was the main channel for FIs to enter China' s onshore bond market

Figure 3.3 Channels used by FIs to gain access to China' s onshore bond market



Source: TABInsights

Special Column 3. Qualified Foreign Investor

In September 2020, the CSRC, the PBOC and SAFE jointly released the Measures for Administration of Domestic Securities and Futures Investment by QFII and RQFII. It took effect in November 2020. CSRC also published corresponding implementing provisions, which merged the originally separated regulations on the QFII and RQFII.

QFI channels foreign capital into Chinese stocks and bonds. The new rules expanded investment scope under the combined scheme. Compared with the investment previously allowed by the QFII and RQFII (generally include shares, bonds, fixed income products traded in the interbank bond market, public securities investment funds and stock index futures), investment scope has been further opened up in the following areas:

(i) shares traded on the National Equities Exchange and Quotations (known as the New Third Board);

(ii) financial futures;

(iii) commodity futures;

(iv) options;

(v) private investment funds;

(vi) margin trading and securities lending on the exchanges, and securities lending to the securities finance company.

In addition to the investment scope, other provisions in the new regulations will make QFII and RQFII investment in China's capital markets easier. For instance, the requirements on years of operation and asset size of the QFII and RQFII were cancelled. This lowered the entry threshold, reduced the number of application documents and shortened the approval time by authorities, thereby simplifying application procedure. Limits on the number of onshore service providers of the QFII and RQFII were also removed.

Authorities have also removed restrictions on the quotas of the QFII and RQFII in May 2020, which also signalled the further opening up of China's capital markets to global investors. Considering its great potential, it is anticipated that there will be more incentives to stimulate liquidity and vitality of the markets and attract more participation from foreign investors.

By combining RQFII and QFII, the two major inbound investment schemes, and broadening the scope for foreign institutional investment, China will encourage foreign institutional investors especially those with a longer investment scope to invest in China. Notably, the new regulation also allows investors access to financial and hedging instruments, which can potentially broaden the investor base to include hedge funds and alternative investment funds. (TABInsights)

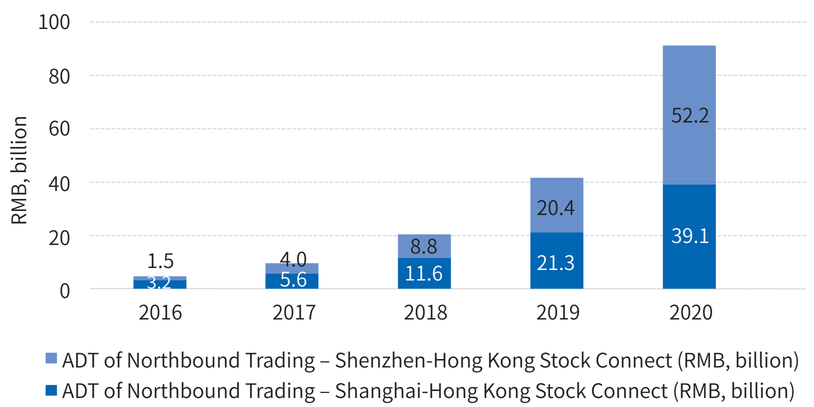
Special Column 4. Connectivity of key offshore RMB centres

The internationalisation of the RMB on the capital account is complicated and the creation of "connect" schemes between China's two stock exchanges (the Shanghai and Shenzhen Stock Exchanges), and overseas equity markets played an important role in this process. Stock Connect enables foreign investors to trade stocks or depository receipts of publicly listed Chinese companies on China's two stock exchanges and vice versa, as if they were trading directly on a foreign stock exchange.

China started the scheme in 2014, first with the Hong Kong Stock Exchange. More recently, such stock connectivity has also been established in the London Stock Exchange. By all accounts, this has been a success. Research data in this report show that the northbound trading value, the amount of trade made by investors in Hong Kong on stocks listed in mainland China, has more than doubled every year since 2016 on a daily basis. By 2020, the daily trading value had exceeded RMB 90 billion ($14.1 billion) for a combination of activities with the two stock exchanges in Shanghai and Shenzhen. As all the northbound and southbound transactions are settled in RMB, they contribute immensely to the RMB internationalisation in the capital market. In a way, it creates demand for RMB as an investment vehicle.

Shenzhen–Hong Kong Stock Connect dominates northbound trade flows

Figure 3.4 Average daily total northbound trading value



Source: HKEX, TABInsights

Research data also show that the development of connectivity mechanisms is growing equally fast in the bond markets. Launched in 2017, the bond connect programme has enabled overseas investors to participate in China' s interbank bond market. The bond connect has experienced a doubling of its average daily northbound trading value every year since its inception.

Besides the benefit of internationalisation of the RMB, stock and bond connectivity with international capital markets also opens up and, more importantly, internationalises China' s stock and bond markets. In general, the internationalisation of a country' s financial markets usually bodes well for its currency and its global acceptance and appeal as a vehicle for savings and investment.

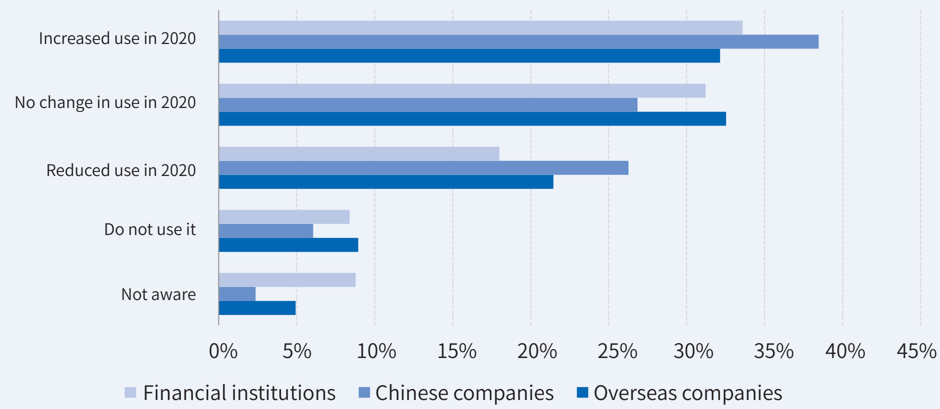
Connectivity with offshore RMB centres will continue. In April 2020, the Shanghai Stock Exchange said in a panel discussion at the Boao Forum in Hainan that it may inaugurate the sale of global depositary receipts in Switzerland by Chinese companies in 2021, along the lines of the Shanghai-London Stock Connect. That has not happened so far presumably and understandably due to the COVID-19 pandemic. Industry players continue to keep their fingers crossed for more of such connectivity with the major international financial hubs to materialise in the future as China aspires for the stature of its currency and financial markets to commensurate with the size of its economy. (TABInsights)

3.3 Developments in RMB currency exchange transactions

RMB-based currency transactions continue to maintain a positive upward trajectory despite the adverse economic conditions induced by the COVID-19 pandemic in 2020. Thirty-eight percent of Chinese companies indicated increased use in 2020. Thirty-one percent of FIs registered a neutral outlook in their use of RMB-based cross-border products and services.

Thirty-eight percent of Chinese companies increased their use of RMB in 2020 as 33% of overseas companies remained neutral

Figure 3.5 Change in RMB-based currency transactions in 2020

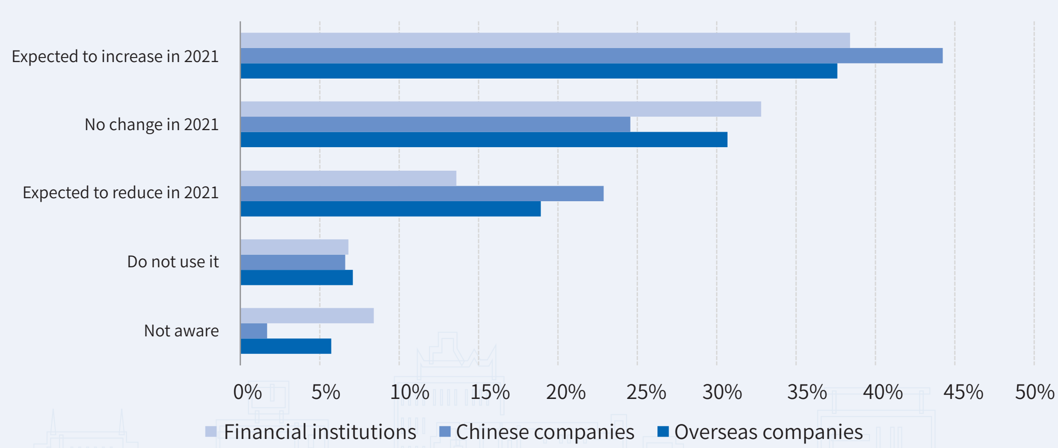


Source: TABInsights

This trend is expected to continue in 2021 with 44% of Chinese companies, 38% of overseas companies, and 38% of FIs expected to increase RMB currency transactions in 2021, and 33% of FIs, 29% of Chinese companies and 31% of overseas companies indicated their expectation to remain RMB-based currency exchange transactions in 2021.

Forty-four percent of Chinese companies, 38% of overseas companies, and 38% of FIs expected to increase RMB currency transactions in 2021

Figure 3.6 Expected change in RMB-based currency transactions in 2021



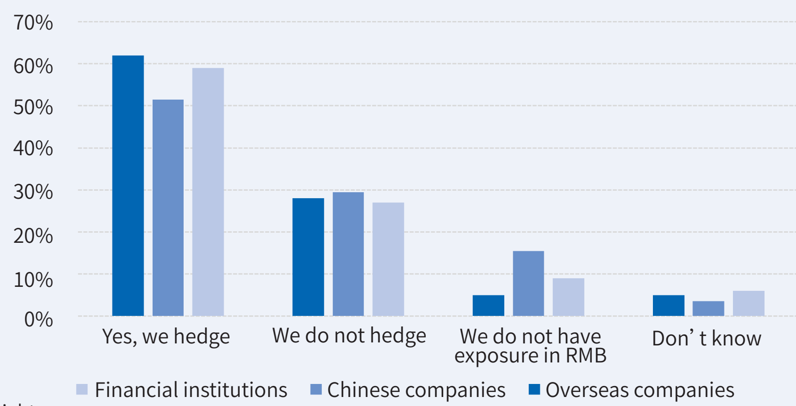
Source: TABInsights

3.4 Developments in RMB-denominated derivative market

This year's survey shows that respondents' awareness of actively managing market risks continues to increase. A significant 62% of overseas companies and 52% of Chinese companies surveyed this year hedged their currency risk exposure, increasing in the three consecutive years (as compared with 57% and 44% respectively in 2019, and 48% and 43% in 2018). FIs were equally cautious, with 59% indicated the use of various hedging instruments to manage the volatility in international currency markets.

Over half of respondents seek to hedge RMB risk exposure driven by volatility in international currency markets

Figure 3.7 Hedge RMB exposure

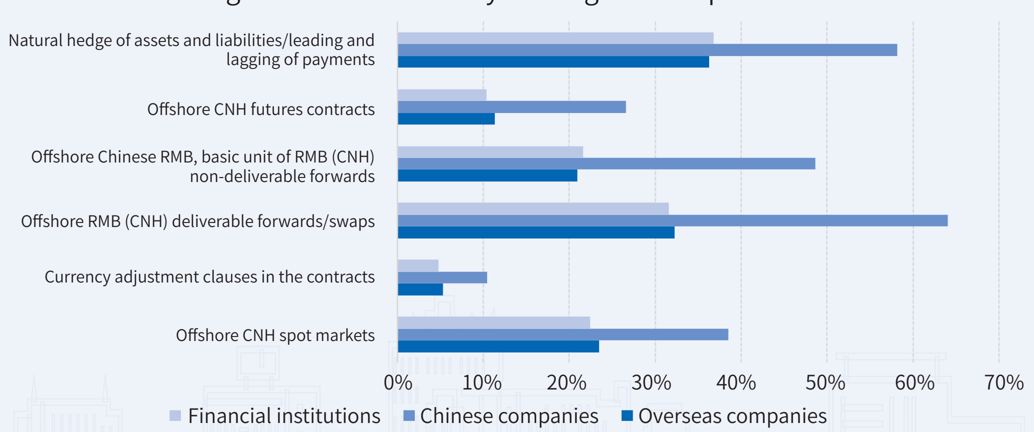


Source: TABInsights

The preferred tools to hedge RMB exposure continue to evolve among respondents in 2020 as compared with 2019. Among Chinese companies, 64% indicated that their most preferred method is the use of offshore RMB deliverable forwards/swaps, which is a marked increase from 34% in 2019. Thirty-six percent of overseas companies and 37% of FIs registered natural hedge of assets and liabilities (including leading and lagging of payments) as a critical component of their currency risk mitigation strategy in 2020. In 2019, only 13% of FIs and 39% of overseas companies indicated so.

Offshore RMB deliverable forwards/swaps is the principal hedging instrument among Chinese companies

Figure 3.8 Preferred way to hedge RMB exposure



Source: TABInsights

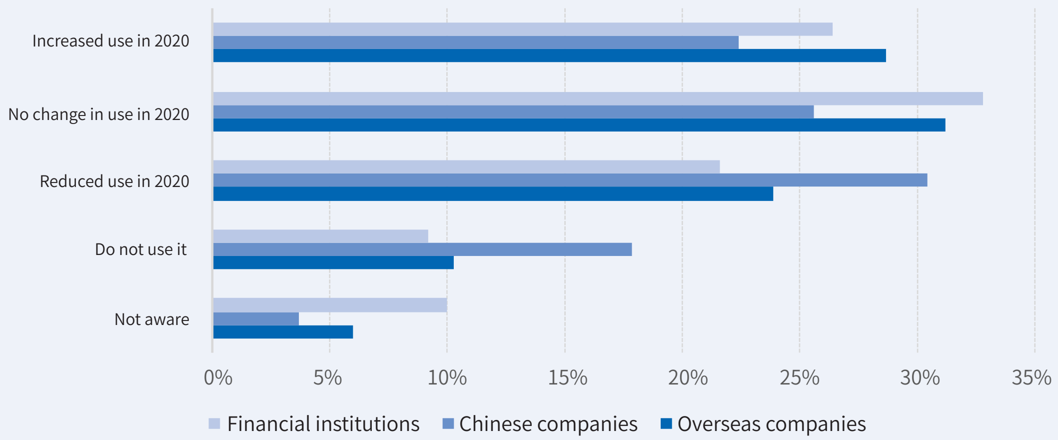
4. Development of offshore RMB centres

4.1 Use and change of RMB offshore deposits

This year' s survey results show that offshore RMB deposits have not continued the upward trend of the past two years. The number of respondents that indicated that offshore RMB deposits remained unchanged comprises the majority, at 26% of Chinese companies, 31% of overseas companies, and 33% of FIs. The proportion of increased offshore RMB deposits show a significant decline, at 22% of Chinese companies, 28% of overseas companies and 26% of FIs. In 2020' s survey, the proportions were all above 45%. Meanwhile, those that claimed reduced offshore RMB deposits show an increase, at 31% of Chinese companies, 23% of overseas companies, and 22% of FIs.

About 30% of the respondents indicated that offshore RMB deposits remained stable in 2020

Figure 4.1 Change in use of RMB-based deposits outside China in 2020

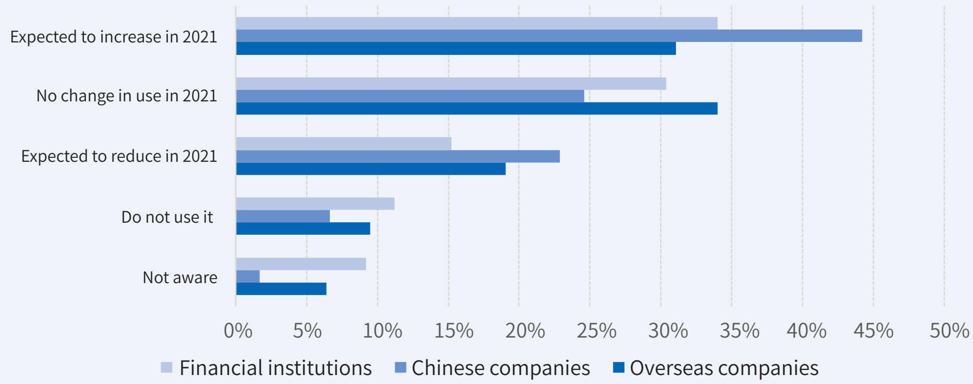


Source: TABInsights

Respondents are more optimistic about the growth of offshore RMB deposits in 2021. Among them, 44% of Chinese companies indicated that they would increase their offshore RMB deposits. Meanwhile, 64% of FIs and 65% of overseas companies indicated that they would continue to maintain or increase their offshore RMB deposits.

Forty-four percent of Chinese companies are expected to increase offshore RMB deposits in 2021

Figure 4.2 Expected change in use of RMB-based deposits outside China in 2021



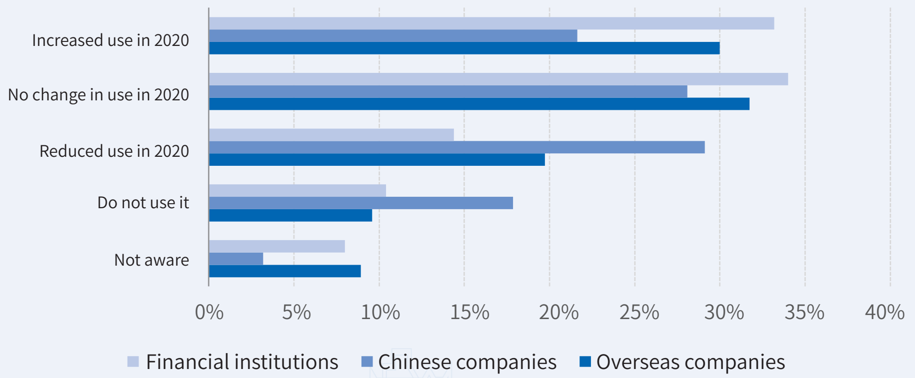
Source: TABInsights

4.2 Developments in RMB financing in offshore market

Overall, the respondents that chose to maintain the scale of offshore financing were the most in 2020. FIs that chose to maintain the scale of offshore RMB financing has the most increase, from 11% in 2019 to 34% in 2020. The proportion of Chinese and overseas companies choosing no change is unchanged from last year, but the percentages of Chinese and overseas companies that said they increased this year were 22% and 30% respectively, compared with last year' s 36% and 44%. At the same time, the percentage of Chinese and overseas companies that said they were reducing their use rose from 20% and 13% last year to 29% and 20% this year.

Thirty-four percent of FIs maintained their level of offshore RMB financing and 33% increased in 2020

Figure 4.3 Change in use of RMB-based offshore financing in 2020

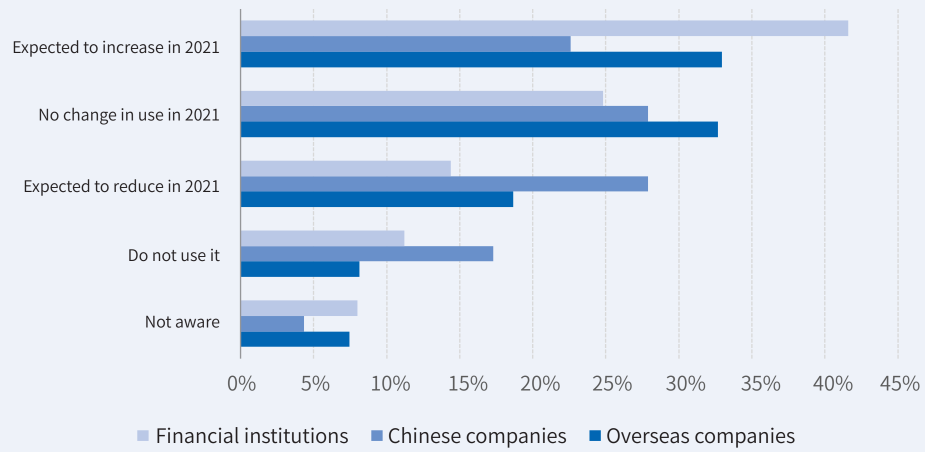


Source: TABInsights

This trend is expected to stay in 2021. More FIs (42%) expected to increase, and most Chinese and overseas companies expected to maintain their level of offshore RMB financing in 2021.

Forty-two percent of FIs expected to increase offshore RMB financing in 2021

Figure 4.4 Expected change in RMB-based offshore financing in 2021



Source: TABInsights

4.3 Use and change of primary offshore RMB centres

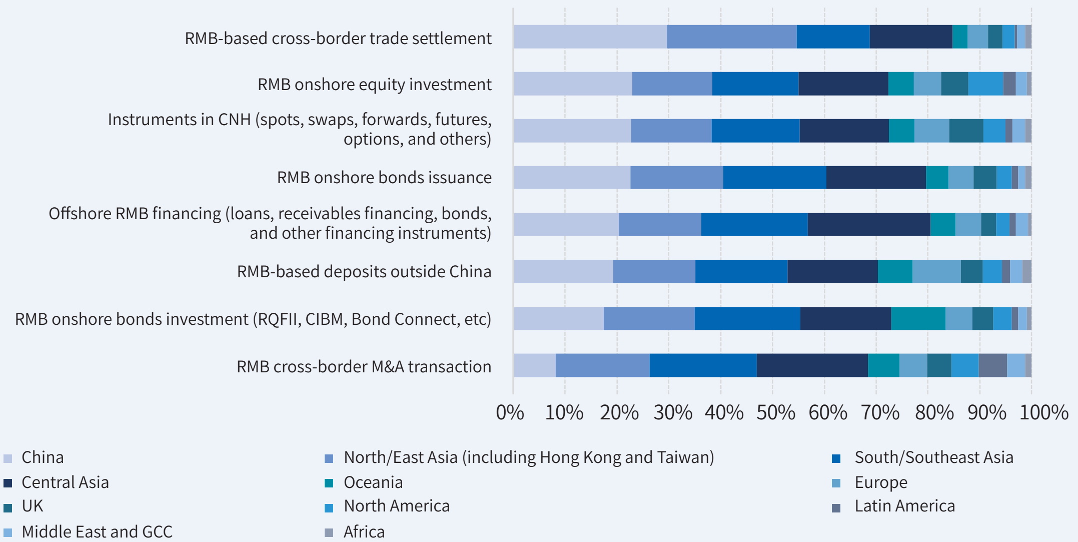
According to SWIFT' s RMB Tracker data, Hong Kong remained the largest offshore RMB economy in April 2021, accounting for around 75% of the currency' s activities outside China. This is consistent with the survey responses that Hong Kong is the preferred offshore RMB centre for Chinese and overseas companies. The UK, the second largest offshore RMB economy, saw its market share decline from 6.36% in December 2019 to 6.06% in April 2021, while Singapore enjoyed a higher market share. South Korea was the biggest loser of market share as it slipped to seventh place in 2020 from fourth in 2019. The share of South Korea declined to 1.18% in December 2020, compared with 2.61% in December 2019. The US and Taiwan improved their rankings in 2020, as both economies gained market share.

The survey results show that Chinese and overseas companies used different offshore centres to access RMB products and services. For overseas companies, except for China, the offshore RMB centres were mainly concentrated in Northeast Asia (including Hong Kong and Taiwan), Central Asia and South/Southeast Asia. Sixty-two percent of overseas companies conducted their RMB transactions in offshore centres from these markets.

The offshore RMB usage of Chinese companies was concentrated in Northeast Asia (including Hong Kong and Taiwan), South/Southeast Asia, Europe and the United Kingdom. Half of the Chinese companies conducted their RMB transactions in these markets.

Sixty-two percent of overseas companies conducted their RMB transactions in Northeast Asia, Central Asia, and South/Southeast Asia

Figure 4.5a Key markets for RMB-based products for overseas companies in 2020



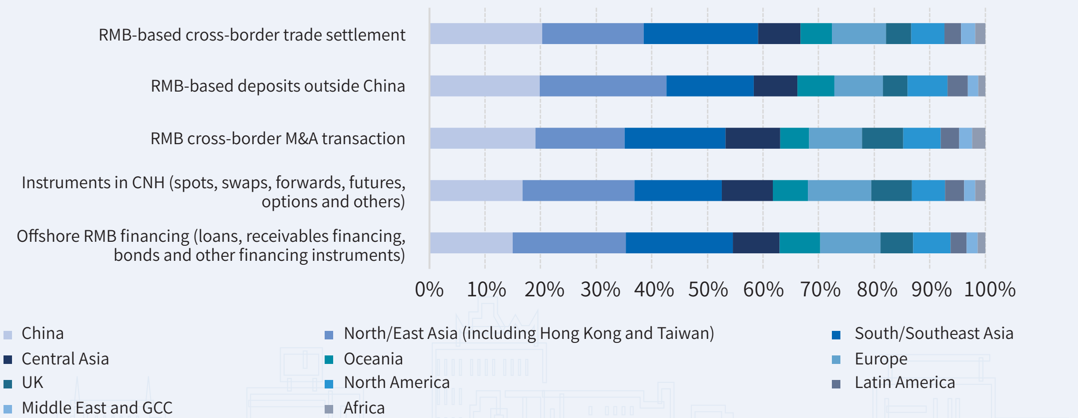
Source: TABInsights

Chinese and overseas companies exhibited clear differences in their choice of offshore centres and use of RMB products and services. Except for China, 33% of overseas companies conducted cross-border trade settlements in Northeast Asia (including Hong Kong and Taiwan), 23% of them issued bonds in South/Southeast Asia, more than the other regions.

Unlike overseas companies, 23% of Chinese companies chose to make offshore RMB deposits in Northeast Asia (including Hong Kong and Taiwan), while 21% conducted cross-border RMB trade settlement in South/Southeast Asia.

Europe and the UK were the main markets for Chinese companies to conduct RMB transactions after Northeast Asia and South/Southeast Asia

Figure 4.5b Key markets for RMB-based products for Chinese companies in 2020

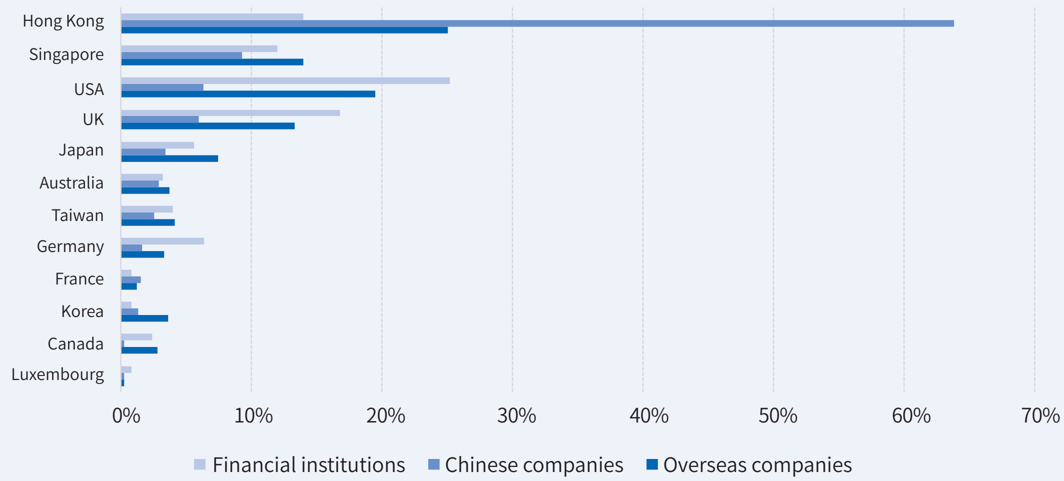


Source: TABInsights

In terms of the top choice of offshore RMB centres, 64% of Chinese companies and 25% of overseas companies preferred Hong Kong. In this year' s survey, the proportion of Chinese companies who chose Hong Kong as their main offshore RMB centre increased by 29 percentage points compared with 2020. Except for Hong Kong, this year 25% of FIs conducted their offshore RMB transactions in the US (New York), an increase of almost ten percentage points from the previous year. Singapore and the UK (London) were also popular offshore RMB centres for FIs in 2020.

Sixty-four percent of Chinese companies chose to conduct their offshore RMB transactions in Hong Kong

Figure 4.6 Key offshore RMB centres used by respondents

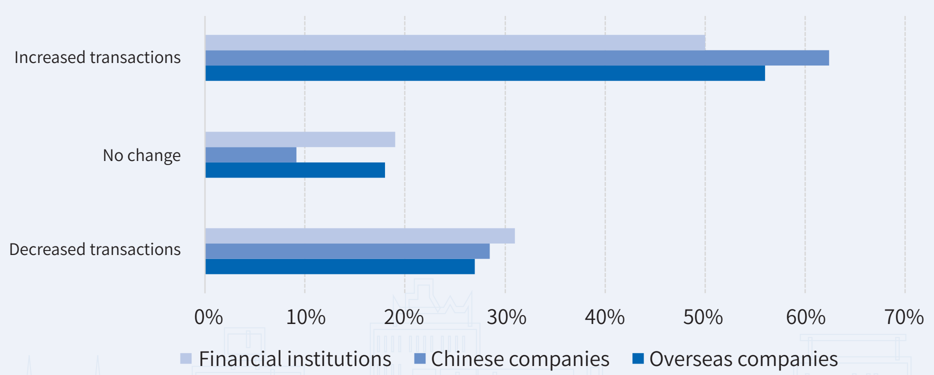


Source: TABInsights

Fifty percent of FIs, 62% of Chinese companies and 56% of overseas companies increased their transactions in key offshore RMB centres in 2020. Overseas companies had significantly increased their transactions in these centres by nine percentage points, while the other two segments of respondents remained at the same level as last year' s survey.

Sixty-two percent of Chinese companies and 56% of overseas companies increased their transactions in major offshore RMB centres in 2020

Figure 4.7 Change in transactions in key RMB centres in 2020



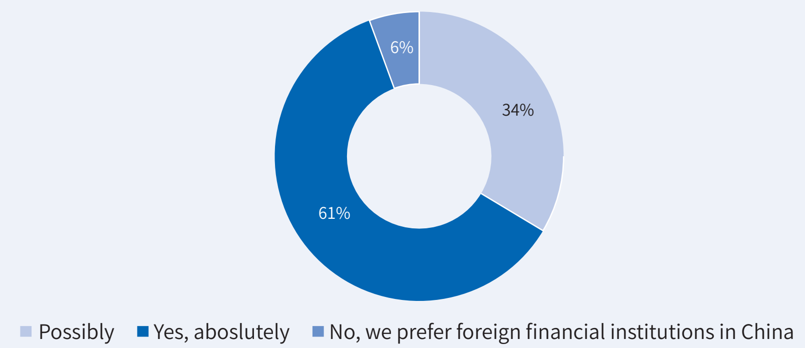
Source: TABInsights

4.4 Status of Chinese FIs in primary offshore RMB centres

In this year' s survey, a significantly higher proportion of FIs (61%) indicated willingness to work with domestic banks and FIs in China as counterparties and for custody service providers for RMB products and services, compared with 22% in 2020. For those indicating "possibly" , it decreased from 78% in last year' s survey to 34% this year.

Sixty-one percent of FIs were willing to cooperate with domestic Chinese banks and FIs as counterparties and custody service providers for RMB products and services

Figure 4.8 Willingness of FIs to work with onshore Chinese service providers for custodian, counterparty services

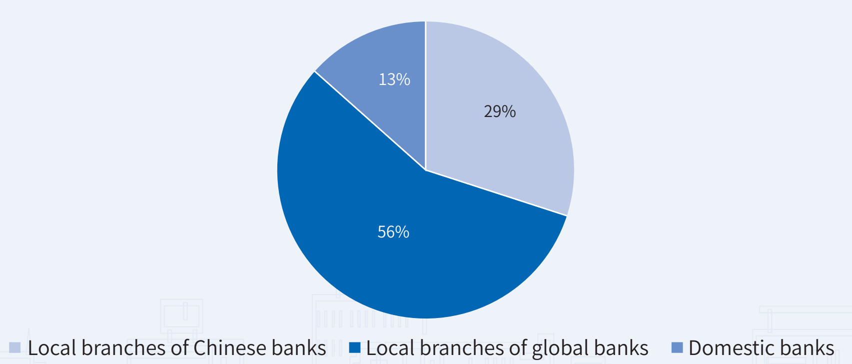


Source: TABInsights

This year' s survey results show that 56% of overseas companies were inclined to choose local branches of international banks for RMB products and services, while local branches of Chinese banks were preferred by 29% of these companies. In 2020' s survey, 32% of overseas companies chose local branches of Chinese banks. Meanwhile, 60% of Chinese companies preferred Chinese banks, down from 73% from last year' s survey. At the same time, their preference for local branches of foreign banks increased from 24% in last year' s survey to 33% this year.

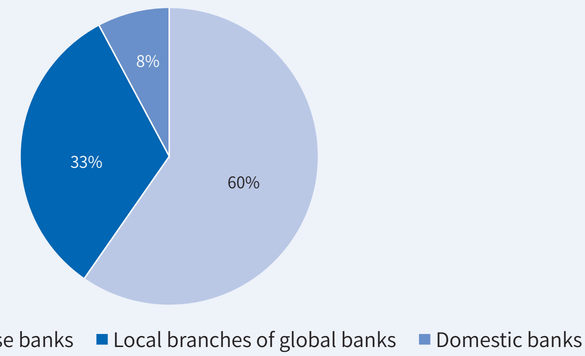
Fifty-six percent of overseas companies preferred local branches of international banks, and 60% of Chinese companies preferred local branches of Chinese banks for RMB products and services

Figure 4.9a Preference of banks among overseas companies for RMB products and services



Source: TABInsights

Figure 4.9b Preference of banks among Chinese companies for RMB products and services



Source: TABInsights

5. Key opportunities, challenges and prospects for RMB internationalisation

5.1 Main factors affecting the use of RMB

Compared with 2019, the key challenges faced by Chinese and overseas companies, and FIs had changed in 2020. China is the only large economy to record a positive GDP growth amid the pandemic. This has increased market confidence in the renminbi (RMB).

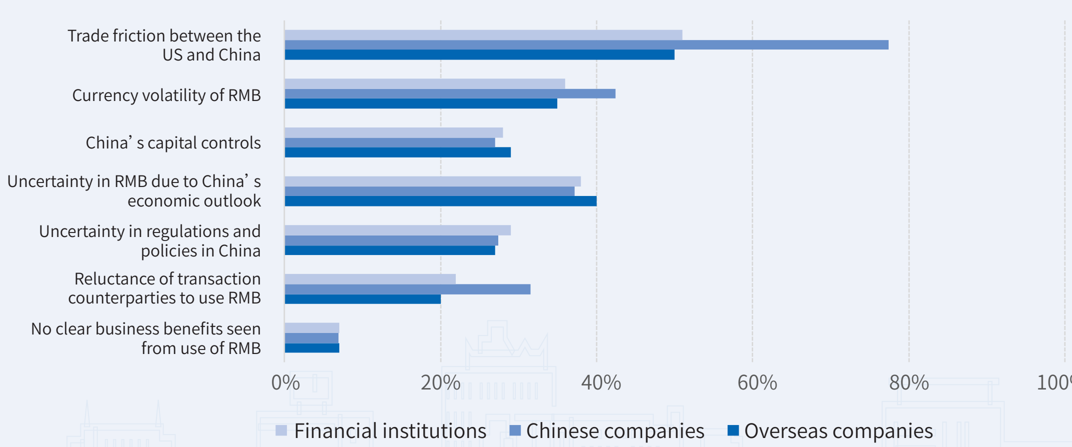
This year' s survey shows that the perception of uncertainties over China' s economic outlook and currency volatility posing a key challenge to RMB internationalisation had improved. Thirty-seven percent of Chinese companies and 40% of overseas companies regarded it as a key challenge compared with 41% and 53% respectively in the previous year. Chinese and overseas companies that regarded RMB exchange rate fluctuations as a main challenge had dropped significantly from 56% and 60% respectively in 2019 to 35% and 42% in 2020.

Seventy-seven percent of Chinese companies considered the ongoing trade tensions between China and the US the top challenge in the use of the RMB for international transactions, an increase compared with 74% last year. On the contrary, the proportion of overseas companies that considered China-US trade friction the main challenge had dropped from 62% from 2020' s survey to 50% this year. Perception of other challenges such as China' s capital controls and uncertain regulations and policies had also improved this year.

For FIs, the reluctance of counterparties to use RMB has consistently been cited as a relatively big challenge. As much as 78% of FIs surveyed in 2020 considered it a major challenge. However, the expectation of it as a major hurdle dropped sharply to 22% in 2021, indicating that the RMB has become more accepted in international transactions.

Perception about key challenges to the internationalisation of the RMB has improved significantly in 2021

Figure 5.1 Key challenges faced in RMB internationalisation



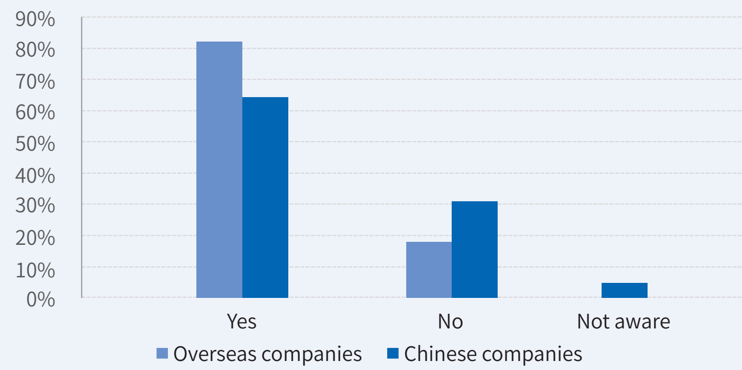
Source: TABInsights

5.2 Impacts of COVID-19

When asked about the impact of the COVID-19 pandemic on supply chain management, 64% of Chinese companies and 82% of overseas companies said that they had relocated their supply chains.

Supply chain adjustments of overseas companies amid the pandemic in 2020 were significantly higher than those of Chinese companies

Figure 5.2 Supply chain adjustments amid the COVID-19 pandemic in 2020



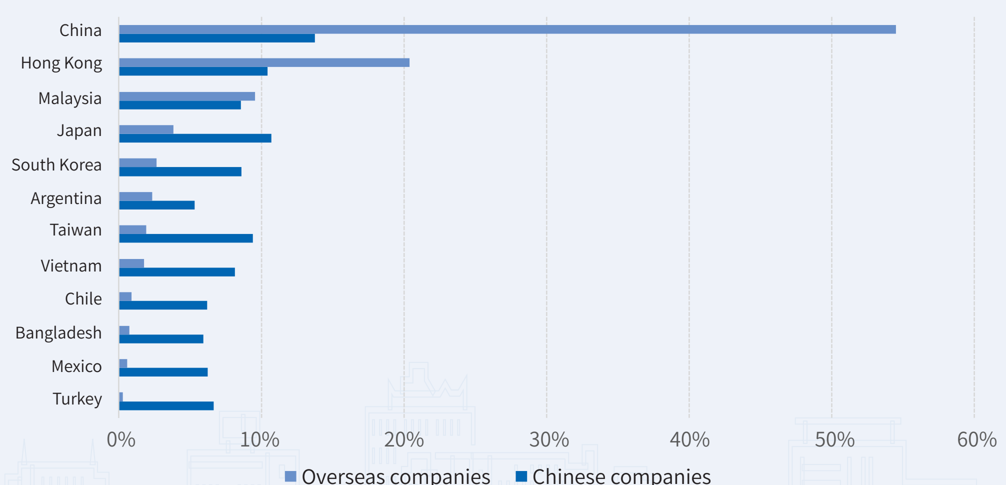
Source: TABInsights

Among companies that indicated adjustments to their supply chains, China was their new key market, followed by Hong Kong. Slightly more than 54% of Chinese companies and 14% of overseas companies indicated that they chose to transfer their key supply chain markets to China, while those who chose Hong Kong accounted for 20.4% and 10.4% of Chinese and overseas companies respectively.

The survey results show that Chinese companies rely more on the domestic and Hong Kong markets in supply chain selection, while overseas companies have more extensive and balanced supply chain arrangements. The proportions choosing markets such as China, Hong Kong, Japan, Malaysia, South Korea and Taiwan are roughly the same.

Overseas companies indicated more diverse choices for supply chain relocation than Chinese companies

Figure 5.3 New markets for supply chain relocation

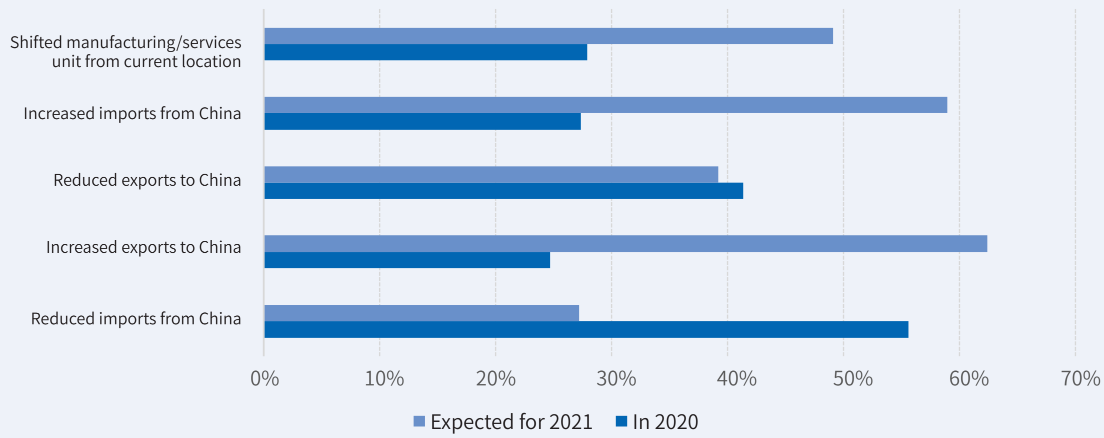


Source: TABInsights

The survey results show that among the overseas companies, 25% increased exports to China in 2020, a decrease from 44% in 2019, and 56% reduced exports to China, which is significantly higher than 28% in last year' s survey. This situation is expected to improve in 2021, 62% indicated that they will increase exports to China and 59% will increase imports from China, which are significantly higher than in 2020.

Overseas companies are expected to increase exports and imports from China in 2021

Figure 5.4 Changes in supply chain and import/export amid COVID-19 pandemic



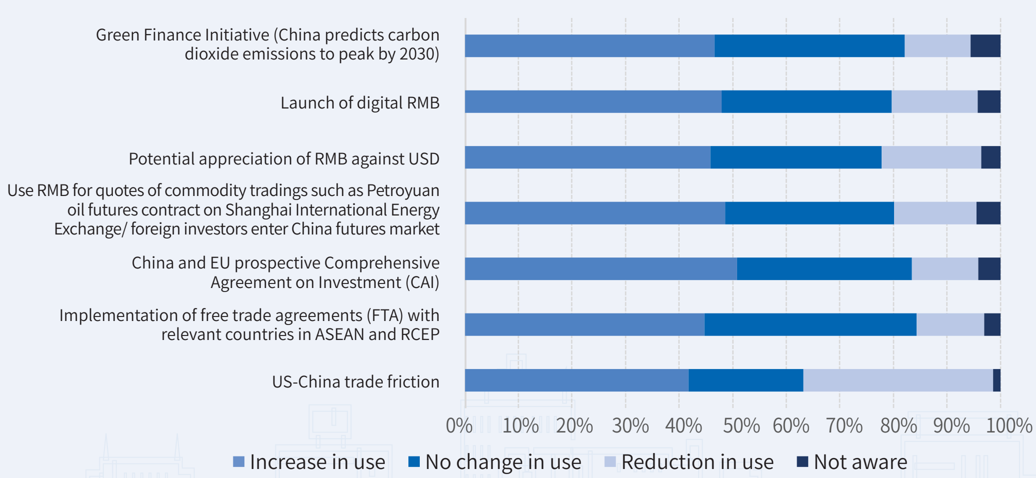
Source: TABInsights

5.3 Prospects of RMB internationalisation

When asked about the impact of key issues from global trade, digital currency to green finance on the future of RMB internationalisation, there was a divergence of attitudes among the three segments of respondents.

For Chinese companies, 85% and 83% indicated that the success of RCEP and China-Europe CAI negotiations respectively will increase or maintain the international use of the RMB. Eighty-two percent of Chinese companies said that green finance has a positive impact on the international use of the RMB.

Figure 5.5a Key issues that impact use of RMB by Chinese companies

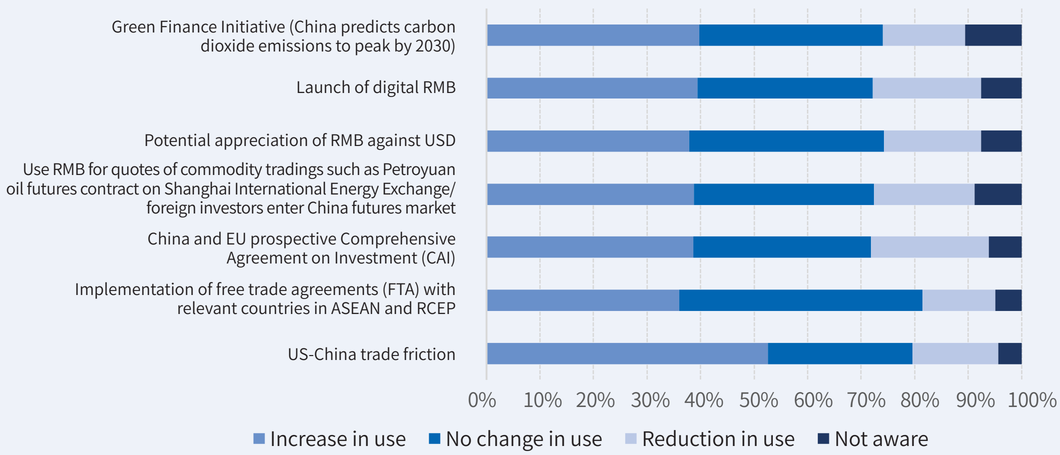


Source: TABInsights

Compared with other driving factors, surveyed overseas companies had a more positive attitude towards RCEP, with 81% believed that it will promote or maintain the international use of the RMB.

Eighty-one percent of overseas companies believed that RCEP will promote or maintain the international use of the RMB

Figure 5.5 b Key issues that impact use of RMB by overseas companies



Source: TABInsights

FIs were surveyed on the impact of the opening up of financial markets. Eighty-nine percent of FIs anticipated China's further opening up of capital markets to promote the use of the RMB, the same as last year's result. Among them, 33% expected it to attract foreign investment into China's equity and stock market, which is a significant increase from 12% last year. Eighteen percent believed that foreign capital in the commodity market would have a positive effect, compared with only 6% last year. Another 14% said that these measures will promote the use of RMB as a financing currency.

Thirty-three percent of FIs expected the opening up of financial markets to attract foreign investment into China's equity and stock market

Figure 5.6 Capital market opening up and its impact

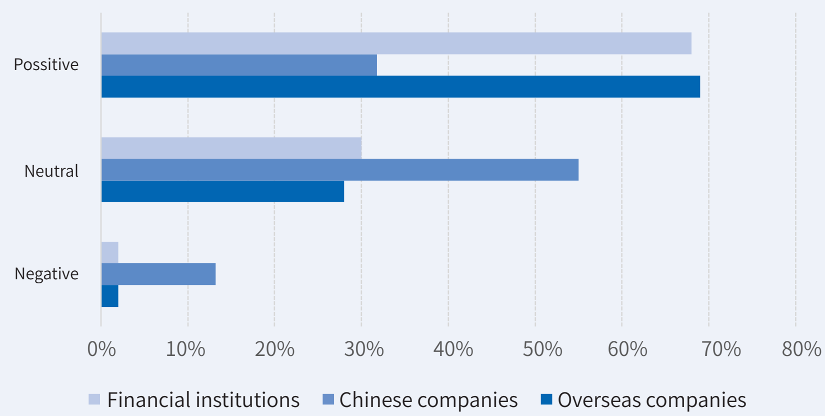
Source: TABInsights

5.4 RMB internationalisation and digital currency

The survey results show that 68% of FIs and 69% of overseas companies had a positive view of digital currencies such as bitcoin and ethereum, while 55% of Chinese companies remained neutral.

While FIs and overseas companies held a positive view of digital currency, Chinese companies remained cautious

Figure 5.7 View on digital currency

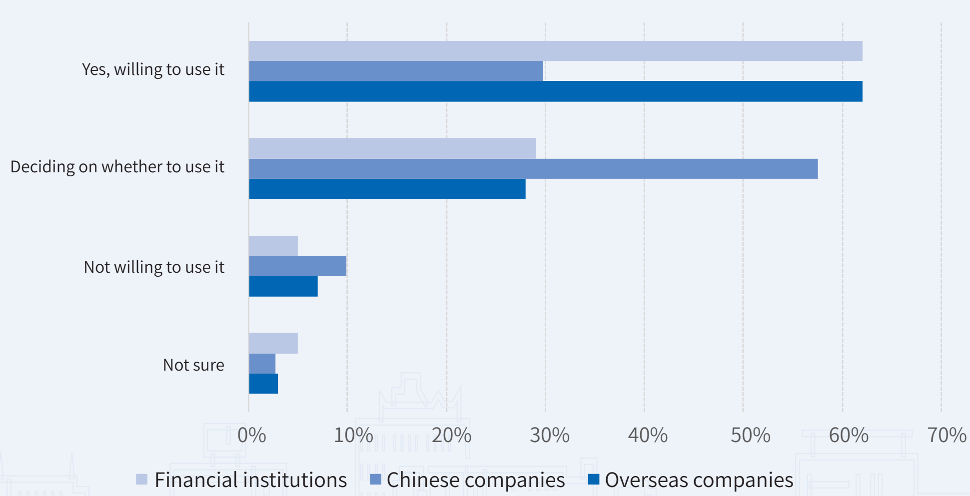


Source: TABInsights

In terms of using digital currency in financial transactions, this year' s survey shows increased interests from FIs and overseas companies. Sixty-two percent in both segments of respondents were willing to use digital currencies, an increase of 18 and 11 percentage points respectively compared with last year. However, 58% of Chinese companies remained undecided, similar to last year' s survey.

Increased interests to use digital currencies from FIs and overseas companies

Figure 5.8 Willingness to use digital currency to conduct financial transactions

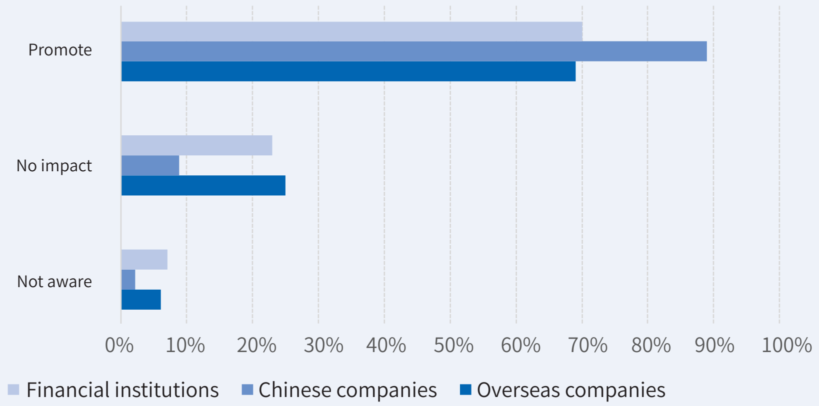


Source: TABInsights

Overall, a majority of respondents from all three segments were optimistic that the digital RMB will promote the internationalisation of the currency. Specifically, 84% of Chinese companies, 67% of FIs, and 61% of overseas companies believed that the digital RMB will promote RMB internationalisation, an increase of five, three, and eight percentage points respectively.

Overall optimism over impact of digital RMB on internationalisation of the currency

Figure 5.9 Impact of digital RMB on RMB internationalisation



Source: TABInsights

Special column 5: Case study of digital currencies worldwide

China is pushing forward the development and use of digital currency and exploring cooperation on digital currency with various regulatory and market entities around the world. The PBOC and the Hong Kong Monetary Authority (HKMA) have cooperated to conduct small-scale technical tests on the cross-border use of the digital RMB in April 2020. HKMA said that the trial was focused on the use of related apps, network connection, and application scenarios. In February 2021, with the support of the Hong Kong Innovation Centre of the Bank for International Settlements (BIS), the Digital Currency Research Institute of the PBOC and HKMA, as well as the central banks of Thailand, and the United Arab Emirates have jointly initiated a multilateral central bank digital currency (CBDC) bridge research project (mCBDC) to explore the application of CBDC in cross-border payments.

Leaders in digital currency development

Figure 5.10 Progress of global central banks towards digital currency

Market	Project Name	Progress
Bahamas	Sand Dollar	The Sand Dollar, a digital version of the Bahamian dollar, was officially launched in October 2020. It was issued through authorised FIs, becoming the first fully deployed digital version of a country's fiat currency. All residents can access the digital wallet through the mobile application or a physical payment card.
Cambodia	Bakong Project	Project Bakong, a digital ledger technology-based interbank payment system, was tested in July 2019 and officially launched in October 2020. It currently links 11 domestic commercial banks and payment processors. Since October 2019, the National Bank of Cambodia has started experimenting with digital wallets for cross border transactions with Malaysia-based Maybank.
Singapore	Project Ubin	Project Ubin was completed in July 2020. The Monetary Authority of Singapore (MAS) announced the completion of a range of tests of blockchain-based payments solutions supporting various currencies. It included development of the interfaces to establish connections to other blockchain networks. These interfaces can support various use cases such as delivery-versus-payment with private exchanges, conditional payments, trade escrow, and trade finance payment commitments. MAS has announced its intention to cooperate with the PBOC. Following Project Ubin, DBS, JP Morgan and Temasek are developing a blockchain-based clearing and settlement network to improve the efficiency of wholesale payments. The network is seeking to use Singapore as a base from which it can expand to other jurisdictions.
Hong Kong/ Thailand	Inthanon-LionRock (mCBDC Bridge)	The HKMA commenced Project LionRock in 2017. In 2019, the HKMA and the Bank of Thailand initiated Project Inthanon-LionRock to test the application of CBDC in cross-border payments. The joint project seeks to develop from bilateral cross-border use cases to multiple jurisdictions and multiple currencies use cases. In January 2021, the initiative was subsequently renamed mCBDC Bridge when the BIS Innovation Hub, the Digital Currency Institute of the People's Bank of China, and the Central Bank of the United Arab Emirates joined.
Sweden	e-krona	The Riksbank, Sweden's central bank, started the e-krona project in 2017. To test the e-krona, the Riksbank started the e-krona pilot project with Accenture in 2020 to construct a possible technical platform for the e-krona. In the April 2021 report on the e-krona, the Riksbank said that it will continue work on investigating the effects of an e-krona on the Swedish economy, technical solution for the e-krona and on how the e-krona would affect Swedish legislation and the Riksbank's task.

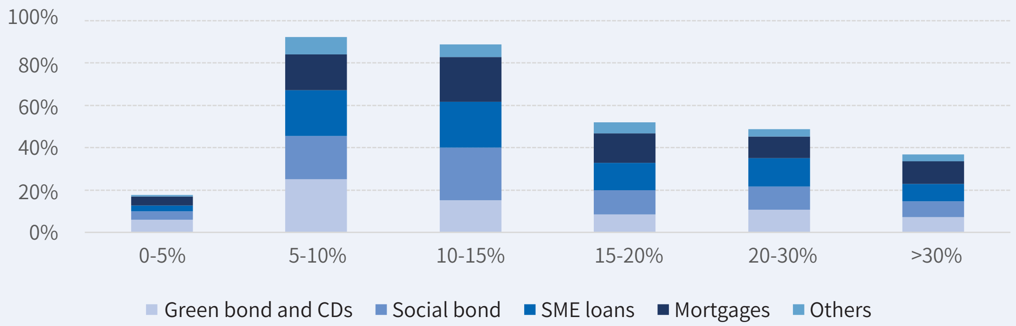
Source: TABInsights

5.5 RMB internationalisation and green finance

There is a slight difference in the standard of green finance between China and other parts of the world. Overall, FIs' holding of RMB-denominated green finance assets and products are still in its infancy. This year's survey results show that the proportion of RMB-denominated assets among various green finance assets is limited to below 15%. RMB-denominated small and medium-sized enterprise loans and housing loans accounted for a higher proportion of green finance assets than green and social bonds.

Proportion of RMB-denominated assets among various green finance assets is limited to below 15%

Figure 5.11 Percentage of RMB-denominated green finance assets by financial institutions

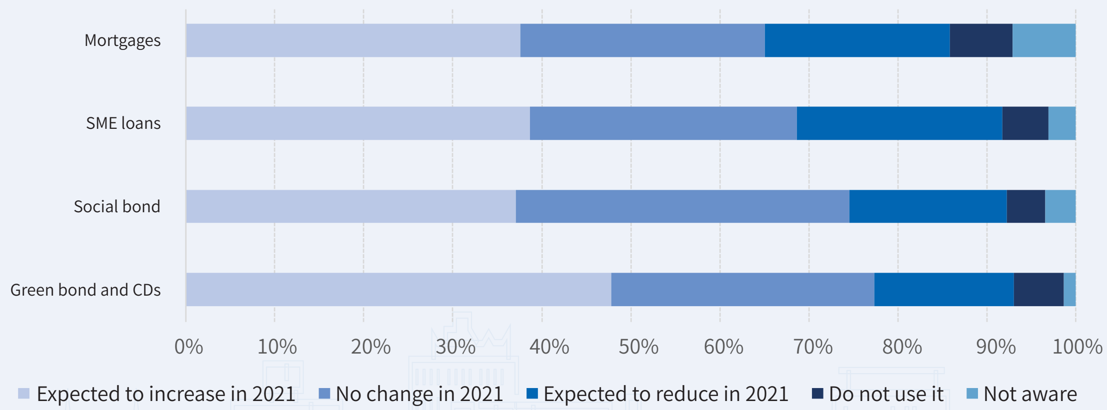


Source: TABInsights

As FIs begin to pay more attention to RMB-denominated green finance products from 2021, they expect that the scale of such assets will increase. Forty-four percent of FIs indicated that they will increase their holdings of RMB-denominated green bonds or CDs.

Forty-four percent of FIs indicated that they will increase holding of RMB-denominated green bonds or CDs

Figure 5.12 Change in holding of RMB-denominated green finance products



Source: TABInsights

Conclusion

The COVID-19 pandemic has had a significant impact on global trade and investment, and this was clearly reflected in this year’ s survey results. Although the RMB remained stable in trade settlement, its use in cross-border direct investment and offshore financing dropped. There are also some noticeable new changes in the RMB market, including more diversified demand for RMB products, overseas companies’ increasing willingness to use the RMB, and overseas FIs’ stronger desire to cooperate with Chinese counterparts.

As for the future, more respondents expect to increase the use of the RMB in 2021, a sign of strong underlying support. Overseas companies and FIs’ perception of key challenges such as China’ s economic outlook, currency volatility, interest rate fluctuation, capital controls, policy uncertainties as well as China-US trade tensions to RMB internationalisation improved significantly in 2021.

More importantly, the continued commitment of the Chinese authorities to reform and open up the domestic financial market, backed by new digital financial infrastructure, various free trade agreements and leadership in the emerging sustainability and green agenda, bodes well for the growth of the RMB business in the future.

A significant majority of respondents indicated a positive view to the success of RCEP and China-Europe CAI negotiations, and green finance initiatives will increase or maintain the international use of the RMB. FIs are continuously optimistic about the prospects for China’ s capital market. They anticipated China’ s further opening up of capital markets to promote the use of the RMB. We believe that the RMB will push forward amid disruptions.

6. Appendix – Survey respondents' profile

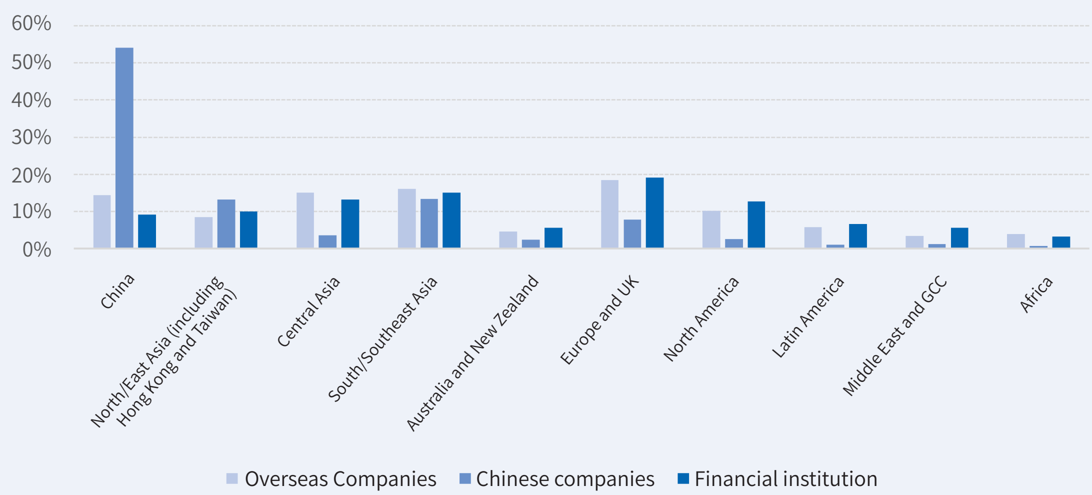
The comprehensive survey conducted in 2021 covered 1,058 Chinese companies (mainland China), 750 overseas companies from North America, South America, Europe and Asia Pacific (including Hong Kong, Macao and Taiwan), and 252 FIs from around the world. Only companies that engaged in cross-border transactions with China were invited to participate in the survey. Across the report, 'mainland China' is shortened to 'China' and excludes Hong Kong, Macao and Taiwan, while the 'Greater China' reference includes Hong Kong, Macao and Taiwan.

The survey was conducted with senior executives in finance, including chief financial officers, corporate treasurers and senior executives in treasury. Only executives involved in RMB products or financing participated in the survey.

A majority of Chinese companies' business operations covered China and North and East Asia (including Hong Kong) and thereafter the South/Southeast Asia region. Comparatively, overseas respondents are more evenly spread across different geographical regions.

Respondents covered regions across different continents

Figure 6.1 Main geographical regions covered

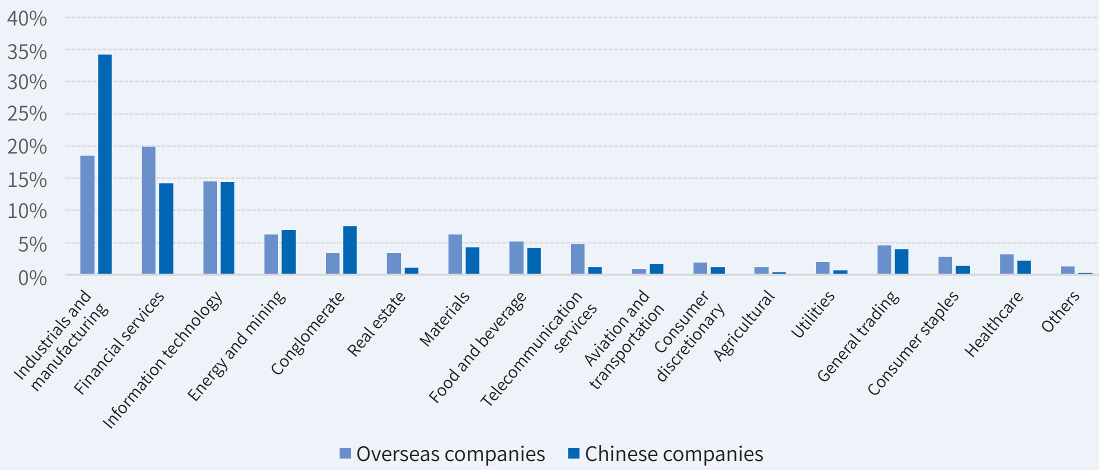


Source: TABInsights

The companies surveyed are spread across industries, with the highest proportion in the industrial and manufacturing sector (34% of Chinese companies and 19% of overseas companies), followed by 20% of overseas companies in the financial sector and 15% of Chinese companies in information technology. In addition, a survey was conducted with senior executives in 252 FIs.

Majority of companies are in the industrial and manufacturing, financial and information technology sectors

Figure 6.2 Respondents' industry coverage

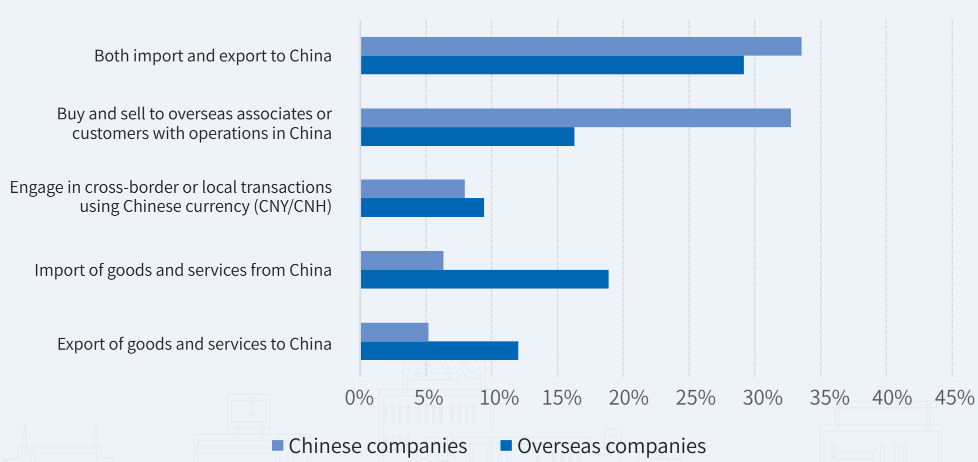


Source: TABInsights

Thirty-nine percent of Chinese companies and 34% of overseas companies conducted cross-border transactions via import from and export to China. It was followed by 38% of Chinese companies that traded with overseas associates or customers with operations in China. Twenty-two percent of overseas companies only imported goods and services from China.

Majority of companies imported from and exported to China

Figure 6.3 Main cross-border operations of companies

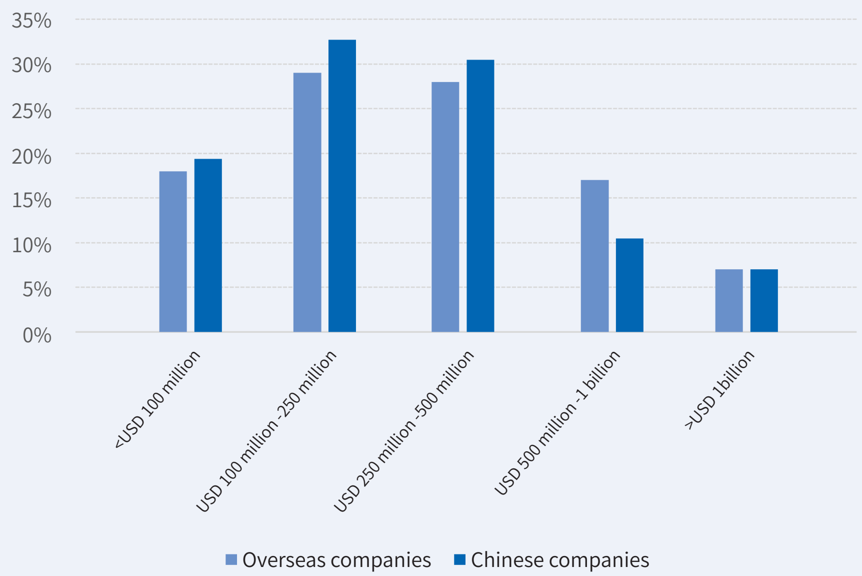


Source: TABInsights

While the companies vary in size, around 60% of companies are mid-sized with global turnover ranging from $250 million to $500 million.

Majority of the respondents are mid-sized

Figure 6.4 Size of respondent companies



Source: TABInsights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