Yuqan clearing bank a plus for Singapore

BY JOSEPH CHERIAN

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Adding value: Once renminbi trades begin to clear and settle out of Singapore's exchanges, global financial and non-financial firms will be able to avail of this added access in a market with the added advantage of lower transactions costs. This in itself would bring huge volumes of business to Singapore. - PHOTO: REUTERS

THE fourth Wee Cho Yaw Singapore-China Finance and Banking Forum organised by NUS Business School's Centre for Asset Management Research and Investments in June 2012 featured a discussion on the internationalisation of the renminbi (aka yuan), which has proved to be prescient.

The People's Bank of China recently announced that Singapore will be the first regional financial centre outside China to have a yuan-clearing bank for offshore business in the renminbi. The Industrial and Commercial Bank of China (ICBC), the world's biggest bank and one of two banks from China with a full banking licence in Singapore (the other being Bank of China), was picked as the clearing bank.

The appointment comes after experts at the forum highlighted the increasing use of the renminbi for regional cross-border trade and financial settlements as well as direct investment. It underscored the growing expectation that the renminbi will emerge not only as an international currency of trade and commerce but also as an important currency of denomination for financial instruments and transactions, and eventually as a global reserve currency.

However, to get there, there are certain necessary milestones that have to be achieved.

Global reserve currency?

To be a widely utilised and internationally circulated currency, the issuing nation has to allow for capital account convertibility, which is the ability to move money in and out of the country, implement appropriate financial-market and banking-sector reforms which shed overarching government control on financial flows, interest rates and markets, and have exchange-rate flexibility.

China is steadily and progressively moving in that direction with a variety of financial liberalisation programmes.

Firms using the renminbi to directly settle cross-border trade with China will save on foreign-exchange costs and risks. To wit, they can now avoid using an intermediate currency, such as the US dollar, for invoicing, payment and settlement.

According to Swift, the global payments network, while between 10 and 15 per cent of China's cross-border trade is settled in the renminbi, only about 0.45 per cent of all international payments are in that currency.

There is hence a huge potential for growth in the international payment and settlement areas for the renminbi. This is especially true given China's current standing as the second largest economy in the world that is contributing more than 30 per cent to global GDP growth, and given recent projections by the Conference Board that it will be the world's largest economy by 2025.

The "dim sum" bond market, which refers to offshore bonds and certificates of deposits denominated in renminbi, and the offshore renminbi-denominated initial public offering market are also positioned for growth.

According to a recent HSBC estimate, the overall dim sum bond market has over 375 billion yuan (S$75 billion) in outstanding volume, while new issuance in 2013 is expected to easily match that amount.

Payment for these offshore bonds, however, is made in the CNH currency, which is a non-convertible form of the renminbi used in international trade invoicing and available only in overseas markets.

ICBC's appointment has huge and positive implications for a global financial centre such as Singapore, which can now participate more fully and aggressively in the aforementioned growing market for renminbi-denominated cross-border trade, financial settlements, direct investment and financial products.

Additionally, the main exchanges in Singapore - Singapore Exchange (SGX) and Singapore Mercantile Exchange (SMX) - along with their wholly owned settlement corporations domiciled in Singapore can play an important role in creating deep, liquid and efficient renminbi-denominated deposit, bond,
equity, currency, commodity and derivative markets for investment, risk management and risk transfer purposes, all conducted in a well-regulated environment.

Financial players need a stable, reliable and credible international payment system, which is what Singapore offers. As a consequence, the development of Singapore as a renminbi-clearing facility will not only generate the trading of new financial and physical businesses here but also potentially transfer some part of existing commerce from other global financial centres, such as Hong Kong and London, to Singapore.

With the proliferation of offshore renminbi-denominated financial products in the Singapore investing space, it would also mean more investment and wealth management opportunities for financial institutions and retail investors here.

What does this all mean for Singapore?

First and foremost, it means the creation of high-quality jobs in commerce and finance for our citizens as we participate in and capitalise on China's spectacular economic growth of recent past and well into the future.

Allowing for offshore renminbi transactions here will not only facilitate Singaporean companies to develop and do even more cost-effective business with China, but rather Singapore as a global financial centre can also serve as the preferred domicile for global companies wishing to do business in China, and vice versa, that is Chinese companies wishing to do business with the world via Singapore.

Key contribution

This increasing global trade with China through Singapore will serve as an important contributor in developing Singapore as the global transaction services hub in Asia.

Secondly, it will bring another value-added dimension to Singapore's already well-established reputation as a world class centre for financial intermediation.

As an example, once renminbi trades begin to clear and settle out of Singapore's exchanges, global financial and non-financial firms will be able to avail of this added access in a market with the added advantage of lower transactions costs. This in itself would bring huge volumes of business to Singapore.

In summary, being able to invoice, purchase, settle, pay and invest in the renminbi right out of Singapore is a good thing for our economy. It also burnishes our reputation as a global financial centre.

Since we believe that global trade, particularly intra-Asia trade, can benefit tremendously from a wider array of important domestic currencies with offshore markets, our next big hope is that the Reserve Bank of India will some day announce that Singapore will be the first regional financial centre outside India to have a rupee-clearing facility for offshore business in the Indian rupee.

Furthermore, across the renminbi and the rupee, Singapore will be excellently positioned to benefit from global trade in both currencies, and further consolidate its position as the global financial centre of choice located at the fulcrum of Asian growth.

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