

臺灣人民幣離岸市場之現況及未來發展

Taiwan Offshore RMB Market – Developments and Prospects

Remarks by Dr. Ching-Long Yang,

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Mr. Tony Shale, Vice Chairman Huang, Distinguished Guests, Ladies and Gentlemen:

It's my pleasure to join you at Euromoney Taiwan Offshore RMB Forum to give a talk at the gracious invitation of Euromoney. This forum offers a unique opportunity for us all to come here and discuss the topic of Taiwan as an offshore RMB market, against the backdrop of the RMB internationalization.

On August 31 last year, Taiwan and Mainland China signed an MOU on Cross-Strait Currency Clearing Cooperation. This MOU established the basic principles and cooperative framework of a currency clearing mechanism for the two sides of the Taiwan Strait. This is another major milestone for cross-strait financial cooperation. Today, I'd like to focus my talk on the following:

- (1) The background for the development of offshore RMB markets,
- (2) Taiwan's development into an offshore RMB market,
- (3) Overview of Taiwan's offshore RMB market and its strengths,
- (4) Notable measures, both already in place and under preparation, by Taiwan's central bank, the CBC,
- (5) And, finally, Taiwan's prospects as an important offshore RMB market that we all look forward to.

I. Background for the Development of Offshore RMB Markets

After the Second World War, the tides of financial conditions had shifted so much that, eventually, the US dollar replaced the British pound as the primary currency for cross-border transactions and FX reserves. Towards the late 1960s, the US piled up the twin fiscal and current account deficits. And in 1971 the US unilaterally revoked its commitment to redeem US dollars for gold. In consequence, the US dollar's role as an international currency gave way to the Japanese yen and the German mark.

After the birth of the euro, the sheer size of the euro area's economy and trade turned the euro into a heavyweight among international currencies. More recently, the Australian dollar and the Canadian dollar have both gained prominence in global financial markets, owing to the continual rises in international raw material prices and dented confidence in the euro following the European debt crisis.

How about the Chinese yuan, or RMB? China's economic size has been increasing since the turn of this century, taking up a bigger role in the region, even the world. In the wake of the 2008 global financial crisis and the 2009 European debt crisis, the Chinese government decided to pursue RMB internationalization in greater efforts to look out for the country's best interests. The primary focus in the earlier stage of this policy initiative was cross-border trade settlement, followed by RFDI, RQFII, and currency swap lines with other central banks. As a result, the percentage of global trade settlements in RMB has gone up from 2% in 2010 to 10% in 2012. According to a BIS report in 2013, RMB has become the 9th most traded currency in the FX market.

Meanwhile, as you may already know, Hong Kong has also been positioning itself as a key offshore RMB market. And with the active support of the Chinese government, Hong Kong's offshore RMB business has grown rapidly. For example, in 2012, about RMB2.63

trillion trade related transactions were settled by Hong Kong banks; that's about 90% of the overall trade settlement in RMB. In addition, Hong Kong has a total of RMB730 billion deposits at the end of September this year.

Now, let's turn to Taiwan, a market with close economic and trade relations with Mainland China. Needless to say, Taiwan's development into an offshore RMB market is being closely watched with a great deal of interest.

Therefore, let's take a brief look at Taiwan's progress as an offshore RMB hub.

II. Taiwan's development into an offshore RMB market

We can look at the development story by dividing it into two stages: before and after the MOU. In the first stage, between June 2008 and August 2012, there were two notable measures:

1. In response to flourishing tourism across the Strait, the CBC authorized financial institutions in Taiwan to exchange RMB banknotes in 2008.
2. To facilitate cross-border trade settlements for Taiwanese companies operating in Mainland China, in July 2011, the CBC, along with the Financial Supervisory Commission, the FSC, gave green light to the OBUs and overseas branches of Taiwanese banks to conduct RMB business.

In hindsight, the first stage efforts laid a solid foundation for establishing Taiwan as an important offshore RMB market.

The second stage began with the signing of the MOU on August 31, 2012. Some of the highlights are:

1. After the MOU was inked, the Taipei Branch of the Bank of China was designated as the RMB clearing bank in Taiwan.
2. The CBC amended the Regulations Governing Foreign Exchange

Business of Banking Enterprises in January 2013, allowing Taiwan's authorized FX banks, namely the DBUs, to conduct RMB business.

3. Soon after this amendment, on February 6, the first DBUs began to offer RMB business. This of course marks a new chapter in Taiwan's development as an important offshore RMB hub.

III. Overview and Strengths

So where are we now? And what makes Taiwan stand out as an important offshore RMB market?

First, regarding the scope of RMB business in Taiwan:

1. Market development

- (1) RMB business in Taiwan has been gradually deregulated. Financial institutions are allowed to offer a variety of RMB services and products, including deposits and loans, remittances, cross-border trade settlements, currency exchange, derivatives, insurance, and mutual funds.

Let's look at some figures to get an idea of RMB business growth in Taiwan:

- (2) The total RMB deposits of Taiwan's DBUs and OBUs have increased rapidly from RMB39 billion at the end of this February to more than RMB100 billion in early October. Taiwan has accumulated quite an RMB liquidity pool so far. The size of RMB assets is more than twice the balance of RMB deposits.
- (3) RMB settlements handled by the Bank of China's Taipei Branch has amounted to nearly RMB700 billion so far, growing from RMB8.0 billion in February to 173 billion in September.

- (4) RMB remittances have surpassed a total of RMB290 billion, growing from about RMB17 billion in February, to September's 37 billion.
- (5) In terms of FX transactions involving RMB/USD exchange, the transaction volume has grown from February's RMB33.5 billion to September's 88.2 billion, reaching a total of over RMB570 billion.
- (6) As for investment opportunities of RMB-denominated bonds, there have been 6 issues of "Formosa bonds", with a combined value of about RMB4 billion.

2. Unique Strengths

As you have seen, the offshore RMB business in Taiwan has made great strides quickly since its launch. I'd like to share with you some observations:

- (1) RMB deposits are the second largest among foreign currency deposits in Taiwan, next to those in the US dollar and bigger than in the Japanese yen and the euro.
- (2) RMB trading against the US dollar accounted for 26.2% of all third-currency trading in Taiwan, up from 11.5% in February. This September's figure also shows that RMB has already trumped other foreign currencies, compared with the yen's 22% and the euro's 19.4%.
- (3) Moreover, the sources and uses of RMB funds have also been expanded, allowing financial institutions in Taiwan to tap global RMB business opportunities:
 - A. The RMB funds of Taiwan's banks come not only from RMB deposits by individuals and corporates both at home and abroad, but also from financial institutions outside Taiwan, mainly Hong Kong. This shows that RMB business in these two major hubs has

become closely linked.

- B. In terms of fund uses, Taiwan's financial institutions conduct RMB transactions such as lending and deposits with financial institutions in many countries across the world, including Mainland China, Luxemburg, Singapore, France, Japan, South Korea, Thailand, Germany, Italy, Australia, and UAE (United Arab Emirates). Taiwan is now the place to meet the needs of many markets for RMB funding.

IV. Notable measures already in place and under preparation by the CBC

Next, I'd like to focus on what the CBC has accomplished in promoting Taiwan's development as an international RMB gateway. Then I'll also share with you some initiatives on the way forward.

1. Regular review of regulations

The CBC has, on several occasions, relaxed the regulations on RMB business, such as allowing financial institutions to offer RMB derivatives, and permitting banks to square RMB positions with the clearing bank for trade-related conversions. The CBC will keep pace with the development of Taiwan's RMB business and conduct periodic reviews on relevant laws and make timely and appropriate adjustments. This is part of our efforts in strengthening Taiwan's standing as an important offshore RMB market.

2. Efficient RMB clearing via the new currency clearing system

The success of an offshore RMB market cannot do without an efficient and effective payment and settlement platform. Therefore, under the plan by the CBC, the newly-launched foreign currency clearing system now also facilitates RMB transactions. Beginning September 30 this year, the system processes RMB payments and

settlements involving remittances and funds transfers, both onshore and offshore, including transactions with Mainland China, Hong Kong, and other foreign markets.

Including RMB in the system will increase the efficiency of processing RMB flows, push up RMB-related business volume, and promote a wider variety of RMB products and services.

The CBC is working with relevant institutions to take this system further: a PvP (payment-versus-payment) system is scheduled to be launched for cross-currency transactions (among NTD, USD, and RMB) by the first quarter next year, and may include more currencies such as euro and yen. In addition, a DvP (delivery-versus-payment) system may be set up for foreign currency-denominated bonds. In the future, if needed, the CBC might consider extending the operating hours of this system to support transactions in different time-zones, such as Europe.

3. Transaction volume and liquidity support

In the future, the CBC would like to grow RMB transaction volume while maintaining RMB liquidity, mainly through the following:

(1) Greater participation

First, the CBC continues to encourage participation by banks outside Taiwan in our offshore RMB business. While contributing to market diversity, their participation can also be boosted by cooperative efforts of Taiwan's financial institutions. For example:

- A. Taiwan's RMB clearing bank may conduct roadshows in other countries, appealing to foreign financial institutions to become participating banks and benefit from Taiwan's well-developed financial environment and the RMB clearing mechanism.

- B. We encourage Taiwan's leading banks to leverage the OBU tax concessions to attract more foreign banks to open RMB interbank accounts in Taiwan.
- C. Overseas branches of Taiwanese banks may step up cooperation with the local financial institutions to grow their RMB business.

(2) Cooperation between domestic and foreign currency brokerage

We'd also like to suggest that Taiwanese FX brokerage houses seek business cooperation with their counterparts from other offshore RMB markets like Hong Kong, Singapore, and London. This will not only expand the size of offshore RMB business of the world as a whole but also stimulate business growth of RMB transactions handled in Taiwan and bolster market liquidity as well. This, in turn, will certainly help to promote offshore RMB business among Taiwan's financial institutions.

(3) Exchange rate and interest rate fixing to facilitate the offering of RMB financial products

Third, though Taiwan and Hong Kong are key offshore RMB gateways with close proximity, their exchange rates, CNH for Hong Kong and CNT for Taiwan, and the interest rates might not be identical, understandably due to differences in RMB clearing mechanisms, RMB pool composition, credit ratings, investor risk preferences, etc. In view of this, it is perhaps necessary for Taiwan to establish fixing mechanisms for CNT exchange rate and CNT Taibor (Taipei Interbank Offered Rate) as a benchmark for RMB financial contracts offered in Taiwan. This could be helpful in deepening Taiwan's offshore RMB market. The CBC will continue to assist the Taipei Foreign Exchange Market Development Foundation in developing

such mechanisms. We also welcome domestic banks and foreign banks in Taiwan to join this effort.

(4) Closer cooperation with other offshore markets

As I just mentioned, we encourage closer cooperation with other offshore RMB markets, such as Hong Kong, London, and Singapore. However, this should not be limited to cooperation among those in the financial industry. The CBC itself will also reach out and strengthen our cooperation with relevant authorities in international financial hubs. We will also exchange views more frequently, perhaps on a regular basis, with other countries interested in developing their own offshore RMB markets (such as France and Australia) and seek collaboration opportunities to expand our offshore RMB business.

4. Expanding the channels for Taiwan's RMB funds to flow back to Mainland China

Last but not least, we will also engage in talks with the Chinese authorities to open more channels for RMB to flow back to the mainland. Among the potential schemes, I'd like to mention the following three:

(1) Onshore RMB lending to firms in Mainland China

This past September, the CBC issued a circular, allowing banks to grant RMB loans to Taiwanese corporate subsidiaries in Kunshan, China, based on lending contracts between the parent companies and their Kunshan subsidiaries. As a result, Taiwanese subsidiaries in Kunshan not only have a more convenient RMB funding channel but also can benefit from a lower funding cost. In future talks with the Chinese authorities, the FSC, the Mainland Affairs Council, and the CBC will try to gain support to allow onshore RMB lending by Taiwanese banks directly to Taiwanese firms in Kunshan,

and to those in Shanghai, Shenzhen, Xiamen, etc. in the longer term.

(2) RQFII

Next is RQFII. According to existing Chinese regulations, offshore participating banks may use their RMB holdings to invest in the Chinese interbank bond market. After Taiwan's legislature passes the cross-strait service trade agreement, the RQFII scheme will also apply to Taiwanese financial institutions wishing to invest in China's equity and bond markets. The CBC will express our desire during cross-strait talks to obtain a larger quota for RQFII investment, hence a broader scope and greater ease for RMB to flow back to Mainland China.

- (3) And since the RMB funding cost is higher onshore than offshore, **we welcome both domestic and foreign companies to issue RMB bonds here in Taiwan.** We would also like to see Mainland Chinese companies and financial institutions permitted to issue RMB bonds in Taiwan. This will help to retain RMB-related financial services here in Taiwan. In addition, RMB funds obtained from bond issuance may be used for onshore RMB investment, further increasing RMB flows back to Mainland China.

V. Outlook and prospects

This brings me to my final point: the prospects of Taiwan as an important offshore RMB market.

It is expected that RMB flows between different offshore markets and between onshore and offshore markets will grow rapidly in terms of both size and speed. Taiwan's offshore RMB market will expand further with greater prominence.

Such an outlook is supported by many of Taiwan's strengths and niches. Let me elaborate more:

1. First, the annual bilateral trade between Taiwan and Mainland China totals some US\$120 billion each year, and remittances in both directions amount to more than US\$520 billion. Many Taiwanese firms invest in Mainland China and conduct business across the two sides of the Strait. In response to such needs, banks can tap tremendous RMB business opportunities by providing them with better and more RMB-related services such as trade settlements, funds management, etc., which should also help build up a larger pool of RMB liquidity.
2. Second, the appointed RMB clearing bank here in Taiwan certainly helps to handle RMB clearing even more efficiently.
3. Taiwan is also equipped with advanced financial infrastructure. Take for example the foreign currency clearing system I mentioned earlier. It has streamlined clearing procedures and helps to expand RMB liquidity in Taiwan. The system can be linked with the China National Automatic Payment System (CNAPS) and the Bank of China's international information system through relayed connections. RMB remittance is thus more convenient time-wise, which in turn facilitates RMB fund allocation in Mainland China and around the world.
4. Fourth, many Taiwanese banks have branch offices in Hong Kong, Mainland China, and other financial centers. Connecting the dots, Taiwan's RMB business can operate under an extensive network.
5. Fifth, the tax concessions for Taiwan's OBUs have created a niche access to Taiwan's offshore RMB market.
6. Moreover, Taiwan has an established role as the offshore USD market, supported by a well-developed trading mechanism and regulatory environment, as well as years of experience. Such a

strong foundation will certainly help consolidate Taiwan's position as an important offshore RMB market.

Other than these strong points, the bright prospect of Taiwan's offshore RMB market cannot materialize without the concerted efforts from the financial industry – for example, by actively boosting RMB deposit and lending business, and other financial activities thus derived, financial institutions will help develop Taiwan's RMB capital market. The industry can also grow the market size by introducing more financial products related to RMB, such as mutual funds and insurance policies.

For our part, the CBC has given considerable thought to how to best foster Taiwan as an important offshore RMB market. It's good to see that the topics at today's forum echo what the CBC has sketched out for the development of Taiwan's offshore RMB market. We will pay attention to your valuable advice at the forum, and I believe, with your help, Taiwan will thrive as a key offshore RMB market.

The CBC will continue to monitor relevant developments, in particular, capital account liberalization after the launch of the Shanghai Free Trade Zone as well as the process of RMB internationalization and the development of the Cross-border interbank Payment System, a.k.a. CIPS. In addition, the CBC would like to stress the importance for the two sides of the Strait to sign a currency swap agreement as soon as possible in order to build a safety net in Taiwan for RMB liquidity. I believe we all share the same goal that with sound risk management for interest rates, exchange rates, and credit, financial institutions may achieve steady growth in your RMB business.

Finally, on behalf of Governor Perng, I'd like to take this opportunity to express his gratitude for your contribution to the stability and development of Taiwan's financial markets, and offer his best wishes for a successful forum. Thank you!