SECURITIES AND FUTURES COMMISSION

Speech

Development of Hong Kong's Offshore RMB Market as a Leading Centre
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Distinguished guests, ladies and gentlemen

I would like to thank the organiser for inviting me here today. I am delighted to have the opportunity to speak about Hong Kong's role as an offshore RMB market.

As the world's largest offshore RMB centre, as well as the global hub for both RMB trade settlement and offshore RMB financing and wealth management, Hong Kong continues to play an important role in facilitating the transformation of the RMB into an internationally accepted and widely used currency.

We have heard many interesting viewpoints this morning on the increasing use of RMB in business and for trade purposes. What I would like to do is to take you back to the point of origin of the RMB internationalisation story in Mainland China and how Hong Kong played its part in those early days. History, as we know, can be a good teacher. After that, I will touch on the lessons that can be gleaned from Hong Kong's experience in this process as we move closer towards full RMB internationalisation.

Hong Kong's position as the largest offshore RMB centre

Hong Kong is first and foremost an international financial centre that prides itself on its commitment to an open market and fair competition, our strong regulatory institutions that uphold the rule of law, and an open economy with free capital and information flows, which provides certainty, stability and a level playing field. Taken together, these advantages form the foundations of our success as an international financial centre and in turn, Hong Kong's role as a testing ground for the internationalisation of the RMB.

Hong Kong enjoys a unique position of strength in developing its offshore RMB business, thanks to a number of key factors including an important geographical one. The relationship between Mainland China and Hong Kong is summed up by "One Country, Two Systems". Under "One Country", Hong Kong is part of China and close to its fast-changing financial landscape and capital market reforms. Indeed, Hong Kong is both an international market and an offshore market of China, where the Chines

We are also China's natural global financial centre for very good reasons, not least because Hong Kong has been deeply involved in the Mainland's financial liberalisation since the late 70's. We have a unique geographic position and a long history of close cooperation with Mainland China due to our proximity, and we have been the gateway to Mainland China for decades.

The foundations of this historic and strategic relationship are firmly rooted in the mutual trust and confidence shared by regulators on both sides of the border, buttressed by years of bold experimentation, meticulous risk management and hard-won solutions to achieve the level of integration between the Hong Kong and Mainland markets that we now enjoy.

How the RMB began to cross borders

To understand how this all began, we need to go way back to the point where the RMB first began to venture outside China's borders. In 1978, after an insular China started to usher in modernisation and reforms, trade and personnel exchange between China and her neighbours began to blossom. Traders in the region started to accept payment in RMB. Although the currency was not freely convertible, and there was no avenue to use or bank the RMB in their own countries, these traders were happy to accept the currency which they could use to settle future trades with their Chinese customers.

Now let's press the fast forward button. After 30 years of rapid growth, China is now the world's second largest economy. But a persistent and enormous trade surplus and foreign capital inflows have led to a rapid swelling of China's reserves, causing a "monetary indigestion" due to a substantial international payment imbalance.

To ease this pressure, in 2009 China officially allowed cross border trade settlement in RMB in a pilot scheme covering five Chinese cities. While the policy was clear, the market responded very slowly. The higher cost of funding, and the lack of banking and financial products to hedge and manage the currency gave foreign traders little incentive to settle their trades in RMB.

This situation started to change in 2010, when RMB became easily transferrable within Hong Kong. By 2013, close to 12% of all China's foreign trades were settled in RMB. Today, the RMB has become the second most-used currency in global trade finance, after the USD, and the 7th most-traded currency in the world. So how did we get to this position?

Hong Kong's role in the Internationalisation of the RMB

China started creating inroads into its otherwise closed capital account as early as 2004. Hong Kong was encouraged to develop an infrastructure that allowed individuals to open RMB accoun