Growth of trade deals in renminbi as China eases restrictions

By Ruth Le Pla

One year after the People's Bank of China significantly eased restrictions to enable businesses to settle cross-border trade in renminbi (RMB), small signs of uptake are starting to emerge.

The Chinese regulatory authorities have been slowly lifting restrictions as the Chinese economy becomes increasingly integrated with the rest of the world.

Most New Zealand companies trading with companies in China still settle in US dollars.

ANZ Head of Asia New Zealand Relationships Chris Mouat says that over the past few years pilot programmes have enabled a limited number of Chinese companies in certain regions to use the RMB for cross-border trade. Outside of China, RMB trade had been restricted to Hong Kong and, later, in certain ASEAN countries.

In mid-2010, the People's Bank of China (PBOC) lifted restrictions so that companies in any country can now settle trade transactions with Chinese companies in RMB. Within China, the PBOC opened it up to large numbers of companies in about 20 regions. Significantly, they also indicated that companies not already on the approved list were likely to gain approval on application.

"In one fell swoop they opened [RMB-denominated trade] up to large numbers of Chinese companies dealing anywhere in the world," Mr Mouat said.

Though RMB cross-border trade settlements are increasing fast, they remain a tiny fraction of China's total trade. According to the Hong Kong Monetary Authority (HKMA), just 0.7 percent of China's total cross-border trade was settled in RMB in the first half of 2010. That increased to 4 percent in the second half of 2010 and to 7 percent in the first quarter of this year.

HSBC's most recent Global Trade Confidence Survey, released earlier this year, highlighted expectations of more use of the RMB in coming months. For the first time, the survey indicates the RMB may become a top-three world trade settlement currency in the next six months.

Gary Cross, Head of Trade and Supply Chain for HSBC New Zealand, who presented the findings at a recent New Zealand China Trade Association (NZCTA) meeting in Auckland, described this as the natural progression of last year's PBOC settlement scheme.

"It was always expected to have a snowball effect and that's what we're seeing."

Not surprisingly, the survey showed the main drive to settle cross-border trade in RMB comes from respondents in Greater China (Mainland China, Hong Kong SAR, Taiwan and Macau). Fifteen percent of these respondents said they expected to settle their own trade in the Chinese currency in the next six months.

Expectations of pending RMB trade were also seen in responses from the Middle East – which in this case was restricted to Saudi Arabia and the UAE – and Southeast Asia. Both regions have a significant trade orientation towards Greater China and may be influenced by the PBOC actively encouraging Chinese companies to conduct cross-border trade using RMB rather than US dollars.

For New Zealand exporters, it is still very early days for RMB cross-border trade settlements. HSBC Group Communications Manager Dee Crooks says the bank completed Australasia’s first such trade in August last year on behalf of apparel and fashion business Longbeach Holdings.

Longbeach CEO Craig McCallum said at the time that the ability to pay business partners in RMB would help his company maintain a competitive supply chain.

ANZ completed a deal a few weeks later for Wellington-based company NAC Trading. Since then, Mr Mouat said, the two banks have completed only a “handful” of RMB deals.

He pointed to companies’ “inertia” in switching from current USD processes and procedures.
But there also needed to be more liquidity, more derivative products and greater confidence in the Chinese currency before large-scale adoption of RMB-denominated trade was likely to occur.

Mr Mouat sees trade settlement in RMB as an opportunity for New Zealand companies to have a different dialogue during trade negotiations with their Chinese counterparts.

By settling in RMB, Chinese companies can sidestep the current exchange rate risks associated with switching the New Zealand dollar (NZD) through the USD to RMB.

He suggested that New Zealand companies, who will carry the risk of exchanging NZD direct into RMB, should be leveraging their willingness to settle in the Chinese partner’s own currency and negotiating to share the benefits.

Source: AsiaNZ online